

The Auditor's Report



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Return Rates Rule!

Recent changes in the National Automated Clearing House Association (NACHA) "ACH Network Risk and Enforcement Rules" addresses improvements in ACH network quality by reducing the incidents of debit return entries. One of the changes is designed to help reduce return rates by require organizations to begin to monitor their return rates.

In the recent rule changes, effective September 18, 2015, the unauthorized debit entries (Return Reason Codes R05, R07, R10, R29 and R51) threshold per originator was reduced from 1.0% to 0.5%. Just like in the current rules, when an originator has exceeded the authorization threshold, NACHA will contact the originating depository financial institution (ODFI) and require a plan to reduce the unauthorized return rate below the threshold for at least 180 days.

Ongoing monitoring of your returns and return rates will help to ensure your credit union's compliance with the NACHA Rules.

Return levels – administrative and overall. Originator's administrative return rate should not exceed 3% of administrative or account error returns (R02, R03 and R04) or 15% of the total entries originated (excluding RCK entries). NACHA will have the ability to begin an eight-step review process of that originator. Return rates above these levels may trigger a NACHA evaluation but, may not result in a rules violation or a rules enforcement proceeding.

We recommend every credit union review the unauthorized, administrative and overall debit return entries and return rates. Ongoing monitoring of your returns and return rates will help to ensure your credit union's compliance with the NACHA Rules.

*Cindy C. Rojas
Senior Internal Auditor*



File Upload Changes

To simplify the file sharing process, we have updated the way we use our file sharing site (ShareFile). First a little background for those of you not familiar with ShareFile.

ShareFile is a secure file sharing site where our clients can upload confidential information rather than sending that information through email. All communications between ShareFile and the user are encrypted using the SSL/TLS protocols. This is the same functionality used by banks and popular e-commerce services for secure communication. ShareFile's computer network is also subject to daily security audits by a third-party security monitoring firm. All information is deleted once it is retrieved and placed on our secure internal server. You can be assured your information is safe.

The biggest change our clients will see is that each annual audit client has been assigned their own unique link. With this unique link, all files will be uploaded to a folder assigned to their credit union. Using the one folder should eliminate duplicate requests from our auditors.

The other change we instituted was the removal the File Drop page from our website. We felt the page was not useful anymore given the fact that only five files could be uploaded at a time and the file drop was proving to be confusing since annual audit files uploaded from our

website went to the individual auditor's folder rather than the credit union's folder.

However, if our firm performs internal audit or compliance work for your credit union, we will request file uploads via an email link directly from your auditor. These files will go directly to your auditor's folder, therefore keeping the files separate from any annual audit files.

We hope with these changes to the file uploading process it will make it a more efficient process. As always, if anyone has any questions or issues uploading files, please contact me (see contact information below). You can also send an email to info@nearman.com with the type of audit you are uploading files for in the subject line and we will send you a link directly to upload your files.

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Happy Holidays

May the magic and the wonder of the holiday season stay with you throughout the coming year!

Please take note of our 2015 holiday hours:

For Thanksgiving our firm's offices will be closed Thursday, November 26th and Friday, November 27th.

In addition, our offices will be closed Thursday, December 24th through Friday, January, 1st for the Christmas and New Year holidays.

Our offices will re-open on Monday, January 4th.



**Nearman
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Certified Public Accountants

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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2015 AICPA Credit Union Conference Recap

This year the American Institute of Certified Public Accountants (AICPA) held their Annual Credit Union Conference in Austin, Texas. Austin was a great location! The hotel was a quick walk to great music and fine food. Attendees included over 400 folks on location and another 80 participating over the internet. The AICPA's Credit Union Conference focuses on CFOs, practitioners, and credit union volunteers looking for educational sessions and an opportunity to network with their peers. The objective of this conference is to enhance the technical knowledge of those in attendance and I believe we met this objective.

Session topics included a detailed look at the Financial Accounting Standards Board (FASB) proposal to changing the allow-



ance for loan losses (ALL) methodology. The proposed "Current Expected Credit Losses" (CECL) model, could result in a significant increase to all allowance for loan loss reserves and increase the complexity of the calculation. This issue will continue to be on the agenda as we expect a final rule in 2016 with an implementation date of early 2020.

Next year's conference will be October 24th – 26th at the Hilton Orlando Bonnet Creek in Orlando, Florida. Please join us in 2016 for another excellent conference.

*Chris Vallez, CPA, MBA, CICA
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Certificates 101

When looking for a safe, and relatively short investment, many financial institutions turn to certificates of deposits (certificates). There are many types of certificates of deposits. Traditional, high-yield, and negotiable are all options for the credit union. However, one of the biggest and perhaps most important differences among them is whether a certificate of deposit can be sold on the secondary market. These certificates of deposits are referred to as negotiable or marketable certificates. They were first issued back in 1961 by the First National City Bank of New York as a way for banks to raise cash easily. Now they are widely well-known and highly desirable.

There are three main ways to distinguish a marketable certificate from a non-negotiable one. Certificates that can be sold on the secondary market can be identified by a CUSIP number or a nine-character alphanumeric code that identifies a North American financial security for the purpose of facilitating clearing and settlement of trades. Additionally, a fair market value is provided for it. Fair market value is an estimate of the value a knowledgeable, willing, and unpressured buyer would pay for an item. Thirdly, negotiable certificates are usually purchased through

a broker rather than directly from the financial institution. If a certificates meets this criteria, it's safe to say that it is a negotiable certificate.



Depending on the intentions of the financial institution with these certificates, the accounting for it varies. These investments can be classified as held to maturity if the intentions are to hold them until they mature. If those are not the intentions, then they can be classified as available for sale. When classified as held to maturity they are carried on the books at book value. When they are classified as available for sale they are carried at fair market value with an adjustment to other comprehensive income for the unrealized gains/losses. Whether accounted for as held to maturity or available for sale, it is very important for the financial institution to account for them correctly as it can make a material difference on the financial statements.

*Zulines Cruz,
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