

# The Auditor's Report

## DID YOU KNOW?

According to First Data Systems, STAR Network, only direct and indirect processors are required to complete a TR-39 (formally TG-3) compliance audit. **Non-processing acquirers are not required** to complete the audit. If the audit requirements should change in the future, a STAR bulletin will be sent to notify all members and processors of the change.

## HOT

### OFF THE PRESS

At the NCUA's Board meeting on January 26th, the NCUA suggested in an Interpretive Ruling and Policy Statement that credit unions should be able to modify loans without having to immediately classify TDR loans as delinquent. Additionally, credit unions will not have to track each TDR loan's performance manually for six months, as is the current requirement. This IRPS could be final after the thirty day comment period.



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## FASB Conversion to the New Codification

The FASB Accounting Standards Codification is the source of authoritative Generally Accepted Accounting Principles (GAAP) recognized by the Financial Accounting Standards Board (FASB). The Codification is effective and all previous levels of US GAAP standards issued by a standard setter are superseded. As such, any reference to the old FASBs should be replaced by the new Codification in the Credit Union's policies and procedures. For example, if a Credit Union is making reference to items in their written investment policy under the old FASB 115, the Credit Union may want to consider using the following reference: "... **the provision under the codification 320-15-12 (formerly FASB 115)**...". These references will provide the reader of the Credit Union's policies and procedures with up-to-date information and a reference point to the current Codification.

Below is a sample of some of the FASB's we still see referenced in Credit Union's policies and procedures. We recommend the Credit Union examine their policies and procedures and update any reference made to the old FASBs. Please note that for a more detailed reference on a subject in your policy and/or procedure, we suggest that the Credit Union go into the Codification. The Codification reference below is for the general topic which is the starting point for that subject:

FASB (Old)	DESCRIPTION OF THE STANDARD	CODIFICATION (New)
FASB 5	Contingencies	450-10-05
FASB 15	Troubled Debt Restructuring by Creditors	320-40-15
FASB 91	Nonrefundable Fees and Costs	310-20-05
FASB 106	Compensation – Retirement Benefits	715-10-15
FASB 114	Accounting by Creditors for Impairment of a Loan	310-10-35
FASB 115	Investments- Debt and Equity Securities	320-15-15
FASB 133	Derivatives and Hedging	815-10-05
FASB 141 (R)	Business Combinations	805-10-05
FASB 144	Property, Plant and Equipment	360-10-05
FASB 157	Fair Value Measurements and Disclosures	820-10-05
FASB 158	Compensation – Retirement Benefits	715-30-35
FASB 159	Financial Instruments	825-10-10
FASB 166	Transfers and Servicing	860-10-40
EITF # 06-10	Split-Dollar Life Insurance Arrangements	715-60-05-13

For more information on the Codification and the Financial Accounting Standards Board, go to FASB website at [www.fasb.org](http://www.fasb.org).

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## http://

### INTERNET TRAVELS

Having trouble keeping track of all those passwords? In this day and age it seems everything requires a log-in and a password. Instead of writing all those usernames and passwords down on a sticky note or notes...get yourself a password manger. Check out [keepass.info](http://keepass.info) for free software that stores all your log-in info in an encrypted database on your own computer.

## Recommended Audit Areas for Committees and Internal Audit staff—Part II

In today's constantly changing environment, frauds, embezzlements, and dishonesty virtually affect each and every credit union. Because of the sophistication and ingenuity of individuals, fraud, embezzlements, and defalcations are on the rise. This is part two in series of articles that outlines testing the Supervisory/Audit Committees and Internal Auditors may want to consider. The regular review of specialized reports and areas is an important part of a credit union's internal control program. Reviewing specific reports can also serve as a fraud prevention tool in that employees may be deterred from fraudulent activity if they know these areas are reviewed on a regular basis.

The following is the second in a series that will list of areas that the Supervisory Committee and/or Internal Auditor may want to review as part of their overall plan.

### Loans Paid Ahead 2-months and Greater:

The objective of reviewing a "Loans Paid Ahead Report" is to ensure the next payment due date for these loans is correctly stated and in accordance with the specific terms of the loan note for each loan type. This computer generated report is usually requested to indicate all loans with a next payment due date two months or more into the future.

Testing of the loans paid ahead report includes, but is not limited to, the following:

- Payments made by the member, which are greater than their scheduled payment.
- The member made extra payments.
- Deficiency balance not charged off on a previously charged-off loan (i.e. automobile).
- Advancing the due date of the loan.
- Computer errors or input problems.
- Possible fraud.

It is suggested that the "Loans Paid Ahead Report" be periodically reviewed to detect any unusual next payment due dates. Additionally, if it is the intention of the Board of Directors to allow loans to be paid in advance, which contradicts the terms of the loan documents; this should also be conveyed in the written loan policy.

### Review of Loan Rates

Interest rates for loans should be equivalent to the original terms on the loan agreement between the member and the Credit Union. However, interest rates on loans could be different from the original terms on the loan agreement due to many rea-

sons. Testing of unusual loan rates includes, but is not limited to, a review in the following areas:

- Ensure that the loan rates are rates offered by the Credit Union and approved by the Board of Directors.
- Ensure that the loan rates do not exceed the rates allowed by your State.
- Ensure that the rates of individual accounts tested correspond to the rate approved by the Credit Union and the member.

Because of the various potential problems, the area verifying the interest rates of loans should be tested on a periodic basis to ensure the information is correct and pursuant to the intended loan interest rate.

### Cash Count Reviews

Because of the very nature of cash and cash equivalents, this area of credit union operations is usually considered an area that requires good internal controls and careful monitoring. If the Supervisory Committee does not have the time to conduct a cash count, they can still be active by reviewing the cash counts performed by Management throughout the year.

Testing of cash count sheets includes, but is not limited to, a review in the following areas:

- Ensure that the cash count sheets were signed by both the teller and the individual conducting the cash count.
- Ensure that the total cash does not exceed the maximum allowed by the Credit Union's cash policy.
- Ensure the total cash per drawer and vault are reflected in that day's general ledger.
- Ensure that the bait money is traced back to the bait money control list.

The review cash counts sheets should be conducted throughout the year and should cover all branches and, if possible, all tellers. These reviews could be on a "spot basis" and may cover all and/or a sample of tellers.

Stay tuned for the next installment of The Auditor's Report where we will discuss the review of account reconciliations, employee and official account and credit card statement reviews, and charged off loans approved by the Board.

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## ABOUT US

Since 1979, Nearman, Maynard, Vallez, CPAs has provided auditing and consulting services exclusively to credit unions throughout the United States. Our dedication to credit unions has given us the unique ability to provide exceptional service at a reasonable price. Our primary objective is to assist our clients in accomplishing their goals through our experience, service, & commitment. If your Supervisory/ Audit Committee or Management is interested in obtaining information on the subjects in this issue or about our many services, call or email us today.

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