

**MASTER FRAUDSTER TO
DELIVER KEYNOTE IN
SAN DIEGO**

NACUSAC

Spring
2009

Have you ever wondered why so many fraud cases go undetected for so long? And, when the scheme is finally uncovered the theft is so immense and the evidence so glaring, it's hard to imagine how it could have been overlooked. Mark Morze knows intimately how this can happen. He has the dubious distinction of having perpetrated one of the most brazen, largest financial frauds of the 1980s.

While the 1980s may seem like ancient history to many, and his \$100 million fraud minuscule in comparison to Madoff's \$65 billion Ponze Scheme, it nevertheless left criminal devastation that took prosecutors, regulators and judges years to sort out.

Morze spent 53 months in federal prison for his role in the Zzzz Best Carpet Cleaning fraud. As president of Zzzz Best's fraudulent insurance/construction division, he generated more than 10,000 bogus documents that created \$300 million in fictitious reconstruction projects. Major banks were duped into making large loans to the phony Zzzz Best operation and individual investors lost millions of dollars, as did others who bet heavily on a disastrous IPO.

Mark is still baffled by the ease with which he was able to carry out his fraud without arousing suspicion from one of the country's top accounting firms. Had the auditors asked, and insisted on, answers to at least some of the following questions, says Morze, he and his coconspirators may have been caught before the fraud got as large as it did.

To help others avoid making similar, costly mistakes, he will share a list of questions that were never asked by auditors with attendees at NACUSAC's 2009 Annual Conference and Exposition, June 17-20 at the new Hilton San Diego Bayfront Hotel.

While many of the unasked questions were unique to the Zzzz Best case, many apply to any client of any competent accounting firm. Here are just a few of the many questions that went unanswered and allowed the Zzzz Best fraud to continue:

- Why did the auditors only get copies, never original documents?
- Why were financial documents never available when requested?
- Why was there no internal auditor within the company to facilitate document production?
- Why aren't any of the vendors in the Yellow Pages?
- Why were there no addresses on work invoices?

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Mark

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

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“CLOUD COMPUTING” AND WHY IT MEANS TO YOUR COMMITTEE

By Tom DeSot

Much attention has recently been given to “cloud computing” or “computing in the cloud”, but what is it and how does it affect your credit union? Or, most importantly, why should you care?

Cloud computing defined

Wikipedia gives the following definition for cloud computing: “[It] is a style of computing in which dynamically scalable and often virtualized resources are provided as a service over the Internet. Users need not have knowledge of, expertise in, or control over the technology infrastructure in the “cloud” that supports them.” When put into perspective, what does this really mean to the average computer user or average company looking to harness cloud computing to reduce costs or improve efficiencies?

Examples of cloud computing

If you have ever used Microsoft Office Live, Mosso by Rackspace, S3 by Amazon, or even Google Maps, then you have utilized cloud computing. Even though all of these services differ in what they primarily offer, (e.g. Office Live offers online access to the full Office suite, while Amazon offers virtualized storage) they all have one thing in common: they do not employ your computer in document processing or storing. All of the computing power resides—you guessed it—in the “cloud”.

Neat . . . so what is the “cloud?”

In essence, “the cloud” is nothing more than a common name for computing platforms interconnected by a private network, the Internet, or both. This connectivity allows you (or your company) to harness the power of these computing platforms and pay only for what you use. This is the real power of “cloud computing”—the cost advantage. Since you are not purchasing, installing, and maintaining the computing platforms or any associated software, you have the advantage of leveraging the cloud’s functionality without the problems associated with maintenance of the systems being used. As an example, imagine being able to back up all of your key servers without ever having to buy another disk drive, tape, or DVD. Instead, everything is backed up to the cloud and available to you, 24/7/365, from almost anywhere. Sounds great, right? Well, it is; but as with anything, the devil is in the details.

What is the downside?

As stated earlier, distinct cost and functionality advantages are associated with utilizing computing

systems managed and maintained by a third party. However, these advantages do have their price.

Let us revisit the previous examples of using “cloud computing” for backup storage and disaster recovery. What if, after using the cloud to store your backups, you experience a disaster and, when beginning the recovery process, find the service provider is down or otherwise unavailable? Or, what if you assumed your data was secure at the storage provider, only to find out the fine print indicated it was your responsibility to encrypt your data prior to transmission and storage? GLBA violation, anyone?

It is all in the details

If using “the cloud” is of interest to your credit union, there are some key areas your committee should familiarize itself with to ensure the greatest benefit and least amount of risk. Some examples are:

- What service level agreements (SLA) are in place to ensure the service is available when and where you need it?
- If you are storing data with the provider, what safeguards are in place to protect your data?
- What experience level does the cloud provider have delivering the type of service you are contracting for?
- Where is your data being stored in the cloud? Is any of it stored overseas or outside the U.S.?
- Who has access to your data? Is your data being backed up in a secure fashion to ensure it is where you need it to be?

Tom DeSot is Executive Vice President and Chief Compliance Officer of Digital Defense, Inc. He is a featured speaker at this year’s NACUSAC Conference & Expo.

MASTER FRAUDSTER (FROM PAGE 1)

- Why did the company waste \$2 million on equipment it could have rented for 90% less?
- Could the auditors speak with a few of the company’s vendors and subcontractors and if not, why not?
- Could the auditors have a tour of one or two of the company’s other facilities?

Morze will cover this and more during the only educational conference especially for supervisory and auditing committee members. Attendees should come away from this dynamic keynote session with more aids to help perform accurate and effective audits that detect fraud early in the game.

THREE DIRECTORS' TERMS EXPIRE AT ANNUAL MEETING

On June 20, 2009, two incumbents and one candidate are expected to be elected by an acclamation vote during NACUSAC's 2009 Annual Business Meeting. Here are brief biographies for each:

MICHAEL MacFEETERS

NACUSAC Director since 2001

In 1998, Michael J. MacFeeters was appointed chairman of the Examining Committee of the Credit Union of New Jersey, in Ewing, New Jersey. He is currently a NACUSAC board member.

MacFeeters, a financial analyst in the New Jersey Department of Transportation, Office of the Director of Accounting and Auditing, is a certified public accountant. He is the recipient of AICPA Certificate of Educational Achievement in Governmental Accounting and Auditing. In 2002 and 2006, he was recognized with a State of New Jersey Public Service Recognition Award for professional achievement.

W. CECIL SHORT

NACUSAC Director since 2003

Since 1980, Cecil Short has served as chairman of the supervisory committee of Educational Systems Federal Credit Union in Greenbelt, Maryland. He has extensive experience and knowledge of credit union programs, rules and regulations. In addition to serving as NACUSAC's Board Secretary, he also chairs the Education Committee and acts as liaison to NACUSAC's five regional directors.

He retired from his professional career as a high school administrator in Maryland after 40 years and is the past president of the National Association of Secondary Schools Principals Association (NASSP).

WILLIAM R. STAUDER

William R. Stauder has served on the Supervisory Committee of VacationLand Federal Credit Union in Sandusky, Ohio since 2001. The credit union has over \$111 million in assets and serves more than 14,000 members in Erie County. Stauder has attended every NACUSAC Annual Conference since 2005. In his retirement, he enjoys spending time on home projects, traveling, NASCAR racing and being with his four grandchildren.

We Wanted You to Know . . .

NACUSAC NEWSBRIEFS

✓ 2010 Annual Conference heads to Baltimore's Exciting Inner Harbor

It's not too early to start making plans for 2010. Be sure to mark your calendar for NACUSAC's 2010 Annual Conference, June 9-12 in Baltimore, Maryland. The Inner Harbor area has grown to become one of the East Coast's premier destinations. More meeting details available this fall at www.nacusac.org.

✓ NACUSAC welcomes newest member

NACUSAC is pleased to welcome the following Florida-based credit union as its newest member:

Keys Federal Credit Union

Key West, Florida

Chairman: Randy Fabal

Members: Claude Gardner, Roy Payne and Steve Torrence

✓ Four to Graduate from NACUSAC University

On Friday, June 19 in San Diego, four members will be recognized for their completion of NACUSAC University. These graduates have completed two levels of study, which include course work in all areas relating to the supervisory committee's role and responsibilities. The 2009 graduating class are:

Gerald Dunning, CIA, CISA, CFE

Caltch Employees & Partners Federal CU

Roberta Deegan

Fairfax County Federal Credit Union

Lyn DeLoach

Florida Telco Credit Union

W. Cecil Short

Educational Systems Federal Credit Union

Calendar

June 17-20, 2009

NACUSAC's 2009 Annual Conference & Exposition

Hilton San Diego Bayfront Hotel
San Diego California

June 9-12, 2010

NACUSAC's 2010 Annual Conference & Exposition

Sheraton Inner Harbor
Baltimore, Maryland

About NACUSAC

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
Telephone Seminars
NACUSAC University
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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

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