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**The Changing Scope and Responsibilities of the Supervisory Committee**

Part I in a Two-Part Series

By Michael Daigneault, Esq.

"The beginning of the 21st century has brought with it some major changes to what had been established financial auditing standards and practices." Conversations with credit union leaders, supervisory committee experts and experienced auditors suggest that we live in an era in which the practices of credit union supervisory committees are shifting.

Supervisory committees play a vital role in ensuring a credit union's financial integrity. The supervisory committee traditionally ensures that the credit union's required annual audit has been conducted properly by an independent CPA firm or, in the case of some credit unions, conducts the audit itself. The committee also works with internal audit or other credit union staff to help foster an effective and accountable system of internal audits and controls. But the modern supervisory committee has real responsibilities beyond internal and external audits. Our experience is that how the scope of those additional responsibilities is defined, understood and executed varies greatly. These differences highlight a number of important questions:

How has the scope of a supervisory committee's duties changed in recent years?

What is the role of a supervisory committee in helping to ensure operational integrity?

What is the task of the supervisory committee in helping to comprehend and calibrate risks?

What is the responsibility of a supervisory committee concerning governance?

**A Shifting "Audit" Paradigm**

In the larger world of corporate governance, many changes have taken place for audit committees. Indeed, the Sarbanes-Oxley Act ushered in a whole new era for audit committees. Its real impact is that it has created a heightened sense of responsibility for the corporate audit committee. An audit committee's new responsibilities include having one or more "financial experts" on the committee, instituting a code of conduct for corporate executives, ensuring a functioning whistleblower function for the corporation, supervising a formal assessment of internal controls and risks, signing off on any additional work being done by their auditor to ensure independence.

There are some important parallels between corporate audit committees ("audit committees") and credit union supervisory committees. Although elements of an audit committee's responsibilities are different than that of the typical supervisory committee, financial professionals have begun to freely cross-fertilize emerging corporate practices with the work of many supervisory committees. That this is happening is not altogether surprising. As new "best practices" emerge they are often adopted even without regulations or new legislation. Bottom-line -- we have observed that as a typical audit

committee's roles and responsibilities have grown, so have the roles and responsibilities of some - but not all - supervisory committees.

This has created some real dichotomies in how supervisory committees are carrying out what they believe to be their essential duties. Some supervisory committees have stayed very close to their traditional functions and (consciously or unconsciously) taken a more cautious route concerning changes to their scope and functions. Supervisory committees on the other end of the spectrum have taken a much more dynamic approach, and have begun to actively evolve their audit philosophy and practices to reflect the types of changes taking place in the corporate audit community.

### **Emerging Supervisory Committee Best Practices**

We recently talked with a number of credit union experts and leaders to ask them about supervisory committees' present-day responsibilities. They universally noted that supervisory committee members' jobs are no longer done once they've reviewed the internal audit plan and presented the annual audit report to the board. Indeed, the response was that work of a federal credit union's supervisory committee has taken on new importance - as well as new features. Among them is an enhanced understanding of the supervisory committee's role in reviewing - and helping to mitigate - organizational risks. In addition, many supervisory committees have begun to develop a keener appreciation of the role of strategy in exposing their credit union to risk.

"The spotlight is really on Supervisory Committees these days" according to Bob Spindler, the Executive Director of NACUSAC. He also noted that the scope of his NACUSAC members' typical supervisory committee activities has broadened in recent years and that increasingly supervisory committees are looking for a variety of "red flags" beyond traditional audit issues such as identity theft, risks, ethics, third party vendor relationships, compliance, etc.

This has caused the role of many traditional supervisory committees to enlarge and expand their efforts to take on these new challenges. Those new challenges will be explored in Part II of this article.

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### **Two Members Honored for Their Service**

San Diego, CA--During NACUSAC's 2009 Annual Conference, two prestigious awards were presented in front of an audience of committee members and internal auditors from across the country.

Curtis Parkerson, a retired member of the supervisory committee at PrimeWay Federal Credit Union headquartered in Houston, Texas, was honored with NACUSAC's 2009 Golden Service Award, which recognizes a supervisory committee member who stands out as an example of the significant contribution a volunteer can make to their credit

union. Parkerson was commended for his "years of dedicated service to his credit union" by NACUSAC Chairman and PrimeWay Supervisory Committee Chairman Robert Butler. Since 1984, Parkerson has been a volunteer official of the credit union, serving on both the Board of Directors and Supervisory Committee. He also served as a director on the NACUSAC Board of Directors.

The second award was presented to LarsonAllen LLP for NACUSAC's 2009 Associate Member of the Year. On hand to accept the award was Randy Romes, Principal of LarsonAllen Information Security Services. LarsonAllen LLP was selected based on their dedication and extensive knowledge in helping credit unions with their information security needs. Through their participation in NACUSAC's educational programs, they have provided valuable information and training to supervisory/auditing committees and internal auditors of credit unions nationwide.

### **Four Graduate from NACUSAC U!**

San Diego, CA--In front of an audience of supervisory and committee members from across the country, the third graduating class of NACUSAC University was honored during a graduation luncheon. The ceremony took place on June 19 during the NACUSAC's 2009 Annual Conference & Exposition.

The following supervisory/auditing committee members are now graduates:

Bobbie Deegan, Fairfax County FCU (Fairfax, VA)

Lyn DeLoach, Florida Telco CU (Jacksonville, FL)

Gerry Dunning, Caltech EFCU (La Canada Flintridge, CA) & Partners FCU (Burbank, CA)

W. Cecil Short, Educational Systems FCU, (Greenbelt, MD)

### **Officers Elected for 2009-2010 Term**

San Diego, CA--At the NACUSAC 2009 Annual Business Meeting on June 19, the association held an election to fill three vacant seats on the Board of Directors.

Incumbents Cecil Short, Supervisory Committee Chairman, Educational Systems FCU (MD), and Michael MacFeeters, Examining Committee Member, CU of New Jersey (NJ), were reelected to three-year terms. William Stauder, Supervisory Committee Member, Vacationland FCU (OH), was also elected to a three-year term. In a separate action, Michael Buecher, Supervisory Committee Chairman, Air Force FCU (TX), was appointed to the Board to fill an unexpired term.

In a subsequent reorganization meeting, the Executive Committee was selected as follows:

Bob Butler, Chairman

Gerald Dunning, Vice Chairman

Cecil Short, Secretary

Michael MacFeeters, Treasurer

Tom Suter, Director

The other members of the Board include:

Michael Buecher, Director  
Maureen McCabe, Director  
William Stauder, Director  
Linda Treml, Director