

**POPULAR SEMINAR
ADDRESSES 2009
CHALLENGES**

NACUSAC®

**Fall
2008**

A recent phone seminar presented by Dan Moulton and Hugh Chakler, both partners with Orth, Chakler, Murnane & Company, went into overtime. The economy has brought up so many new challenges for credit unions that the hour wasn't enough time to cover what supervisory/audit committees should be looking out for in 2009.

Over 70 supervisory committee members and internal auditors from across the country dialed in to this popular seminar entitled "Stepping Up During Tough Times," which took place on December 4. Lending, investments and fraud were the focus of the information-packed presentation.

"When a bank or credit union fails the first thing people ask is, where were the auditors?" Moulton told the group in his opening comments. To do its part in avoiding this scenario, Moulton recommends these simple strategies for the supervisory committee:

- Step up your committee's profile. The public wants to know the committee is fulfilling its responsibilities.
- Perform due diligence by keeping accurate records of each committee meeting
- Stay well informed of board and management activities, preferably by attending board meetings
- Rely on outside assistance from consultants and auditors when appropriate

Lending concerns rise to the top

"Understand the entire loan portfolio that's on the books," Moulton recommends. As delinquency rates rise, the areas we are most focused on are sub-prime loans, business lending and real estate. Even if you're not in California or Florida, where the housing market has been hit the hardest, pay particular attention to how these loans are handled. It's important to remember that not all real estate loans are created equal. First mortgages, second mortgages and HELOC (home equity lines of credit) each have a different set of risks.

Next, Moulton spent some time talking about the Allowance for Loan and Lease Losses (ALLL). "The ALLL has become the number one accounting estimation for credit unions, but it's also the most difficult to get right, especially now." Typically, credit unions rely on historical data to estimate the ALLL. In a troubled economy, that no longer

A quarterly
newsletter for
members of the
National
Association of
Credit Union
Supervisory &
Auditing
Committees

Inside this issue . . .

NACUSAC heads to San Diego

Do Boards have the right to Committee notes?

New members welcomed

Dues statements on the way

POPULAR SEMINAR (FROM PAGE 1)

works. Moulton suggests working with your internal auditor to formulate a policy for estimating the ALLL. New methodology should take into account both current and imminent losses, not just historical losses.

The increase in Troubled Debt Restructuring (TDR) is another sign of the times. As more members find it difficult to make their loan payments, they ask the credit union for help. Moulton cautions, "It may be tempting to rewrite loans in order to bring them current, however this can be problematic for the credit union." Regulations mandate that any debt restructuring for credit reasons must be shown on the books as delinquent until the member has made six consecutive payments. In effect, you need a second set of books to account for the delinquency even if an arrangement has been made with the member.

Keep an eye on investments

Seminar co-presenter Hugh Chakler recommended committees examine these key areas when evaluating their credit union's investment portfolio:

- Types of investments made
- Liquidity
- Credit risk
- Concentration risk
- Ability to measure fair value

Also, pay particular attention to how your pension and deferred compensation plans are invested. If they are heavily concentrated in equity securities, which carry higher risk, that's a red flag.

Fraud on the rise

Moulton cited, "Credit unions and banks suffer the second highest industry losses as a result of fraud." He also noted that "almost half the frauds are detected by a tip from an employee, member, vendor or other source." A good whistle-blower program will provide a means for members and staff to report fraud. Indirect lending is another area to watch closely. To get loans through, car dealerships are falsifying information on applications.

Time ran out before Moulton could delve into capital adequacy considerations. However, he will be on hand in San Diego at NACUSAC's 2009 Annual Conference to provide an update on these issues. If you missed the seminar, audio-CDs are available for purchase by emailing nacusac@nacusac.org.



NACUSAC TRAVELS TO SUNNY SAN DIEGO IN 2009

Make plans to join NACUSAC in San Diego for its 2009 Annual Conference & Exposition, June 17-20. San Diego, California's second largest city, boasts 70 miles of beaches and an ideal Mediterranean climate.

Our host hotel, the Hilton San Diego Bayfront, is the West Coast's newest waterfront property. Located in Downtown San Diego, the Hilton has bay and city views from every spacious sleeping room. This state-of-the-art luxury hotel combines modern amenities with the casual, relaxed atmosphere San Diego is known for. NACUSAC has negotiated a special room rate at the Hilton of \$249 a night.

It's just a few blocks from the hotel to the Gaslamp Quarter with over 100 dining establishments, including steakhouses, eclectic ethnic fare, dinner clubs and cozy jazz bars. Or, take the ferry across San Diego Bay to Coronado Island with its miles of sunny beaches and quaint village setting.

Downtown San Diego is minutes from attractions like Balboa Park, the nation's largest urban cultural park and home to 15 major museums and renowned arts venues. Millions of visitors come every year to experience San Diego's theme parks including the world-famous San Diego Zoo, SeaWorld, the San Diego Zoo's Wild Animal Park and LEGOLAND California.

The location will only be matched by the exceptional educational and networking program designed for supervisory committees and internal audit staff. Watch your inbox for program details in early 2009, and visit us online at www.nacusac.org.

ASK THE TRAINER ABOUT . . . BOARD ACCESS TO SC NOTES

This is a second in an occasional series where NACUSAC members pose a question to Dan Clark, president of Dan Clark Associates and presenter at NACUSAC's one-day Training Seminar for New Supervisory and Auditing Committee Members.

Q: Does the Board have the right to review Supervisory/Audit Committee (SAC) meeting notes, and can the Board request to be copied on monthly minutes or access them at their request?

A: The quick answer is "no." The Board does not have the right to review the SAC's notes. And, "yes," the Board can request the SAC provide a copy of its minutes. The answer really depends on why the Board wants these items. Some considerations are:

- The Board, having the general management duty for the enterprise has a legal right to see items related to the operation. Moral and practical rights may vary based on the Board's intent. The accessibility is operational and the SAC occupies a special place that is not a part of operations. The Board's desire to see the minutes, to have access to the work papers, begs the question, what is the Board's interest in seeing the SAC's work? Precedence is found in the Board/CPA relationship; the Board who pays for the opinion audit will not be given access to the auditors' work papers. The purpose of the independent and Committee audits is related to protecting the owners, the members.
- The SAC, being independent by charter and by necessity, should have records confidential to its practice. While subordinate to the Board in the organization chart, once elected or appointed, the SAC is independent of the Board. If the SAC's records are open to the Board, it cannot be expected to do an effective job.
- Part of the SAC's duties includes reviewing the Board's work. Access by the Board to the Committee's notes may have a dampening effect on that work. Is it the Board's intent to discover and head off a negative finding about the Board, or a director?
- Why does the Board want access to the SAC's notes? Is it that,

- The Board as a whole believes the SAC has overstepped its bounds? What does the Board expect to find in the notes that the SAC will not talk about? Does it have complaints about the SAC? Why can't the Board deal with the SAC's performance issues without accessing its notes?
- The Board is on a witch hunt to find out something about individuals the SAC may be auditing?
- The Board fears the SAC may be building a case against it, or some of its members?
- If the Board appoints SAC members, they can replace members who they believe will comply with the SAC's responsibilities.
- The Board can wait for the SAC's report(s) and refute any errors to set the record straight.
- If the Board has evidence that the SAC is violating its authority or responsibility under the Bylaws, laws, or regulations, the Board can call on the Regulator for a special examination.

In summary, if a board is pressuring the SAC for these papers, it raises more questions about a board's intentions than the SAC's performance.

The information contained in this article does not represent a legal opinion.

NACUSAC NEWSBRIEFS

✓ **NACUSAC welcomes new associate member** Turner, Warren, Hwang & Conrad, CPAs is NACUSAC's newest associate member. The California-based firm provides audit consulting services.

✓ **Amplify Federal Credit Union of Austin joins** NACUSAC is pleased to welcome Amplify's supervisory committee Kenneth Cargill (Chairman), Jennifer Chalmers, Louise Hrcir, Michael Parker and Michelle Schwalbach.

✓ **Watch your mail for 2009 dues invoices** During these tough economic times it's critical that supervisory/audit committees use every resource available to help them succeed. That's where NACUSAC can help. Be sure your credit union renews its 2009 member dues. Our dues are still a bargain at \$400 for the entire committee and internal audit staff.

MISSION STATEMENT

NACUSAC's mission is to provide leadership, support and education to enhance the capability of credit union supervisory and auditing committee members to fulfill their responsibilities.

PROGRAMS/SERVICES

Annual Conference & Expo
Telephone Seminars
NACUSAC University
CPE Recognition
NACUSAC News
Select One
nacusacNetwork

HEADQUARTERS

P.O. Box 160
Del Mar, CA 92014-0160
Toll-Free: (800) 287-5949
Voice: (858) 792-3883
Fax: (858) 792-3884
E-Mail: nacusac@nacusac.org
Website: www.nacusac.org

NASBA

NACUSAC is registered with the National Association of State Boards of Accountancy (NASBA), as a sponsor of continuing professional education on the National Registry of CPE Sponsors. State boards of accountancy have final authority on the acceptance of individual courses for CPE credit. Complaints regarding registered sponsors may be addressed to NASBA, 150 Fourth Ave. North, Ste. 700, Nashville, TN 37219-2417. www.nasba.org

BOARD OF DIRECTORS

Chairman
Robert T. Butler
PrimeWay Federal CU (TX)
(936) 273-4367
rtb2046@yahoo.com

Vice Chairman
Gerry Dunning
Caltech Emp. Federal CU (CA)
(714) 560-5875
carealtorgerry@aol.com

Secretary
W. Cecil Short
Educational Systems FCU (MD)
(301) 934-2382
wccil@hughes.net

Treasurer
Michael J. MacFeeters
Credit Union of New Jersey (NJ)
(609) 538-4061 Ext. 227
bookkeeper@aol.com

Joseph A. Guagliardo
Municipal CU (NY)
(718) 513-4579
jguagliardo@nymcu.org

Maureen McCabe
Fairwinds Credit Union (FL)
(407) 644-6321
maureenmccabe@yahoo.com

Lynn Sartor
Vacationland Federal CU (OH)
(419) 625-6318
lynnsartor@bex.net

Tom Suter
Wescom Credit Union (CA)
(818) 248-5581
ts2561@pacbell.net

Linda Trembl
First Florida Credit Union (FL)
(850) 893-1918
lindatrembl@ymail.com

REGIONAL DIRECTORS

Region 1
Connecticut, Maine, Massachusetts, Michigan, New Hampshire, New York, Rhode Island, Vermont
Arthur Leibowitz
USAlliance Federal CU (NY)
(914) 779-0341
aleibowitz@usalliance.org

Region 2
Delaware, District of Columbia, Maryland, New Jersey, Pennsylvania, Virginia, West Virginia
Bobbie Deegan
Fairfax County Federal CU (VA)
(703) 324-3323
Bobbie.Deegan@fairfaxcounty.gov

Region 3
Alabama, Florida, Georgia, Indiana, Kentucky, Mississippi, North Carolina, Ohio, Puerto Rico, South Carolina, Tennessee, U.S. Virgin Islands
Lyn DeLoach
Florida Telco Credit Union (FL)
(904) 384-2222
lyn@cwa3106.org

Region 4
Arkansas, Illinois, Iowa, Kansas, Louisiana, Minnesota, Missouri, Nebraska, North Dakota, Oklahoma, South Dakota, Texas, Wisconsin
Michael Buecher
Air Force Federal CU (TX)
(210) 678-5221
buecher@yahoo.com

Region 5
Alaska, Arizona, California, Colorado, Guam, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming
Denise Castillon
SafeAmerica Credit Union (CA)
(925) 734-4111
dcastillon@earthlink.net

PRSRST STD
U S POSTAGE
PAID
SAN DIEGO CA
PERMIT # 3013

NATIONAL ASSOCIATION OF CREDIT UNION
SUPERVISORY & AUDITING COMMITTEES
POST OFFICE BOX 160
DEL MAR, CA 92014-0160