CU*ANSWERS

BLUE PRINT

Starting Your Own Auditing Department

2010

This document is an abstract of the full Audit Link Blue Print, designed for assisting credit unions with starting their own business. For the complete document, contact Esteban Camargo at 800.327.3478, extension 281.

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The Blue Print Concept

A word from Randy Karnes

In 2010 CU*Answers declared that it was going to work with credit unions to "Start Businesses in Our Network". It starts by creating the vision that "our network" is referring to all of the *participants*. The word community is getting a lot of use today, almost too much, but that is what our network is; a community of opportunity. A place where a million members do their business, where thousands of talented credit union professionals add their efforts, and a place where hundreds of organizations vest their operations. Our community is a business community rich with solutions, resources, and aspirations.

The issue is that those opportunities and solutions are not always perfectly matched within a single organization. Teams throughout the network find themselves daily in situations where they have excess capacity in one area, and real shortages in others. Any given member of one credit union might find that they are lacking a solution with their home credit union that might be served by one of the network's credit unions. Any given staff member might be thinking how much more they could offer if they could just do more with more credit unions. Somewhere within the network is a CEO wondering how to get more return on their investment in capacity and capabilities built into their team. There is the opportunity for a new kind of commerce in our network should the participants just formulize and extend themselves to each other. More than a desire to cooperate, more than an informal exchange of hope, more than a "we should do this effort" – we need to Start Businesses!

It might all start with a template? It might all start with a simple example of a business in motion? It might all pick up some speed with a couple of trusted resources? It might catch fire with the right Blue Prints!

To that end, CU*Answers has developed a series of Blue Prints related to our Network Business Units led by the Xtend Team. These blue prints are the beginning of several projects and have several expected outcomes or goals. First, to be the template for CU*Answer network participants to utilize in starting their own collaborative businesses within our community. Second, to enlist other companies in considering both the strengths and the weaknesses of our business designs so we can improve them, document the units and record the digital intelligence about what we do. Third, to start the creative competition within our community that will employ more people, offer more solutions, push for more innovation, and ultimately leave no opportunity unanswered no matter where it comes from or who answers the call.

So let's get to it – turn a template into a business. Launch a business to turn opportunity into a return for you and your members. Lift a network of participants beyond what any stand alone firm or player could do on their own.

Marketing Plan

Overview

The current demand by our clients has been growing during the last few years spurred by the increasing regulatory burdens placed on our clients. Marketing this service will be organic in nature and will be developed using a focus group as a spring board. The focus group is scheduled to meet in early January. The estimated participation is unknown at this time. Overall the need exists and partners are asking for the service. The bottom line will revolve around the pricing and the value statement we bring to the market place. Also, CU*NW is very committed as their Board of Directors has given Greg a green light to move ahead and hire a local resource. Dovetailing this initiative into theirs will be critical relative to the overall income potential.

The growth potential and opportunity for the first year will be dependent upon when the division hits the ground. The expectation is that a beta would exist for a period of two months during which time the processes associated with the service will be rounded out. Once we are out of beta we will be prepared to add four new clients a month.

As stated prior, the only barriers to the service offering will be price. The original review stag price will be difficult to change as it is anticipated to take almost a full week to complete this phase originally. However, the price associated with the periodic tasks may have some room for change dependent upon the resource requirements to complete them and training requirements to bring new people up to speed.

Product Features and Benefits

The main features from the credit union perspective include the following:

1. Provides a single focus to an area of credit union operations which is generally dispersed across many individuals

2. Provides credit union CEOs with a monthly executive summary of all audit activity with a high level overview describing the work performed. Accompanying this high level summary is a complete copy of all reports and member and staff activity reviewed

3. Creates a natural arms length review of the credit union member and staff transactional activity.

4. Provides extended resources for the credit union specific compliance related issues

5. Identifies additional training requirements for staff and provides those needs through the CU*Answers University curriculum

6. Allows the credit union to internalize the process using proven tools and techniques

Services Offered by Audit Link

The following page contains a list of tasks which Audit Link performs on a periodic basis. Many of these tasks revolve around BSA and insider related activities. In many instances these activities are spread across multiple employees in the credit union and lack a central audit focus. The value of allowing our team to monitor these activities is to centralize the focus and provide a consistent reporting methodology to the management team. Your organization may consider offering all of these services or just a few of them.

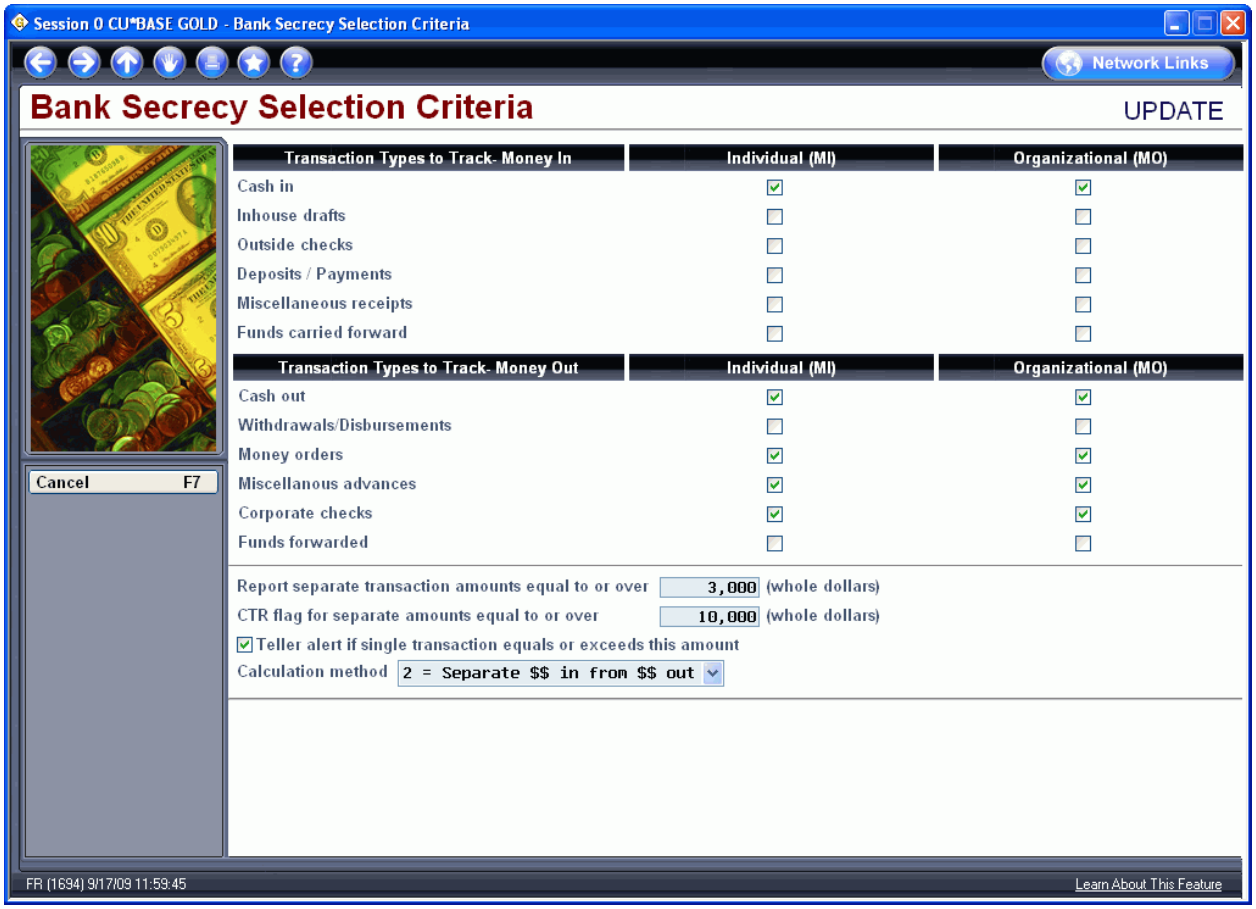
These activities include:

DAILY
✓ Review BSA reports and verify that the CTR's have been filed and are filled out correctly
✓ Review BSA Exempt status list and make recommendations for re-filing the annual exemptions
✓ Review Regulation D violation report and document violations on run sheet
✓ Review activity on dormant accounts and verify transactions
✓ Review file maintenance logs and document findings on run sheet
✓ Review wire transfer logs for activity and make recommendations for filing SAR's
✓ Transaction reversals involving cash or check on member accounts
✓ Stale dated check review with recommendations for action
WEEKLY
✓ Review wire transfer log and verify that all information is being maintained
✓ Review activity on employee accounts and report suspicious activity to Management
BI-WEEKLY
✓ Run BSA report for the prior week and search for evidence of structuring. Make recommendations for filing a SAR report
✓ Run OFAC report and do investigation on any hits

Before You Begin:

Before you begin, configure the General Configuration 1 Menu (MNCNFC) #14-Bank Secrecy Act Monitoring Cfg with the following settings as shown below so that your LBKSC3 is monitoring for the correct activity.

General Configuration 1 Menu (MNCNFC) #14-Bank Secrecy Act Monitoring Cfg



Audit Link Recommended Settings:

- Select Cash In, Cash Out, Money Orders, Miscellaneous Advances, and Corporate Checks for both Individual and Organization.
- Report separate transactions equal to or over $3,000
- CTR Flag for separate amount equal to or over, select $10,000 or $10,001
- Check “Teller alert if transaction equals or exceed this amount”
- Set Calculation Method to “Separate $$ *in* from $$ *out*”

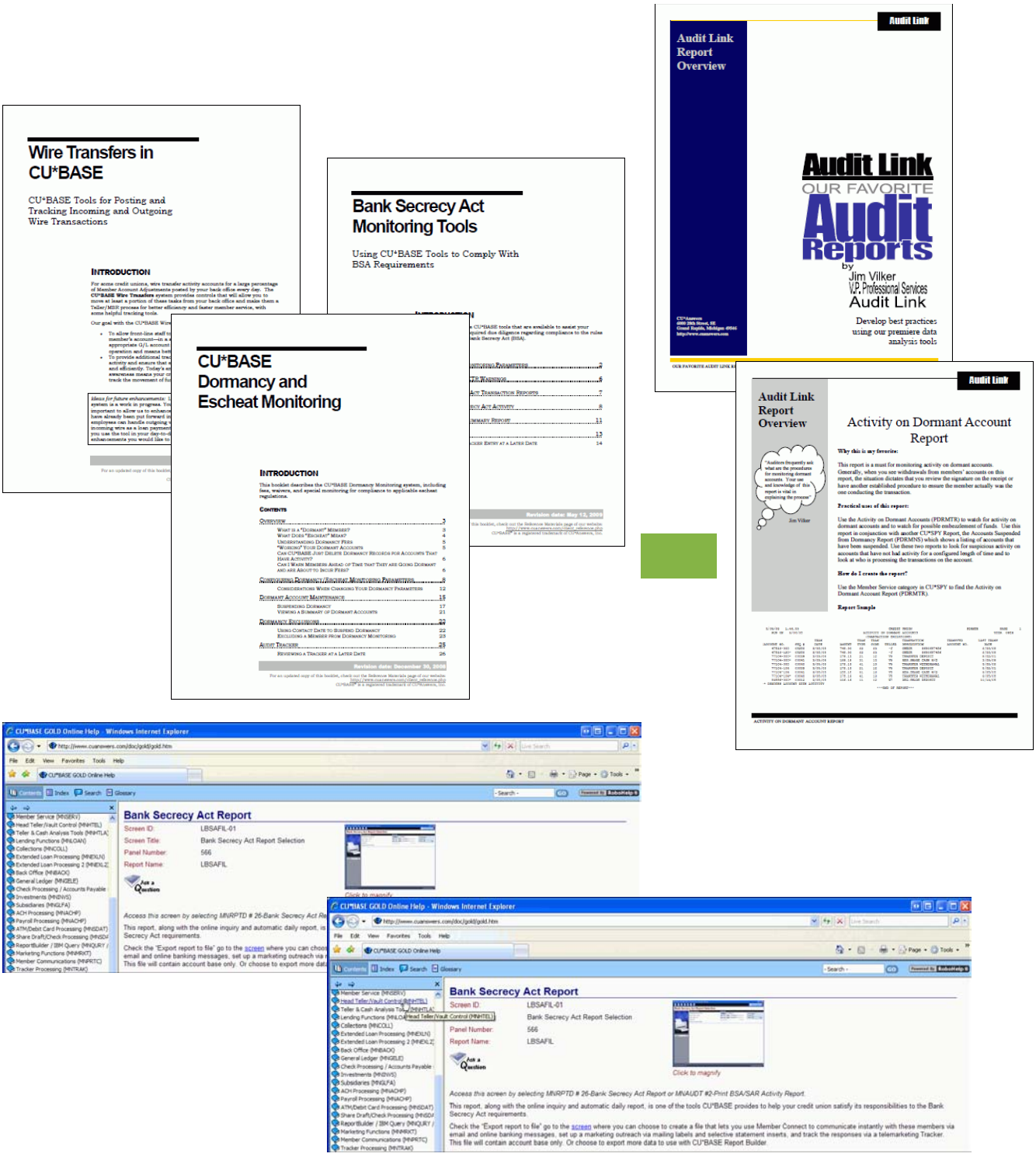
Reviewing the Work of your Auditing Team

Quality control and periodic reviews are an integral part of any solid auditing and compliance program for many reasons. This function is generally done by the supervisor of the auditing department. However, in cases where the department consists of only one person this function should be completed by another person in the credit union who is familiar with the reports, screens, and CU*BASE processes. The review process should be designed to assure upper management that processes are not being overlooked, are completed in a timely fashion, and the reviews have not become lackadaisical in nature (making assumptions that because they have seen something before, verified it to be ok, that seeing the same transaction sequence would yield the same result). Below is a list of tasks that should be completed by the party responsible for reviewing the work of the Auditing Team.

- Make sure verifications are being completed by using the Work Daily BSA Activity function (MNAUDT #1), and trackers are being updated with the results of the review
- Verify that CTR's and SAR's are being filed in a timely manner
- Pull all reports listed on the run sheet tasks and compare them to the run sheet findings
- Spot check the accounts that were suggested for review
- Randomly select a number of accounts for review not found on the run sheet
- Pull the BSA/SAR Activity Report (MNAUDT #2), look for structures and verify each structure was discovered
- Make sure dormancy is being updated and trackers have the follow up detail
- Use the Audit File Maintenance function (MNAUDT # 18) to spot check file maintenance fields are being listed on run sheet and determine if any critical fields are being overlooked. Review the process used to validate that the changes were properly documented and appear reasonable
- Review trackers to verify OFAC is being run and the trackers are being updated to report results of any research performed
- Review all suspense, settlement, and credit union member account for reconciliations. They should be balanced to zero each month and should not contain transactions which cannot be fully explained

Audit Link Documentation

Topics of interest to auditors or relating to auditing are posted on the CU*Answers website, including tools for using auditing reports and features in CU*BASE. CU*BASE Online help also provides screen level help on many CU*BASE auditing tools.



Getting to Know Your Credit Union

Understanding where we are today in our compliance and auditing function will create a great foundation for moving forward with a single vision regarding this vital area of the credit unions operational needs

AuditLink begins with an initial review of credit union policies, practices, and system configurations which address many regulations and internal best practices. This session is vital, as it sets the stage for the periodic work which will be the foundation for our audit team moving forward. This is a working session and requires preparation time as well as time spent with your management team in review of the credit unions existing policies and procedures. Based upon those findings, a portion of the time is dedicated to tweaking the system configurations and identifying where additional training may be required.

The list of areas which are reviewed is listed below:

- Regulation D monitoring and verifying that the proper transaction types have been coded.
- Review Regulation D accounts types and compare to the FR2900.
- BSA configurations and policies.
- Provide training to staff on BSA and internal policies regarding CIP.
- Review retention policies and procedures in accordance with BSA and make recommendations for change if necessary.
- TIS disclosures and compare to configurations on share and saving products. Reconfigure forms if necessary.
- Review denial notices for compliance with the Equal Credit Opportunity Act and follow up with loan staff on procedures for producing the notices.
- Review default Hold configurations and make recommendations regarding policy on Regulation CC, Expedited Funds Availability Act.
- Review configurations for statement generation and make recommendations in accordance with Regulation E, Electronic Funds Transfers.
- Review statement disclosures and make recommendations in accordance with Regulation E and Regulation Z, Truth in Lending.
- Review policies and procedures regardir
  for change and monitor annual disclosu

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