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Emerging External Audit Findings

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Presentation Takeaways

Increased understanding of financial reporting control deficiencies

Learn investigative strategies to identify control gaps

Develop practical approaches to addressing and communicating audit findings





Segregation of Duties

Common issues we have seen in practice:

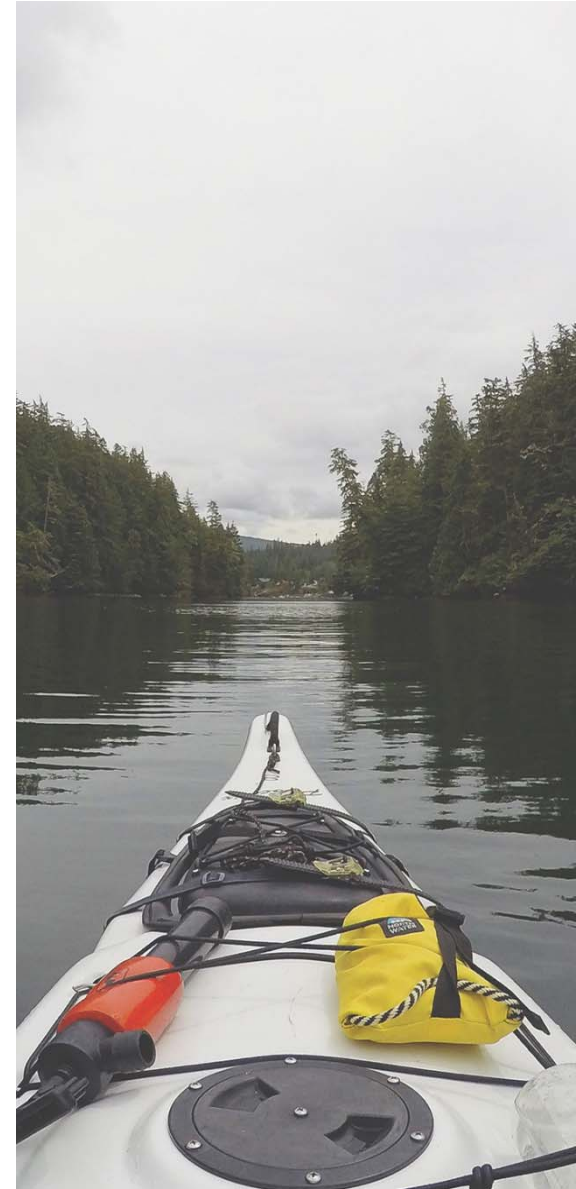
- Individuals who have to the ability to initiate, approve, record and reconcile transactions
- Individuals that have the ability to approve and fund loans
- Ability to set up new general ledger accounts without approval
- Ability to set up new vendors



IT System Access and Controls

Common issues we have seen in practice:

- Access not aligned with position
- Template access settings
- Supervisory access
- Terminations and internal moves
- Mergers

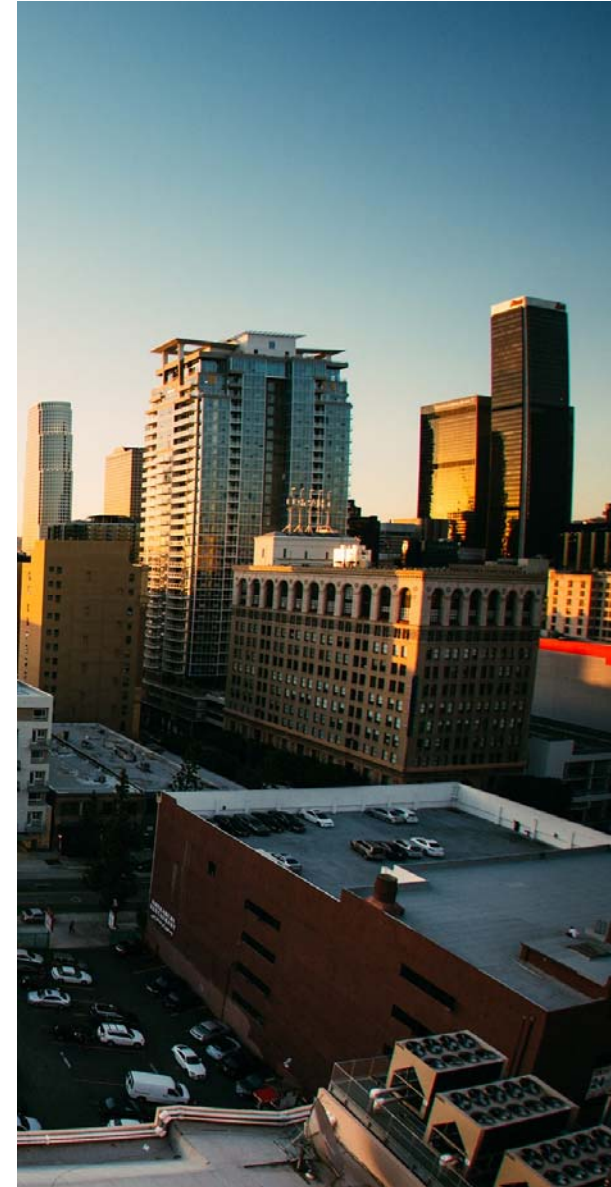




Loans

Common issues we have seen in practice:

- Growth
- Indirect/direct monitoring programs
- Expansion into member business lending
- Buying loans; whole or in part; brokered
- Net deferred loan fees and costs
- Loan sales
- Concentration monitoring - precision





Allowance For Loan Loss Calculation

Common issues we have seen in practice:

- Segregated review
- Calculation errors
- Completeness of loans and inputs
- Qualitative and economic factors
- Hot potato!

Prospective Issues (CECL):

- Model Adoption
- Sufficient Resources
- Proforma and Testing





Impaired Loan Accounting

Common issues we have seen in practice:

- Lack of adequate support for fair value of impaired loans
- Calculation of expected future cash flows
- Fair value of collateral
- Timeliness of measurement of impairment





Accounting for the Sale of Loans

Common issues we have seen in practice:

- Oversight of agreements – recourse, buyback provisions, communication internally
- Servicing arrangements – compensation
- Inaccurate recording of sales
- Agreements that provide for disproportionate cash flows between parties
- Incomplete control structures for reporting and reconciling



Compensation Arrangements

Common issues we have seen in practice:

- Lack of communication with accounting department
- Creative products which cause “accounting confusion”
- Too much reliance on third parties regarding accounting and mechanics
- Incomplete vendor due diligence
- Lack of annual review



Liquidity – ALM and IRR

Common issues we have seen in practice:

Where will liquidity come from?

- Share accounts in rising rate environment
- Borrowings
- Net Interest Margin
- Effects on growth
- Monitoring the Asset Liability Management (ALM) function
 - ALM Policy
 - ALM stress testing results
 - Third party assessments

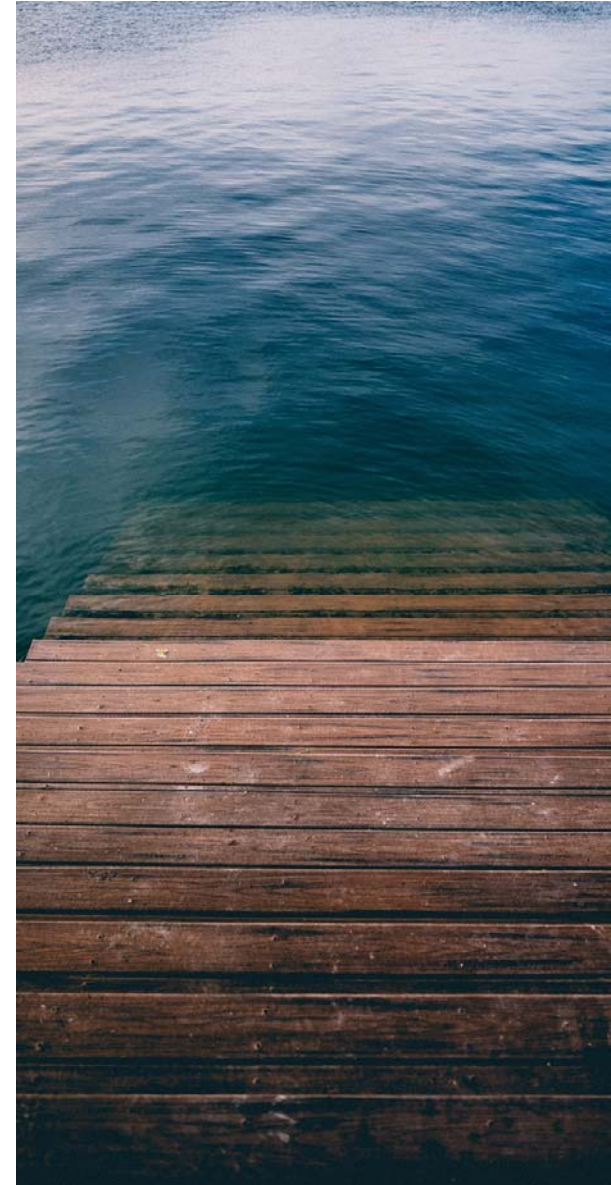




Cash Management

Common issues we have seen in practice:

- Lack of daily wire balancing
- Wire approval levels not appropriate or aligned with risk
- Inconsistent teller controls
- Aged reconciling items in suspense accounts





Regulatory Observations

- Closed account member verifications
- CUSOs
- Vendor due diligence
- BSA
- Cybersecurity
- Succession planning & compensation
- ALM – including investments
- Commercial Lending
- Product Due Diligence and Monitoring

Moss Adams Resources



EVENT

2018 SUPERVISORY COMMITTEE CONFERENCE

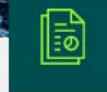
Join us June 2018 to review responsibilities, sharpen skills, and learn more about crucial issues facing credit unions today.



GUIDE

CECL ACCOUNTING GUIDE

Download our guide, which serves as a practical and illustrative document to assist with CECL implementation efforts.



REPORT

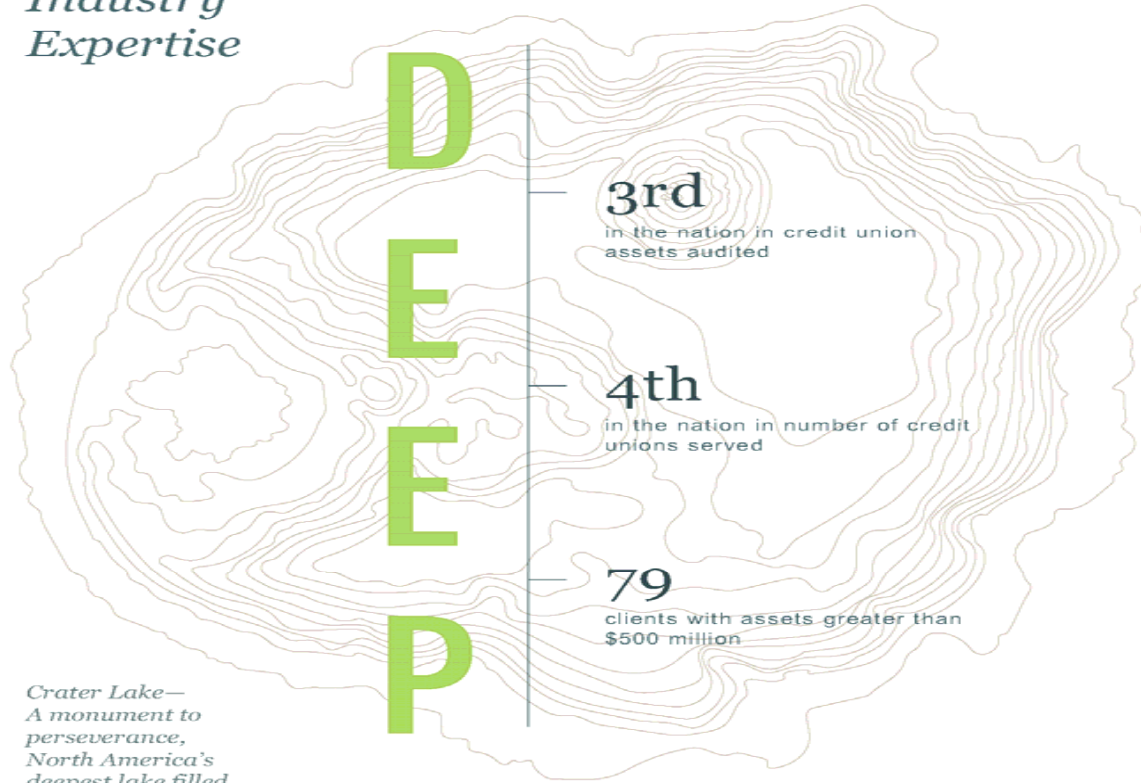
CREDIT UNIONS INDEX REPORT

The Credit Union Index is a summary analysis of credit unions by state.





*Industry
Expertise*



*Crater Lake—
A monument to
perseverance,
North America's
deepest lake filled
to 1,949 feet over
720 years.*

Data as of March 2018



Our Locations

ARIZONA

Phoenix

CALIFORNIA

Fresno

Los Angeles

Napa

Orange County

Silicon Valley

Sacramento

San Diego

San Francisco

Santa Rosa

Stockton

Walnut Creek

COLORADO

Denver

KANSAS

Kansas City

NEW MEXICO

Albuquerque

OREGON

Eugene

Medford

Portland

TEXAS

Dallas

Houston

WASHINGTON

Bellingham

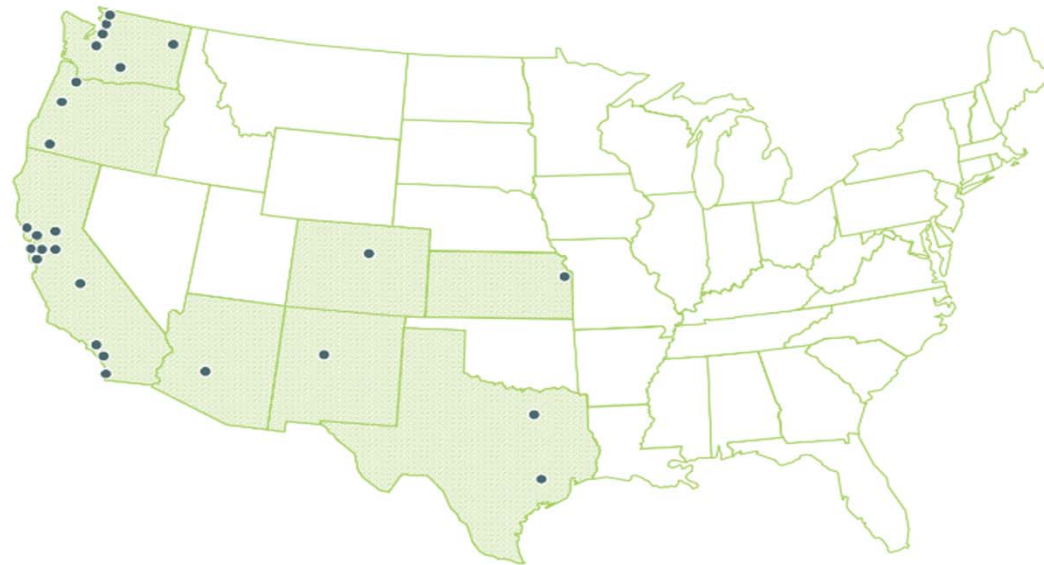
Everett

Seattle

Spokane

Tacoma

Yakima



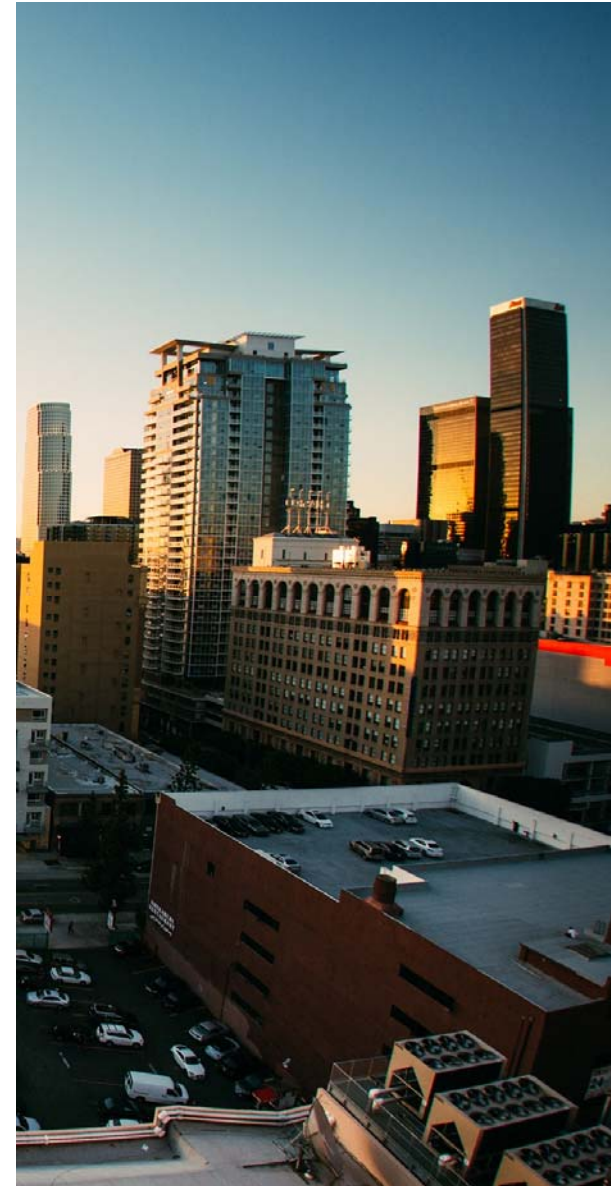
◀ **25+**
locations west of the
Mississippi

Questions?

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