OFFICE OF FINANCIAL REGULATION

State Credit Union Examination Manual

Tallahassee, Florida

November 3, 2014

Foreword

This manual, prepared by the Office of Financial Regulation, Bureau of Credit Union Regulation, is a supplement to the Examiner's Guide developed by the National Credit Union Administration (NCUA) and the National Association of State Credit Union Supervisors (NASCUS). It provides additional information and guidance relative to the State Examination Program. The intent of this section is not to repeat information addressed in the NCUA Examiner's Guide but is to mainly clarify state requirements.

The manual is intended only as a guide and cannot anticipate all functions or situations that an examiner might be exposed to during the examination process. The manual should be used in conjunction with on-the-job training and the various training schools offered.

OFR Mission Statement

To protect the citizens of Florida, promote a safe and sound financial marketplace, and contribute to the growth of Florida's economy with smart, efficient and effective regulation of the financial services industry.

TABLE OF CONTENTS

Chapter 1	**Risk Focused Program**	**4**
Chapter 2	**Scope Development and Planning**	**5**
Chapter 3	**Total Analysis Process**	**7**
Chapter 4	**Internal Controls**	**9**
Chapter 5	**Supervisory (Audit) Committee**	**11**
Chapter 6	**Information Systems and Technology**	**15**
Chapter 7	**Management**	**18**
Chapter 8	**General Ledger**	**27**
Chapter 9	**Cash Analysis**	**32**
Chapter 10	**Loans**	**35**
Chapter 11	**Allowance for Loan and Lease Losses (ALLL)**	**47**
Chapter 12	**Investments**	**50**
Chapter 13	**Asset Liability Management (ALM)**	**55**
Chapter 14	**Share Structure**	**60**
Chapter 15	**Profitability/Earnings**	**64**
Chapter 16	**Net Worth and Other Equity Accounts**	**66**
Chapter 17	**Prompt Corrective Action (PCA)**	**68**
Chapter 18	**Regulatory Compliance**	**69**
Chapter 19	**Consumer Compliance**	**75**
Chapter 20	**Report Writing and Review**	**78**
Chapter 21	**Joint Conference**	**81**
Chapter 22	**Examination Evaluation and Review**	**83**
Chapter 23	**Low Income Credit Unions**	**84**
Chapter 24	**Shared Branch**	**85**
Chapter 25	**Credit Union Service Organizations (CUSO)**	**86**
Chapter 26	**Federally Insured State-Chartered Credit Unions**	**90**
Chapter 27	**Shortages**	**93**
Chapter 28	**Bond Coverage**	**94**
Chapter 29	**Special Assistance, Letters of Understanding and Agreement and Special Actions**	**96**
Chapter 30	**Administrative Actions**	**97**
Chapter 31	**Liquidations**	**100**
	Quick Reference Guide/Field Tools	**101**

Chapter One:

Risk – Focused Program

The risk-focused examination (RFE) program is a process designed to focus on potential areas of risk in a credit union. Each credit union is assigned a risk profile using seven risk categories and lead indicators. This allows greater emphasis on the examination and supervision of a credit union in areas exhibiting weaknesses or adverse trends. Refer to chapter one of the NCUA Examiner's Guide for a detailed and comprehensive guide of objectives of the program, specifically the seven risk categories and the criteria used in the onsite and offsite supervision by the NCUA of its credit unions.

Onsite supervision consists of an examination normally conducted every 18 months as scheduled by the Area Financial Manager (AFM) to satisfy requirements set forth in Section 655.045, Florida Statutes. However, by OFR policy, a shorter frequency of time between examinations is required based on the CAMEL composite rating assigned during the previous examination. Any credit union assigned a composite rating of "3" is required to be examined on an annual basis. Credit unions assigned a rating of "4" or "5" are generally required to be examined every six months. The frequency of examinations on "3", "4" and "5" rated credit unions will continue until the financial integrity, operating activities and quality of management of these individual credit unions improves enabling a higher desired overall rating.

Offsite supervision under RFE includes:

- Quarterly offsite monitoring reports – A report analyzing the trends in Capital, Asset Quality, Earnings Performance and Liquidity are performed quarterly.
- Credit union quarterly summary report - A quarterly summary report with statistical information is generated by OFR headquarters from call report data and provided to each area financial office.
- Annual audit report review – Florida statutes require an annual audit be performed on every credit union. A copy of the audit report is provided to each area financial office by OFR headquarters for review of the audit findings.
- Interim correspondence – Correspondence between the credit union and OFR are available for review on the Beta drive.

Onsite contacts to the credit union may be required as determined by the AFM to discuss with credit union management high risk indicators found during the offsite reviews. At a minimum, a telephone contact should be made to discuss the findings of concern. All contacts should be documented in the quarterly offsite monitoring report noting the purpose of the contact and corrective plans of action. A copy of the offsite monitoring report should be provided to the bureau chief.

Chapter Two:

Scope Development and Planning

Before each examination, the examiner-in-charge (EIC) should make a preliminary assessment. This is best accomplished by assigning levels of risk in key areas of operations utilizing the seven risk categories and lead indicators. This evaluation process is conducted offsite during preplanning before the start of each examination. Once the preliminary risk assessment is completed, the focus of the examination can be established and documented in the AIRES scope workbook.

During the preliminary planning process, the EIC should complete an "exam notification letter" (referred to as the SCOPES letter) addressed to the president/CEO of the credit union. Attached with the letter is a pre examination package, consisting of a list of requested items to be gathered by the credit union and made available to the EIC before the start of the onsite examination. The SCOPES letter and pre-examination package should be sent to the credit union at least 45 days prior to the start date of the examination. This should allow the credit union sufficient time to provide all of the requested items. The purpose of the SCOPES letter is to improve the efficiency of in the examination process. An example of the SCOPES letter is provided in the Quick Reference Guide.

Setting Up an Examination and Importing Data into AIRES

Refer to the AIRES User's Manual (Chapter 1) for detailed instructions on setting up an examination and importing data into the AIRES program.

Importing Loan and Share Downloads

The SCOPES letter should include a request for an AIRES share and loan download. The examiner should make an effort to obtain and use the AIRES share and loan downloads on every examination. However, in some cases the program for the share and loan download may not incorporate into the AIRES program. Use the instructions in the AIRES Manual (Chapter 10-1) to import share and loan downloads. If the program does not work, at least one attempt should be made to request a corrected download. Included in this process should be a contact to the NCUA to determine if the program being used is compatible with the AIRES program. An attempt should be made to work through any problems with the NCUA.

Note: If the correction of the download problem could cause an unusually high expense to the credit union, the examiner should suggest the credit union work with other credit unions using the same data processing system to work out the problem for the next examination. In some cases, the loan and share download can be imported directly into an Excel workbook as a last resort.

General Comments

Refer to the NCUA Examiner's Guide for a detailed and comprehensive explanation on scope development and planning.

Quick Reference Guide

- SCOPES Letter
- Pre-Examination Document Request Package (SCOPES Document Request List)- Appendix A
- BSA Addendum for Document Request Package- Appendix A

Chapter Three:

Total Analysis Process

EXAMINATION REPORT PAGES

Financial History
Key Ratios
CAMEL Ratings
Confidential Section
Examination Overview
State Examiner's Findings (violations and operational comments)

EXAMINATION PROCEDURES

Description	Low Risk	Moderate Risk	High Risk
Analyze credit risk	----------ALL----------		
Analyze interest rate risk	----------ALL----------		
Analyze liquidity risk	----------ALL----------		
Analyze transaction risk	----------ALL----------		
Analyze compliance risk	----------ALL----------		
Analyze strategic risk	----------ALL----------		
Analyze reputation risk	----------ALL----------		
Review assisting examiners' comments relative to assigned reviews conducted during the exam	----------ALL----------		

APPLICABLE LAWS, REGULATIONS, RULES, AND BYLAWS

None (See other chapters for Florida Statute and Florida Administrative Code cites related to the appropriate section.)

SAMPLE VIOLATIONS OF LAWS, REGULATIONS, AND POLICIES

None

RED FLAGS

- Deteriorating financial trends
- Lack of or inadequate board policies
- Increased risk assessments in major areas
- Inadequate/low net worth in comparison to risk exposure
- High level of regulatory noncompliance
- Material concerns noted in audit reports

- Material variance in key ratios

CONTENT OF OVERVIEW AND CAMEL CONFIDENTIAL PAGES

Examination Overview Schedule - The overview schedule should provide a summary of the condition and concerns noted during the examination process. There should be a comment all component camel ratings, including management, in the overview. The length of the comments should relate to the degree of problems noted. In addition, the standardized CAMEL rating narrative should then be incorporated into the overview as the concluding paragraph.

Confidential Schedule - This page should not be a repeat of examiner comments in other parts of the examination. The page should be reserved for comments that are appropriate but should not be made in the open section of the report. Refer to Chapter 20 of this manual for further discussion of the information required to be included in this page.

GENERAL COMMENTS

Examiners should consult the NCUA Examiner's Guide for additional information concerning the Total Analysis Process.

EXAMINATION WORK PAPERS

No specific work papers are required. Examiner should evaluate financial performance and examination findings to analyze the condition and safety and soundness of the institution.

QUICK REFERENCE GUIDE

- Composite CAMEL Ratings
- Capital – "C" Rating
- Asset Quality – "A" Rating
- Management – "M" Rating
- Earnings – "E" Rating
- Asset/Liability Management – "L" Rating

Source: NCUA Letter No. 07-CU-12, December 2007

Chapter Four:

Internal Controls

EXAMINATION REPORT PAGES

State Examiner's Findings

EXAMINATION PROCEDURES

Description	Low Risk	Moderate Risk	High Risk
Review security program including any policies and/or procedures	----------ALL----------		
Review policies and procedures for ensuring the security and confidentiality of member records	----------ALL----------		
Ensure safe deposit box procedures address limited access, drilling of boxes, and other compliance issues	---------OPTIONAL---------		

APPLICABLE REGULATIONS, RULES AND BYLAWS

Florida Statutes

Section 655.044, Florida Statutes	Accounting practices
Section 655.045, Florida Statutes	Exams, reports, and internal audits
Section 655.93 - 94, Florida Statutes	Safe Deposit Boxes
Section 657.026, Florida Statutes	Supervisory/audit committee; audit

Florida Administrative Code

Rule 69U-110.026	Supervisory/audit committee; audit

NCUA Rules and Regulations

Part 741.214	Report of Crime or Catastrophic Act
Part 748.0	Security Program

RED FLAGS

- Inactive Board of Directors or Supervisory Committee
- Nepotism – Lack of Board policy addressing nepotism

- Lack of dual controls or separation of duties
- Management not regularly reviewing information systems (IS) reports
- Someone other than Supervisory Committee engages the services of CPA

Chapter Five:

Supervisory (Audit) Committee

EXAMINATION REPORT PAGES

1. State Examiner's Findings:
   Deficiencies noted in Supervisory Committee annual audit.

2. Document of Resolution:
   a) If the audit is deemed unacceptable and the credit union has not corrected the deficiencies, then the EIC (with the concurrence of the Area Financial Manager or the Bureau Chief) should require that an independent audit be performed pursuant to Section 655.045(1)(e), Florida Statutes.

   b) If recordkeeping in the credit union is deemed to be unacceptable, and there appears to be lack of internal controls in preparing the records, then the EIC (with the concurrence of the Area Financial Manager or the Bureau Chief) should require that an independent audit be performed pursuant to Section 655.045(1)(e), Florida Statutes.

EXAMINATION PROCEDURES

Description	Low Risk	Moderate Risk	High Risk
Meet with or contact representative of supervisory committee	----------ALL----------		
Review annual audits since the last exam; review audit work paper (as necessary)	----------ALL----------		
Review interim audit program	----------ALL----------		
Obtain auditor's engagement letter	----------ALL----------		
Obtain copy of peer review either from CPA or web site (www.aicpa.org) (as necessary)	----------ALL----------		
Complete AIRES questionnaires:			
• Supervisory Committee Audit Verification Review (required)	----------ALL----------		
• Appropriate Audit Questionnaire – SC Audit; Internal Audit; CPA Opinion; or CPA Non-Opinion (optional)	----------ALL----------		

APPLICABLE LAWS, REGULATIONS, RULES, AND BYLAWS

Florida Statutes

Section 657.026 Committee of at least three members

Section 657.026	Committee to have CU audited annually; submit report to Board and Office of Financial Regulation (OFR); summary report at annual meeting
Section 657.026	Notify Board and OFR of unsound practices; two-thirds of members constitute a quorum
Section 655.045 and Section 657.026	Annual audit required within each calendar year

Florida Administrative Code

Rule 69U-110.026	Requirements and qualifications of supervisory/audit committee audit
Rule 69U-110.026	Requires annual audit within 15 months of the previous audit

Model Credit Union Bylaws

Article VI, Section 3	Committee to give report at annual meeting
Article VI, Section 4	Committee is required to meet quarterly

NCUA Rules and Regulations

Part 715	Supervisory committee audits and verification of members' accounts
Part 715	Requirement for an outside audit
Part 741	Audit and verification requirement

SAMPLE VIOLATIONS OF LAWS, REGULATIONS, AND POLICIES

1. The verification of members' accounts was not performed under controlled conditions as required by the referenced regulation.

   Ref: Part 741.202(b), NCUA Rules and Regulations
   Part 715.8(b)(1), NCUA Rules and Regulations

2. The Supervisory Committee has not met as required.

   Ref: Insert appropriate bylaw reference (e.g., Article VI, Section 4, Bylaws)

3. The December 31, 20XX annual audit was not submitted to OFR within 45 days of the board's acceptance.

   Ref: Rule 69U-110.026(3)(a), Florida Administrative Code

4. The December 31, 20XX annual audit was not submitted to OFR within 90 days after the completion of the audit.

   Ref: Rule 69U-110.026(3)(a), Florida Administrative Code

5. The annual audit for the period ending December 31, 20XX, was determined to be unacceptable due to lack of supporting work papers. Refer to the schedule "Examiner's Findings" for a listing of those areas considered unacceptable.

   Ref: Rule 69U-110.026(4), Florida Administrative Code

6. A 100 percent verification of members' accounts has not been performed within the past two years.

   Ref: Part 741.202(b), NCUA Rules and Regulations

7. Board failed to approve a loan to Supervisory Committee member that exceeded $20,000.

   Ref: Section 657.039(1)(b), Florida Statutes

8. The Supervisory Committee failed to have an audit performed for the calendar year 20XX.

   Ref: Section 655.045(3)(a), Florida Statutes
   Rule 69U-110.026(2), Florida Administrative Code

9. The Supervisory Committee failed to perform the annual audit within 15 months of the last audit.

   Ref: Rule 69U-110.026(2), Florida Administrative Code

RED FLAGS

- No supervisory/audit committee audit or verification, or significant exceptions found
- Inactive supervisory/audit committee
- Lack of a timely return of annual audit
- Member complaints, such as failure to receive statements on account
- Questionable independence and competence of those who perform the annual audit
- Internal and external auditor is one and the same (may not be practical for smaller credit unions to have separate internal and external auditors)
- Persistent record keeping deficiencies
- Ineffective audit review program
- Auditor access limited by management
- CUMIS Risk Management Audit completed that identifies weak internal control

EXAMINATION WORK PAPERS

Description	Low Risk	Moderate Risk	High Risk
Recap supervisory committee minutes	----------ALL----------		
Copy of annual audits since prior examination	----------ALL----------		
Auditor's engagement letter	----------ALL----------		
Management letter	----------ALL----------		
Management's response to the audit	----------ALL----------		
AIRES questionnaires:			
• Supervisory Committee Audit Verification Review (required)	----------ALL----------		
• Appropriate Audit Questionnaire – SC Audit; Internal Audit; CPA Opinion; or CPA Non-Opinion (optional)	----------ALL----------		

Chapter Six:

Information Systems and Technology

EXAMINATION REPORT PAGES

There are no specific report pages in AIRES; however, the AIRES IT–Profile is required be reviewed and retained in the workpapers. (The IT–Profile questionnaire is provided in the "IT-Questionnaires.xlsm" workbook which is found in the Available Template Files section.) To aid in review of this area, there are several optional IT questionnaires in the available templates file in AIRES.

EXAMINATION PROCEDURES

Description	Low Risk	Moderate Risk	High Risk
Review E-banking policies	----------ALL----------		
Review disaster recovery plan	----------ALL----------		
Review material contracts	----------ALL----------		
Review most recent SSAE 16 (SOC 1) report from EDP	----------ALL----------		
Review most recent intrusion testing report	----------ALL----------		
Review most recent ACH (NACHA) audit report	----------ALL----------		
Review IT-Profile questionnaire	----------ALL----------		
Complete AIRIES questionnaires (optional):			
• IT – Items Needed	--------OPTIONAL---------		
• IT – Pre-Exam Update	--------OPTIONAL---------		
• IT – Website & E-Banking	--------OPTIONAL---------		
• IT – 748A Information Security	--------OPTIONAL---------		
• IT – 748A Items Needed	--------OPTIONAL---------		
• IT – 748 Expanded	--------OPTIONAL---------		
• IT – Anti-Virus & Malware	--------OPTIONAL---------		
• IT – Audit Program	--------OPTIONAL---------		
• IT – Business Continuity	--------OPTIONAL---------		
• IT – Firewalls	--------OPTIONAL---------		
• IT – IDS-IPS	--------OPTIONAL---------		
• IT – Networks	--------OPTIONAL---------		
• IT – Pen Test Review	--------OPTIONAL---------		
• IT – Physical Security	--------OPTIONAL---------		
• IT – Policy Checklist	--------OPTIONAL---------		
• IT – Remote Access	--------OPTIONAL---------		
• IT – Routers	--------OPTIONAL---------		
• IT – Servers	--------OPTIONAL---------		

• IT – Virtualization • IT – Wireless Networks	--------OPTIONAL--------- --------OPTIONAL---------

APPLICABLE LAWS, REGULATIONS, RULES AND BYLAWS

Florida Statutes:

Section 655.0391	Retention of supervision by Office of Financial Regulation of EDP servicer
Section 655.91	Record retention requirements

NCUA Rules and Regulations:

Part 741.220	Privacy of consumer financial information
12 CFR Part 1016	Privacy of consumer financial information
Part 748	Security of records
Part 749	Storage of vital records

SAMPLE VIOLATIONS OF LAWS, REGULATIONS, AND POLICIES

1. The credit union's EDP servicing contract does not contain assurances that the service bureau is subject to regulation and examination by the Office of Financial Regulation to the same extent as if such services were being performed by the credit union itself on its own premises.

   Ref: Section 655.0391, Florida Statutes

2. Management has not implemented a records preservation program to identify, store, and reconstruct vital records in the event that the credit union's records are destroyed.

   Ref: Part 741.215, NCUA Rules and Regulations
   Part 749.0, NCUA Rules and Regulations

3. Duplicate vital credit union records have not been stored off-site to prevent simultaneous destruction in a catastrophic event.

   Ref: Part 741.215, NCUA Rules and Regulations
   Part 749.2, NCUA Rules and Regulations

RED FLAGS

- In-house data processing system with weak security and/or lack of separation of duties.
- Any negative answers on the EDP Review Questionnaire.
- Weaknesses noted in auditor's SSAE 16 (SOC 1) report
- Weaknesses noted on auditor's intrusion testing report
- Required disclosures missing from CU website

- Weaknesses noted in auditor's ACH audit

GENERAL COMMENTS

The NCUA Examiner's Guide should be used for additional information concerning this area. Electronic banking and its inherent security concerns dictate that regulators and independent auditors stay vigilant in reviewing internal controls on access to data systems. The NCUA web site provides guidance and reference material under http://www.ncua.gov/Resources/Pages/cyber-security-resources.aspx; specifically, rules and regulations, letters addressing IS&T, examination resources and other links.

The AIRES IT-Profile questionnaire should be reviewed. Examiners should review the credit union's web site for appropriate disclosure requirements (Truth-in-Savings, Truth-in-Lending, HMDA, Privacy, Insured by NCUA, Equal Housing Lender, etc.).

Security measures should be reviewed for access to the mainframe computer (installed firewalls, password security measures, access to passwords and how they are assigned).

Additionally, examiners should review the 3rd party audit of the data processor (SSAE 16). Management should have a copy of the most recent SSAE 16 (SOC 1) report accompanied by management's response to any identified weaknesses in the system. Management should obtain the SSAE 16 (SOC 1) report even if a fee is charged.

EXAMINATION WORK PAPERS

Description	Low Risk	Moderate Risk	High Risk
Copy of E-banking policies	----------ALL----------		
Copy of disaster recovery plan	----------ALL----------		
IT – Profile questionnaire	----------ALL----------		
Disaster preparedness questionnaire	-------OPTIONAL----------		
EDP and E-Commerce contracts	----------ALL----------		
Copy of most recent SSAE 16 (SOC 1) report from EDP	----------ALL----------		
Copy of CU's most recent intrusion testing report	----------ALL----------		
Copy of most recent ACH (NACHA) audit report	----------ALL----------		
Applicable AIRES questionnaires (optional)			

Chapter Seven:

Management

EXAMINATION REPORT PAGES

Examination Overview *(note key management concerns)*
State Examiner's Findings *(note any violations or operational comments relative to weaknesses identified)*
Document of Resolution *(if applicable)*
Key Ratios
Management Review Questionnaire
CAMEL Ratings
Confidential Section

EXAMINATION PROCEDURES

Description	Low Risk	Moderate Risk	High Risk
Review Board and Annual Meeting minutes(Request all minutes of any meeting)	----------ALL----------		
Review Audit/Supervisory Committee minutes	----------ALL----------		
Review annual audit(s) and management letter(s)	----------ALL----------		
Review Key Ratios schedule	----------ALL----------		
Review Strategic Plan/Business Plan	----------ALL----------		
Review effectiveness of marketing efforts	----------ALL----------		
Review budget, assumptions and variance analysis	----------ALL----------		
Review Personnel Policy	----------ALL----------		
Review Conduct of Officers Policy	----------ALL----------		
Review Continuing Education for Directors Policy	----------ALL----------		
Review Management Succession Plan	----------ALL----------		
Review Disaster Recovery Plan	----------ALL----------		
Review Physical Security Program	----------ALL----------		
Review all policies to ensure ***biennial*** Board approval	----------ALL----------		
Review Board minutes for charge-off approvals	----------ALL----------		
Review Board minutes for annual approval of insider lines of credit	----------ALL----------		
Determine annual Board approval of fidelity bond and insurance coverage	----------ALL----------		
Review management employment contracts	----------ALL----------		
Review leases on real property	----------ALL----------		
Review key supplier contracts	----------ALL----------		
Review annual performance evaluations	----------ALL----------		

Obtain biographical sketches on all insiders	----------ALL----------
Obtain and review attorney's letter	----------ALL----------
Determine Board approval of lines of credit with other financial institutions	----------ALL----------
Review contingent liabilities	----------ALL----------
Determine compliance with minimum capital requirements	----------ALL----------
Review Board planning process and cost/benefit analysis of new services and programs	----------ALL----------
Review development and Board oversight of new services and programs	----------ALL----------
Complete AIRES questionnaires:	
• SC Audit and Verification Review (required)	----------ALL----------
• IC – Management Review (required)	----------ALL----------
• 5300 Review (required)	----------ALL----------

APPLICABLE LAWS, REGULATIONS, RULES, AND BYLAWS

Model Credit Union Bylaws

Article II, Section 2	Application for membership
Article II, Section 4	Confidentiality requirements
Article II, Section 5	Minimum share requirement for membership
Article III, Section 1	Maximum share deposits
Article IV, Section 3	Prohibition of board members serving on supervisory committee
Article IV, Section 4	Frequency of board meetings
Article IV, Section 5	Responsibilities of the board
Article IV, Section 6	Appointment of nominating committee
Article IV, Section 7	Election of directors
Article IV, Section 8	Declaration of vacancy on board
Article V, Section 1/optional	Appointment of credit manager/committee
Article V, Section 2/optional	Responsibilities of the credit manager
Article V, Section 3/optional	Responsibilities of the credit committee
Article VI, Section 1/optional	Number of members on supervisory/audit committee
Article VI, Section 3/optional	Responsibilities of the supervisory/audit committee

Article VII, Section 1	Election of officers to the board
Article VIII, Section 1	Employment and responsibilities of chief executive officer

Florida Statutes

Section 655.005	Definitions; officer, executive officer
Section 655.0322	Prohibited acts and practices; criminal penalties
Section 655.0386	Conflicts of interest
Section 655.044	Accounting practices; records
Section 655.91	Records of institutions; retention and destruction
Section 655.948	Significant events; notice required
Section 657.021	Board of Directors; executive committee
Section 657.022	Executive officers
Section 657.024	Membership meetings
Section 657.026	Supervisory or audit committee
Section 657.0265	Liability of credit union directors, supervisory/audit committee members
Section 657.027	Credit committee and credit manager
Section 657.028	Activities of directors, officers, committee members, employees and agents
Section 657.031	Powers
Section 657.033	Accounts
Section 657.038	Loan powers
Section 657.039	Extension of credit to directors and certain others
Section 657.042	Investment powers and limitations

Rules of the Florida Administrative Code

Rule 69U-100.03852	Disapproval of directors or executive officers
Rule 69U-100.600	Appraisals and appraisals standards policies

Rule 69U-100.948	Reporting of significant events
Rule 69U-110.0061	Bylaws
Rule 69U-110.008	Branches
Rule 69U-110.021	Filling of appointments
Rule 69U-110.0211	Liability and Bond Insurance
Rule 69U-110.0212	Policies
Rule 69U-110.026	Supervisory/audit committee audit
Rule 69U-110.0381	Loans Secured by Real Estate
Rule 69U-110.045	Reports to OFR

Applicable NCUA Guidance

Part 701.14	Reporting requirements for credit unions that are newly chartered or in troubled condition
Parts 701.32, 701.34 and 741.204	Maximum public unit and nonmember accounts, and low income designation
Part 702	Prompt corrective action and net worth classification
Parts 705 and 741.207	Community development revolving loan program for credit unions
Parts 707 and 741.217	Truth in savings
Parts 709 and 741.218	Involuntary liquidation and creditor claims
Parts 711 and 741.209	Management official interlocks
Parts 713 and 741.201	Minimum fidelity bond requirements
Parts 715 and 741.202	Audit and verification requirements
12 CFR Part 1016 and 741.220	Privacy of consumer financial information
Part 722	Appraisals
Part 723	Member business loans
Parts 725 and 741.210	Central liquidity facility
Parts 740 and 741.211	Advertising

Part 741.1	Examination
Part 741.2	Maximum borrowing authority
Part 741.3	Criteria to determine insurability
Part 741.4	Insurance premium and one percent deposit
Part 741.6	Financial and statistical and other reports
Part 741.8	Purchase of assets and assumption of liability
Part 741.9	Uninsured membership shares
Parts 741.10 and 741.212	Disclosure of share insurance
Part 741.203	Minimum loan policy requirements
Part 741.219	Investment requirements
Part 745	Share insurance
Parts 747 and 741.213	Administrative actions, adjudicative hearings, rules of practice and procedure
Parts 748 and 741.214	Security program, report of crime or catastrophic act and bank secrecy act compliance
Parts 749 and 741.215	Records preservation
Parts 760 and 741.216	Flood insurance

SAMPLE VIOLATIONS OF LAWS, REGULATIONS, AND POLICIES

1. The Board of Directors failed to meet as required in the bylaws.*****

   Ref: Section 657.021(4), Florida Statutes
   Appropriate bylaw citation (e.g., Article IV, Section 4, Bylaws)

2. The Supervisory Committee failed to meet as required.*****

   Ref: Appropriate bylaw citation

3. The Board of Directors failed to hold an annual meeting of the membership as required.*****

   Ref. Section 657.024, Florida Statutes
   Appropriate bylaw citation

4. The Board of Directors failed to comply with the order of business prescribed within the bylaws at the annual meeting of the membership.*****

Ref: Section 657.024(4), Florida Statutes
Appropriate bylaw citation

5. The Board of Directors failed to obtain required approval of the Office of Financial Regulation of amendment to bylaws.*****

   Ref: Section 657.0061(1), Florida Statutes
   Rule 69U-110.0061(2), Florida Administrative Code
   Appropriate bylaw citation

6. The Supervisory Committee (Audit Committee) failed to perform (or cause to be performed) an annual audit as required.*****

   Ref. Section 657.026(2), Florida Statutes
   Rule 69U-110.026(2), Florida Administrative Code
   Appropriate bylaw citation

*** Note 1:** This note applies to items 1 – 5 above. The examiner must reference the appropriate credit union bylaw article and section as they may differ among credit unions.

7. Notification to the Office of Financial Regulation upon the resignation of a director was not satisfied.******

   Ref: Section 655.948(2)(a)(1), Florida Statutes

8. Notification to the Office of Financial Regulation upon a change in general counsel was not satisfied.******

   Ref: Section 655.948(2)(a)(3), Florida Statutes

9. Notification to the Office of Financial Regulation upon a change in outside auditors was not satisfied.******

   Ref: Section 655.948(2)(a)(3), Florida Statutes

**** Note 2:** Items 7, 8 and 9 above apply <u>only</u> to credit unions that are under significant events reporting. i.e., credit unions that received a composite CAMEL rating of 4 or 5 and/or a management rating of 3, on the last examination.

10. The Board of Directors failed to approve payment of the share dividend for fourth quarter 20XX.

    Ref: Section 657.021(6)(c), Florida Statutes

11. The Board of Directors failed to hold an organizational meeting within 31 days following the annual meeting of the membership.

    Ref: Section 657.022(1), Florida Statutes

12. Compliance with generally accepted accounting principles and practices was not satisfied.

    Ref: Section 655.044(1), Florida Statutes

13. The Board of Directors failed to establish an equity policy.

    Ref: Section 657.021(6)(b), Florida Statutes
    Rule 69U-110.0212, Florida Administrative Code

14. The Board of Directors failed to establish policies for the continuing education of directors and committee members.

    Ref: Section 657.021(6)(b), Florida Statutes
    Rule 69U-110.0212, Florida Administrative Code

15. The Board of Directors failed to establish policies for the conduct of officers and employees.

    Ref: Section 657.021(6)(b), Florida Statutes
    Rule 69U-110.0212, Florida Administrative Code

16. The Board of Directors failed to establish personnel policies.

    Ref: Section 657.021(6)(b), Florida Statutes
    Rule 69U-110.0212, Florida Administrative Code

17. Approval from the Office of Financial Regulation was not obtained prior to relocating the credit union's principal place of doing business.

    Ref: Section 657.008(1), Florida Statutes
    Rule 69U-110.0061(4), Florida Administrative Code

18. The Interagency Biographical and Financial Report (Form OFR-U-10) was not forwarded to the Office of Financial Regulation as required.

    Ref: Rule 69U-110.021(1), Florida Administrative Code

19. Directors failed to file a signed oath of office with the Office of Financial Regulation as required.

    Ref: Section 657.021(2), Florida Statutes
    Rule 69U-110.021(2), Florida Administrative Code

20. A quarterly report of condition (NCUA Form 5300) was not filed with the Office of Financial Regulation as required.

    Ref: Section 655.045(2)(a), Florida Statutes
    Rule 69U-110.045, Florida Administrative Code

21. Minutes did not contain all the information required for board approval of extensions of credit.

Ref: Section 657.038(10), Florida Statutes

22. Minutes do not indicate that a board member abstained from voting on the approval of his/her loan.

    Ref: Section 657.039(1)(b), Florida Statutes

RED FLAGS

- Failure of the Board of Directors to meet as required
- Failure of the Supervisory/Audit Committee to meet as required
- Failure of the Board of Directors to maintain sufficient minutes
- Failure of the Supervisory/Audit Committee to maintain sufficient minutes
- Failure of the Supervisory/Audit Committee to establish and implement an audit review program
- Inactive Supervisory/Audit Committee
- Management Contract provides for unusual bonuses, high salary in relating to size of credit union and large severance in case of termination or merger. Also, contacts that do not provide for dismissal for cause.
- Material weaknesses and/or reportable conditions noted within the CPA management letter for the annual audit
- Failure to satisfactorily address weaknesses/exceptions noted within reports of examination, audit reviews, annual audits, and risk management audits
- Lack of, unacceptable, or non-independent audit or verification
- Inaccurate or incomplete reports to the Board
- Inadequate internal controls and information systems (IS) controls
- Lacking/insufficient written policies and procedures for all financial and operational areas
- Numerous policy and procedural exceptions
- Failure of management to provide records, or delays in providing, standard reports, records, and documents
- Failure to maintain records
- Records maintained off-premises
- Failure of management to cooperate during the performance of an examination
- Management restricting access to employees during the performance of an examination
- An overly dominant manager
- Failure to perform, at least annually, an assessment of management's performance
- Manager or key employee not taking regular vacations or always working late hours
- Lack of segregation of duties when credit union has adequate staffing to achieve such
- Conflicts of interest and self-dealing
- Large amounts of cash in transit
- Lack of a fraud policy
- Large number of outstanding items on account reconcilements
- Large balances in miscellaneous operating accounts
- Inadequate documentation to support balances in accounts
- Material change in loan portfolio
- Material change in investment portfolio
- Failure to comply with applicable laws and regulations
- Failure to establish strategic and business plans

- Failure to establish a management succession plan
- Deteriorating financial stability of the credit union; material changes to capital accounts
- Key personnel changes since the previous examination
- Lawsuits filed against the credit union or management
- Filing of bond claims involving dishonesty by a credit union employee or official
- EDP conversions, upgrades or material changes
- Failure to perform proper planning and due diligence review of new services and programs

GENERAL COMMENTS

Management is responsible for identifying, monitoring, measuring and controlling the risks associated with operating the credit union in a safe and sound manner. Examiners should assess whether the credit union board of directors and daily management have sufficient oversight and expertise to adequately plan, direct, and control the operations of the credit union. Examiners should not assess management solely on the credit union's current financial condition; nor should the management rating be only an average of the other CAMEL component ratings. Refer to Chapter 7 of the NCUA Examiner's Guide for additional and comprehensive information concerning the evaluation of credit union management.

EXAMINATION WORK PAPERS

Description	Low Risk	Moderate Risk	High Risk
Board Minutes (All other minutes)	----------ALL----------		
Annual Meeting Minutes	----------ALL----------		
Audit/Supervisory Committee (SC) Minutes	----------ALL----------		
Personnel Policy	----------ALL----------		
Conduct of Officer Policy	----------ALL----------		
Continuing Education for Directors Policy	----------ALL----------		
Strategic/Business Plan	----------ALL----------		
Budget	----------ALL----------		
Management Succession Plan	----------ALL----------		
Leases on real property	----------ALL----------		
Key supplier contracts	----------ALL----------		
Management employment contracts	----------ALL----------		
Annual Performance Evaluation(s) for management and staff	----------ALL----------		
Management compensation/retirement plan	----------ALL----------		
Attorney's Letter	----------ALL----------		
Biographical Sketch on Directors, Committee Members, and Senior Officers	----------ALL----------		
AIRES Questionnaires:			
• SC Audit and Verification Review (required)	----------ALL----------		
• IC – Management Review (required)	----------ALL----------		
• 5300 Review (required)	----------ALL----------		

Chapter Eight:

General Ledger

EXAMINATION REPORT PAGES

Statement of Financial Condition
Statement of Income
General Ledger Journal Adjustments
Allowance Evaluation
Financial History

EXAMINATION PROCEDURES

Description	Footnote	Low Risk	Moderate Risk	High Risk
Perform preliminary transaction risk assessment in AIRES Scope Workbook		----------ALL----------		
Reconcile financial statement to general ledger account balances			X	X
Complete critical ALLL		----------ALL----------		
Complete 5300 Review		----------ALL----------		
Verify loans		----------ALL----------		
Verify shares		----------ALL----------		
Verify deposits		----------ALL----------		
Verify cash			X	X
Verify investments			X	X
Verify fixed assets	A		X	X
Verify accrued income receivable on loans and investments			X	X
Verify receivables			X	X
Verify prepaid expenses			X	X
Verify all other assets	B		X	X
Verify accounts payable			X	X
Verify notes payable			X	X
Verify accrued dividends and deposits payable			X	X
Verify interest refunds payable			X	X
Verify taxes payable			X	X
Verify accrued expenses			X	X
Verify other liabilities			X	X
Verify unapplied data processing exceptions (suspense accounts)	C		X	X
Verify deferred credits			X	X
Determine contingent liabilities		----------ALL----------		

Reconcile reserve accounts		----------ALL----------
Verify accuracy of call report(s)	D	----------ALL----------
Perform final transaction risk assessment in AIRES Scope Workbook		----------ALL----------

Footnote References:
A. Determine compliance with applicable statutes in all instances.
B. Verify material asset account balances only.
C. Review for unusual activity in all instances.
D. Verify the accuracy of the call report at the financial examination date.

APPLICABLE LAWS, REGULATIONS, RULES AND BYLAWS

Model Credit Union Bylaws

Article IV, Section 5	Responsibilities of the Board
Article VII, Section 1(d)	Responsibilities of the Treasurer
Article VIII, Section 1	Responsibilities of the Chief Executive Officer
Article VIII, Section 2	Any Board member as Chief Executive Officer and required duties

Florida Statutes

Section 655.044(1)	Accounting practices; bad debts ineligible to be carried as assets
Section 655.045(1)(e)	Requirement for an outside audit
Section 655.045(2)(a)	Required call report
Section 655.416	Book value of assets – (Merger, conversion)
Section 655.60(3)	Appraisals
Section 657.021(5)	Board requirement to ensure general direction of the business affairs of the credit union is managed in a manner consistent with safe and sound credit union practices
Section 657.043(5)	Borrowed money
Section 657.042(5)(a)	Investment in real estate and equipment

Florida Administrative Code

Rule 69U–110.045	Reports to OFR – (Call Report)

NCUA Rules and Regulations

Part 741.6	Requirement to comply with GAAP
Parts 741.202 and 715	Audit and verification requirements
Part 741.205	Reporting requirements for newly chartered or in troubled condition

SAMPLE VIOLATIONS OF LAWS, REGULATIONS, AND POLICIES

1. Records were not maintained in accordance with generally accepted accounting practices.

   Ref: Section 655.044(1), Florida Statutes

2. Management failed to timely submit the June 30, 20XX Quarterly Report of Financial Condition to the OFR as required.

   Ref: Section 655.045(2)(a), Florida Statutes
   Rule 69U–110.045, Florida Administrative Code

3. Aggregate borrowings, determined to be sixty-five percent of unimpaired capital, exceed the fifty percent maximum limitation of the referenced statute.

   Ref: Section 657.043(5), Florida Statutes

4. Investments in real estate and equipment, determined to be seven percent of capital, exceed the five percent maximum limitation of the referenced statute, and does not meet the exemption provided by Rule 69U-110.031(2)(a), Florida Administrative Code.

   Ref: Section 657.042(5)(a), Florida Statutes

5. Management failed to obtain written approval from OFR to exceed the five percent maximum limitation of investment in real estate and equipment, and does not meet the exemption provided by Rule 69U-110.031(2)(a), Florida Administrative Code.

   Ref: Section 657.042(5)(b), Florida Statutes

RED FLAGS

- Rapid growth of credit union and expansion of services
- Turnover of key accounting personnel
- Lacking or insufficient accounting policies and procedures
- Poorly trained staff in the accounting area of operations
- Failure of management to provide sufficient staffing and time to the operations accounting area
- Manual record keeping system of accounts
- Insufficient oversight of the accounting department
- Accounting department staffed with one person

- Inactive Supervisory/Audit Committee in the area of accounting
- Findings and concerns addressed with the audit reports
- Insufficient or lack of segregation of duties
- Insufficient or lack of subsidiary records (in a timely manner)
- Unreconciled imbalances
- Large write-offs of unreconciled imbalances
- Stale dated reconciling items
- Suspense accounts with large balances
- Stale dated receivables
- Failure to reduce accrued interest receivable by loan interest ninety days past due
- Failure to reverse accruals
- Items inappropriately posted as prepaid items
- Prepaid items amortized over excessive periods
- Fixed assets depreciated over inappropriate periods
- Foreclosed property not reclassified as real estate owned
- Failure to recognize all liabilities
- Excessive turnover in the accounting department
- Disgruntled staff within the accounting department
- Failure to recognize or write off overdrawn share accounts in a timely manner
- Failure to write assets to their reasonable value
- Inadequate CPA audit of the accounting area of operations
- Failure of management to follow-up on weaknesses cited in CPA audits or examinations
- Preparation of financial statements which do not balance
- Failure to charge off deficiency balances on repossessed and foreclosed collateral

Note: For a listing of additional general ledger red flags, refer to Chapter 8 of the NCUA Examiner's Guide.

GENERAL COMMENTS

Other than for training purposes of new examiners, verification of general ledger accounts is not required under a low risk assessment when it is confirmed while on site that accounting controls are adequate and records are kept according to generally accepted accounting principles. It shall be the responsibility of the examiner-in-charge to expand the scope of the general ledger review and conduct verifications of accounts where warranted and justified. This is usually determined on site when weaknesses in accounting internal routines and controls are identified if no previous indication of such in the pre-planning process.

The general ledger work papers included with AIRES are optional and the examiner may apply discretion in determining which work papers should be used. The AIRES work papers should be printed and retained in file as supporting documentation. However, should the AIRES work papers not be used in lieu of other examiner prepared work papers, the work papers should clearly document the review and confirmation process. Supporting documentation should be retained within the examination work papers. All completed questionnaires should be printed and retained within the examination work papers.

EXAMINATION WORK PAPERS

Description	Low Risk	Moderate Risk	High Risk
AIRES Scope Workbook Preliminary and Final Transaction Risk Assessment	----------ALL----------		
Call Reports	----------ALL----------		
Loans	----------ALL----------		
Critical ALLL	----------ALL----------		
Cash on Hand	----------ALL----------		
Cash on Deposit	----------ALL----------		
Cash Equivalents	----------ALL----------		
Investments	----------ALL----------		
Prepaid Expenses/Deferred Charges		X	X
Land		X	X
Building		X	X
Furniture and Equipment		X	X
Leasehold Improvements		X	X
Leased Assets		X	X
OREO		X	X
All Other Assets		X	X
Accounts Payable		X	X
Other Liabilities		X	X
Dividends Payable		X	X
Notes Payable		X	X
Shares of Members	----------ALL----------		
Undivided Earnings	----------ALL----------		
Other Reserves	----------ALL----------		
Misc. Equity	----------ALL----------		
Non-Conforming Investment Reserve	----------ALL----------		
Unrealized Gain/Loss On AFS Securities	----------ALL----------		
AIRES questionnaires: • 5300 Review (required) • ALLL Review (required sections: General #1-6 and Conclusions #1a – 1d)	 ----------ALL---------- ----------ALL----------		

Chapter Nine:

Cash Analysis

EXAMINATION REPORT PAGES

State Examiner's Findings
Document of Resolution *(if applicable)*

EXAMINATION PROCEDURES

Description	Low Risk	Moderate Risk	High Risk
Review due from reconciliations		X	X
Verify old outstanding items being cleared by staff		X	X
Review and classify old outstanding items		X	X
Verify bait money controls		X	X
Verify tellers and vault cash		X	X
Verify internal controls over cash		X	X
Confirm internal cash counts are performed on a regular basis	----------ALL----------		
Review cash over and short records		X	X
Verify dual control exists over night depository, vault cash and ATMs		X	X
Verify proper controls exist over wire transfers		X	X
Review teller checks and money order reconcilements		X	X
Ensure compliance with procedures and NACHA rules		X	X
Complete AIRES questionnaires (all are optional):			
• IC - Cash		X	X
• IC - Automated Teller Machine (ATM)		X	X
• IC - Money Order/Travelers Checks		X	X
• Red Flags Q	----------ALL----------		
• Red Flag Procedures	----------ALL----------		

APPLICABLE LAWS, REGULATIONS, RULES, AND BYLAWS

Florida Statutes

Section 655.044 Compliance with Generally Accepted Accounting Principles

SAMPLE VIOLATIONS OF LAWS, REGULATIONS, AND POLICIES

1. Due from bank accounts are not reconciled timely.

   Ref: Section 655.044, Florida Statutes

RED FLAGS

- Cashing numerous third party checks
- Erasures, corrections, white outs, line outs, etc.
- Numerous checks missing or voided
- Inconsistent receipts to deposit audit trail
- Deposits made payable to cash or depositor, and drawn against other financial institutions (may show as outstanding reconciling items on both accounts)
- Check numbers out of sequence
- Numerous reconciling items each month and large degree of aged items
- Receipts not deposited timely
- Outstanding checks for long periods
- Use of borrowed funds in spite of large cash balances
- Cash flow report does not tie to actual financial activity
- Activity exceeds realistic needs based upon size of credit union
- Cash balance consistently and materially exceeds national average of 2-3 percent of assets and amount is excessive based upon the credit union's liquidity needs and transaction types
- Excessive or seemingly adequate cash balance outstanding and existence of borrowed funds (excluding reverse repos)
- Excessive number of depository accounts (could allow kiting activity)
- Lack of written internal control procedures in the cash handling process
- Lack of money order/travelers checks reconcilements
- Lack of separation of duties (internal controls) in a credit union adequately staffed to achieve such
- On-going record-keeping problems
- Excessive teller overages or shortage, either in number or amount
- IOU's in teller or vault cash
- Excessive cash/assets ratio (indicates poor cash management or possibly fraud)
- Cash vault left open during the day and access available to all staff
- Lack of written internal control procedures governing wire transfers
- No audit performed to ensure compliance with procedures and NACHA Rules

GENERAL COMMENT

It shall be the responsibility of the examiner-in-charge to expand the scope of the cash analysis review where warranted.

This is usually determined on site when weaknesses in internal routines and controls are identified if undetermined during the pre planning process and review of the CPA annual audit report and work papers. Weak reconcilement procedures could easily lead to cash shortages. The examiner is encouraged to review the contents of Chapter 27 in the NCUA Examiner's Manual for additional information and guidance.

EXAMINATION WORK PAPERS

Description	Low Risk	Moderate Risk	High Risk
Policies (Cash, Wire Transfer, ACH etc.)	----------ALL----------		
Bank reconcilements (e.g. Corporate Credit Union)	----------ALL----------		
End of Previous month's teller balancing sheets (optional)		X	X
Applicable AIRES questionnaires			

Chapter Ten:

Loans

EXAMINATION REPORT PAGES

Loan Analysis
Loan Trends
Loan Exceptions (if applicable)
Applicable AIRES Loan Questionnaires – (ALLL Review (required sections: General #1 - 6 and Conclusions #1a – 1d) and Flood Act questionnaires are mandatory; optional loan questionnaires should be included in instances where new loan programs have been established and/or where the Report of Examination identifies concerns/risks within a specific loan program)

EXAMINATION PROCEDURES

Description	Footnote Ref.	Low Risk	Moderate Risk	High Risk
Perform preliminary credit risk assessment in AIRES Scope Workbook		----------ALL----------		
Review critical loan information		----------ALL----------		
Review loan analysis		----------ALL----------		
Review loan trends		----------ALL----------		
Review loan growth trends by loan type and percentage		----------ALL----------		
Review delinquency and loan loss trends by loan type and percentage			X	X
Review anticipated losses within the loan portfolio			X	X
Review loan portfolio by type to ascertain concentration of risk		----------ALL----------		
Review charge off policy and timeliness of write offs			X	X
Review collection policies and procedures.			X	X
Review loan and credit policies and Procedures		----------ALL----------		
Review loan extension and refinance policies and procedures			X	X
Review consumer loans	A	----------ALL----------		
Review commercial loans	A	----------ALL----------		
Review indirect loans	A	---------- ALL ----------		
Review insider loans	A	----------ALL----------		
Complete Loan Exceptions Schedule		----------ALL----------		

Review management's corrective actions to prior examination deficiencies		----------ALL----------
Review new loan products and services		----------ALL----------
Review loan participation agreements		----------ALL----------
Review the following queries within AIRES: • Loans Lacking Payment Last 12 Months • Loans With Accrued Interest Greater than Payment • Loans With Interest Rates Less than 5% and Greater Than 18% • Loans Paid Ahead Greater Than 60 days • Loans With No Balance Change Last 90 days • Loans With 0 Payment Required		----------ALL---------- ----------ALL---------- ----------ALL---------- ----------ALL---------- ----------ALL---------- ----------ALL----------
Review overdraft (bounce) protection program policy and procedures (if applicable)		----------ALL----------
Review aging report of overdrawn share accounts		----------ALL----------
Complete AIRES questionnaire (required): • ALLL Review (sections: General #1-5 and Conclusions #1a-1d) • Flood Act		----------ALL----------
Complete AIRES worksheet: • MBL calculations (if MBLs)		----------ALL----------
Complete AIRES questionnaires (optional): • Ln - Controls • Ln - General IC • Ln - Real Estate IC • Ln - Outsourced Lending IC • Ln - Debt Cancel-Suspension • Ln - LOC - IC • Ln - Leasing IC • Ln - Indirect Lending IC • Ln - Participations • Ln - Sub-Prime Lending IC • Ln - Home Equity IC • Ln - Credit Cards IC • Ln - ARM IC • Ln - Agricultural • Ln - Construction IC • Ln - Business Loans IC • Ln - Collection IC • Ln – Dodd-Frank Mtg Rules • Ln – Private Student Lending • Ln - Regulation Z General	B	----------OPTIONAL---------- ----------OPTIONAL----------

• Ln - Regulation Z Open End • Ln - Regulation Z Closed End • Ln - Regulation Z Variable Rate • Ln - Regulations Z HELOCs • Ln - Regulation Z Right of Rescission • Ln - Regulation B Equal Credit • Ln - Regulation B Real Estate • Ln - Regulation M Leasing • Ln - Credit Practices Rules • Ln - Regulation C HMDA • Ln - FHA • Ln - SBA Part I • Ln - SBA Part II • Ln - HOPA • Ln – RESPA • Ln – Military Term Limits • Ln - SCRA		----------OPTIONAL---------- ----------OPTIONAL---------- ----------OPTIONAL---------- ----------OPTIONAL---------- ----------OPTIONAL---------- ----------OPTIONAL---------- ----------OPTIONAL---------- ----------OPTIONAL---------- ----------OPTIONAL---------- ----------OPTIONAL---------- ----------OPTIONAL---------- ----------OPTIONAL---------- ----------OPTIONAL---------- ----------OPTIONAL---------- ----------OPTIONAL---------- ----------OPTIONAL---------- ----------OPTIONAL----------
Perform final credit risk assessment in AIRES Scope Workbook		----------ALL----------

Footnote References

A. A minimum loan sample size has not been established; however, a sample of all types should be reviewed. It shall be the responsibility of the examiner-in-charge, in agreement with the senior examiner in the area or the area financial manager, to determine the scope of the loan review. For assistance in choosing a loan sample based on the credit risk assigned refer to Chapters 2 and 10 of the NCUA Examiner's Guide. Business loans should be addressed separately. Review all loans to elected or appointed officials made since the last examination.

   In instances where an AIRES download is available, the examiner may apply discretion in using the AIRES loan cards or a manual loan documentation checklist. In instances where the AIRES loan cards are used, the loan lists used in establishing the sample and the Loan Profile Reports should be printed and retained within the examination work papers. In instances where the manual loan documentation checklist is used, all checklists should be retained within the examination work papers. Draft lists of technical exceptions should be given to management so that corrective action can be taken while the examiner is on site. Cleared exceptions should not appear within the report. Work papers should clearly indicate which exceptions management cleared. Management should sign the draft lists indicating review and concurrence of the cited exceptions with retention in the examination work papers.

B. Applicable loan questionnaires should be used when new loan programs have been established or when there are significant concerns. In all other instances, completion of questionnaires is at the discretion of the examiner-in-charge to assist in performing the loan review. All completed questionnaires should be printed and retained within the examination work papers.

GENERAL COMMENTS

Member Business Loans (MBL)

A business entity can join a credit union if membership eligibility requirements are satisfied. A MBL, also referred to as a "commercial" loan, is a high risk loan that may be extended to business entity members pursuant to written loan policies established by the board of directors. MBL polices and procedures are required to comply with applicable NCUA rules and regulations. These regulations address specific criteria and ongoing monitoring requirements which must be considered and complied with before and after implementation of a MBL program. Examiners must become familiar with the requirements of Parts 741 and 723, Rules and Regulations.

Member business loans are included in Appendix 10A of the NCUA Examiner's Guide which provides examination guidance regarding written policies and procedures, underwriting, and minimum documentation requirements.

Indirect Lending

Indirect lending allows borrowers to purchase vehicles and obtain financing at the same location. Credit unions with an indirect lending program enter into a business relationship with car dealerships for vehicle financing arrangements. Another form of indirect lending involves an agreement with a third party company that arranges auto financing for a number of dealerships. These companies sometime specialize in subprime lending. For either indirect lending scenario, the underwriting policies and procedures should be similar to those outlined for internal new and used auto loans. These types of programs can quickly expose the credit union to considerable risk if the proper controls are not in place. Appendix 10A of the NCUA Examiner's Guide provides exam review guidance pertaining to written policies, procedures, warning signs and potential problems. The AIRES indirect lending questionnaire is also a valuable tool for assessing the adequacy of a program.

APPLICABLE LAWS, REGULATIONS RULES AND BYLAWS

Model Credit Union Bylaws

Article IV, Section 3	Prohibition of board member serving on the credit committee
Article V	Credit Committee/Credit Manager

Florida Statutes

Section 655.005	Definition of an "officer"
Section 655.0386	Conflicts of interest and preferential treatment
Section 655.044	Bad debts ineligible to be carried as assets
Section 655.60	Appraisal standards and policies
Section 655.60	Write down of overvalued real estate assets based on appraised value

Section 655.946	Single interest insurance placed by financial Institutions
Section 655.954	Financial institution loans; credit cards
Section 657.038(1)	Credit may be extended pursuant to written loan policies established by the Board of Directors
Section 657.021(6)(b)	Board requirement to establish written policies governing all areas of operation.
Section 657.021(6)(g)	Interest rate or rates charged on extensions of credit (are delegable)
Section 657.027	Credit Committee/Credit Manager
Section 657.028(1)	Restriction on disbursing loan proceeds
Section 657.028(2)	Prohibition on compensation
Section 657.028(3)	Persons ineligible to serve as officers or committee persons
Section 657.028(5)	Conflicts of interest
Section 657.028(6)	Notification to OFR of elected or appointed officers or committee persons
Section 657.033(4)	Right of setoff for sums due the credit union (refer to REG Z for credit card limits)
Section 657.038(2)	Loan limits
Section 657.039	Loan powers; extension of credit to directors, officers, committee members, and certain employees (aggregate limit $20,000)
Section 657.041	Insurance related to the extension of credit

Florida Administrative Code

Rule 69U-100.600	Appraisals; appraisal standards and policies
Rule 69U-110.0381	Minimum requirements for loans secured by real estate
Rule 69U-110.043	Reserves

Rule 69U-110.0212	Board has not established written policies and operating strategies to conduct prudent operations (e.g., loan, collections, overdraft (bounce) program, etc.)

NCUA Rules and Regulations

Part 741.203(a)	Business loans; minimum loan policy requirements
Part 723	Business loans
Part 741.203(b)	Appraisals; minimum loan policy requirements
Part 722	Appraisals
Part 741.216	Flood Insurance
Part 760	Loans in areas having special flood hazards

SAMPLE VIOLATIONS OF LAWS, REGULATIONS, AND POLICIES

1. Loans were not charged off as required. (Refers to statutory bad debts)

   Ref: Section 655.044(2), Florida Statutes

2. The Board of Directors failed to establish written appraisal standards and policies prior to the granting of real estate loans.

   Ref. Section 655.60(2), Florida Statutes
   Section 657.021(6)(b), Florida Statutes
   Rule 69U-110.0212, Florida Administrative Code

3. Management failed to notify borrowers within thirty days after the purchase of single interest insurance coverage.

   Ref: Section 655.946(1), Florida Statutes

4. Notifications to borrowers upon the purchase of single interest insurance coverage did not satisfy minimum disclosure requirements of the referenced statute.

   Ref: Section 655.946(1)(a) and (1)(b), Florida Statutes

5. Management failed to provide written notice to borrowers prior to the modification of credit card terms or conditions.

   Ref: Section 655.954(1), Florida Statutes

6. The Credit Committee and loan officers granted loans in violation of policy.

   Ref: Section 657.038(1), Florida Statutes

7. Loans were granted lacking Credit Committee or loan officer approval.

   Ref: Section 657.027(1)(b), Florida Statutes or
   Section 657.027(1)(c), Florida Statutes

8. Loans were granted lacking credit manager or loan officer approval.

   Ref: Section 657.027(2), Florida Statutes

9. Loan officers have the ability to disburse funds on loans that he/she approved.

   Ref: Section 657.028(1), Florida Statutes

10. Total loan obligations of John Doe, totaling $1,000,000 and representing 50% of equity, exceed the maximum 25% limitation of the referenced statute.

    Ref: Section 657.038(2), Florida Statutes

11. There is no indication of an annual review of the lines of credit of officers, directors, and committee persons.

    Ref: Section 657.039(1)(c), Florida Statutes

12. Loans to officers, directors, and committee persons were not approved as required.

    Ref: Section 657.039(1)(b), Florida Statutes

13. The loan to Director Jared Owens was not recorded in the minutes as required.

    Ref: Section 657.038(9), Florida Statutes

14. Director Jared Owens was granted a loan that was on terms and conditions more favorable than those extended to other borrowers.

    Ref: Section 657.039(1)(a), Florida Statutes
    Section 655.0386(1)(a), Florida Statutes

15. Appraisal standards and policies are not reviewed and approved annually by the Board of Directors.

    Ref: Rule 69U-100.600(1), Florida Administrative Code

16. The Board of Directors failed to establish an appraisal review function to ensure compliance with adopted standards and policies.

    Ref: Rule 69U-100.600(1), Florida Administrative Code

17. Appraisals were not certified to the credit union.

    Ref: Rule 69U-100.600(4), Florida Administrative Code

18. Appraisals are not dated within one year prior to funding of the loans.

    Ref: Rule 69U-100.600(4), Florida Administrative Code

19. The Board of Directors failed to establish a mortgage loan policy.

    Ref: Rule 69U-110.0381, Florida Administrative Code
    Rule 69U-110.0212, Florida Administrative Code

20. The Board of Directors did not properly fund the Allowance for Loan Losses account prior to paying dividends for third quarter 20XX.

    Ref: Section 657.043(1), Florida Statutes

21. There is no indication that an annual review of the Allowance for Loan Losses methodology was performed.

    Ref: Rule 69U-110.043(1), Florida Administrative Code

22. Current financial information for the monitoring of member business loans was not obtained as required. Additionally, there is no indication of on-going member business loan monitoring, nor has there been a reevaluation of the value and marketability of collateral pertaining to member business loans.

    Ref: Part 741.203(a), NCUA Rules and Regulations
    Part 723.6(g),(h)(5), and (j)(1), NCUA Rules and Regulations

23. Commercial loans were granted although there is no evidence real estate securing the loans is covered by flood insurance.

    Ref: Part 741.216, NCUA Rules and Regulations
    Part 760.3(a), NCUA Rules and Regulations

24. A real estate loan was granted although there is no indication a determination was made as to whether the collateral securing the loan is or will be located in a special flood hazard area in which flood insurance is available.

    Ref: Part 741.216, NCUA Rules and Regulations
    Part 760.6(a), NCUA Rules and Regulations

25. Management failed to provide the borrower with a “Notice to Borrower in Special Flood Hazard Area” within a reasonable time before closing of the transaction.

    Ref: Part 741.216, NCUA Rules and Regulations
    Part 760.9(c), NCUA Rules and Regulations

26. The aggregate amount of outstanding member business loans to John Doe, Inc. and John Smith, Inc. exceeds fifteen percent (15.00%) of the credit union’s net worth.

    Ref: Part 741.203(a), NCUA Rules and Regulations

Part 723.8(a), NCUA Rules and Regulations

RED FLAGS

- High ratio of past due loans to total loans outstanding
- Increasing trend in the ratio of past due loans to total loans outstanding
- High ratio of net charge off loans to average loans outstanding
- Increasing trend in the ratio of net charge off loans to average loans outstanding
- High ratio of classified loans as a percentage of equity
- Increase in classified loans as a percentage of equity since the prior examination
- Concentration of past due loans greater than five months past due
- High loan loss experience within specific loan pools
- Increasing trend in loan loss experience within specific loan pools
- Employees with contractual non-compete clauses from prior employers
- Rapid and substantial loan growth within a short time period
- Lacking/insufficient business loan policies and procedures
- Failure to obtain updated financial information on business loans
- Failure to monitor business loans
- Business loans that exceed regulatory maximums
- Loan participation agreements with recourse to the purchasers
- Loan participation agreements lacking legal review
- Poor amount of recoveries on charged off loans
- High ratio of provision for loan losses as a percentage of average assets
- Increasing trend in the ratio of provision for loan losses as a percentage of average assets
- Loan concentrations (borrowers)
- Loan portfolio mix heavily concentrated in unsecured (closed and lines of credit) extensions of credit
- High amount of repossessions/foreclosures
- High deficiency balances realized upon the sale of repossessed/foreclosed collateral
- Lacking or insufficient loan and credit policies and procedures
- Lacking or insufficient collection policies and procedures
- Poorly trained staff in the loan and collection areas of operations
- Abusive use of extension agreements/refinancing
- Failure to contact delinquent borrowers in a timely manner
- Use of a scoring model by inadequately trained staff
- Use of a credit score with no other credit criteria
- Failure to re-validate the scoring model and review/generate validation reports
- Failure to provide for the routine review of loan officer lending activity (delinquency and loans losses)
- Failure to review charge off loans as a basis for evaluating credit decisions
- Excessive granting of loans as exceptions to policy
- Failure of management to devote sufficient staffing/time to the collection area of operations
- Unstable sponsor group
- Open field of membership with limited access to payroll deduction
- Geographical expansion of field on membership without determination of adequacy of loan policies and procedures
- Large trade area
- Failure to obtain sufficient credit information to determine the creditworthiness of borrowers

- Granting of loans to non-creditworthy borrowers
- Failure to sufficiently perfect security interest in the collateral
- High amount of loan technical exceptions determined during the examination
- Use of stale credit information as a basis for the credit decision
- Failure to update credit information on outstanding lines of credit
- Failure to obtain approval for granting the loan
- Failure to determine property is a potential environmental hazard prior to granting the loan or foreclosure
- Indirect lending
- Insufficient dealer oversight including analysis of delinquency and loan losses applicable to each dealer
- Failure to perform margin analysis to assess dealer underwriting profitability and performance
- Use of risk based lending where risk is accounted for only by the rate of the loan and not the loan underwriting criteria
- Lack of sufficient controls to limit concentrations of poorer risk grade loan paper
- Use of risk based lending and failure to perform on-going periodic scoring of the loan portfolio to assess distribution of risk
- Failure to implement risk based lending in a trade area where competitors have implemented the program
- Inactive Supervisory Committee in the area of loan review
- Concerns addressed within the annual audit
- Granting of loans to insiders on more favorable terms and conditions
- Insiders approving extensions of credit to themselves
- Failure to charge off loans on a timely basis
- Loan officers disbursing proceeds of loans they have approved
- Charged off loans and negative deposit balances were not reported to the board of directors
- An under-funded Allowance for Loan Losses
- Friends/relatives of insiders performing compensated outside loan services on behalf of the credit union
- Paid ahead loans
- Interest rates less than 5% and greater than 18%
- Loans lacking payment within the last 12 months
- Loans with no balance change within the last 90 days
- Loans with accrued interest greater than loan payment
- Zero payment loans
- Balloon loans
- High average loan balances
- Loan granted in violation of policy and applicable regulations
- Unorganized and messy loan files
- Borrowers with no address or P.O. Box
- Share secured loan not properly secured
- Unsigned credit committee minutes or unused portions not canceled or lined out
- High accrued interest
- Zero interest loans
- Interest only loans
- Below market teaser loan rates
- Real estate loans with amortization periods of 40 years and 50 years

- Inaccurate reporting of delinquent loans
- Missing loan files
- Sudden large pay down on an obvious problem loan
- Salary advance loans (overdrafts)
- Unexplained and fluctuating delinquency (totals or between categories)
- Inappropriate transactions relating to credit life and disability insurance programs
- Collectors accept loan payments
- Inflated collateral values or appraisals are noted
- Inadequate monitoring of overdraft accounts for undue credit risk
- Failure to suspend overdraft services in accordance with policy
- Failure to charge off overdraft accounts within 60 days
- Failure to charge off overdraft fees correctly

EXAMINATION WORK PAPERS

Description	Low Risk	Moderate Risk	High Risk
AIRES Scope Workbook preliminary and final credit risk assessment	----------ALL----------		
Critical loan information	----------ALL----------		
Loan review sheets	----------ALL----------		
AIRES Loan Queries:			
• Loans lacking payment last 12 months		X	X
• Loans with accrued interest greater than payment		X	X
• Loans with interest rates less than 5% and greater than 18%		X	X
• Loans paid ahead greater than 60 days		X	X
• Loans with no balance change last 90 days		X	X
• Loans with zero payment required		X	X
Listing of delinquent loans		X	X
Analysis of delinquent and loss loans by type and percentage		X	X
Analysis of loan growth trends by type and percentage	----------ALL----------		
Listing of loan exceptions	----------ALL----------		
Loan documentation worksheets	----------OPTIONAL----------		
Loan and credit policies/procedures	----------ALL----------		
Loan collection policies/procedures	----------ALL----------		
Loan charge off policies/procedures	----------ALL----------		
Loan extension and refinance policies/procedures	----------ALL----------		
Loan participation agreements	----------ALL----------		
List of loans with interest reserves	----------ALL----------		
AIRES worksheet: • MBL Calculations		X	X

Overdraft (bounce) protection program policy/procedures (if applicable)	----------ALL----------
Aging report of overdrawn share accounts	----------ALL----------
Appropriate AIRES questionnaires	----------ALL----------

Chapter Eleven:

Allowance for Loan and Lease Losses (ALLL)

EXAMINATION REPORT PAGES

Allowance Evaluation
Loan Analysis
Loan Trends
Financial History
ALLL Review Questionnaire

EXAMINATION PROCEDURES

Description	Footnote Ref.	Low Risk	Moderate Risk	High Risk
Perform preliminary credit and transaction risk assessments in AIRES Scope Workbook		----------ALL----------		
Complete and input critical ALLL		----------ALL----------		
Complete and input Allowance Evaluation		----------ALL----------		
Review charge off policies/procedures		----------ALL----------		
Review collection policies/procedures		----------ALL----------		
Review loan extension and refinance policies/procedures		----------ALL----------		
Review ALLL policies/procedures		----------ALL----------		
Review ALLL funding methodology and supporting documentation		----------ALL----------		
Complete required sections of ALLL Review questionnaire (General section #1-6 and Conclusions section #1a-1d)		----------ALL----------		
Review CPA opinion regarding adequacy of ALLL account balance and funding methodology		----------ALL----------		
Determine charge off loans were reviewed by the Board as required		----------ALL----------		
Perform final credit and transaction risk assessments in AIRES Scope Workbook		----------ALL----------		

APPLICABLE LAWS, REGULATIONS, RULES AND BYLAWS

Florida Statutes

Section 655.044 Accounting practices

Section 655.044	Bad debts ineligible to be carried as assets
Section 657.043	Reserves

Florida Administrative Code

Rule 69U-110.043	Reserves

NCUA Rules and Regulations

Part 702.402	Full and fair disclosure of financial condition
Part 741.6(b)	Financial and statistical and other reports

SAMPLE VIOLATIONS OF LAWS, REGULATIONS, AND POLICIES

1. The Board of Directors failed to establish written Allowance for Loan and Lease Losses methodologies and policies.

   Ref: Section 657.021(6)(b), Florida Statutes

2. The balance in the Allowance for Loan and Lease Losses account does not comply with the established methodology statement and the Allowance for Loan and Lease Losses policy.

   Ref: Allowance for Loan and Lease Losses Policy

3. There is no indication the Board of Directors reviewed the adequacy of Allowance for Loan and Lease Losses account balance.

   Ref: Rule 69U-110.043(1), Florida Administrative Code

4. Charged off loans and negative deposit accounts were not reported to the Board of Directors.

   Ref: Rule 69U-110.043(2), Florida Administrative Code

RED FLAGS

- An under-funded Allowance for Loan and Lease Losses
- High ratio of past due loans to total loans outstanding
- Increasing trend in the ratio of past due loans to total loans outstanding
- High ratio of net charge off loans to average loans outstanding
- Increasing trend in the ratio of net charge off loans to average loans outstanding
- Concentration of past due loans greater than five months past due
- Rapid loan growth
- Substandard amount of recoveries on charged off loans
- High ratio of provision for loan losses as a percentage of average assets
- Increasing trend in the ratio of provision for loan losses as a percentage of average assets
- Loan concentrations

- Loan portfolio mix heavily concentrated in unsecured credit
- High amount of repossessions/foreclosures
- High deficiency balances realized upon the sale of repossessions/foreclosed property
- Abusive use of extensions agreements and/or refinancing
- Failure to contact delinquent accounts in a timely manner
- Failure to review charged off loans as a basis for evaluating credit decisions
- Excessive granting of loans as exceptions to loan policies
- Failure of management to devote adequate staffing and/or time to collections
- Unstable sponsor group
- High amount of technical exceptions
- Effects of any changes in risk selection and underwriting standards
- National and local economic trends and conditions
- Failure to provide sufficient documentation of pool loss factors
- Negative comments by CPA regarding adequacy of ALLL account balance and funding methodology

EXAMINATION WORK PAPERS

Description	Low Risk	Moderate Risk	High Risk
Scope workbook preliminary and final credit and transaction risk assessments	----------ALL----------		
Critical ALLL	----------ALL----------		
ALLL Evaluation: • Pooling impairment worksheet • Individual impairment worksheet	 ----------ALL---------- ----------ALL----------		
Loan charge off policies/procedures	----------ALL----------		
Loan collection policies/procedures	----------ALL----------		
Loan extension and refinance policies/procedures	----------ALL----------		
Allowance for Loan and Lease Losses (ALLL) policies/procedures	----------ALL----------		
ALLL Funding Methodology/Documentation	----------ALL----------		
ALLL Review Questionnaire (required sections include: General #1-6 and Conclusions #1a-1d)	----------ALL----------		
CPA Opinion of ALLL Adequacy	----------ALL----------		
Board Minutes	----------ALL----------		

Chapter Twelve:

Investments

EXAMINATION REPORT PAGES

Key Ratios
Investment Trend
Investment Maturity

EXAMINATION PROCEDURES

Description	Footnote	Low Risk	Moderate Risk	High Risk
Review the investment policy		----------ALL----------		
Determine compliance with the investment policy		----------ALL----------		
Reconcile general ledger investment account balances with subsidiary ledgers			X	X
Test existence of investments	A	----------ALL----------		
Obtain market values of investments	B	----------ALL----------		
Determine maturities of investments		----------ALL----------		
Determine compliances with FASB 115 and proper accounting of investments		----------ALL----------		
Reconcile unrealized gains/losses on available for sale investments		----------ALL----------		
Assess adequacy of internal controls		----------ALL----------		
Determine compliance with fixed asset limitations of Section 657.042(5), Florida Statutes		----------ALL----------		
Complete the Scopes Workbook to record the extent of investment analysis, any recommendations, and any suggestions for the next contact.		----------ALL----------		
Complete the following optional questionnaires depending on the type and extent of risks noted:	C			
• Investment Controls			X	X
• Investment Accounting Controls			X	X
• Safekeeping, Broker-Dealer, Inv. Advisor		----------ALL----------		
• Securities Lending Transactions			X	X
• Small Business Administration (SBA) Investment Controls			X	X
• Reverse Repurchase Transaction Investment Controls			X	X

• Reverse Repurchase Investment Controls			X	X
• Common Trust and Mutual Funds Investment Controls			X	X
• Federal Funds Investment Controls			X	X
• Certificate of Deposit Investment Controls			X	X
• Cash Forward Agreement Investment Controls			X	X
• IRPS 98-2 Supervisory Policy Statement on Securities and End-User Activities			X	X
• Counter-Party Credit Risk Investment Controls Part A			X	X
• Counter-Party Credit Risk Investment Controls Part B			X	X

Footnote Reference:

A. For credit unions that invest funds in a large number of certificates of deposit, a verification test with a sample size sufficient enough to make a sound determination that all certificates are accounted for and proper management procedures and controls are in place should be performed.

Verification of investments is to be performed by a review of on-site documentation only.

B. Market values shall be tested only if values in credit union records are from an unreliable source. Verify for reasonableness of market value determinations.

C. The "Investment Controls" questionnaire should be completed when current risk or potential risk is noted. Completion of the other optional questionnaires to assist in assessing the investment portfolio is at the discretion of the examiner-in-charge.

APPLICABLE LAWS, REGULATIONS, RULES, AND BYLAWS

Model Credit Union Bylaws

Article IV, Section 5	Board of Directors

Florida Statutes

Section 655.044	Accounting practices; bad debts ineligible to be carried as assets
Section 657.021	Board of directors; executive committee
Section 657.031	Powers
Section 657.042	Investment powers and limitations

SAMPLE VIOLATIONS OF LAWS, REGULATIONS, AND POLICIES

1. The Board of Directors failed to establish an investment policy.

   Ref: Section 657.021(6)(b), Florida Statutes

2. Total investments at Bank of America exceed the statutory maximum investment limitation of twenty-five percent (25%) of capital.

   Ref: Section 657.042(2)(a), Florida Statutes

3. Management failed to obtain written OFR approval prior to exceeding the statutory maximum investment limitation of twenty-five percent (25%) of capital at Corporate One Federal Credit Union.

   Ref: Section 657.042(2)(a), Florida Statutes

4. Investment in federal funds exceeds the statutory maximum investment limitation of twenty-five percent (25%) of capital.

   Ref: Section 657.042(2)(b), Florida Statutes

5. Management sold federal funds to ABC Bank, Tampa, Florida in excess of 100 percent of the credit union's equity.

   Ref: Section 657.042(2)(b), Florida Statutes

6. Investment in corporate bonds and commercial paper exceeds the statutory maximum investment limitation of ten percent (10%) of capital.

   Ref: Section 657.042(3)(b), Florida Statutes

7. Management has not established written policies and procedures for evaluating the systemic and specific risks and benefits associated with investments.

   Ref: Section 657.042(7)(b), Florida Statutes

8. Management failed to obtain OFR approval prior to investing in a mutual fund.

   Ref: Section 657.042(7)(c), Florida Statutes

9. Investment in real estate and equipment exceeds the statutory maximum investment limitation of five percent (5%) of capital.

   Ref: Section 657.042(5)(a), Florida Statutes

10. Management invested funds in violation of the investment policy.

Ref: Investment Policy

RED FLAGS

- Failed to establish a written investment policy
- Failure to comply with generally accepted accounting principles
- Investments in violation of the investment policy
- Failure to properly classify investments held to maturity, available for sale, or trading
- Investments in violation of applicable regulations
- Management fails to determine financial stability of securities dealers
- Failure of the board of directors to approve a listing of acceptable securities dealers
- Lack of a contractual agreement between the credit union and the securities dealers
- Management receiving kickbacks for securities purchases
- Failure to accurately price investments classified as available for sale
- Failure to review and approve investment policy at least annually with notation in the minutes
- Failure to obtain at least two (2) price quotes upon purchase of securities
- Securities safe kept by an independent unregulated safe-keeper
- Principal only securities (stripped mortgage backed securities (SMBS) or STRIPS)
- Interest only securities (stripped mortgage backed securities (SMBS) or STRIPS).
- Investments with maturities exceeding three (3) years
- Loan term certificates of deposit (over 3 years – generally in the 10 – 20 years category). This can increase management's exposure to interest rate risk (IRR)
- Brokered certificates of deposit (could also be credit, liquidity, and interest rate risks)
- Zero coupon certificates of deposit (especially investments with maturity date > 10 years)
- Collateralized mortgage obligations (CMOs)
- Management engaging in trading activities
- Investments with call provisions (can also be credit risk)
- Deterioration in the market value of the investment portfolio
- Structured notes
- Management chasing high yielding investments
- Uninsured deposits
- Management does not understand the characteristics of the type of investment
- General ledger account balance of investments not in balance with investment subsidiary ledgers and/or advices
- All investment transactions under the direct control of one person
- Failure to establish and maintain investment subsidiary ledgers (if investments have remaining maturities greater than 3 years, this would increase exposure to compliance risk)
- Management does not understand the proper accounting of the type of investment
- Failure of the board of directors to receive an investment schedule
- Failure to maintain documentation to support investment balances
- Lack of an independent verification of investments
- Reconcilements not performed or not performed in a timely manner
- Lack of sufficient internal controls
- Relationship with unknown securities dealers (also credit and liquidity risks)
- Failure of securities to be safe kept by an independent safe-keeper
- Failure of the credit union to receive investment statements in a timely manner
- Lack of contractual agreement with safe-keeper

- Failure of the investment policy to establish prudent investment portfolio concentration limits
- Investment concentrations

EXAMINATION WORK PAPERS

Description	Low Risk	Moderate Risk	High Risk
Policies	----------ALL----------		
Investment schedule	----------ALL----------		
Maturity distribution of investments	----------ALL----------		
Market values of investments	----------ALL----------		
Documentation to support investment balances	----------ALL----------		
Reconciliation of unrealized gains/losses on AFS investments	----------ALL----------		
Fixed asset limitation	----------ALL----------		
AIRES Scope workbook preliminary and final risk assessment	----------ALL----------		
Appropriate AIRES questionnaires	----------ALL----------		

Chapter Thirteen:

Asset Liability Management (ALM)

EXAMINATION REPORT PAGES

Examination Overview	*(note any ALM or liquidity concerns)*
State Examiner's Findings	*(note any violations or operational comments relative to weaknesses identified)*
Document of Resolution	*(if applicable)*
Confidential Section	*(if applicable)*
Key Ratios	

EXAMINATION PROCEDURES

Description	**Low Risk**	**Moderate Risk**	**High Risk**
Review 17/4 test	----------ALL----------		
Review key ratios	----------ALL----------		
Review strategic plan/business plan	----------ALL----------		
Review asset/liability management policy	----------ALL----------		
Review investment policy	----------ALL----------		
Review Board/ALCO minutes	----------ALL----------		
Review maturity distribution of cash on deposit, cash equivalents, and investments	----------ALL----------		
Review maturity distribution of member certificates of deposit and savings	----------ALL----------		
Review rates paid on member savings and charged on member loans	----------ALL----------		
Review available lines of credit	----------ALL----------		
Review contingent liabilities	----------ALL----------		
Review interest rate risk (IRR) measurement models and reasonableness of assumptions	----------ALL----------		
Review management's understanding of ALM	----------ALL----------		
Review management's understanding of the method used to measure IRR (ALM modeling, etc.)	----------ALL----------		
Complete AIRES questionnaires:			
• IRR (A-D, *as directed by AIRES*)	----------OPTIONAL---------		
• Liquidity (A-C, *as directed by AIRES*)	----------OPTIONAL---------		

• IC- LOC	---------OPTIONAL----------

APPLICABLE LAWS, REGULATIONS, RULES, AND BYLAWS

Model Credit Union Bylaws

Article IV, Section 5	Board of Directors

Florida Statutes

Section 657.021(6)(b)	Board of Directors – (Establish policies) committee

Florida Administrative Code

Rule 69U-110.0212	Policies
Rule 69U-110.0381	Loans Secured by Real Estate

NCUA Rules and Regulations

Part 741.3(b)(5)	Requirement to adopt a written IRR policy and implement an effective IRR program
Appendix B to Part 741	Guidance for an interest rate risk policy and an effective program
Part 741.12	Liquidity and Contingency Funding Plans

SAMPLE VIOLATIONS OF LAWS, REGULATIONS, AND POLICIES

1. The Board of Directors failed to adopt a written interest rate risk policy.

   Ref: Section 657.021(6)(b), Florida Statutes
   Rule 69U-110.0212, Florida Administrative Code
   Part 741.3(b)(5), NCUA Rules and Regulations - NOTE: This regulation is applicable only to credit unions with assets of more than $50 million.

2. The Board of Directors failed to implement an effective interest rate risk program.

   Ref: Part 741.3(b)(5), NCUA Rules and Regulations - NOTE: This regulation is applicable only to credit unions with assets of more than $50 million.

3. The Board of Directors failed to establish a liquidity policy that provides a framework for managing liquidity and a list of contingent liquidity sources.

   Ref: Part 741.12(a), NCUA Rules and Regulations - NOTE: This regulation is applicable only to credit unions with assets of less than $50 million.

4. The Board of Directors failed to establish and document a Contingency Funding Plan.

   Ref: Part 741.12(b), NCUA Rules and Regulations - NOTE: This regulation is applicable only to credit unions with assets of $50 million or more.

5. The Board of Directors failed to establish and document access to a least one contingent federal liquidity source.

   Ref: Part 741.12(c), NCUA Rules and Regulations - NOTE: This regulation is applicable only to credit unions with assets of $250 million or more.

6. The Contingency Funding Plan failed to satisfy minimum requirements.

   Ref: Part 741.12(d), NCUA Rules and Regulations - NOTE: This regulation is applicable only to credit unions with assets of $50 million or more

7. Minimum liquidity requirements have not been satisfied.

   Ref: Asset Liability Management Policy

8. The Asset Liability Management Committee (ALCO) is not meeting as required.

   Ref: Asset Liability Management Policy

9. Loans and investments exceed portfolio concentration limits identified in the Asset Liability Management Policy.

   Ref: Asset Liability Management Policy

10. Management is not measuring interest rate risk as required by policy.

    Ref. Asset Liability Management Policy

RED FLAGS

- High and/or increasing level of real estate loans
- High level of complex investments
- Low and/or declining net worth
- Excessive liquidity
- Insufficient earnings
- Low and/or declining liquidity
- Declining net interest margin
- High level of long-term assets to total assets
- Rapid share and deposit growth
- Necessity of using brokered deposits as a source of funding
- Necessity of borrowings
- Failure of the board to establish liquidity limits
- Lack of a comprehensive asset liability management policy
- Failure to measure exposure to interest rate and liquidity risk

- Failure to establish prudent portfolio concentration limits for loans and investments
- Paying above market rate dividends on shares and/or interest on certificates of deposit
- Mismatch of asset and liability maturities
- High and increasing unrealized losses on available for sale investments
- Failure of the asset liability management committee (ALCO) to function effectively
- High concentration in commercial loans
- High level of investments with maturities exceeding three years
- Significant volume of high yielding investments with call provisions
- Dependency on high cost and volatile certificates of deposit as a source of funding
- Below market rates on loans
- Failure to adjust interest rates on adjustable loans
- Lack of penalty for early withdrawal on certificates of deposit
- Unreasonable assumptions used in IRR model
- Lack or inadequate understanding by management of interest rate risk or liquidity risk
- Violations of ALM policy
- Failure to monitor daily operational liquidity requirements
- Interest rate and liquidity risks are not considered in strategic/business planning
- Failure to validate (test) ALM modeling assumptions
- Lack of a written liquidity policy
- Failure to establish and document a Contingency Funding Plan
- Failure of the Contingency Funding Plan to satisfy minimum requirements
- Failure to establish and document access to at least one contingent federal liquidity source
- High exposure to interest rate risk
- Insufficient controls to limit exposure to interest rate risk
- Insufficient interest rate risk oversight and management by the board of directors
- Failure of management to satisfactorily implement the board of directors' interest rate risk policy
- Failure to capture and measure all material and identified sources of interest rate risk
- Insufficient risk measurement methods
- Failure to implement corrective action when a high level of interest rate is identified and when measurement results approach board approved limits

GENERAL COMMENTS

Examiners should review the NCUA Examiner's Guide for additional information concerning Asset Liability Management (ALM). In addition the NCUA has issued several Letters to Credit Unions that can provide helpful guidance to examiners in planning the scope of the examination and in reviewing the credit union's ALM program, interest rate risk (IRR) measurement techniques, and liquidity.

Appendix B to Part 741, NCUA Rules and Regulations provides additional guidance in evaluating an interest rate risk policy and program.

EXAMINATION WORK PAPERS

Description	Low Risk	Moderate Risk	High Risk
ALM Policy	----------ALL----------		
Liquidity Policy	----------ALL----------		
Investment Policy	----------ALL----------		
Loan Policy	----------ALL----------		
Strategic Plan	----------ALL----------		
Board/ALCO minutes	----------ALL----------		
Most recent ALM model/report measuring interest rate risk and assumptions used	----------ALL----------		
Line(s) of credit with other institutions and schedule of any borrowings outstanding	----------ALL----------		
Copy of 17/4 test (input OIS Pricing Tables, if applicable)	----------ALL----------		
Applicable AIRES questionnaires	--------OPTIONAL----------		

Chapter Fourteen:

Share Structure

EXAMINATION REPORT PAGES

Share Trends
Critical Shares and Notes Payable

EXAMINATION PROCEDURES

Description	Low Risk	Moderate Risk	High Risk
Reconcile share/deposits to general ledger	----------ALL----------		
Verify critical share and deposits	----------ALL----------		
Evaluate new depository programs	----------ALL----------		
Review insider accounts for prior three months -- all employees in small CU's; directors and senior management in large CU's	----------ALL----------		
Review policy for purging overdrawn shares	----------ALL----------		
Review Board/ALCO minutes	----------ALL----------		
Review maturity distribution of cash on deposit, cash equivalents, and investments	----------ALL----------		
Review maturity distribution of member certificates of deposit and savings	----------ALL----------		
Review rates paid on member savings and charged on member loans	----------ALL----------		
Review check hold policy	----------ALL----------		
Ensure auditor has verified accounts	----------ALL----------		
Review dividend setting policies and controls	----------ALL----------		
Review share structure to determine risk in rates, types, marketing plan, etc.	----------ALL----------		
Determine compliance with requirements for withdrawal or expulsion of members	----------ALL----------		
Complete AIRES questionnaires *(all are optional):*			
• Sh – Controls	-------OPTIONAL---------		
• Sh – IC	-------OPTIONAL---------		
• Sh – Share Drafts – IC	-------OPTIONAL---------		
• Sh – Reg CC – Funds Avail	-------OPTIONAL---------		
• Sh – Reg E – EFT	-------OPTIONAL---------		
• Sh – Red D – Reserve	-------OPTIONAL---------		
• Sh – TISA – Truth-in-Savings	-------OPTIONAL---------		
• Sh – Non-maturity Shares	-------OPTIONAL---------		

APPLICABLE LAWS, REGULATIONS, RULES, AND BYLAWS

Model Credit Union Bylaws

Article III	Shares; number required and par value

Florida Statutes

Section 657.002(5) & (10)	Definitions – Deposits and Shares
Section 657.021(6)(c)	Board to declare dividends
Section 657.021(6)(h)	Board to determine interest rate paid on deposits; may be delegated with board guidelines.
Section 657.021(7)(a)	Board may limit amount of shares/deposits of members
Section 657.023(1)	Payment of shares for membership
Section 657.033(2)	Sixty days notice by member to withdraw shares
Section 657.033(3)	Accept deposits; payment of interest
Section 657.033(4)	Lien and right of setoff on shares/deposits
Section 657.043(1)	Must provide and account for loan and lease losses Before paying dividends

NCUA Rules and Regulations

Part 707	Truth-In-Savings
Part 715.8	Verification of accounts
Part 741	NCUA Regulations Applied to State-Chartered CU

Compliance Regulations

Regulation CC - Expedited Funds	The Expedited Funds Availability Act was enacted in 1987 and was designed primarily to allow consumers to have faster access to deposited funds. Regulation CC establishes availability schedules and limits holds financial institutions can place on deposits in transaction accounts.
Regulation D – Reserve Requirements	Regulation D establishes the required amount a depository institution must reserve based on the level of transaction accounts on deposit. Institutions are required to maintain a certain level of reserves to assist the Federal Reserve Board in handling monetary policy.

Regulation E - Electronic Funds Transfer	Enacted on November 10, 1978, Reg. E determines the rights, liabilities, and responsibilities of consumers and financial institutions with regard to electronic fund transfer systems. Its primary objective is the protection of individual consumers' rights in their dealings with these systems.

SAMPLE VIOLATIONS OF LAWS, REGULATIONS, AND POLICIES

1. Truth-In-Savings disclosures do not accurately reflect the credit union's fee schedule and dividend rate. The disclosure does not state that dormant accounts are assessed a fee and dividends cease.

   Ref: Part 741.217, NCUA Rules and Regulations
   Part 707.4, NCUA Rules and Regulations

2. Initial Truth-In-Savings disclosures do not disclose the dividend and annual percentage yield as of the last declaration period.

   Ref: Part 741.217, NCUA Rules and Regulations
   Part 707.4, NCUA Rules and Regulations

3. The lobby sign disclosing the dividend and annual percentage yield does not include a statement for members to contact an employee for information on applicable fees and terms as required.

   Ref: Part 741.217, NCUA Rules and Regulations
   Part 707.8(e)(2)(ii)(B), NCUA Rules and Regulations

4. Three outstanding share drafts were voided and posted to undivided earnings. As a result, the items have not been retained until such time as they become reportable to OFR as presumed abandoned property.

   Ref: Section 717.102, Florida Statutes
   Section 717.105(1), Florida Statutes

5. Management failed to submit the abandoned property report to the OFR within the required timeframe.

   Ref: Section 717.117, Florida Statutes

6. The terms and conditions of accounts using electronic funds transfer (ATM) do not contain all of the required disclosures (i.e., error resolution notice).

   Ref: Electronic Funds Transfer - Regulation E

7. The Board failed to declare dividends for the first quarter 2013.

   Ref: Section 657.021(6)(c), Florida Statutes

RED FLAGS

- Frequent overdrafts or activity
- Inadequate Overdraft Protection Policy
- Insider overdrafts or NSFs not treated the same as member (i.e., fees)
- Failure to review negative share and share draft reports
- High cost of funds coupled with stagnant, low, or negative share growth
- Cost of Funds exceeds dividend rates
- Share growth not commensurate with above market dividend rates paid
- Cost of funds exceeds average stated rates
- Rapid unexplained growth in shares
- High average balances
- Unstable balances
- Membership cards missing or incomplete
- Frequent inquiries by member (balance, cleared items, etc.)
- Long-standing problem of records not being posted currently or being out of balance
- Failure to review dormant share reports
- Share concentrations
- Insiders given preferential treatment (special rates, terms, products, etc.)

EXAMINATION WORK PAPERS

Description	Low Risk	Moderate Risk	High Risk
Share Analysis	----------ALL----------		
Shares Greater than $100,000 (optional query report)	----------ALL----------		
Shares Less than $0 (optional query report)	----------ALL----------		
Shares Detail	----------ALL----------		
Share Internal Controls	----------ALL----------		
Critical Shares & Notes Payable information	----------ALL----------		
Credit Union Summary of Share Trial Balance	----------ALL----------		
Check Hold Policy	----------ALL----------		
Overdraft Policy	----------ALL----------		
Applicable AIRES questionnaires	--------OPTIONAL--------		

Chapter Fifteen:

Profitability/Earnings

EXAMINATION REPORT PAGES

Statement of Income
Key Ratios
Financial History

EXAMINATION PROCEDURES

Description	Low Risk	Moderate Risk	High Risk
Review Income	----------ALL----------		
Review Expenses	----------ALL----------		
Test disbursements (expenses)		X	X
Verify reasonableness of salaries		X	X
Review Budget	----------ALL----------		
Review Strategic Plan	----------ALL----------		
Review Expense Policies (travel, etc.)		X	X

APPLICABLE LAWS, REGULATIONS, RULES, AND BYLAWS

Florida Statutes

Section 655.044	Credit union will observe generally accepted accounting principles (GAAP)
Section 657.021	Board will declare dividends on shares.
Section 657.021	Board will determine rates paid on deposits.
Section 657.043	Allowance for loan losses must be provided before paying dividends

Rules of the Florida Administrative Code

Rule 69U-110.045	Reports to OFR

NCUA Rules and Regulations

Part 702.402	Full and fair disclosure of financial information
Part 741.6	Financial and statistical and other reports – (GAAP)

SAMPLE VIOLATIONS OF LAWS, REGULATIONS, AND POLICIES

1. Financial records were not maintained in accordance with generally accepted accounting principles.

   Ref: Section 655.044(1), Florida Statutes
   Part 741.6(b), NCUA Rules and Regulations

2. The Board of Directors failed to declare dividends for the second quarter 2013.

   Ref: Section 657.021(6)(c), Florida Statutes

RED FLAGS

- Large decrease in net income
- High cost of funds coupled with stagnant, low, or negative share growth
- Record keeping or internal control concerns
- High accrued interest
- Cost of funds exceeds average stated rates
- Yield on assets not reasonable based upon loan to share ratio, rates charged, delinquency, etc.
- Rapid unexplained growth
- Unsigned financial statement
- Higher than average board or management travel and/or conference expenses
- Excessive charges on management's corporate credit cards
- Total salaries out of line with industry

GENERAL COMMENTS

Examiners should review the NCUA Examiner's Guide for additional information concerning profitability. Examiners should review NCUA Supervisory Letter No.: 06-01, Evaluating Earnings, and 09-03, Reviewing Adequacy of Earnings for additional comments and guidance on assessing the earnings of a credit union.

EXAMINATION WORK PAPERS

Description	Low Risk	Moderate Risk	High Risk
Salary Schedule		X	X
Budget	----------ALL----------		
Strategic Plan	----------ALL----------		
General Ledger	----------ALL----------		
Management Bonus Plan (if applicable)	----------ALL----------		
Management Contract (if applicable)	----------ALL----------		
GL Journal Adjustments (if applicable)	----------ALL----------		
Two Minute Profitability Test (optional)	---------OPTIONAL----------		

Chapter Sixteen:

Net Worth and Other Equity Accounts

EXAMINATION REPORT PAGES

Statement of Financial Condition
Statement of Income
Key Ratios
Financial History
Journal Adjustments *(if applicable)*

EXAMINATION PROCEDURES

Description	Low Risk	Moderate Risk	High Risk
Review and reconcile all equity accounts since the last examination and complete AIRES worksheets • Allowance for Loan and Lease Losses • Undivided Earnings (if accounting staff has changed) • Regular Reserves (if accounting staff has changed) • Unrealized Gain/Loss on AFS securities (if applicable)	----------ALL----------		
	----------ALL----------		
	----------ALL----------		
	----------ALL----------		
Review equity accumulation/maintenance policies and procedures and ascertain adequacy of net worth level	---------OPTIONAL---------		

APPLICABLE LAWS, REGULATIONS, RULES AND BYLAWS

Florida Statutes

Section 657.002(1) & (6)	Definition – Capital and Equity
Section 655.044	Requires generally accepted accounting principles
Section 657.021(6)(d)	Requires adequate provision for reserves
Section 657.043(2)	Use of Regular Reserve
Section 657.043(3)	Allowance for Investment Losses
Section 657.043(4)	Special Reserves

NCUA Rules and Regulations

Part 702	Prompt Corrective Action
Part 741.3	Criteria - Prompt Corrective Action

Part 741.3 Special Reserve for Non-Conforming Investments

Part 741.6 Requirement to comply with GAAP

SAMPLE VIOLATIONS OF LAWS, REGULATIONS, AND POLICIES

1. Management reduced the regular reserve without OFR approval.

   Ref: Section 657.043(2), Florida Statutes

RED FLAGS

- Numerous general ledger entries flowing through undivided earnings
- Failure to record client adjusting entries provided by the CPA firm
- Lack of documentary evidence supporting entries made to capital accounts
- Pending lawsuits or other contingent liabilities unresolved
- Extremely volatile earnings and/or other ratios since the last examination

GENERAL COMMENTS

The adequacy of a credit union's net worth is calculated and evaluated pursuant to Prompt and Corrective Action (PCA) guidelines in Part 702 of NCUA Rules and Regulations. When the net worth ratio falls below the "well capitalized" category (7%) credit unions are required to make a transfer each quarter to the regular reserve account until the PCA net worth equals 7% or above. Otherwise, transfers to the regular reserve are not required in federally-insured credit unions.

Refer to Chapter 17 in the NCUA Examiner's Guide for comprehensive comments and guidelines on PCA.

EXAMINATION WORK PAPERS

Description	Low Risk	Moderate Risk	High Risk
Alternative Component Net Worth and Risk Based Net Worth Calculations and supporting documents	----------ALL----------		
Net Worth Calculation	----------ALL----------		
Undivided Earnings G/L	----------ALL----------		
Regular Reserve G/L	----------ALL----------		
Other Reserve Account G/L's	----------ALL----------		
Miscellaneous Equity Account G/L's	----------ALL----------		
Unrealized Gain/Loss on AFS Securities	----------ALL----------		
Non-Conforming Investment Reserve	----------ALL----------		
Board Minutes	----------ALL----------		
Equity Accumulation/Maintenance Policies and Procedures	----------ALL----------		

Chapter Seventeen:

Prompt Corrective Action (PCA)

The adequacy of a credit union's net worth is calculated and evaluated pursuant to Prompt Corrective Action (PCA) guidelines in Part 702 of NCUA Rules and Regulations. Refer to Chapter 17 in the NCUA Examiner's Guide for comprehensive comments and guidelines on PCA.

Chapter Eighteen:

Regulatory Compliance

EXAMINATION REPORT PAGES

State Examiner's Findings

EXAMINATION PROCEDURES

Description	Low Risk	Moderate Risk	High Risk
Review credit union's website	----------ALL----------		
Review IRS 990	----------ALL----------		
Review membership applications for compliance with field of membership (FOM) bylaws, OFAC and CIP	----------ALL----------		
Review BSA Compliance Audit	----------ALL----------		
Review Risk Assessments for BSA and OFAC	----------ALL----------		
Review BSA and CIP policies to ensure Board has established an appropriate written program	----------ALL----------		
Review CIP to determine if the program is adequate	----------ALL----------		
Review training records for compliance with BSA reporting and recordkeeping requirements	----------ALL----------		
Review currency reporting procedures for compliance and review of daily cash reports for any unreported items.	----------ALL----------		
Review currency reports and all other tracking reports used for monitoring suspicious activity	----------ALL----------		
Verify Suspicious Activity Reports (SARs)	----------ALL----------		
Verify maintenance of records for the purchase of monetary instruments between $3000 and $10,000	----------ALL----------		
Complete Consumer Compliance Violations module for any BSA violations	----------ALL----------		
Review Disaster Recovery Policy and Records Retention program	----------ALL----------		
Verify proper controls are in place over wire transfers and OFAC checks are completed	----------ALL----------		
Verify procedures are in place for 314(a) requests and 314(b) activity	----------ALL----------		
Complete AIRES questionnaires *(all are required)*:			
• Bank Secrecy Act	----------ALL----------		
• OFAC	----------ALL----------		
• Supervisory Committee Audit Verification Review	----------ALL----------		
• 5300 Review	----------ALL----------		

APPLICABLE LAWS, REGULATIONS, RULES AND BYLAWS

Florida Statutes

Section 655.50	Florida Control of Money Laundering in Financial Institutions Act; reports of transactions involving currency or monetary instruments; when required; purpose; definitions; penalties
Section 655.963	Access Devices
Section 657.023	Membership

Florida Administrative Code

Rule 69U-100.963	Automated teller machines and the disclosure of safety information

Model Credit Union Bylaws

Article II, Section 1	Membership eligibility requirements

NCUA Rules and Regulations

Part 741	Requirements for Insurance
Part 707	Advertising
Part 748	Report of Crime or Catastrophic Act and Bank Secrecy Act compliance
Part 749	Records preservation program

Code of Federal Regulations

Title 31, Chapter X	Financial Record Keeping and Reporting of Currency and Foreign Transactions

SAMPLE VIOLATIONS OF LAWS, REGULATIONS, AND POLICIES

1. Minimum membership eligibility requirements were not satisfied.

   Ref: Section 657.023(1), Florida Statutes
   Appropriate Credit Union Bylaw

2. Minimum share purchase for membership eligibility was not satisfied.

   Ref: Section 657.023(1), Florida Statutes
   Appropriate Credit Union Bylaw

3. The credit union membership fee is not being charged in all instances.

   Ref: Section 657.023(1), Florida Statutes
   Appropriate Credit Union Bylaw

4. Management could not produce the membership application for Ida Jones (#84321).

   Ref: Part 741.215 NCUA Rules and Regulations
   Part 749 Appendix A (E)(2)(e), NCUA Rules and Regulations

5. A written Records Retention /Disaster Recovery Plan has not been established.

   Ref: Part 741.215, NCUA Rules and Regulations
   Part 749.2, NCUA Rules and Regulations

6. A listing of the credit union's financial institutions, insurance policies, and investments is not stored off site.

   Ref: Part 741.215, NCUA Rules and Regulations
   Part 749.1(c), NCUA Rules and Regulations

7. All required information was not maintained for transactions involving the sale or issuance of travelers checks, money orders, credit union checks, or combination of instruments, totaling $3,000 or more in currency.

   Ref: Title 31, Section 1010.415(a), Code of Federal Regulations

8. There is no indication independent testing is performed to determine compliance with the established currency transaction reporting compliance program.

   Ref: Section 657.026(3)(b), Florida Statutes
   Part 741.214, NCUA Rules and Regulations
   Part 748.2(c)(2), NCUA Rules and Regulations

9. Backup disks of member account information and general ledger are stored at the credit union's office location; not offsite as required by the referenced regulation.

   Ref: Part 741.215, NCUA Rules and Regulations
   Part 749.2, NCUA Rules and Regulations

10. Currency Transaction Reports did not contain all required information.

    Ref: Title 31, Section 1010.306(d), Code of Federal Regulations

11. Currency Transaction Reports were not filed in all instances as required.

    Ref: Title 31, Section 1010.311, Code of Federal Regulations

12. An adequate system of internal controls has not been established to assure ongoing BSA compliance.

    Ref: Part 741.214, NCUA Rules and Regulations
    Part 748.2(c)(1), NCUA Rules and Regulations

13. Management did not file “Designation of Exempt Person” forms (FinCEN Form 110) for the five financial institutions they exempted from filing of Currency Transaction Reports.

    Ref: Title 31, Section 1020.315(c)(1), Code of Federal Regulations

14. Management did not file a suspicious activity report when they discovered a former member service representative was kiting checks.

    Ref: Title 31, Section 1020.320(e), Code of Federal Regulations

15. Management did not obtain member identification and payment data related to the sender of each outgoing wire transfer as required.

    Ref: Title 31, Section 1020.410(a), Code of Federal Regulations

16. Management did not retain records evidencing how a member was identified for Customer Identification purposes.

    Ref: Title 31, Section 1020.220(a)(2)(i), Code of Federal Regulations

17. Management opened an account without obtaining a physical address for the member.

    Ref: Title 31, Section 1020.220(a)(2)(i)(A)(3)(i), Code of Federal Regulations

18. There is no indication members receiving access devices (ATM cards) are provided required information regarding safety precautions at or before the time the member is furnished with his/her access device.

    Ref: Section 655.963, Florida Statutes
    Rule 69U-100.963(2), Florida Administrative Code

19. Credit union personnel do not in all instances disclose the name and address of the credit bureau on the adverse action notice as required.

    Ref: Section 615(a)(2)(A), Fair Credit Reporting Act

20. The sign in the lobby disclosing the dividend rate and APY does not include a statement for members to contact an employee for information on applicable fees and terms as required.

    Ref: Part 741.217, NCUA Rules and Regulations
    Part 707.8(e)(2)(ii)(B), NCUA Rules and Regulations

21. The sections on share account disclosures that specify the dividend rate and/or annual percentage yield (APY) as of the last dividend declaration date, or, a prospective dividend rate and APY, are not always completed by credit union personnel.

    Ref: Part 741.217, NCUA Rules and Regulations
    Part 707.4(a)(2)(ii)(A)(1), NCUA Rules and Regulations

22. Newsletters, dated winter 2013 and spring 2014, referenced current dividend rates; however, the APY (annual percentage yield) was not disclosed or the rate was referred to as an APR (annual percentage rate).

    Ref: Part 707.8(e)(3), NCUA Rules and Regulations

23. Ninety-one joint-account holders have incorrect tax payer identification numbers (TINs) on file.

    Ref: Membership Identification Program-U.S. Person, Page 17, Bank Secrecy Act Policy

RED FLAGS

- Lack of an established currency transaction compliance program
- Inactive Supervisory/Audit Committee
- Inaccurate or incomplete CTRs
- Lack of a compliance officer
- Lack of a disaster recover/records preservation program
- Failure to backup EDP data
- Electronic funds transfer activity, third party payments, automated teller machines, and access to accounts by telephone
- Open end lines of credit
- Discrimination in lending activity
- Failure to adjust loan rates in compliance with contracted terms and conditions
- No SARs filed during examination period
- No CTRs filed during examination period
- EDP system which does not use pre-packaged software

GENERAL COMMENTS

Although the completion of optional consumer compliance questionnaires are at examiner discretion, it is the responsibility of the examiner to become familiar with the basic premise of all applicable consumer compliance regulations for the purpose of determining the credit union's compliance with the regulations during the examination. All completed questionnaires should be printed and retained within the appropriate section of the examination work papers. Procedures are noted in the appropriate chapter related to the topic of the questionnaires.

BSA/AML/OFAC Review

Each examination requires the completion of the FFIEC Bank Secrecy Act/Anti-Money Laundering Examination work program based on the size and complexity of the credit union being examined.

EXAMINATION WORK PAPERS

Description	Low Risk	Moderate Risk	High Risk
FFIEC Minimum Examination Procedures	---------- ALL ---------		
BSA/AML (Currency Compliance) Policy	----------ALL----------		
USA PATRIOT Act/CIP Policy	----------ALL----------		
OFAC Policy and Procedures	----------ALL----------		
BSA Compliance Audit	----------ALL----------		
BSA Training Records	----------ALL----------		
Currency Transaction Report (CTR)	----------ALL----------		
Suspicious Activity Report (SAR)	---------- ALL ----------		
Disaster Recovery/Records Retention Program	----------ALL----------		
IRS 990	----------ALL----------		
Compliance Officer's biographical information	----------ALL----------		
New Membership Compliance with Bylaws	----------ALL----------		
AIRES Questionnaires (all are required):	----------ALL----------		
• Bank Secrecy Act	----------ALL----------		
• OFAC	----------ALL----------		
• 5300 Review	----------ALL----------		
• Supervisory Committee Audit and Verification Review	----------ALL----------		

Chapter Nineteen:

Consumer Compliance

EXAMINATION REPORT PAGES

State Examiner's Findings (note any violation or operational comment relative to the questionnaires completed).

EXAMINATION PROCEDURES

Complete questionnaire; refer to the appropriate chapters for Consumer Compliance questionnaires.

Although the completion of optional Consumer Compliance questionnaires applicable to the credit union are at examiner discretion, it is the responsibility of the examiner to become familiar with the basic premise of all applicable consumer compliance regulations for the purpose of determining the credit union's compliance with the regulations during the examination.

All completed questionnaires should be printed and retained within the appropriate section of the examination work papers.

APPLICABLE LAWS, REGULATIONS, RULES AND BYLAWS

Florida Statutes

Section 655.963	Access devices

Florida Administrative Code

Rule 69U-100.963	Automated teller machines and the disclosure of safety information

Model Credit Union Bylaws

Refer to the Credit Union's Bylaws to ensure compliance with Articles

NCUA Rules and Regulations

Part 707	Truth in Savings
Part 716	Privacy
Part 741.217	Truth in Savings
Part 741.220	Privacy

Part 745 Share insurance

For other Consumer Regulations refer to appropriate sections in NCUA Examiner's Guide for details.

SAMPLE VIOLATIONS OF LAWS, REGULATIONS, AND POLICIES

1. There is no indication members receiving access devices (ATM cards) are provided required information regarding safety precautions at or before the time the member is furnished with his/her access device.

   Ref: Section 655.963, Florida Statutes
   Rule 69U-100.963, Florida Administrative Code

2. Reportedly, credit union personnel do not in all instances disclose the name and address of the credit bureau on the adverse action notice as required.

   Ref: Section 615(a)(2)(a), Fair Credit Reporting Act

3. The sign in the lobby disclosing the dividend rate and APY does not include a statement for members to contact an employee for information on applicable fees and terms as required.

   Ref: Part 741.217, NCUA Rules and Regulations
   Part 707.8(e)(2)(ii)(B), NCUA Rules and Regulations

4. Reportedly, the blocks on the share accounts disclosure that specifies the dividend rate and/or annual percentage yield (APY) as of the last dividend declaration date, or, a prospective dividend rate and APY, are not always completed by credit union personnel.

   Ref: Part 741.217, NCUA Rules and Regulations
   Part 707.4(a)(2)(ii)(A)(1), NCUA Rules and Regulations

5. Although newsletters referenced current dividend rates, the APY (annual percentage yield) was not disclosed or the rate was referred to as an APR (annual percentage rate).

   Ref: Part 741.217, NCUA Rules and Regulations
   Part 707.8(e)(3), NCUA Rules and Regulations

6. An initial privacy notice was not provided to the member upon account opening.

   Ref: Part 741.220, NCUA Rules and Regulations
   Part 716.4(a)(1), NCUA Rules and Regulations

7. An annual privacy notice was not provided to the membership in 2013.

   Ref: Part 741.220, NCUA Rules and Regulations
   Part 716.5(a)(1), NCUA Rules and Regulations

RED FLAGS

- Inactive Supervisory/Audit Committee
- Lack of continuing education in the area of consumer compliance
- Lack of consumer compliance laws, regulations, and reference materials on hand
- Lack of understanding by management and staff of consumer compliance requirements
- Lack of a compliance officer
- Inaccurate or incomplete share and deposit disclosures
- Large amount of overdrawn accounts
- Failure to adjust loan rates in compliance with contracted terms and conditions
- EDP system which does not use pre-packaged software

EXAMINATION WORK PAPERS

Description	Low Risk	Moderate Risk	High Risk
Privacy Policy	----------ALL----------		
Initial Privacy Notice	----------ALL----------		
Annual Privacy Notice	----------ALL----------		
AIRES Questionnaire (optional) : • Privacy	----------ALL----------		

Chapter Twenty:

Report Writing and Review

REPORT WRITING

The NCUA Examiner's Guide adequately addresses how the reports are to be written. The Office has developed specific schedules that are contained in the AIRES exam directory (state examiner's findings and exam cover sheet). These forms are to be completed on all examinations. Reports should be written in a style that communicates findings to management of the credit union, the Office, and other examiners (remember that the credit union is the ultimate user of the report). Reports must be written in a clear and concise manner.

JOINT EXAMINATIONS

Eventually all examiners will be the Examiner-in-Charge (EIC) of an examination that is completed with the assistance of federal examiners. When this occurs, it is incumbent on the EIC and the remainder of the examination team to remember that the State is the lead regulator. In other words, it is your/our report and not that of the NCUA. Decisions about the content and any proposed administrative action are the decision of the state regulator. This does not mean that valid findings from the federal examiners should not be in the final report. Examiners must remember that all of the NCUA regulations do not apply to state chartered credit unions (SCUs). Attempts to have comments relating to the areas non-binding on SCUs must be denied. Be aware of the difference between regulation and safe and sound procedures. Safety and soundness areas should always be addressed in the report. It is customary to invite our federal counterparts to participate in all discussions with management (up to and including meetings with the Board of Directors). Remember, at all times, state personnel are to remain in control of the meeting.

CONFIDENTIAL SECTION

Examiners are responsible for commenting on all camel ratings to justify the ratings assigned. It is recommended that comments be in the order of CAMEL, i.e., capital first, then asset quality, management, earnings, and liquidity. Additionally, you must comment on:

- Provide brief biographical comments on all directors, committee members, senior officers (CEO, CFO and Credit/Lending Manager).
- If a DOR was issued at the prior exam and Compliance was met, note in the "Examiner's Findings" section. If Compliance was insufficient, make a comment in the Confidential section and note that a new DOR will be issued.
- Provide brief comment indicating that the CUSO listing was risk scoped and note any risk exceptions. If there are potential issues, use the questionnaire etc. and comment in the open section of the report as necessary.

As stated in the NCUA Examiner's Guide, this section is confidential. The comments are not to be shared with credit union officials. **However**, this page ***can be disclosed*** upon court order. This page ***will not*** contain comments that can be construed to be slanderous. Only substantiated facts are to be on this page.

CAMEL RATING AND DISCLOSURE

Guidelines for disclosing and rating the credit union using the CAMEL rating system are contained in the NCUA Examiner's Guide. Each camel component must be addressed in the confidential and overview sections. Should management be assigned a rating of three (3) or lower, a notice of **significant events** will be made in the overview page. Such rating must be adequately documented in the confidential section of the report.

EXAMINATION EVALUATION AND REVIEW

Your immediate supervisor and persons in the Tallahassee office will review the finished report. The EIC is responsible for the completion of the field review for the finished work product. Suggested revisions by field supervisors should be made as soon as possible. Remember, supervisors and the Tallahassee staff is not charged with rewriting the report. Extensive revisions will be made by the EIC of the examination. After the fieldwork is completed, the work papers should be filed neatly, in the order of the Examiner's Checklist that is detailed in this manual.

The OFR strives to have the completed report mailed to the credit union within thirty days from exit date of the examination (this is the date that the examiners leave the institution). Examiners must transmit the report to Tallahassee within the timeframes outlined in performance standards. During this time frame, the report has to be written and reviewed by the EIC, their immediate supervisor and the AFM. These time constraints warrant quick action on the part of the field staff. The EIC should e-mail their draft findings and any proposed remedial actions to their supervisor or AFM at least one day prior to conducting an exit discussion with management. This enables the supervisors to review the work product for content and potential problems. Use the spell check and grammar check software provided on the computer on every pertinent schedule.

WORK PAPERS

The NCUA Examiner's Manual indicates that work papers are also AIRES computer generated schedules. This is correct; however, additional documents are obtained and used in the preparation of the report. All such papers comprise the complete packet of work papers that are to be retained. Appropriate procedures need to be followed to allow for ease in locating a particular document after the report is complete.

Work papers serve specific purposes. They document findings that are later compiled in the written report as well as leave a trail of the work that was completed. Examiners need to ensure that all work papers clearly document what was reviewed/verified/or checked. Should unforeseen circumstances arise and the EIC or others are not be able to complete assigned schedules, clear work papers will enhance the next person's ability to complete the assigned work. Once an examiner completes an assignment, they should prepare written comments to the EIC detailing their findings and if they were discussed with management.

Supervisory personnel will review your work papers. This is done to ensure that examiners are using appropriate procedures. Additionally, this should enable the supervisor to gain knowledge of training needs in a timely fashion.

DOCUMENTS OF RESOLUTION (DOR)

Documents of Resolution (DOR) are written corrective action plans agreed upon by credit union officials and the OFR. DORs need to be prepared in ways that enable examiners to review management's corrective action. Examiners will contact the supervisor(s) in the event that either a DOR or more severe form of administrative action needs to be enacted. DOR items must be specific, measurable, achievable, relevant, and time-bound (SMART) to enable management to solve significant, particular problems that are noted in the examination. DORs need not contain the same language that is on the schedule of "Examiner's Findings."

Examiners must present a draft DOR to management at the exit meeting. The seriousness of the DOR will warrant if Board representation is needed at the exit. OFR will ask the Board to adopt the DOR at their next regular meeting after the receipt of the final Report of Examination (ROE).

LETTERS OF UNDERSTANDING AND AGREEMENT (LUA)

Letters of Understanding and Agreement (LUAs) are formal written agreements between OFR and the officials of the credit union. As such, formal administrative action can be taken against officials for non-compliance. This level of severity requires that they be formulated in specific corrective language. Problems will be addressed in a manner that details desired corrective action and specific dates for compliance. Once the final draft is produced, it is delivered to the board of directors and their individual signatures are obtained. Should the official not sign the document, the Office may issue a Cease and Desist (C&D) order. LUAs are prepared by Tallahassee with input from the EIC.

QUICK REFERENCE GUIDE

- Required reports that make up the Examination Report and list of what gets mailed to the credit union
- Required vs. optional AIRES spreadsheets
- Required vs. optional AIRES questionnaires

Chapter Twenty-One:

Joint Conference

EXIT MEETINGS

The Examiner-in-Charge (EIC) is required to conduct an exit meeting with credit union management at the conclusion of every examination. It is the responsibility of the EIC to prepare an exit document, which lists the areas to be discussed during the meeting. The EIC should include a draft of the Examiner's Findings page, Key Ratios page, and loan technical exceptions, if any, and the preliminary CAMEL ratings. The exit document is required to be signed by the CEO* for proof of its receipt and proof that all information and attachments were discussed.

The original signed exit document, attendance sheet, if used, and the emergency contact information should be mailed to Tallahassee and a copy should be maintained in the work papers.

*If the CEO is not available, delay the exit meeting until he/she is available to meet unless specifically instructed otherwise that someone else from senior management or the board chairman is authorized to fill in for the CEO.

Significant Events Reporting

If management is rated a **3**, or if the composite rating is a **4**, or worse, advise officials of Significant Events and the regulatory requirements. A draft copy of a Document of Resolution should be included if one is proposed.

Joint Conference

Meetings with the Board of Directors in certain circumstances are required.

A board meeting is required if:

- Management is rated a **3** or higher; or
- A CAMEL composite rating of **3** or higher is assigned.

Exit meetings with the Board should ideally be held within a week of leaving the credit union; however, on occasion the EIC may wait until the regularly scheduled board meeting. In no case should the processing of the examination be delayed due to the timing of the Board meeting.

NCUA PARTICIPATION

When the NCUA participates on an examination, the exit meeting should be coordinated with them to ensure their attendance. Occasionally, the NCUA personnel may not participate in an examination but may ask to attend the exit conference. The EIC will make a reasonable effort

to coordinate the date and time of the exit conference to allow for their attendance. When a composite CAMEL rating of **3, 4,** or **5** is assigned and/or if a Document of Resolution is drafted the EIC should contact the NCUA Supervisory examiner and advise of the date and time of the meeting. The communication can be by e-mail and should include a brief summary of the condition of the credit union, the proposed CAMEL code rating and any Document of Resolution proposed. (Note that it should be indicated that the DOR is in draft form.)

While the NCUA may join on the exit meeting, the state EIC is in control. This is not to say the NCUA examiners cannot participate during the meeting, in fact, they should be given time to discuss areas where they have concerns. The examiners from each agency should meet prior to their meeting with management to discuss how the meeting will be conducted.

Chapter Twenty-Two:

Examination Evaluation and Review

EXAMINATION PROCEDURES

State procedures are discussed in Chapter 20 of this manual. Examiners should review the related chapter in the NCUA Examiner's Guide for additional guidance.

Chapter Twenty-Three:

Low Income Credit Unions

EXAMINATION PROCEDURES

There are no state procedures that apply to this area. For information on designation of low income status refer to Part 701.34, NCUA Rules and Regulations, Designation of low-income status; Acceptance of secondary capital accounts by low-income designated credit unions.

For information on NCUA's streamlined process for evaluating low-income designation refer to NCUA Letter to Credit Unions 13-CU-04.

Contact Information:

Questions regarding the low-income designation should be directed to the NCUA's Office of Consumer Protection at 703-518-1150 or DCAMail@ncua.gov.

Office of Consumer Protection
Director, Consumer Access South
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Chapter Twenty-Four:

Shared Branch

EXAMINATION PROCEDURES

There are no specific state examination procedures in this area. Examiners should review the corresponding chapter in the NCUA Examiner's Guide for additional information.

Chapter Twenty-Five:

Credit Union Service Organizations (CUSO)

EXAMINATION REPORT PAGES

None

EXAMINATION PROCEDURES

Description	Footnote	Low Risk	Moderate Risk	High Risk
Review CPA audit and management letter		----------ALL----------		
Assess financial condition		----------ALL----------		
Verify accuracy of financial statements		----------ALL----------		
Determine compliance with generally accepted accounting principles	A	----------ALL----------		
Determine compliance with investment and loan limitations		----------ALL----------		
Assess adequacy of internal controls		----------ALL----------		
Determine viability of operations and service to member credit unions		----------ALL----------		
Review and obtain attorney's letter	B	----------ALL----------		
Review strategic/business plans		----------ALL----------		
Review board minutes of CUSO		----------ALL----------		
Review investment/loan documents and agreements of affiliated credit unions		----------ALL----------		
Review letter(s) of assurance or contract(s) for proper assurances to OFR		----------ALL----------		
Complete AIRES questionnaire (optional): • IC - CUSO		----------ALL----------		
Determine that licensing requirements have been met	C	---------- ALL ----------		

Footnote Reference

A. The presentation of the investment in a CUSO on the credit union's financial statements depends upon the amount of voting stock of the CUSO that is owned by the credit union. Therefore, the investment will be shown in one of three ways:

- If the credit union owns over 50% of the voting stock the credit union is deemed to have a controlling financial interest in the CUSO's operations and is required to prepare consolidated CU/CUSO financial statements.

- If the credit union owns 20% to 50% of the voting stock and has the ability to exercise significant influence over operations, the investment should be shown on the balance sheet using the equity method.

- If the credit union owns less than 20% of the voting stock and therefore has neither a controlling interest nor the ability to exercise significant influence over the CUSO's operations, the investment should be shown as a single amount on the balance sheet.

B. The credit union should maintain on file a current opinion from an attorney licensed within the State of Florida that clearly indicates the CUSO's structure as a separate legal entity that limits the credit union's potential exposure to no more that the loss of funds invested and/or loaned to the CUSO.

C. Check for appropriate licenses have been obtained for the type of business (i.e., Securities, mortgage broker, etc.)

APPLICABLE LAWS AND REGULATIONS

Florida Statutes

Section 655.0391	Retention of supervision by OFR
Section 655.044	Accounting practices
Section 657.042	Investment powers and limitations

SAMPLE VIOLATIONS OF LAWS, REGULATIONS, AND POLICIES

1. Records of the credit union service organization were not maintained in accordance with generally accepted accounting principles.

   Ref: Section 655.044(1), Florida Statutes

2. Consolidated credit union financial statements are not prepared reflecting the operations of the credit union service corporation.

   Ref: Section 655.044(1), Florida Statutes

3. Equity investment in credit union service organization exceeds statutory maximum of two percent of capital.

   Ref: Section 657.042(3)(a), Florida Statutes

4. Assurances were not provided to OFR as required.

   Ref: Section 655.0391, Florida Statutes

RED FLAGS

- CUSO operations adversely impacting the operations of the credit union.
- Financial condition of the CUSO significantly affecting the operations of a credit union or group of credit unions that depend on the CUSO's services.
- Failure of the credit union to take appropriate steps to ensure the CUSO operates as a separate entity.
- Conflicts of interest by the credit union and/or CUSO management.
- Failure to obtain an annual certified public opinion audit.
- Substantial operational or financial problems noted by the certified public accountant.
- Failure to establish written strategic/business plans.
- Failure to establish written policies and procedures for all financial and operational areas.
- Failure of management to satisfactorily direct and control the CUSO's operations.
- Failure to maintain records in accordance with generally accepted accounting principles.
- Failure of the board to meet as required.
- Failure to maintain board minutes.
- Inadequate capitalization in relation to the business plan.
- The necessity of borrowings.
- Failure to maintain records.
- Filing of bond claims involving dishonesty by a CUSO employee or official.
- Lawsuits filed against the CUSO.
- Lack of segregation of duties.
- Weak internal controls.
- Failure of management to provide records, or provide records in a timely manner.
- Failure of management to cooperate during performance of the examination.
- Numerous policy and procedural exceptions.
- Failure to establish procedural manuals for all areas of operation.
- Audits by the internal revenue service.
- Intermingling of credit union and CUSO business transactions, accounts, and records.
- Inseparable management.
- Loans by the credit union on behalf of the CUSO.
- Lacking or insufficient levels of liability insurance and bonding.
- Failure to obtain or renew appropriate licenses.

EXAMINATION WORK PAPERS

Description	Low Risk	Moderate Risk	High Risk
CPA audit including management letter	----------ALL----------		
Statements of condition and income	----------ALL----------		
Strategic/business plans	----------ALL----------		
Articles of incorporation	----------ALL----------		
Bylaws	----------ALL----------		
Board minutes	----------ALL----------		
Attorney's letter	----------ALL----------		

Letter(s) of assurance or contract	----------ALL----------
AIRES Questionnaire (optional): • IC – CUSO	----------ALL----------

Chapter Twenty-Six:

Federally Insured State-Chartered Credit Unions

GENERAL COMMENTS

Federally Insured State-Chartered Credit Unions (FISCU's) are subject to Part 741 of the National Credit Union Administration's (NCUA) Rules and Regulations. Refer to Part 741 for the determination of applicable regulations. An electronic version may be viewed by accessing the NCUA's web site at www.ncua.gov and going to the section that provides NCUA Rules and Regulations under Chapter 741. The next page details the procedures currently in effect with the NCUA concerning their participation in state-charter credit union examinations.

STATE OF FLORIDA
CAMEL RATINGS, EXAMINATION FINDINGS AND DOCUMENT OF RESOLUTION (DOR) DISCLOSURE PROCEDURES
(Revised 10/28/14)

In the past our field offices and your supervising examiners have not consistently applied the procedures for the disclosure of CAMEL ratings, examination findings and DORs. Also, statutory guidelines require credit unions to report "significant events" when a safety and soundness examination or Insurance Review results in a Composite rating of 4 or 5 or if the Management rating is 3, 4, or 5.

Based on the above, I would like to suggest the following procedures relating to concurrent examinations/insurance reviews and independent insurance reviews.

Concurrent Examination/Insurance Reviews

Disclosure of CAMEL Ratings will be the responsibility of the state examiner-in-charge (EIC) at the exit with management and for the board. The Office of Financial Regulation (OFR) and the NCUA will work together to develop the same rating for each component and the composite rating prior to the meeting. Any differences should be reported to the Bureau Chief of the Bureau of Credit Union Regulation for the State and the Supervising Examiner for NCUA to coordinate the ratings prior to their disclosure to credit union.

Examiner findings and discussion of issues in the report of examination will be coordinated by the state EIC. Discussions with management or the Board should be done when the state and the NCUA both have completed all on-site work. If an NCUA examiner must leave an examination prior to the examination's completion by the state, the NCUA examiner must review areas of discussion and findings with the state EIC prior to discussion with management. The state examiner will participate in any discussion with management in this scenario to understand the NCUA examiners discussion points and findings. Every attempt will be made to coordinate a mutual date for final discussion with management and the Board. (This does not prevent any examiners from clarifying issues while working on any area of the examination. However, overall findings and issues that require correction or recommendations must be coordinated with the state EIC.)

Independent Insurance Review

The NCUA Examiner-in-charge will disclose the component and composite ratings after the completion of an Insurance Review on a state-chartered credit union. The ratings by NCUA examiners are for internal purposes only. If the state is participating in the examination either in an advisory capacity or performing a DOR review, the state examiner may participate in the discussion of the ratings but the final rating will be the responsibility of the NCUA EIC. Every attempt should be made to ensure a state examiner is present at the exit with the board of directors and is provided with any suggested DOR that may be presented to the board. The state examiner will also be authorized to make suggestions to assist the NCUA Examiner (e.g., assistance is to clarify differences between state and federal legal requirements.)

In the rare cases where the NCUA is performing an Independent Insurance review without any assistance, the CAMEL rating by the NCUA will be disclosed to the state-chartered credit union. The NCUA examiner should timely notify the Area Financial Manager assigned to the credit

union of the exit meeting with management and the Board to allow for state participation in the meeting.

In order to handle the “significant events” reporting requirement the State will review the insurance review once it has been delivered to the main office (Tallahassee). If, by review of the examination, the OFR concludes the results of the examination would meet the criteria for “significant events” reporting, a letter will be issued indicating that our review of the report indicates that the credit union now meets the requirements of the statutes and rule for significant events reporting. The OFR will consider the ratings as developed by the NCUA examiner in making the determination.

Chapter Twenty-Seven:

Shortages

GENERAL COMMENTS

A shortage in a credit union is a loss of funds usually caused by an act of dishonesty. When a shortage is determined during an examination by an assisting examiner, the Examiner-in-Charge (EIC) should be notified for verification of the findings.

If the EIC confirms that a shortage has been discovered, the Area Financial Manager (AFM) should be notified immediately to discuss the matter. The AFM should then contact the bureau chief for the best course of action in presenting the findings to the President/CEO of the credit union. If the shortage is determined to be from actions of the President/CEO, then the findings should be presented to the board of directors and supervisory/audit committee during a special called meeting.

Refer to Chapter 27 of the NCUA Examiner's Guide for a comprehensive overview of shortages, the types of associated risks and red flags.

Chapter Twenty-Eight:

Bond Coverage

EXAMINATION REPORT PAGES

State Examiner's Findings
Document of Resolution (*if applicable)*

EXAMINATION PROCEDURES

Description	Low Risk	Moderate Risk	High Risk
Review Bond Coverage Summary and Bond Coverage Calculation	----------ALL----------		
Ensure fixed assets are fully insured	----------ALL----------		
Verify riders are in effect	----------ALL----------		
Verify all other areas requiring coverage are properly insured	----------ALL----------		
Inquire about last Risk Management visit. Obtain report from visit (if applicable)	----------ALL----------		

APPLICABLE LAWS, REGULATIONS, RULES, AND BYLAWS

Florida Statutes

Section 657.021(6)(a) Board of Directors; executive committee

Florida Administrative Code

Rule 69U-110.0211 Liability and bond Insurance

NCUA Rules and Regulations

Part 713 Fidelity Bond Coverage

Part 741.201(a) Minimum fidelity bond requirements

SAMPLE VIOLATIONS OF LAWS, REGULATIONS, AND POLICIES

1. The credit union's surety coverage is under the required amount.

   Ref: Part 741.201(a), NCUA Rules and Regulations
   Section 657.021(6)(a), Florida Statutes
   Part 713.5, NCUA Rules and Regulations
   Rule 69U-110.0211, Florida Administrative Code

2. The deductible on the credit union's surety policy is more than allowed.

   Ref: Part 741.201(a), NCUA Rules and Regulations
   Part 713.6, NCUA Rules and Regulations
   Rule 69U-110.0211, Florida Administrative Code

3. The Board minutes do not reflect that an annual review of bond and insurance policies was conducted to ascertain that such coverage adequately covers the risks of operating the credit union and meets minimum requirements.

   Ref: Part 741.201(a), NCUA Rules and Regulations
   Part 713.2, NCUA Rules and Regulations
   Rule 69U-110.0211, Florida Administrative Code

RED FLAGS

- Unable to locate insurance book of coverage
- Insurance book of coverage is in disarray
- Inadequate coverage
- Filing of bond claims involving dishonesty by a credit union employee or official
- Lack of plastic card coverage when credit union offers credit or debit cards

EXAMINATION WORK PAPERS

Description	Low Risk	Moderate Risk	High Risk
Review Bond Coverage and Maximum Deductible Summary (calculation for required coverage and deductible)	----------ALL----------		
Review fixed asset insurance	----------ALL----------		
Obtain copy of Declarations page of Credit Union Bond	----------ALL----------		
Obtain other insurance coverage riders as necessary	----------ALL----------		
Review and retain most recent NCUSIF statement (assure it is paid and current)	----------ALL----------		

Chapter Twenty-Nine:

Special Assistance
Letters of Understanding and Agreement
Conservatorships and Special Actions

GENERAL COMMENTS

Examiners should refer to Chapter 30 for details concerning how the Office of Financial Regulation approaches this topic. Information concerning the NCUA's actions in this area is contained in Chapter 29 of the NCUA Examiner's Guide.

Chapter Thirty:

Administrative Actions

Credit Unions assigned a composite rating of a 3, 4, or 5 requires issuing one of three types of agreements and additional on-site contacts. The purpose of the on-site contact is to determine management's compliance with the agreement and any deterioration or improvement in the financial condition.

TYPES OF AGREEMENTS

- Document of Resolution (DOR)
- Letter of Understanding and Agreement (LUA)
- Cease and Desist Order (C&D)

Timeframe – The first review should be conducted within 90 - 120 days from the date the report of examination is issued or the Board signs the LUA.

PRE-PLANNING

1. Review management's response to the examination and DOR or LUA.

2. Request for documents. (Could be e-mailed or faxed to credit union beforehand so items are mailed or ready upon arrival.)

3. Request a download from SysAires the ***Contact Type 23 - Supervision On-site –FISCU***. To receive the latest financial information in the download, request information for the quarterly date having the latest available Call Report data.

4. Format the LUA or DOR document and insert into the ***Contact***. (sample of DOR provided at end of section)

ON-SITE

1. Discuss pre-planning questions with Manager.

2. Review the Board and Supervisory Committee minutes from the exam date to the current review period to determine if management adequately addressed exam concerns. Note the key elements, which were required in the DOR or LUA. For example, approvals of policy revisions, evaluation or approval of budgets, organizational chart changes, etc.

3. Review documents that address the items in the DOR or LUA.
   - Budget – Did management and the Board address the required earnings issues that needed to be addressed; is the budget reasonable?
   - Loan Policies and Loans – Depending on how the LUA or DOR is worded, you may need to review a sample of loans to determine compliance.

4. Review management's response to the examination, DOR, or LUA and compare to actual on-site findings.

5. Examination Overview and Report of Findings – The Examination Overview schedule should include an overview of what was found and analysis of current key performance ratios relevant to the conditions in the agreement or which may reveal a new problem and include the DOR review hours. The Report of Findings should also include each section in the DOR. List each with in each section the findings of the review and the level of compliance (compliance or non-compliance.)

   BSA Violations in the Consumer Compliance Violations (CCV) Module (if applicable) – If a BSA violation has been corrected by management, check the "Resolved" box in the CCV module.

6. Exit meeting with Board or Management – This is optional for Board, but a discussion should be held with the Manager detailing the level of compliance by the credit union with the DOR, LUA or C&D order. Management's lack of compliance will determine if a Board meeting is warranted. In most cases a Board meeting should be held for LUAs, at least the first few reviews.

7. Uploading Contact – To successfully upload the Contact to Tallahassee, you must complete the CAMEL codes (do not update the CAMEL ratings from the last exam), Exam Completion Date, Next Contact Date, and Estimated Resolution Date.

The items that are noted as in compliance during the onsite review are not required to be revisited during subsequent contacts, unless the items are continuing issues. On-site reviews will continue for:

- DORs – until the visitation shows that the credit union is in material compliance with the DOR or an examination report reveals no further visitations are warranted.
- LUAs or C&Ds – until the credit union is released from the action.

Visitations for credit unions that meet the noted conditions should be coordinated with the Supervisory Examiner for the NCUA assigned to the credit union. Contact or visitations may be performed concurrent with the NCUA or alternately with the NCUA.

SAMPLE VISITATION REPORT FORMAT

Charter 63333 ABC CREDIT UNION March 7, 20xx

Document of Resolution

Matters Requiring Board Attention

Time Frame for Completion	Responsible Person	Reference
Problems/Supporting Facts and Plans for Corrective Action		

Compliance

January 31, 20xx	CEO / Compliance Officer / Board of Directors	Part 748.2(c)(4), NCUA Rules and Regulations

Problems/Supporting Facts
The credit union is not in compliance with provisions of the Bank Secrecy Act regarding training for appropriate personnel. Training was held for tellers, member service representatives, and lending personnel on October 31, 20xx. The employee attendance sign in sheets revealed the Branch Manager and the Senior Loan Officer were not present for the training and the BSA Compliance Office could not provide documentation to show the two individuals received the pertinent training.

Corrective Action
Ensure all appropriate credit union personnel receive periodic training and document the training in their personnel file.

Findings: The BSA Officer was able to provide documentation showing that the Branch Manager and the Senior Loan Officer completed training on January 2, 20xx. Copies of the training certificates are included in their personnel files.

Conclusion: Compliance is met.

Chapter Thirty-One:

Liquidations

GENERAL COMMENTS

The Chief of the Bureau of Credit Union Regulation will determine if liquidation of a credit union is necessary. This decision would be reached after appropriate discussions are held with officials of the NCUA. Staff may be involved in discussions and or the deliverance of official documents to credit union management. Otherwise, the liquidation process is handled entirely by senior management in the Office of Financial Regulation headquarters.

Quick Reference Guide

Chapter Two: Scope Development and Planning

- Scopes Letter
- Pre-Examination Document Request Package (scopes document request list)
- BSA Addendum for Document Request Package

Chapter Three: Total Analysis Process

- Composite CAMEL Ratings
- Capital – “C” Rating
- Asset Quality – “A” Rating
- Management – “M” Rating
- Earnings – “E” Rating
- Asset/Liability Management – “L” Rating

Source: *NCUA Letter No. 07-CU-12, December 2007*

Chapter Twenty: Report Writing and Review

- Required reports and reports to be mailed to the credit union
- Required vs. optional AIRES spreadsheets
- Required vs. optional AIRES questionnaires

Field Tools

- Examiner Guide, Index and Checklist
- Section 655 Florida Statutes
- Section 657 Florida Statutes
- Rule 69U-100 Florida Administrative Code
- Rule 69U-110 Florida Administrative Code
- BSA/AML Risk Assessment Template
- OFAC Risk Assessment Template

FLORIDA OFFICE OF FINANCIAL REGULATION

www.FLOFR.com

DREW J. BREAKSPEAR

COMMISSIONER

January 2, 20xx

Mr./Ms. President/CEO
Name of Credit Union
Mailing Address
City, State, Zip Code

Dear Mr./Ms.:

As required by Section 655.045(1)(a), Florida Statutes, your credit union is scheduled for an examination which will commence on _____. Approximately ___ examiners will be assigned to this examination. _____ will be the Examiner-in-Charge. The examination date will be as of _____. To assist in preparing for this examination, we request that you and your staff complete the enclosed pre-examination package. *Please provide the items which are underlined by _____.* All other items should be made available upon commencement of the on-site examination. *Requested items should be organized to correspond to numbers identified on the pre-examination listing*. By providing the completed package to the examiners you can help minimize the examination time. In addition, we request that you provide the examiners with adequate working space which should include a phone, waste paper baskets, and desk or table space. Thank you for your cooperation in helping us assure that the examination proceeds smoothly and quickly. Please call me at (850) 410-xxxx or email me at FLxx@ncua.gov if you have any questions about the information requested or other aspects of the examination.

Sincerely,

John J. Salem
Area Financial Manager
Tallahassee Area Financial Office

Attachments

PRE-EXAMINATION DOCUMENT REQUEST PACKAGE

This form is in an Excel format which can be found in Appendix A

STANDARD CAMEL RATING NARRATIVE

CAMEL COMPOSITE RATINGS

Rating 1 - Credit unions in this group are sound in every respect and generally have components rated 1 and 2. Any weaknesses are minor and can be handled in a routine manner by the board of directors and management. These credit unions are the most capable of withstanding unpredictable business conditions and are resistant to outside influences such as economic instability in their trade area. These credit unions are in substantial compliance with laws and regulations. As a result, they exhibit sound performance and risk management practices relative to the credit union's size, complexity, and risk profile, and give no cause for supervisory concern.

Rating 2 – Credit unions in this group are fundamentally sound. For a credit union to receive this rating, generally no component rating should be more severe than a 3. Only moderate weaknesses are present and are well within the board of directors' and management's capabilities and willingness to correct. These credit unions are stable and are capable of withstanding business fluctuations. These credit unions are in substantial compliance with laws and regulations. Overall risk management practices are satisfactory relative to the credit union's size, complexity, and risk profile. There are no material supervisory concerns and, as a result, the supervisory response is informal and limited.

Rating 3 - Credit unions in this group exhibit some degree of supervisory concern in one or more of the component areas. These credit unions exhibit a combination of weaknesses that may range from moderate to severe; however, the magnitude of the deficiencies generally will not cause a component to be rated more severely than 4. Management may lack the ability or willingness to effectively address weaknesses within appropriate time frames. Credit unions in this group generally are less capable of withstanding business fluctuations and are more vulnerable to outside influences than those rated a composite 1 or 2. Additionally, these credit unions may be in significant noncompliance with laws and regulations. Risk management practices may be less than satisfactory relative to the credit union's size, complexity, and risk profile. These credit unions require more than normal supervision which may include enforcement actions. Failure appears unlikely, however, given overall strength and financial capacity of these credit unions.

Rating 4 - Credit unions in this group generally exhibit unsafe and unsound practices or conditions. There are serious financial or managerial deficiencies that result in unsatisfactory performance. The problems range from severe to critically deficient. The weaknesses and problems are not being satisfactorily addressed or resolved by the board of directors and management. Credit unions in this group generally are not capable of withstanding business fluctuations. There may be significant noncompliance with laws and regulations. Risk management practices are generally unacceptable relative to the credit union's size, complexity, and risk profile. Close supervisory attention is required, which means, in most cases, enforcement action is necessary to address the problems. Credit unions in the group pose a risk to the National Credit Union Share Insurance Fund (NCUSIF). Failure is a distinct possibility if the problems and weaknesses are not satisfactorily addressed and resolved.

Rating 5 – Credit unions in this group exhibit extremely unsafe and unsound practices and conditions; exhibit a critically deficient performance; often contain inadequate risk management practices relative to the credit union's size, complexity, and risk profile; and are of the greatest supervisory concern. The volume and severity of problems are beyond management's ability or willingness to control or correct. Immediate outside financial or other assistance is needed in order for the credit union to be viable. Ongoing supervisory attention is necessary. Credit unions in this group pose a significant risk to the NCUSIF and failure is highly probable.

1. CAPITAL – "C"

A capital adequacy rating of 1 indicates sound capital relative to the credit union's current and prospective risk profile.

A rating of 2 indicates satisfactory capital relative to the credit union's current and prospective risk profile.

A capital adequacy rating of 3 reflects less than satisfactory capital that does not fully support the credit union's current and prospective risk profile. The rating indicates a need for improvement.

A capital adequacy rating of 4 indicates deficient capital. In light of the credit union's current and prospective risk profile, viability of the credit union may be threatened. Financial support from outsiders may be required.

A rating of 5 indicates critically deficient capital in light of the credit union's current and prospective risk profile such that the credit union's viability is threatened. Immediate assistance from external sources or financial support is required.

2. ASSET QUALITY – "A"

A rating of 1 indicates sound asset quality and credit administration practices. Identified weaknesses are minor in nature and risk exposure is modest in relation to capital adequacy and management's abilities. Asset quality is of minimal supervisory concern.

A rating of 2 indicates satisfactory asset quality and credit administration practices. The level and severity of classifications and other weaknesses warrant a limited level of supervisory attention. Risk exposure is commensurate with capital adequacy and management's abilities.

A rating of 3 is assigned when asset quality or credit administration practices are less than satisfactory. Trends may be stable or indicate deterioration in asset quality or an increase in risk exposure. The level and severity of classified assets, other weaknesses, and risk require an elevated level of supervisory concern. There is generally a need to improve credit administration and risk management practices.

A rating of 4 is assigned to credit unions with deficient asset quality or credit administration practices. The levels of risk and problem assets are significant, inadequately controlled, and

subject the credit union to potential losses that, if left unchecked, may threaten the credit union's viability.

A rating of 5 represents critically deficient asset quality or credit administration practices that present an imminent threat to the credit union's viability.

3. MANAGEMENT – "M"

A rating of 1 indicates sound performance by management and the board of directors and sound risk management practices relative to the credit union's size complexity, and risk profile. All significant risks are consistently and effectively identified, measured, monitored, and controlled. Management and the board have demonstrated the ability to promptly and successfully address existing and potential problems and risks.

A rating of 2 indicates satisfactory management and board practices relative to the credit union's size, complexity, and risk profile. In general, significant risks are effectively identified, measured, monitored, and controlled. Management and the board have demonstrated the ability to promptly and successfully address existing and potential problems and risks. Minor weaknesses may exist but are not material.

A rating of 3 indicates management and board performance that needs improvement or risk management practices that are less than satisfactory given the nature of the credit union's activities. Problems and significant risks may be inadequately identified, measured, monitored, and controlled. The capabilities of management or the board of directors may be insufficient for the type, size, or condition of the institution.

A rating of 4 indicates deficient management and board performance or risk management practices that are inadequate considering the nature of a credit union's activities. The level of problems and risk exposure is excessive. Problems and significant risks are inadequately identified, measured, monitored, or controlled and require immediate action by the board and management to preserve the soundness of the institution. Replacing or strengthening the board may be necessary.

A rating of 5 indicates critically deficient management and board performance or risk management practices. Management and the board of directors have not demonstrated the ability to correct problems and implement appropriate risk management practices. Problems and significant risks are inadequately measured, monitored, or controlled and now threaten the continued viability of the institution. Replacing or strengthening management or the board of directors is necessary.

4. EARNINGS – "E"

A rating of 1 indicates earnings that are sound. Adequate capital and allowance levels already exist after consideration is given to asset quality, growth, and risk factors.

A rating of 2 indicates earnings that are satisfactory. Earnings are sufficient to reach adequate capital and allowance levels after consideration is given to asset quality, growth, and risk factors.

A rating of 3 indicates earnings that need to be improved. Earnings may not fully support current and future capital and allowance funding commensurate with the credit union's overall condition, growth, and risk factors.

A rating of 4 indicates earnings that are deficient. Earnings are insufficient to support current and future capital and allowance funding commensurate with the credit union's overall condition, growth, and risk factors.

A rating of 5 indicates earnings that are critically deficient and represent a distinct threat to the credit union's viability. Earnings do not support current and future capital and allowance funding commensurate with the credit overall condition, growth, and risk factors.

5. ASSET/*L*IABILITY MANAGEMENT – "L"

A rating of 1 indicates liquidity and ALM practices are sound. There is minimal potential that the capital adequacy will be materially affected by internal and external factors such as a shift in interest rates. Liquidity and ALM are sound for the size, sophistication, and risk taken by the credit union. The degree of market risk taken by the credit union is supported. The credit union has reliable access to sufficient sources of funds on favorable terms to meet present and anticipated liquidity needs.

A rating of 2 indicates satisfactory liquidity and ALM practices. The credit union has access to sufficient sources of funds on acceptable terms to meet present and anticipated liquidity needs. Modest weaknesses may be evident in ALM. Market rate sensitivity is adequately controlled and there is only moderate potential that the adequacy of capital will be materially affected by internal and external factors such as a shift in interest rates. ALM practices are satisfactory for the size, sophistication, and market risk accepted by the credit union. The degree of market risk taken by the credit union is supported.

A rating of 3 indicates liquidity and/or ALM practices in need of improvement. Credit unions rated a 3 may lack ready access to funds on reasonable terms or may evidence significant weaknesses in ALM practices. Control of market risk needs improvement or there is significant potential the adequacy of capital will be materially affected by internal and external factors such as a shift in interest rates. Risk management practices need to be improved given the size, sophistication, and level of market risk accepted by the credit union. The degree of market risk taken by the credit union is not adequately supported.

A rating of 4 indicates deficient liquidity and/or inadequate ALM practices. Credit unions rated a 4 may not have or be able to obtain a sufficient volume of funds on reasonable terms to meet liquidity needs. The control of market risk is unacceptable or there is high potential the adequacy of capital will be materially affected by internal and external factors such as a shift in interest rates. ALM practices are deficient for the size, sophistication, and level of market risk accepted by the credit union. The degree of market risk taken by the credit union is not supported.

A rating of 5 indicates liquidity and/or ALM practices so critically deficient that the continued viability of the credit union is threatened. Credit unions rated 5 require immediate external

financial assistance to meet maturing obligations or other liquidity needs. Market risk sensitivity is unacceptable or the level of the risk taken is an imminent threat to the credit union's viability. ALM practices are inadequate for the size, sophistication, and level of market risk accepted by the credit union.

REQUIRED QUESTIONNAIRES

The following questionnaires are required to be completed by the examiner at every examination.

AIRES (found in AIRES report template)

- BSA – Bank Secrecy
- 5300 Review
- SC Audit Verification Review
- Flood Act
- OFAC
- IC – Management
- ALLL Review (required sections: “General” #1–6 and “Conclusions” (1a
- AIRES IT Profile (review)
- Credit Union Update (must be completed, but need not be typed into AIRES)

When to include optional questionnaires

The remaining questionnaires are considered to be optional in AIRES. However, we have consumer compliance responsibilities assigned to us. Therefore, all questionnaires dealing with Federal Consumer Compliance requirements are to be completed if applicable to the individual credit union. Completion may be waived, if they were completed during the previous examination and no significant problems were noted. The forms would be completed again during the next examination. We will complete consumer compliance questionnaires on all services that were newly started between examinations. Forms should be completed for the new services and/or when new questionnaires have been added to the AIRES program.

See the Quick Reference Guide **Examiner Guide and Checklist**

This form has been saved in a WORD document and is not in the AIRES Program. It should be used for every examination as a checklist to determine that the appropriate examination procedures have been performed and as an Index for work papers. The form can also serve the purpose of a Training Checklist to follow the progress of individual new examiners.

REQUIRED REPORTS

Examiners are required to include the following reports when the "Report of Examination" is submitted to Tallahassee for review:

A. GENERAL

- State Exam Cover Sheet
- Exam Management Console
    - Examiner Time Detail, including travel hours (AIRES)
    - Completion Information
        - Answer all questions in "radio buttons" on the left middle of screen; and
        - Answer questions related all dates contained in drop down boxes on the right side of the screen
- Scope Work Book
- Preliminary Risk Assessment
- Exam Scope
- Final Risk Assessment
- CV Section – if BSA Violations Are Present

B. FINAL EXAMINATION REPORT (to be mailed to credit union)

Examination Overview
State Examiner's Findings
Document of Resolution *(if applicable)*

Statement of Financial Condition
Statement of Income
Key Ratios
Financial History
Loan and Lease Analysis
Loan and Lease Trends
Allowance for Loan and Lease Losses Evaluation
Investment Trends
Investment Analysis
Share Trends
Management Review

AIRES SPREADSHEETS – REQUIRED vs OPTIONAL

These are a pair of Excel spreadsheets which can be found in Appendix B

EXAMINER GUIDE, INDEX AND CHECKLIST - STATE SECTION

Examiner in Charge:
Charter #:
Start Date of Exam:
As of Date of Exam:

	Assigned Task	Examiner Assigned	Completed Yes (X), N/A
A	**CREDIT RISK**		
1	Review loan/credit policies and procedures		
2	Review collection policies and procedures		
3	Review sample of current loans • Insider • Consumer • Real Estate • Member Business		
4	Review loan extension and refinance policies and procedures		
5	Review anticipated losses in the loan portfolio		
6	Review management's corrective actions to prior examination deficiencies		
7	Review timeliness of loan and asset charge offs		
8	Review charge off policy		
9	Review ALLL policy, assess compliance of ALLL funding methodology and complete required questionnaire		
10	Review loan portfolio by type to ascertain concentration of risk		
11	Review new loan products and services offered		
12	Review net yield analysis by paper grade		
13	Review credit card over limit report		
14	Review zero payment required loans		
15	Review paid ahead loans		
16	Review loans < 5.0% and > 18.0%		
17	Review loans with accrued interest > payment		
18	Ensure Board review of charge-offs		
19	Review single interest insurance placement procedures		
20	Review negative share report, courtesy pay policy and courtesy pay program		
20	Complete applicable consumer compliance questionnaires for lending		

EXAMINER GUIDE, INDEX AND CHECKLIST - STATE SECTION

Examiner in Charge:
Charter #:
Start Date of Exam:
As of Date of Exam:

	Assigned Task	Examiner Assigned	Completed Yes (X), N/A
B	**INTEREST RATE RISK**		
1	Review 17/4 test		
2	Review asset/liability management policy and ALCO minutes		
3	Review investment policy		
4	Review maturity distribution of investment portfolio		
5	Review policies addressing limitations on long term lending and investments		
6	Review interest rate risk (ALM) modeling and reasonableness of assumptions		
7	Review investments for compliance with policy		
8	Test individual investments to source documentation		
9	Complete applicable ALM, and investment questionnaires		
10	Review maturity distribution of share certificates		

	Assigned Task	Examiner Assigned	Completed Yes (X), N/A
C	**LIQUIDITY RISK**		
1	Review liquidity policy		
2	Review maturity distribution of investment portfolio and cash on deposit/cash equivalents		
3	Review maturity distribution of member certificates of deposit and savings		
4	Determine rates paid on member savings		
5	Review lines of credit in force		
6	Review liquidity analysis (cash flow) reporting		
7	Complete liquidity questionnaires		

EXAMINER GUIDE, INDEX AND CHECKLIST - STATE SECTION

Examiner in Charge:
Charter #:
Start Date of Exam:
As of Date of Exam:

	Assigned Task	Examiner Assigned	Completed Yes (X), N/A
D	**TRANSACTION RISK**		
1	Review CPA audit and supporting work papers		
2	Review CPA quarterly agreed upon procedures		
3	Verify accuracy of 5300		
4	Complete 5300 questionnaire		
5	Review supervisory/audit committee minutes and audit program		
6	Review general ledger accounts for timeliness in reconcilement and accuracy of account balance		
7	Review amount and timeliness of write off of overdrawn accounts		
8	Review security controls for cash on hand		
9	Reconcile and review entries to equity accounts and critical ALLL		
10	Review monthly statements of insider accounts		
11	Review adequacy of bond and insurance in force		
12	Review insider savings and share draft statements		
13	Review new share products and services offered		
14	If current, review CUNA Risk Management Audit		
15	Review most recent NACHA (ACH) Audit		
16	Obtain signed Officer's Statement of Assets and Liabilities and Income and Expenses		
17	Complete applicable internal routines and control questionnaires as applicable		

EXAMINER GUIDE, INDEX AND CHECKLIST - STATE SECTION

Examiner in Charge:
Charter #:
Start Date of Exam:
As of Date of Exam:

	Assigned Task	Examiner Assigned	Completed Yes (X), N/A
E	**COMPLIANCE RISK**		
1	Review compliance with OFAC, Patriot Act, Privacy Act and complete required questionnaires		
2	Review compliance with the Bank Secrecy Act		
3	Obtain and review CTRs and SARs prepared during the examination period and reconcile to list derived from FinCEN database		
4	Review policies and procedures applicable to record retention and destruction		
5	Review new memberships and compliance with field of membership bylaw requirements		
6	Review wire transfer policy, internal controls and sample funds transfer activity reports		
7	Review E-banking program and complete questionnaire		
8	Determine compliance with applicable state and NCUA regulations		
9	Review and retain IRS 990		
10	Review physical security program and procedures		
11	Reviewed fixed assets and fixed asset ratio		
12	Ensured biennial or annual approval of management policies		
13	Complete applicable questionnaires		

EXAMINER GUIDE, INDEX AND CHECKLIST - STATE SECTION

Examiner in Charge:
Charter #:
Start Date of Exam:
As of Date of Exam:

	Assigned Task	Examiner Assigned	Completed Yes (X), N/A
F	**STRATEGIC RISK**		
1	Review business and strategic plans		
2	Review board minutes		
3	Review the budget, written assumptions used in its preparation, and variance analysis		
4	Review new products and services		
5	Review key financial trends and ratios		
6	Review marketing plans and efforts		
7	Review written management succession plan		
8	Complete management review questionnaire		
9	Review and retain biographical sketches for insiders		
10	Review credit union update questionnaire		
11	Review management employee contracts		
12	Review management compensation, incentive and retirement plans		
13	Review performance evaluations for key employees and manager/CEO		

	Assigned Task	Examiner Assigned	Completed Yes (X), N/A
G	**REPUTATION RISK**		
1	Review board and supervisory/audit committee minutes		
2	Determine contingent liabilities and legal actions (attorney's letter)		
3	Determine compliance with applicable regulations		
4	Review the disaster recovery program		
5	Review employment contracts		
6	Review most recent SSAE 16 (SOC 1) report		
7	Review significant leases on real property		
	Review computer system controls and security procedures		
9	Review CU web site		

Appendix A

PRE-EXAMINATION DOCUMENT REQUEST PACKAGE

Examiner-in-Charge:
Credit Union Name:
Examination Financial Date: December 31, 2015
Date of Last Examination: March 31, 2014

PRE-EXAMINATION PACKAGE

NOTE: PLEASE COPY WHERE INDICATED FOR RETENTION IN EXAMINATION WORKPAPERS.

Strategic Risk

1 Prepare brief biographical information on each director, committee member, senior management, and compliance officer. See enclosed questionnaires.

2 COPY of monthly board minutes and annual meeting minutes beginning March 31, 2014.

3 Complete the following questionnaires:
- a Credit Union Update
- b Management Review

4 COPY of the following policies and/or procedures:
- a Personnel
- b Conduct of Officers
- c Travel
- d Continuing Education

5 COPY of salary schedule of management and all employees

6 COPY of budget(s) for the following fiscal year period(s): 2016
Include written assumptions used in its/their preparation
- a COPY of Strategic/ Business Plan

7 COPY of Management Succession Plan

8 COPY of all management contracts in force (if any)

Compliance Risk

9 Complete the following questionnaires:
- a Bank Secrecy
- b Privacy
- c OFAC
- d Abandoned Property
- e Flood Disaster Protection Act

10 COPY of most recent IRS 990 and IRS 990-T

11 COPY of share and deposit disclosures (Truth-in-Savings)

12 COPY of most recent abandoned property report

13 COPY of initial privacy disclosure and annual redisclosure.

14 COPY of the following policies and/or procedures:
- a Bank Secrecy Act Compliance
- b Customer Identification Program
- c OFAC
- d Records Retention and Destruction

15 COPY of most recent member group listing and listing of new members in six months prior to Dec. 31, 2015

16 COPY of all SARs and CTRs filed since Mar. 31, 2014

17 Refer to Bank Secrecy Act Supplemental Information Request Addendum to identify additional information to forward with the examination package and have available on site.

18 Provide a summary of all insurance policies, including binders, endorsements, and riders. Indicate the name of insurer, coverage amounts, deductibles, coverage expiration, and if the institution plans to maintain the same coverage at expiration.

19 Are all Directors and Officers of the institution covered by the Director and Officer Insurance (D & O Insurance)?
Yes ____ No____: If No, please explain in detail on a separate sheet.

Transaction Risk

20 Complete the following questionnaires:
a 5300 Review
b Supervisory Committee Audit Verification Review

21 COPY of Supervisory/Audit Committee minutes back to Mar. 31, 2014

22 Supervisory/Audit Committee reports and mgt. response back to Mar. 31, 2014. Include quarterly agreed upon procedures performed by CPA, including management response

23 COPY of annual audit of the credit union including management letter for the following fiscal years:
2014 2015

24 COPY of most recent CUNA risk audit and management response.

25 COPY of general ledger short trial balances as of Dec. 31, 2014 and Dec. 31, 2015

26 COPY of general ledger account histories for the following accounts for the period Mar. 31, 2014 through Dec. 31, 2015:
a
Allowance for Loan and Lease Losses - Please consolidate all activity of the ALLL within one summary reconcilement by month for the periods 3-31-14 to 12-31-14 and 1-1-15 to 12-31-15.
b Undivided Earnings
c Regular Reserve
d Unrealized Gain/Loss on Investments Available for Sale
e Other Reserves

27 COPY of the following financial statements including all attachments:
12/31/2014
12/31/2015

28 COPY of the following Call Reports (5300): December 31, 2015
Provide documentation to support preparation of the above referenced reports during the examination.

29 COPY of statements and reconcilements to support Call Report cash account balances as of Dec. 31, 2015

30 COPY of statements and reconcilements to support Call Report investment account balances as of Dec. 31, 2015. Provide safekeeping receipts and other confirmations during the examination.

31 COPY of share/certificate trial summary totals to support Call Report balance as of Dec. 31, 2015

32 COPY of shares/certificates by type as of Dec. 31, 2015

33 COPY of loans by type as of Dec. 31, 2015 including explanation of collateral code listing.

Credit Risk

34 Complete the following questionnaires:
- a Allowance for Loan and Lease Losses Account Review
- b Payment of Overdrafts (Bounce Protection)
- c Indirect Lending Controls
- d. Business Lending
- e. Participations

35 Prepare a listing of directors, committeemen, and staff as of Dec. 31, 2015 detailing the following: account number; name; position with credit union; and outstanding loan balances and credit card balances (if applicable). PLEASE RETAIN DOCUMENTATION TO SUPPORT LOAN BALANCES FOR EXAMINER REVIEW.

36 Identify all loans with balances greater than or equal to $100,000 as of Dec. 31, 2015
The listing should identify each loan by account number, name, loan date, loan type, loan amount, and loan balance.

37 Identify all new loans **(including credit cards)** granted within the last 6 months and greater than $7,500 The listing should identify each loan by account number, name, loan date, loan type, loan amount, and loan balance.

38 COPY of most recent distribution of the entire loan portfolio by risk paper grade (A,B,C,D,E)

39 COPY of most recent distribution of the indirect loan portfolio by risk paper grade (A,B,C,D,E).

40 COPY of business loan trial balance. The listing should identify each loan by account number, name, loan date, loan amount, and loan balance.

41 COPY of loan trial summary totals, including credit cards, as of Dec. 31, 2015 to support Call Report account balances.

42 COPY of delinquent loan report summary totals including credit cards as of Dec. 31, 2015. Listing of delinquent loans, including credit cards, with all loans (including loans less than two months past due) classified substandard, doubtful, or loss for collection as of Dec. 31, 2015. Summarize classified loan balances by category and number.
- a Listing of modified real estate and consumer loans that reconciles to the Call Report at December 31, 2015. The listing should identify by footnote all Troubled Debt Restructured Loans.

43 Identify and classify substandard, doubtful, or loss for collection on all repossessions and/or foreclosures,if any, posted to other assets as of Dec. 31, 2015

44 Individually identify charged off loans by type, paper grade and amount back to Mar. 31, 2014. Please summarize.

45 Identify the largest loan concentration (including credit card loans but excluding share/certificate loans) as of Dec. 31, 2015. Who owes the credit union the largest amount?

46 COPY of standby letters of credit (if any)

47 COPY of the following policies and/or procedures:
- a Loan
- b Credit
- c Collection
- d Appraisal Standards
- e Funding Methodology of Allowance for Loan and Lease Losses/ **December 31, 2015 Worksheet**
- f Charge Off Policy
- g Courtesy Pay Overdraft Program
- h Business/Commercial Lending
- i. TDR/Modificaion/Extension Policies

48 Identify and classify overdrawn share accounts loss for collection as of Dec. 31, 2015
Provide individual listing of all overdrawn accounts including identification of days in negative status of each account. Summarize accounts as follows: 0-29; 30-59; and 60+

49 COPY of loan rates for each time they changed since the prior exam date including most recent rates and member savings rates.

50 **AIRES download of loans and shares as of Dec. 31, 2015 or most recent available.**

Reputation Risk

51 Complete the following questionnaire:
- a Wire Transfer Controls
- b Disaster Preparedness
- c Physical Security
- d Complete emergency contact information

52 Obtain an attorney's letter detailing contingent liabilities (if any) of the credit union

53 COPY of the following policies and/or procedures:
- a Disaster Recovery
- b Security
- c E-Banking
- d Wire Transfers

54 COPY of most recent intrusion testing report and mgt. response.

Liquidity Risk

55 COPY of line of credit agreements (actual loan note(s)).

56 COPY of documentation to identify total unfunded loan commitments (ie: in-house unsecured and secured lines of credit, credit card lines of credit, share overdraft protection) as of Dec. 31, 2015

Interest Rate

57 Identify total adjustable rate loans tied to outside indexes as of Dec. 31, 2015

58 COPY of member certificate of deposit maturity distribution as of Dec. 31, 2015

59 COPY of the following policies and/or procedures:
- a Investments
- b Asset/Liability Management Policy

60 COPY of most recent ALM modeling that measures interest rate/liquidity risk, i.e., GAP reports, income simulation, NEV.

61 COPY of ALCO minutes with supplementary material/reports.

Examiner-in-Charge:
Credit Union Name:
Examination Financial Date: December 31, 2015
Date of Last Examination: March 31, 2014

BANK SECRECY ACT SUPPLEMENTAL INFORMATION REQUEST

Please provide as many of the items as possible prior to commencement of the examination. Additional materials may be requested as needed. (Note: All items may not be applicable to all institutions.)

BSA/AML Compliance Program

1 Name and title of the designated BSA compliance officer and, if different, the name and title of the person responsible for monitoring BSA/AML compliance.

- Organization charts showing direct and indirect reporting lines.
- Copies of resumes and qualifications of person (or persons) new to the credit union serving in BSA/AML compliance program oversight capacities.

2 Make available copies of the most recent written BSA/AML compliance program approved by board of directors (or the statutory equivalent of such a program for foreign financial institutions operating in the United States), including CIP program requirements, with date of approval noted in the minutes.

3 Make available copies of the policy and procedures relating to all reporting and recordkeeping requirements, including suspicious activity reporting.

4 Completed Officer's Questionnaire (BSA), if required by the NCUA or Office of Financial Regulation.

5 Correspondence addressed between the credit union, its personnel or agents, NCUA or Office of Financial Regulation, the U.S. Treasury (Office of the Secretary and Department of the Treasury, Internal Revenue Service, FinCEN, Detroit Computing Center, and OFAC) or law enforcement authorities since the previous BSA/AML examination.

Audit

6 Make available copies of the results of any internally or externally sourced independent audits or tests performed since the previous examination for BSA/AML/OFAC, including the scope or engagement letter, management's responses, and access to the work papers.

7 Make available access to the auditor's risk assessment, audit plan (schedule), and program used for the audits or tests.

Training

8 Training documentation (e.g., materials used for training since the previous BSA/AML examination).

9 BSA/AML/OFAC training schedule with dates, attendees, and topics. A list of persons in positions for which the credit union typically requires BSA/AML/OFAC training but who did not participate in the training.

Risk Assessment

10 Make available copies of management's BSA/AML risk assessment of products, services, customers, and geographic locations.

11 List of credit union identified high-risk accounts.

Customer Identification Program

12 List of accounts without taxpayer identification numbers (TINs).

13 File of correspondence requesting TINs for credit union customers.

14 Written description of the credit union's rationale for Customer Identification Program (CIP) exemptions existing customers who open new accounts.

15 List of any accounts opened for a customer that provides an application for a TIN.

16 List of any accounts opened in which verification has not been completed or any accounts opened with exceptions to the CIP.

17 List of customers or potential customers for whom the credit union took adverse action on the basis of its CIP.

18 List of all documentary and nondocumentary methods the credit union uses to verify a customer's identity.

19 Make available customer notices and a description of their timing and delivery, by product.

20 List of the financial institutions on which the credit union is relying, if the credit union is using the "reliance provision." The list should note if the relied-upon financial institutions are subject to a rule implementing the BSA/AML compliance program requirements of 31 USC 5318(h) and are regulated by a federal functional regulator.

Provide the following:

- Copies of any contracts signed between the parties.
- Copies of the CIP or procedures used by the other party.
- Any certifications made by the other party.

21 Copies of contracts with financial institutions and with third parties that perform all or any part of the credit union's CIP.

Suspicious Activity Reporting

22 Access to Suspicious Activity Reports (SARs) filed with FinCEN during the review period and the supporting documentation. Include copies of any filed SARs that were related to section 314(a) requests for information or to section 314(b) information sharing requests.

23 Any analyses or documentation of any activity for which a SAR was considered but not filed, or for which the credit union is actively considering filing a SAR.

24 Description of expanded monitoring procedures applied to high-risk accounts.

25 Determination of whether the credit union uses a manual or an automated account monitoring system, or a combination of the two. If an automated system is used, determine whether the system is proprietary or vendor supplied. If the system was provided by an outside vendor, request (i) a list that includes the vendor, (ii) application names, and (iii) installation dates of any automated account monitoring system provided by an outside vendor. A list of the algorithms or rules used by the systems and copies of the independent validation of the software against these rules.

26 Make available copies of reports used for identification of and monitoring for suspicious transactions. These reports include, but are not limited to, suspected kiting reports, cash activity reports, monetary instrument records, and funds transfer reports. These reports can be generated from specialized BSA/AML software, the credit union's general data processing systems, or both.

- If not already provided, copies of other reports that can pinpoint unusual transactions warranting further review. Examples include NSF reports, account analysis fee income reports, and large item reports. (Provide name, purpose, parameters, and frequency of each report.)

27 Correspondence filed with federal law enforcement authorities concerning the disposition of accounts reported for suspicious activity.

28 Make available copies of criminal subpoenas received by the credit union since the previous examination or inspection.

29 Make available copies of policies, procedures, and processes used to comply with all criminal subpoenas, including national security letters (NSLs), related to BSA.

Currency Transaction Reporting Exemptions

30 Access to filed Designation of Exempt Person form(s) for current exemptions (Treasury Form TD F 90-22.53).

31 List of customers exempted from CTR filing and the documentation to support the exemption (e.g., currency transaction history).

32 Access to documentation of required annual reviews for CTR exemptions.

Information Sharing

33 Documentation of any positive match for a section 314(a) request.

34 Make available any vendor confidentiality agreements regarding section 314(a) services, if applicable.

35 Make available copies of policies, procedures, and processes for complying with 31 CFR 103.100 (Information Sharing Between Federal Law Enforcement Agencies and Financial Institutions) (section 314(a)).

36 If applicable, a copy of the credit union's most recent notification form to voluntarily share information with other financial institutions under section 314(b) of the Patriot Act and 31 CFR 103.110 (Voluntary Information Sharing Among Financial Institutions), or a copy of the most recent correspondence received from FinCEN that acknowledges FinCEN's receipt of the credit union's notice to voluntarily share information with other financial institutions.

37 If applicable, make available copies of policies, procedures, and processes for complying with 31 CFR 103.110.

Purchase and Sale of Monetary Instruments

38 Access to records of sales of monetary instruments in amounts between $3,000 and $10,000 (if maintained with individual transactions, provide samples of the record made in connection with the sale of each type of monetary instrument).

Funds Transfers

39 Access to records of funds transfers, including incoming, intermediary, and outgoing transfers of $3,000 or more.

Foreign Correspondent Account Recordkeeping and Due Diligence

40 List of all foreign correspondent credit union accounts, including a list of foreign financial institution for which the credit union provides or provided regular services, and the date on which the required information was received (either by completion of a certification or by other means).

41 If applicable, documentation to evidence compliance with 31 CFR 103.177 (Prohibition on Correspondent Accounts for Foreign Shell Credit unions; Records Concerning Owners of Foreign Credit unions and Agents for Service of Legal Process) and 103.185 (Summons or Subpoena of Foreign Credit union Records; Termination of Correspondent Relationship) (for foreign correspondent credit union accounts and shell credit unions).

42 List of all payable through relationships with foreign financial institutions as defined in 31 CFR 103.175.

43 Access to contracts or agreements with foreign financial institutions that have payable through accounts.

44 List of the credit union's foreign branches and the steps the credit union has taken to determine that its accounts with its branches are not used to indirectly provide services to foreign shell credit unions.

45 List of all foreign correspondent credit union accounts and relationships with foreign financial institutions that have been closed or terminated in compliance with the conditions in 31 CFR 103.177 (i.e. , service to foreign shell credit unions, records of owners and agents).

46 List of foreign correspondent credit union accounts that have been the subject of a 31 CFR 103.100 (Information Sharing Between Federal Law Enforcement Agencies and Financial Institutions) or any other information request from a federal law enforcement officer for information regarding foreign correspondent credit union accounts and evidence of compliance.

47 Any notice to close foreign correspondent credit union accounts from the Secretary of the Treasury or the U.S. Attorney General and evidence of compliance.

48 Make available copies of policies, procedures, and processes for complying with 31 CFR 103.177.

49 List of all the credit union's embassy or consulate accounts, or other accounts maintained by a foreign government, foreign embassy, or foreign political figure.

50 List of all accountholders and borrowers domiciled outside the United States, including those with U.S. power of attorney.

Currency-Shipment Activity

51 Make available records reflecting currency shipped to and received from the Federal Reserve, credit union or correspondent credit unions, or reflecting currency shipped between branches and their credit unions' central currency vaults for the previous three months.

Other BSA Reporting and Recordkeeping Requirements

52 Record retention schedule and procedural guidelines.

53 File of Reports of International Transportation of Currency or Monetary Instruments (CMIR) (FinCEN Form 105, formerly Customs Form 4790).

54 Records of Report of Foreign Credit union and Financial Accounts (FBARs) (TD F 90-22.1).

OFAC

55 Name and title of the designated OFAC compliance officer and, if different, the name and title of the person responsible for monitoring OFAC compliance.

- Organization charts showing direct and indirect reporting lines.
- Copies of resumes and qualifications of person (or persons) new to the credit union serving in OFAC compliance program oversight capacities.

56 Make available copies of the credit union's risk management process relating to OFAC sanctions.

57 Make available a list of blocked or rejected transactions with individuals or entities on the OFAC list and reported to OFAC.

58 If maintained, make available logs or other documentation related to reviewing potential OFAC matches, including the method for reviewing and clearing those determined not to be matches.

59 Provide a list of any OFAC licenses issued to the credit union.

60 If applicable, provide a copy of the records verifying that the most recent updates to OFAC software have been installed.

61 Provide a copy of the annual report submitted to OFAC (TD F 90-22.50).

Appendix B

AIRES SPREADSHEETS – REQUIRED vs OPTIONAL

REQUIRED VS. OPTIONAL AIRES SPREADSHEETS

Key:
X = Required
OPT = Optional or if applicable
CU = Copy of spreadsheet is sent to the credit union management along with the Examination Report

Required		To CU?
Journal Adjustments	OPT	CU
Critical Loan and FRAs	X	
Critical ALLL	X	
Critical Investment	X	
Critical Shares and Notes Payable	X	
Critical Net Worth & RBNW	X	
Critical Solvency	X	
Key Ratios	X	CU
Earnings Performance-Adjusted	X	
Financial History	X	CU
CAMEL	X	
Financial Condition	X	CU
Statement of Income	X	CU
Allowance Evaluation	X	CU

Additional	
ALM Analysis:	
17-4 Test	X
Pricing Table Input	OPT
Pricing Table Results	OPT

Additional Continued		Use?	To CU?
Review Areas	X	Y	
Bond Calculation	OPT		
Net Worth Calculation	OPT		
Alternative Components for RBNW	OPT		
Retained Earnings Rec	OPT		
Loan Trends	X	Y	CU
Loan Growth	OPT		
Specialized Lending Trends	OPT		
Specialized Lending Growth	OPT		
Delinquency Calculator	OPT		
MBL Calculations	OPT		
Investment Trends	X	Y	CU
Investment Growth	OPT		
Share Trends	X	Y	CU
Share Growth	OPT		

Additional Continued		Use?
Interest Rate Risk Trends	OPT	
Liquidity Trends	OPT	
Concentration Trends	OPT	
Risk Reports	OPT	
Reasonableness Ratios	OPT	
2 Minute Test	OPT	
Budget Analysis	OPT	
Comparative Analysis	OPT	
Exam Trends	OPT	
Projections	OPT	
Amort Inv Review	OPT	
Certificate Review	OPT	
730A Cash on Hand	OPT	
730B1 Cash on Deposit-Corporate	OPT	
730B2 Cash on Deposit-Other	OPT	
730C Cash Equivalents	OPT	
760 - Prepaids	OPT	
771 - Land	OPT	
772 - Buildings	OPT	
774 - Furniture	OPT	
776 - Leasehold Improvement	OPT	
778 - Leased Assets	OPT	
798A - FRAs	OPT	
801 - Accounts Payable	OPT	
812 - Notes Payable	OPT	
658 - Other Reserves	OPT	
658A - Equity Aquired in Merger	OPT	
668 - Non-Conforming Inv. Res.	OPT	
931 - Regular Reserves	OPT	
940 - Undivided Earnings	OPT	
945 - Unrealized Gains+Losses	OPT	
996 - Miscellaneous Equity	OPT	
Op Fee-Share Ins	OPT	

AIRES QUESTIONNAIRES - REQUIRED vs OPTIONAL

Key:
X = Required
OPT = Optional of if applicable
CU = Copy of questionnaire is sent to credit unoin management along with the Examination Report

Required – All FCU and FISCU Exams		
BSA - Bank Secrecy	X	
5300 & CU Profile Review	X	
SC Audit Verif Review	X	
Flood Act	X	

Required – All FCU Exams		Use?
SAFE Act	OPT	
Community Charter	OPT	

Required – All SCUEP FCU Exams		Use?
Red Flag Questionnaire	OPT	

Baseline - FCU Non-SCUEP < $250 Million in Assets		
IT - Website & E-banking	OPT	

Baseline - FCU and FISCU Exams > $250 Million in Assets
IT-Electronic Banking (IT-Questionnaires Workbook)

Additional		Use?
IRR - Part A	OPT	
IRR - Part B	OPT	
IRR - Part C	OPT	
IRR - Part D	OPT	
Liquidity-Part A	OPT	
Liquidity-Part B	OPT	
Liquidity-Part C	OPT	
Third Party Relationships	OPT	
Foreclosure Procedures	OPT	
Credit CARD Act	OPT	
UIGEA Procedures	OPT	
NWRP	OPT	
ALLL Review	X	Y
COPPA	OPT	
Privacy	OPT	
OFAC	X	Y
FACT Act	OPT	
Ln - Controls	OPT	
Ln - General - IC	OPT	
Ln - Indirect Lending - IC	OPT	
Ln - Outsourced Lending - IC	OPT	
Ln - Debt Cancel-Susp - IC	OPT	
Ln - LOC - IC	OPT	
Ln - Leasing - IC	OPT	
Ln - Credit Cards - IC	OPT	
Ln - Dodd-Frank Act Mtg Rules	OPT	
Ln - Private Student Lending	OPT	
Ln - Real Estate - IC	OPT	
Ln - Home Equity-IC	OPT	
Ln - ARM - IC	OPT	
Ln - Agricultural -IC	OPT	
Ln - Construction -IC	OPT	
Ln - Collections - IC	OPT	
Ln - Sub-Prime Lending - IC	OPT	
Ln - Business Loans - IC	OPT	
Ln - Reg Z General	OPT	
Ln - Reg Z - Open End	OPT	
Ln - Reg Z - Closed End	OPT	
Ln - Reg Z - Variable Rate	OPT	
Ln - Reg Z - HELOCs	OPT	
Ln - Reg Z -Right of Rescission	OPT	
Ln - Reg B - Equal Credit	OPT	

Additional		Use?
Ln - Reg B - Real Estate	OPT	
Ln - Reg M - Leasing	OPT	
Ln - Credit Practices Rule	OPT	
Ln - Reg C- HMDA	OPT	
Ln - FHA	OPT	
Ln - HOPA	OPT	
Ln - RESPA	OPT	
Ln - Overdraft (Bounce)	OPT	
Ln - SBA - Part I	OPT	
Ln - SBA - Part II	OPT	
Ln - Participations	OPT	
Ln - Military Term Limits	OPT	
Ln - SCRA	OPT	
Inv - Controls	OPT	
Inv - Accounting Con	OPT	
Inv - Safekeeping, B-D, Inv Adv	OPT	
Inv - Securities Lending	OPT	
Inv - SBA	OPT	
Inv - Reverse Repo	OPT	
Inv - Repurchase	OPT	
Inv - Mutual Funds	OPT	
Inv - Fed Funds	OPT	
Inv - CDs	OPT	
Inv - Cash Forward	OPT	
Inv - Counter-Party Risk Part A	OPT	
Inv - Counter-Party Risk Part B	OPT	
Inv. IRPS 98-2	OPT	
Sh - Controls	OPT	
Sh - IC	OPT	
Sh - Share Drafts - IC	OPT	
Sh - Reg CC - Funds Avail	OPT	
Sh - Reg E - EFT	OPT	
Sh - Reg D - Reserve	OPT	
Sh -TISA - Truth in Savings	OPT	
Sh - Non-Maturity Shares	OPT	
SC - SC Audit	OPT	
SC - Internal Audit	OPT	
SC - CPA Opinion	OPT	
SC - CPA Non-Opinion	OPT	
IC - Financial Triggers	OPT	
IC - LOC	OPT	
IC - Cash	OPT	
IC - Management	X	Y
IC - Wire Transfers	OPT	
IC - MO, Travelers Cks	OPT	
IC - CUSO	OPT	
IC - ATM	OPT	
IC - ACH General	OPT	
IC - ACH RDFI	OPT	
IC - ACH ODFI - Moderate Risk	OPT	
IC - ACH ODFI - High Risk	OPT	
IC - Pmt Systems - FRB	OPT	
Red Flag Procedures	OPT	
Disaster Preparedness	OPT	
Physical Security	OPT	
Compliance Program	OPT	
Consumer Rpts Addr Procedures	OPT	
ID Theft Red Flag Procedures	OPT	
Remote Dep Capture Procedures	OPT	
IT - 748A Information Security	OPT	
IT - 748A Items Needed	OPT	