

Region 3 Meeting
September 18 - 20, 2013
Lansing, Michigan

Operational Branch Audits



Presented by:
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Financial Institutions Group



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Overview



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- Branch audits
- Planning
- Risk assessment
- Audit program
- Security
- Compliance

Branch Audits – Questions?



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- Has anything really changed in the last 25 years?
- Do you conduct branch audits on a regular basis?
- How often are branches audited?
- How do you select branches to audit?
- What is the scope of your branch audit?
- How many hours do you allocate for a branch audit?
- How many hours do you allocate in your annual audit plan for branch audits?
 - Consider the risk vs. other functional audit areas.

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Planning



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- Gather permanent file
 - Branch organizational chart
 - Length of service for management
 - Lists of
 - Key personnel & duties
 - Applicable policies & procedures
 - Forms and/or reports used by the branch
 - Applicable laws & regulations

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Planning



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- Policies & procedures
 - Does the branch have current documented policies & procedures?
 - Are they adequate?
 - Are branch personnel aware of them?
- When was last branch audit conducted?
- What were the findings from the last audit?
- Consider findings noted from recent audits of other branches

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Planning



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- Conduct a walkthrough
 - Interview key personnel
 - Do they understand the risk?
 - Do they understand the policy?
 - What training do they receive?
 - Inspect the premises
 - Doors & windows
 - Video surveillance
 - Insecure procedures

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Audit Program



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- Branch basics
 - Cash counts
 - Over and short reporting
 - Branch cash limits
 - Cashier's checks, travelers' checks, money orders, instant issue cards, gift cards
 - Compliance postings
 - Safe deposit boxes
 - Security
- Adjust the audit program to address the risks identified in the planning process

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Branch Processes



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- Document the branch operation in narrative form
- Determine if the current operations reflect compliance with CU policies & procedures
- Identify key controls

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Cash Counts



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- Surprise or no surprise
 - Control the cash (vault, teller drawers, ATM canisters, and cash dispensers)
 - Arrive before normal hours
 - Inspect compartments, drawers, etc., for unusual items
 - Verify cash limits are maintained
 - Teller drawers, vault, ATMs, overall branch
 - Obtain vault cash record and balancing sheet
 - Reconcile to general ledger

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Cash Counts



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- Keep vault supervisor present during the count
- Inquire the number of cash compartments
- Count cash
 - Strapped cash and rolled coins
 - Loose currency and change
 - Bait money
 - Trace to schedule (schedule should be under dual control)
 - Watch for 'stale dates' on bait money strap, change bait money periodically
 - Compare totals and reconcile any differences
 - Report differences immediately to appropriate supervisor

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Over and Short



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- Obtain teller over/short records for past 6 -12 months
- Determine if disciplinary action was taken
 - Manager's documentation of verbal or written communication, termination
- Look for patterns such as:
 - Short just before pay day or vacation
 - Vacation policy – 5 consecutive days
 - Large overages that correct themselves
 - Forced balancing

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Vault Security



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- Dual control
- Observe the following vault processes and compare to documented procedures
 - Opening
 - Deposit & withdrawal
 - Access during business hours ("The Money Cart")
 - Closing

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Cash Controls



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- Is teller cash is maintained under separate control of the one and only assigned teller?
- Are keys maintained in the personal possession of the assigned teller at all times?
- Are cash drawers locked and the key removed?
- Test whether a teller key will open any other teller drawers (in the presence of the head teller)
- Ensure teller cash is counted and securely stored at the end of the day.

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Counterfeit Currency



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- Interview personnel regarding procedures for handling counterfeit currency
- Secret Service: "Know Your Money"

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Cashier Checks, Money Orders, & Travelers' Checks



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- Inventory stock is stored in secure location under dual control
 - Inventory of unissued stock, by serial number, is maintained
 - Physical inventory is performed at least monthly
- Working stock controlled
 - Last issued inventory recorded
 - Locked at night
- Greater than \$10k requires CTR
- Instant Issue cards

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Night Depository



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- Is access to the compartment under dual control?
- Is register of bags/envelopes received under dual control?
 - Is the register adequately completed, including:
 - Account number
 - Amount & number of deposits
 - Bag number
 - Initials of two tellers
- Controls over keys/combinations
- Sample test deposits

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Night Depository



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- Ascertain that any bags held overnight containing valuables are recorded and secured
- Sample night depository contracts
 - Signed?
 - On file?

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Safe Deposit Boxes



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- Unrented boxes
 - Sample test keys to ensure they are maintained under dual control
- Newly rented boxes
 - Sample boxes rented with the last 6 – 12 months
 - Member ID and contract were obtained
 - Contract signed & dated by member and employee
 - All blank lines in contract are cancelled in ink to prevent adding unauthorized names
 - Renter ID was verified
 - Contracts maintained

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Safe Deposit Boxes



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- Visits
 - Register identifies employee providing access
 - Member signature compared with the contract
 - Proper ID provided by the member
 - Date and time is recorded
 - Area is checked after the member leaves to ensure no items or documents are left
- Delinquent boxes
 - Procedures are followed to ensure collection

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ATM



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- Start-up or access cards are maintained under dual control
- Cash & envelopes should be counted under dual control
- Deposits should be verified to the audit tape, initialed, and dated by both employees
- ATM proving is periodically rotated
- Captured cards should be destroyed under dual control

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ATM Cards



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- Cards are locked and stored under dual control (working and stock)
- Card stock is logged & inventoried
- PIN encoding equipment is secured
 - During and after working hours

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Wire Transfers



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- Obtain the number of wire transfers greater than \$2k (or similar amount based on risk tolerance) originated by the branch
- Is wire transfer form completed properly?
 - Fee collected
 - Transaction processed from member's account
 - Originator's account number, name, address, etc.
 - Recipient's name, account number, financial institution name and address, etc.

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Bank Secrecy Act (BSA)



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- Identify any exceptions noted in the BSA audit attributable to branch activity
 - Modify audit program
- Conduct a branch BSA assessment
- Verify branch employees receive annual training
 - Awareness of when a CTR/SAR needs to be filed

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CTR and SAR



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- Identify the number of CTRs filled by branch
 - Determine the number of errors for each branch
 - Ensure CTRs are stored appropriately
- Identify the number of SARs by branch
 - Review wire transfers >\$10k originated at each branch

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Information Security



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- Inspect work areas
 - Confidential, sensitive member information
 - User IDs or passwords
- Evaluate user access profile
 - “Too few staff, I need more access”
- Social engineering
- Security awareness

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Training



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- Ensure branch employees receive training
 - Robbery & security
 - BSA
 - GLBA – Information Security
 - Compliance
 - Operational
 - New procedures
 - New products

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Security



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- Combinations
 - Vault, drawers, lockers, etc.
 - Segregation
 - Same person shouldn't control both combinations
 - Combinations are changed at least once every 2 years, even if the custodian hasn't changed
- Is vault gate kept closed (if applicable)
 - Control over gate key
- Are keys (including spares) kept under dual control?

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Security



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- Cameras/Video/DVR
 - Checked daily to ensure:
 - Proper coverage
 - Time/date
 - Clear picture/image
 - Maintained under management control
- Clean desk policy
 - Inspect work areas for sensitive or confidential information

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Security



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- Observe opening procedures
 - Inspection of premises
 - Signal to other employees (“all clear”)
- Observe closing procedures
 - All currency, negotiable instruments, valuables, etc., are secured
 - No unauthorized persons are present
 - Doors & windows are secured
 - Video/DVR working
 - Alarm is set
- Conduct a physical security audit

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Security – Evacuation Plans



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- Interview & verify a written plan exists and contains:
 - Designated emergency assembly area with diagram
 - Designated employee positions to act as evacuation personnel
 - Procedures for rapidly securing the facilities, assets & records
 - Phone numbers to notify emergency services
 - Emergency notification phone numbers for all employees
 - Verify individuals demonstrate knowledge and proficiency in emergency activation procedures

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Compliance



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- Verify initial disclosures are available in the branch for members
- Ensure branch is providing Truth in Savings Act disclosures before opening an account
- Expedited Funds Availability Act postings in lobby
- NCUA posting
- Home Mortgage Disclosure Act
- Equal Housing Lending
- US Patriot Act
- Labor posting requirements (Federal & State)

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Reporting



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- Communicate with the branch manager
- Validate initial findings & recommendations
- Review management responses and discuss with manager
- Communicate target remediation dates
- Specific branch issue or “global” issue for all branches

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Other Metrics by Branch



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- Deposit accounts overdrawn for more than 30 days, including dollar amount and volume (# of accounts)
- New accounts opened
- Fees waived
- Transactions per FTE
- Statements mailed to branches
- Security alarm reports
- HR turnover ratio by branch
- Number of member complaints by branch

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Questions?



Thank You!

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