

# **SAMPLE AUDIT REPORT**

**Sample Credit Union**

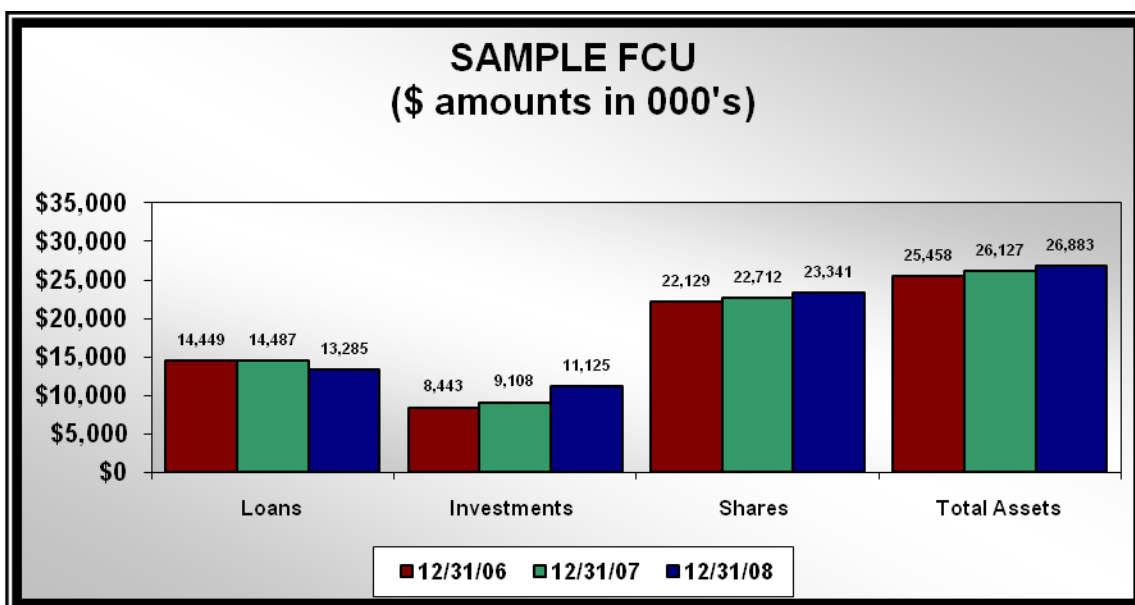
**Report on Operations**

**As of Audit Date**

**SAMPLE AUDIT REPORT**  
**SAMPLE CREDIT UNION**  
**REPORT ON OPERATIONS**  
**AS OF AUDIT DATE**

**GENERAL OVERVIEW**

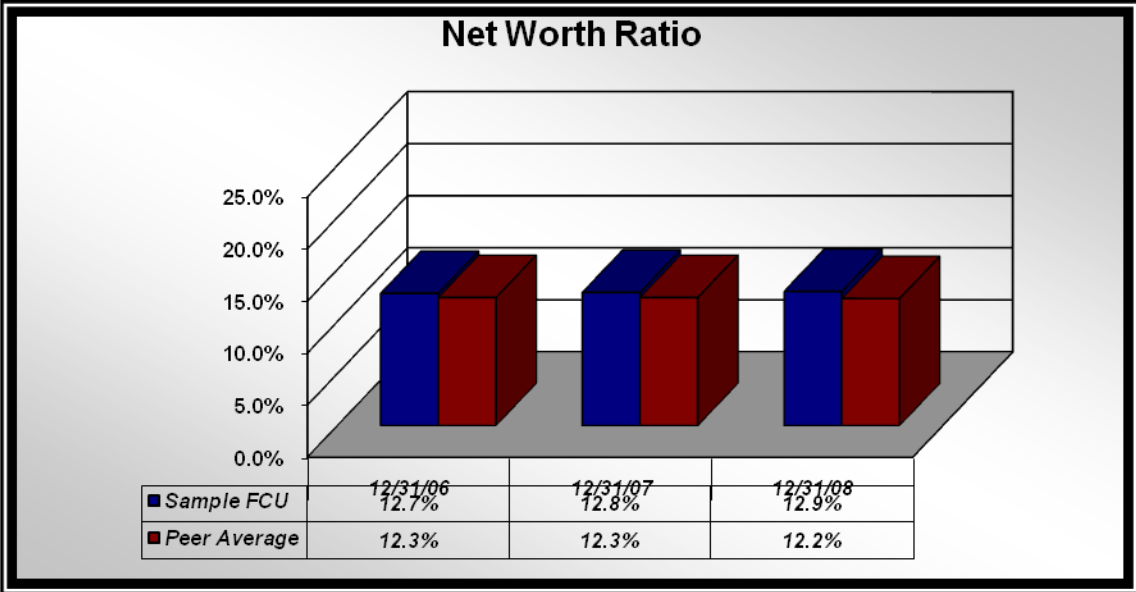
Overall, the Credit Union appeared to be well managed and continuing to maintain its financial stability. During the twelve months ended December 31, 2009, the Credit Union experienced modest growth, with total assets increasing approximately \$756,000 (2.9%), investments increasing approximately \$2,017,000 (22.1%), and shares and equivalents increasing approximately \$630,000 (2.8%). However, during the same period, loans decreased approximately \$1,202,000 (8.3%).



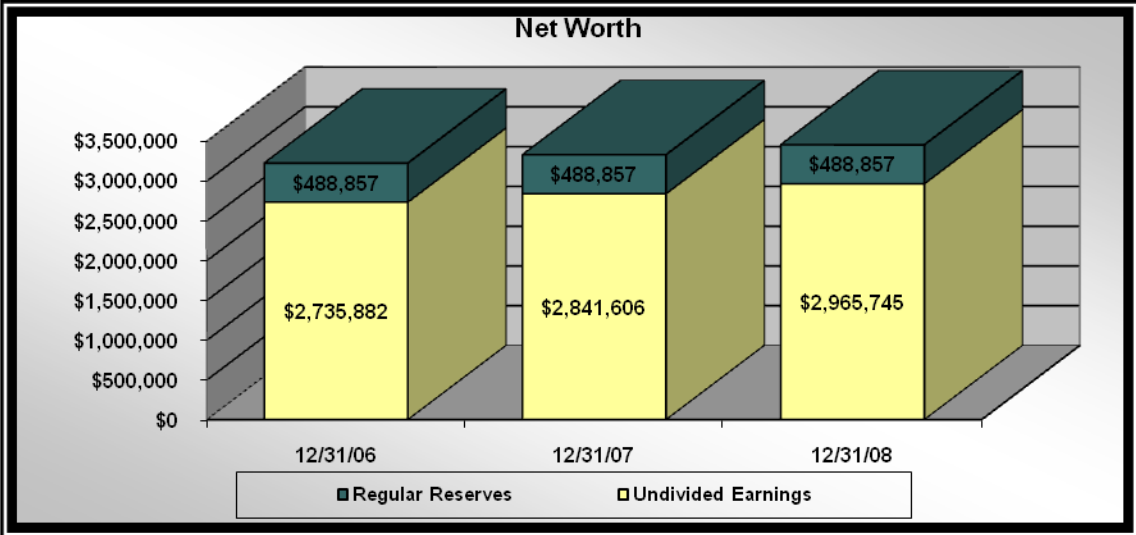
**NET WORTH**

Net income of approximately \$124,000 generated during the twelve months ended December 31, 2009, strengthened the Credit Union's capital position. Capital is comprised of regular reserves and undivided earnings, and represents all earnings the Credit Union has accumulated since its organization. Furthermore, capital provides a cushion against any losses that might be sustained by the Credit Union in future years. During the audit period, the capital adequacy ratio (capital divided by total assets) increased slightly from 12.8% as of December 31, 2008, to 12.9% as of December 31, 2009. The Credit Union's net worth ratio was slightly above the industry average of approximately 12.2%. Management and the Board of Directors must ensure that dividend and loan rates are properly priced in order to control loan and share growth. The Credit Union's net worth ratio has historically been above the industry. The Credit Union's net worth ratio remains strong, and still compares very favorably to the 7.0% minimum ratio, which is considered well capitalized according to NCUA Letter 01-CU-01.

**SAMPLE AUDIT REPORT  
SAMPLE CREDIT UNION  
REPORT ON OPERATIONS  
AS OF AUDIT DATE**



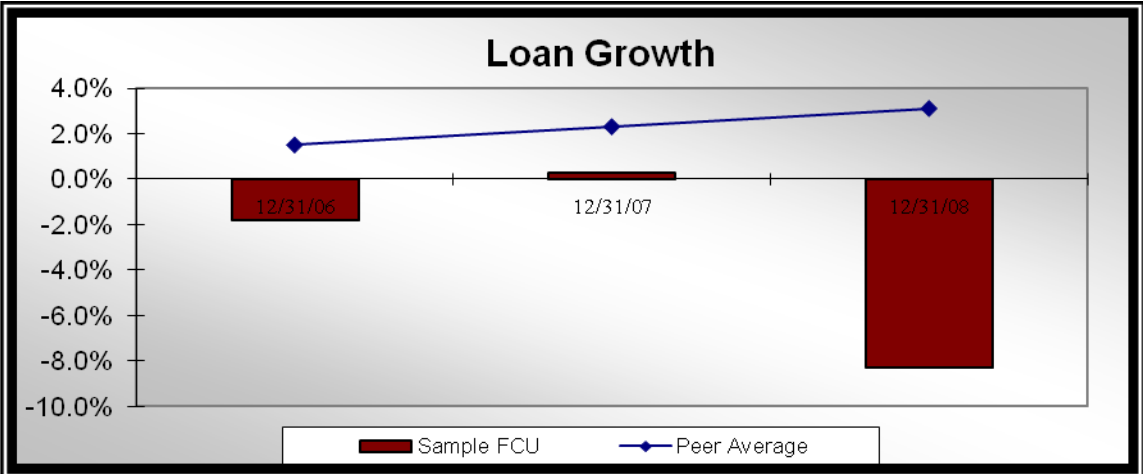
The Credit Union has continued its pattern of slight capital growth, and experienced a 3.7% increase in equity during the twelve months ended December 31, 2009. Specifically, Reserves and Undivided earnings increased from approximately \$3,330,000 as of December 31, 2008, to approximately \$3,455,000 as of December 31, 2009. The increase in equity is below the industry average net worth growth of 6.8%.



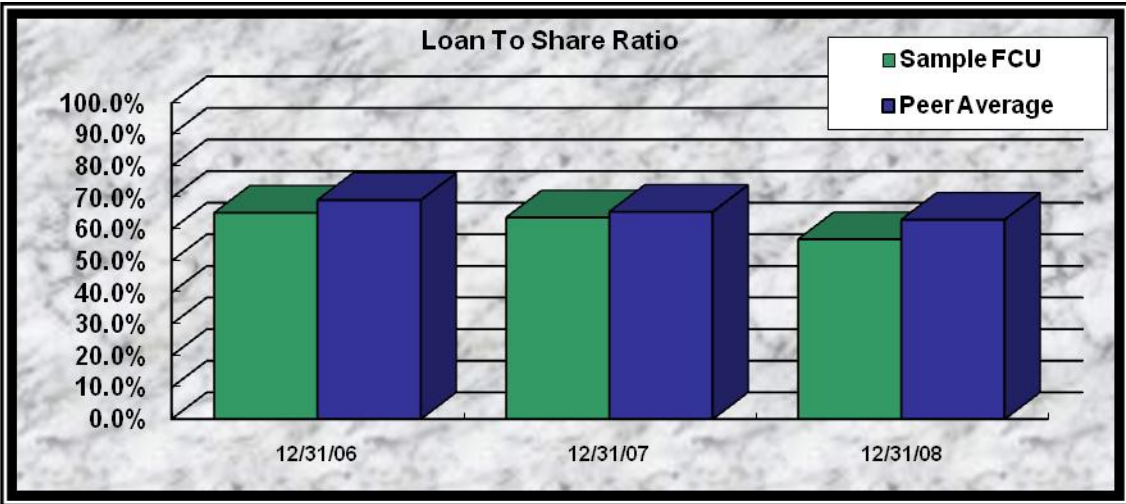
**ASSET QUALITY**

**SAMPLE AUDIT REPORT  
SAMPLE CREDIT UNION  
REPORT ON OPERATIONS  
AS OF AUDIT DATE**

The Credit Union suffered a decline in its loan portfolio. During the annual audit period, the Credit Union experienced an 8.3% decline in loans, while the industry average loan growth was 3.1%.

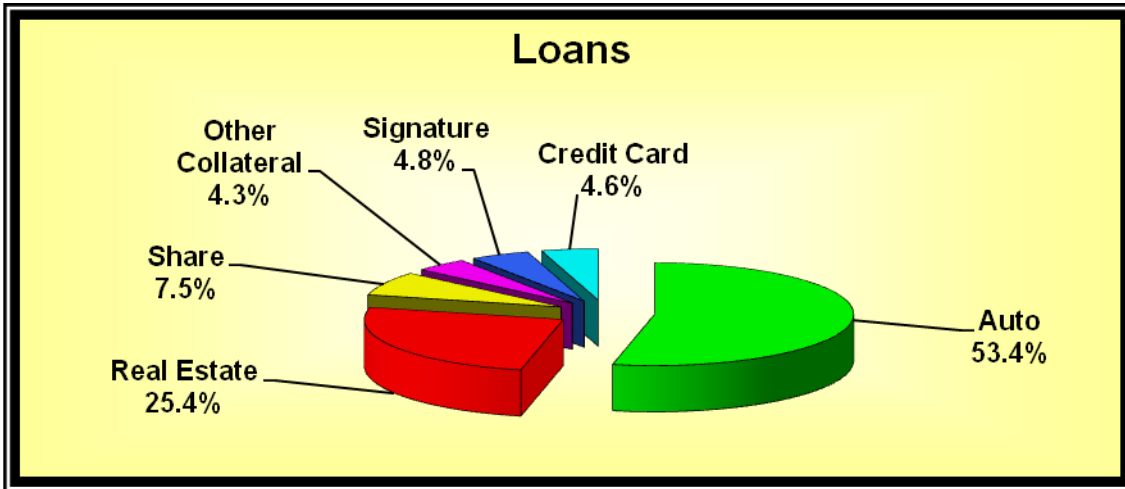


The Credit Union was not able to increase loan demand, but instead, diverted incoming funds from share growth and loan repayments into investments, which had a lower yield. This situation should be closely monitored by management since, as a result of this situation, the Credit Union's loan to share ratio decreased from 63.8% as of December 31, 2008, to 56.9% as of December 31, 2009. This is below the industry average of approximately 63.1%. While we would not suggest that the Credit Union make any questionable loans, we recommend that management try to stimulate loan demand.

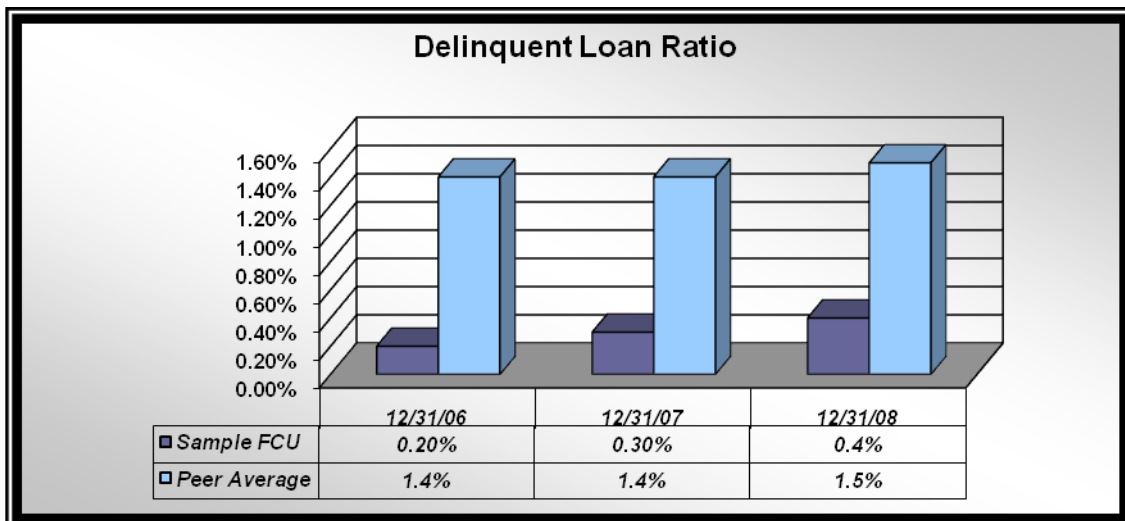


The following graph depicts the distribution of the different types of loans offered by the Credit Union. The Credit Union's loan portfolio consisted primarily of secured automobile loans and real estate loans, followed by share secured, signature, credit card, and other collateral loans.

**SAMPLE AUDIT REPORT  
SAMPLE CREDIT UNION  
REPORT ON OPERATIONS  
AS OF AUDIT DATE**

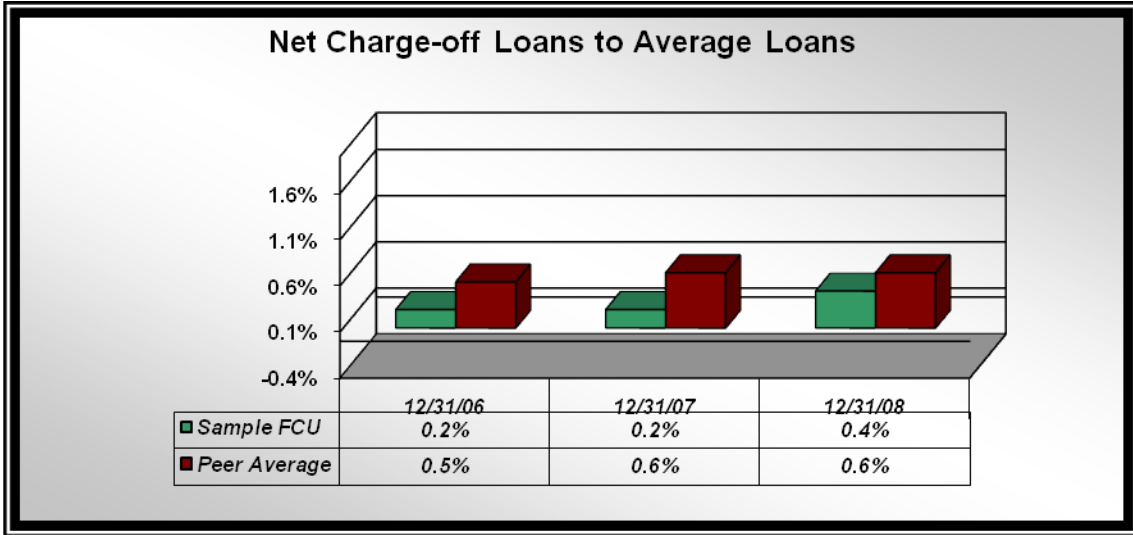


The Credit Union's delinquency ratio indicates all delinquent loans greater than two months divided by total loans. As of December 31, 2009, the Credit Union's delinquency ratio was 0.4%, an increase from 0.3% as of December 31, 2008. The Credit Union's delinquency ratio is considerably lower than the industry average of approximately 1.5%. The relatively low delinquency ratio is evidence that management has established adequate controls over the lending process. Management should continue their consistent collection efforts to thwart any future increases in loans delinquent.



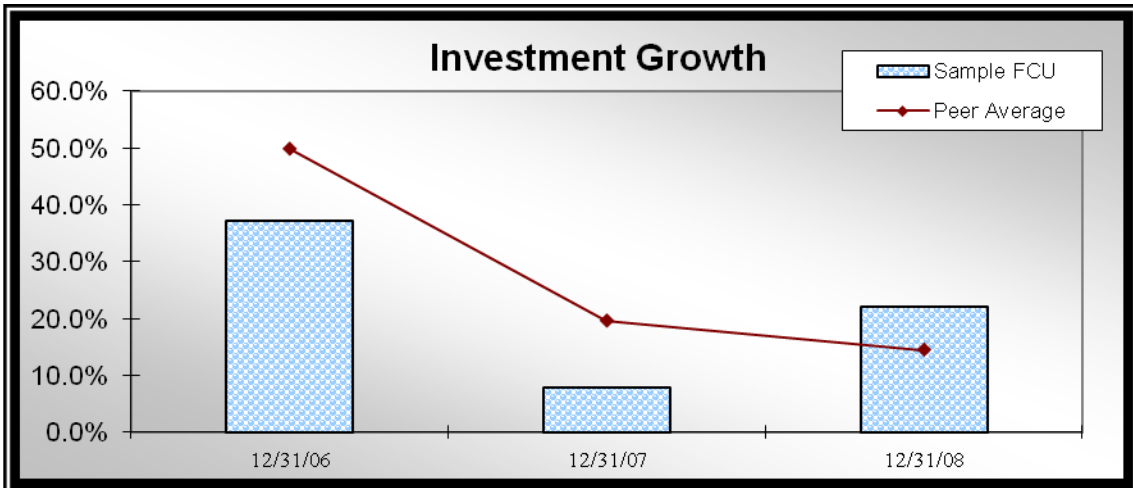
Net charge off loans increased from approximately \$24,000 to approximately \$51,000 during each of the twelve months ended December 31, 2008 and December 31, 2009, respectively. As shown below, the Credit Union's net charge-off ratio has historically been below the industry average.

**SAMPLE AUDIT REPORT  
SAMPLE CREDIT UNION  
REPORT ON OPERATIONS  
AS OF AUDIT DATE**



**INVESTMENTS**

Since the last audit, investments increased approximately \$2,017,000 or 22.1% as of December 31, 2009. As shown in the graph below, the Credit Union's increase in investments was above the 14.5% increase in the industry average.

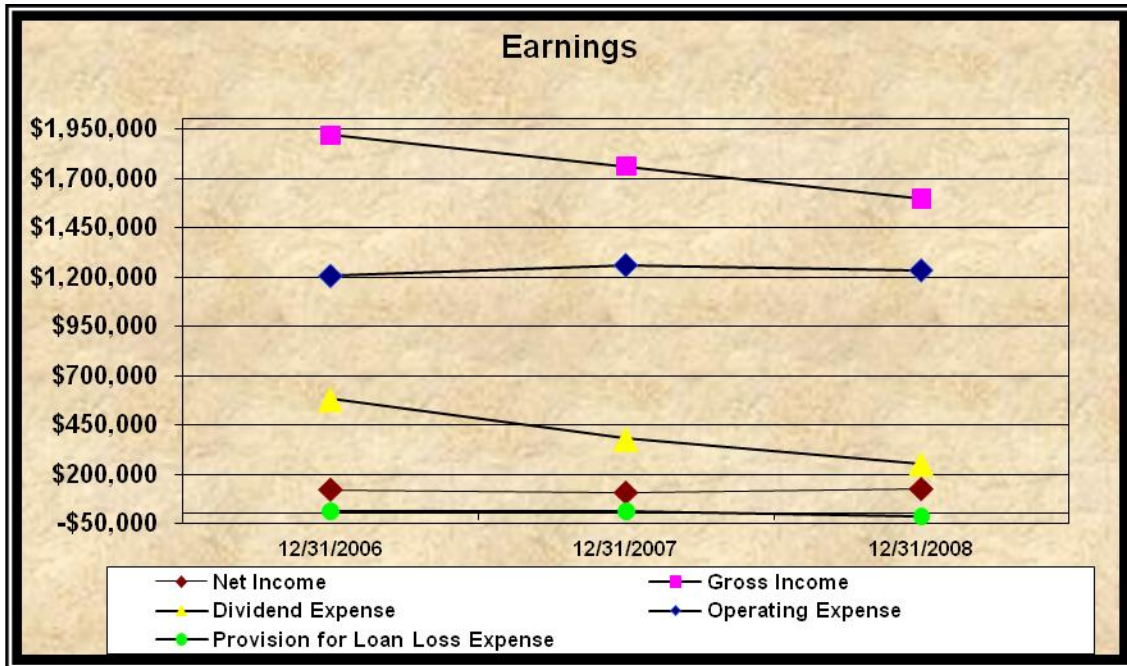


**EARNINGS**

The Credit Union reported gross revenues of approximately \$1,595,000, for the twelve months ended December 31, 2009. Of this amount, the Credit Union reported net income of approximately \$124,000 (7.8%), operating expenses of approximately \$1,234,000 (77.4%), provision for loan losses of approximately -\$15,000 (-1.0%), and approximately \$253,000 (15.8%) was returned as dividends to members.

**SAMPLE AUDIT REPORT**  
**SAMPLE CREDIT UNION**  
**REPORT ON OPERATIONS**  
**AS OF AUDIT DATE**

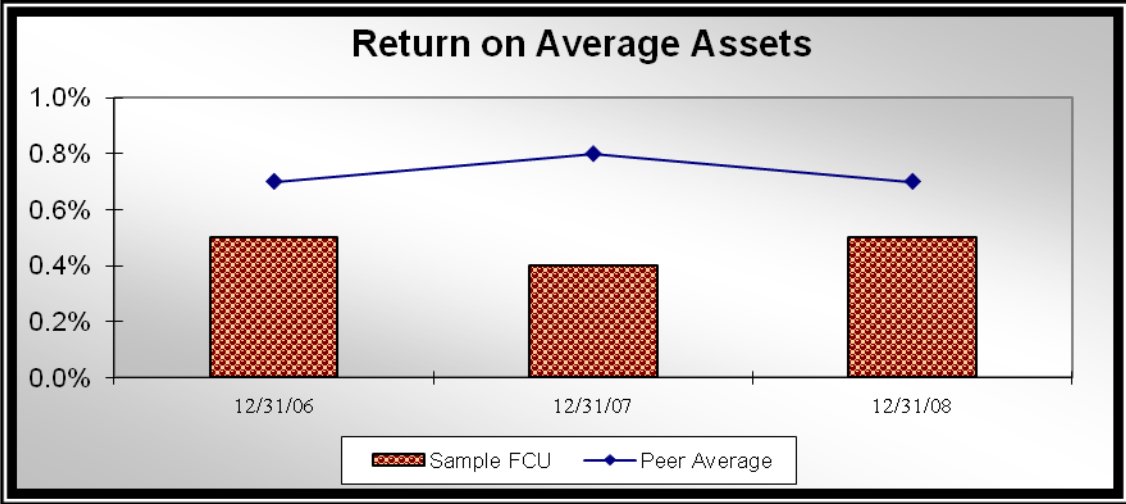
The Credit Union reported net income of approximately \$124,000 generated for the twelve months ended December 31, 2009. This represents an increase in net income of approximately \$18,000, as compared to the previous twelve months ending December 31, 2008. The Credit Union was able to reduce operating expenses approximately 2.1%, despite asset growth of 2.9%. The Credit Union's net operating expenses to average assets was 4.7% as of December 31, 2009, but was above the industry average of 3.9%.



The Credit Union's return on average assets ratio of .05% was an increase from .04% return in the previous year, but is below the industry average of 0.7%. The Credit Union's cost of funds to average assets decreased to 1.0% as of December 31, 2009, from 1.5% as of December 31, 2008, and remains lower than the industry average of 1.4%.

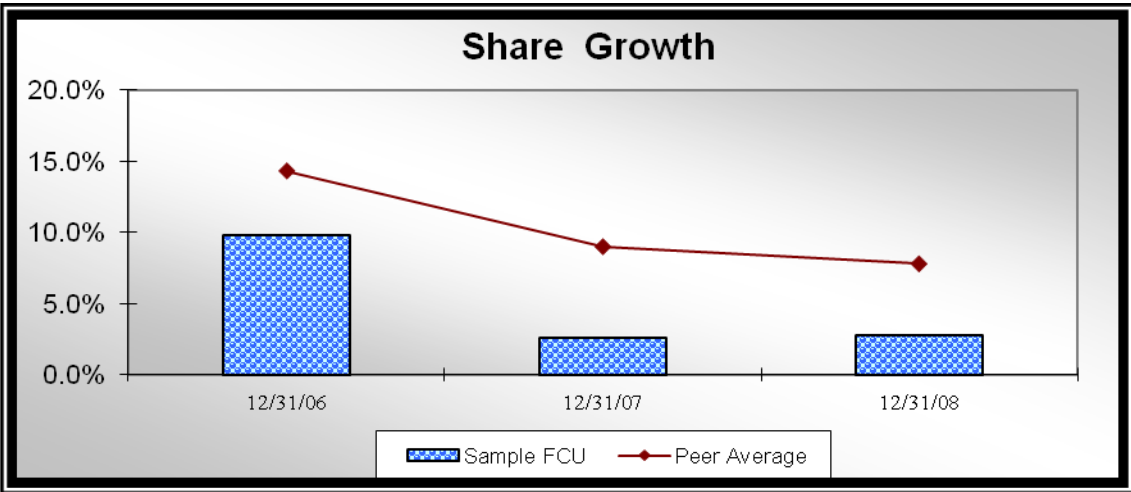


**SAMPLE AUDIT REPORT  
SAMPLE CREDIT UNION  
REPORT ON OPERATIONS  
AS OF AUDIT DATE**



**LIQUIDITY**

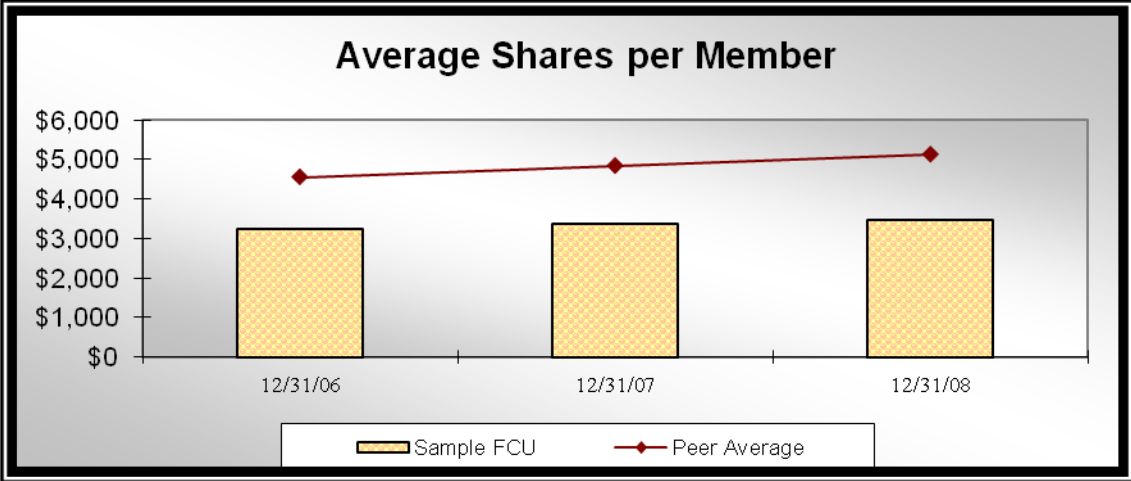
Members placed more money into the Credit Union, increasing shares by 2.8% during the audit period, but lagged the industry average share growth of 7.8%.



The average share per member, as shown below, was \$3,459 as of December 31, 2009, which was below the industry average of \$5,129. This average share per member has steadily increased over the past four years, indicating that members are continually increasing their confidence and interest in the Credit Union.



**SAMPLE AUDIT REPORT  
SAMPLE CREDIT UNION  
REPORT ON OPERATIONS  
AS OF AUDIT DATE**



The following report details the results of the annual audit. In addition, it communicates matters that are not necessarily deficiencies but are presented for Management's, the Board of Directors', and the Supervisory Committee's consideration.

**FINANCIAL AND ACCOUNTING**

**SAMPLE AUDIT REPORT**  
**SAMPLE CREDIT UNION**  
**REPORT ON OPERATIONS**  
**AS OF AUDIT DATE**

The annual audit scope included testing the accuracy of the Credit Union's financial data and compliance with Generally Accepted Accounting Principles (GAAP). Additionally, we reviewed the accounting system for its overall integrity and efficiency. Supervisory committee audit procedures and tests included reviewing the quality of the subsidiary accounting records and supporting schedules. Our review disclosed the following as of and for the twelve months ended December 31, 2009:

**Allowance for Loan and Lease Losses**

1. We have reviewed and evaluated the credit union's Allowance for Loan Loss methodology and supporting documentation practices, as well as other credit risk management practices as of December 31, 2009. It is our finding that the policy and procedures adequately reflect an accurate estimation of the required funding of the Allowance for Loan Loss account. Furthermore, the policy and procedures are acceptable under the guidelines of NCUA Interpretive Ruling Statement (IRPS) 02-03 and Generally Accepted Accounting Principles (GAAP).

To conform with NCUA's requirements, the allowance for loan and lease losses account should be large enough to cover all potential losses within the Credit Union's loan portfolio. At a minimum, the Credit Union should maintain written supporting documentation for the following decisions, strategies, and processes:

1. Policies and procedures:
  - a. Over the systems and controls that maintain an appropriate ALLL, and
  - b. Over the ALLL methodology,
2. Loan grading system or process,
3. Summary or consolidation of the ALLL balance,
4. Validation of the ALLL methodology, and
5. Periodic adjustments to the ALLL process.

Management should consult NCUA Interpretive Ruling Statement (IRPS) 02-03 to analyze and document the adequacy of the allowance for loan losses account on a regular basis. Such analysis is a necessary and useful tool when reviewing the reasonableness of the process undertaken by Management during the assessment of the adequacy of the allowance for loan losses account.

2. We compared loans charged-off through the general ledger to their approval by the Board of Directors.

No exceptions were noted.

3. We reviewed the loan and credit card trial balances as of December 31, 2009, and reconciled the amount to the general ledger. We tested a sample of loans and

**SAMPLE AUDIT REPORT**  
**SAMPLE CREDIT UNION**  
**REPORT ON OPERATIONS**  
**AS OF AUDIT DATE**

supporting documentation. Our individual loan review findings are discussed in the Loan Review Section below.

The loan trial balances agreed to the general ledger control accounts as of the annual audit date. Our review disclosed no exceptions.

4. We reviewed all collateral in process of liquidation as of December 31, 2009. We reconciled the amount to the general ledger, and where material, physically observed the collateral. We tested a sample of loans and supporting documentation for costs incurred in the acquisition and disposal of collateral. We reviewed sales of collateral to ensure that competitive bids were obtained. We examined a sample of invoices for costs incurred in the sale of collateral and verified the amount that was ultimately charged-off.

Our review disclosed no exceptions.

**Cash**

1. We confirmed all of the Credit Union's cash balances and reviewed the bank reconciliations prepared as of December 31, 2009. Our review consisted of examining deposits-in-transit for overstatement, verifying the outstanding check list, agreeing all reconciling items to their supporting documents and investigating any reconciling items or checks which were outstanding in excess of 90 days.

We found no exceptions as a result of the procedures.

2. We performed a cash count on February 9, 2009, and compared the cash on hand to the general ledger balance. We also compared the December 31, 2009, teller cash subsidiaries to the general ledger balance.

We found no exceptions as a result of the procedures.

3. We reviewed daily deposits to the bank for the last 10 business days of the annual audit period. We agreed the cash deposits per the journal cash record to the deposits per the bank statement to ensure that deposits are being made to the bank on a timely basis.

We found no exceptions as a result of the procedures.

4. Bait money is specific money within a teller's drawer, for which Management has recorded the serial numbers. When given out during a robbery, this may be useful to law enforcement agencies in apprehending the criminal. We verified the

**SAMPLE AUDIT REPORT  
SAMPLE CREDIT UNION  
REPORT ON OPERATIONS  
AS OF AUDIT DATE**

existence of bait money within the tellers' drawers, and reviewed Management's documentation of the specific serial numbers of all bait money. We verified that bait money was not obviously marked or identified in a way that would make it obvious to a bank robber.

Our review of bait money disclosed no exceptions.

5. We counted traveler's checks and money orders on February 9, 2004, and verified the accuracy of the subsidiary logs maintained for traveler's check and money order activity. We also verified the Credit Union's inventory of traveler's checks and money orders via a faxed inventory statement from American Express and Travelers Express Company.

We found no exceptions as a result of the procedures.

6. We reviewed the Credit Union's written currency transaction reporting (CTR) policy. In addition, we observed the adherence to the reporting requirements under The Bank Secrecy Act of 1986.

Beginning 2002, credit unions have been required to maintain Office of Foreign Assets Control OFAC's listings of countries and individuals (SDNs) identified by the government as not allowed to conduct financial transactions within the banking system. Any accounts on record as belonging to anyone on the OFAC list were required by law to be frozen or the assets "blocked" and reported to the government by filing a suspicious activity reports (SARs). The Credit Union was aware of the reporting requirements.

We found no exceptions as a result of the procedures.

## **Investments**

1. We obtained a schedule of the Credit Union's investments as of December 31, 2009, and traced the amounts to the general ledger.

We found no exceptions as a result of the procedures.

2. We traced the investment account balances, interest rates, and maturity dates from the investment schedule to the specific security instruments (passbooks, safekeeping receipts, brokers' statements, and certificates of deposit).

We found no exceptions as a result of the procedures.

**SAMPLE AUDIT REPORT**  
**SAMPLE CREDIT UNION**  
**REPORT ON OPERATIONS**  
**AS OF AUDIT DATE**

3. We sent positive confirmation requests to a sample of the financial institutions with which the Credit Union has its funds invested. We confirmed the balances and interest rates for all sampled accounts.

We found no exceptions as a result of the procedures.

4. We reviewed the Credit Union's investment policy to gain an understanding of the investment practices of the Credit Union and to determine whether all investments are permissible and allowable under the investment policy and in compliance with the guidelines required by Section 703.3 of the NCUA Rules and Regulations.

We found no exceptions as a result of the procedures.

5. We confirmed all of the Credit Union's Corporate Credit Union account balances and reviewed the account reconciliation prepared as of December 31, 2009. Our review consisted of examining deposits-in-transit for overstatement, verifying the outstanding check list, and investigating any checks which were outstanding in excess of 90 days.

We found no exceptions as a result of the procedures.

6. We read the Board of Directors minutes to determine if authorization for purchases of new investments were formally approved by and recorded in the minutes of the Board meetings.

We found no exceptions as a result of the procedures.

7. We tested accrued income on investments as of December 31, 2009.

We found no exceptions as a result of the procedures.

8. Investment income was reviewed for reasonableness.

We found no exceptions as a result of the procedures.

**Fixed Assets**

1. We compared the balance of the fixed asset subsidiary records to the balance reported in the general ledger and to compliance with applicable regulatory limits.

**SAMPLE AUDIT REPORT  
SAMPLE CREDIT UNION  
REPORT ON OPERATIONS  
AS OF AUDIT DATE**

No exceptions were noted.

2. We reviewed the estimated depreciable lives and recalculated the monthly depreciation expense for a sample of the fixed assets.

Based on our tests, no exceptions were noted.

3. We reviewed all debit (purchase) and credit (disposal) entries to the general ledger fixed asset accounts for the period of January 1, 2009, through December 31, 2009. For the purchases, we examined a sample of the invoices supporting the new fixed assets and visually observed the assets. In addition, we verified the propriety of the expenditures with respect to their capitalization. For sales, we verified the proceeds received and the reasonableness of the gains/losses recorded on these sales.

Based on our tests, no exceptions were noted.

4. We reviewed the repair and maintenance expense accounts for capital expenditures and to verify if they were correctly expensed.

Based on our review, no exceptions were noted.

5. We reviewed the insurance coverage on the Credit Union's fixed assets as of December 31, 2009.

Furniture and Equipment was recorded at a cost of approximately \$335,000, while the insurance coverage was approximately \$175,000. At a minimum, the coverage should cover cost; however, the Credit Union may desire insurance at replacement cost.

We suggest that the Board of Directors or Management review the insurance coverage for furniture, fixtures and equipment with their insurance representative and increase it to a reasonable replacement cost. In the future, insurance coverage should be reviewed by the Board of Directors or Management at least annually, or as needed to ensure adequate coverage.

6. We reviewed to identify any significant lease commitments and whether these lease commitments were adequately disclosed in the Credit Union's financial statements.

Our review disclosed no exceptions.

**SAMPLE AUDIT REPORT  
SAMPLE CREDIT UNION  
REPORT ON OPERATIONS  
AS OF AUDIT DATE**

7. We performed a calculation and determined that fixed assets including lease obligations did not exceed 5% of shares and retained earnings.

We found no exceptions as a result of this procedure.

**Accounts Receivable, Prepaid Expenses and Other Assets**

1. We reviewed accounts receivable and other assets. Our review included comparing the accounts receivable and other asset subsidiary ledgers to the general ledger. In addition, we examined, on a sample basis, documentation to support the validity of the accounts receivable and other assets accounts.

Our testing disclosed no exceptions.

2. We reviewed the Credit Union's prepaid assets. Prepaid assets arise from an expenditure that creates a future benefit to the Credit Union (i.e., maintenance contracts, association dues, supplies, etc.). In order to determine the accuracy of the general ledger prepaid asset accounts, we compared the subsidiary ledger to the general ledger as of December 31, 2009. In addition, we reviewed a sample of the prepaid assets by examining the invoices for propriety and the periods benefited for reasonableness.

No exceptions were noted.

3. We reviewed accrued income on loans for reasonableness. This was accomplished by comparing accrued interest balances in the general ledger to the supporting computer trial balance totals.

No exceptions were noted.

4. We confirmed the Credit Union's deposit with the National Credit Union Share Insurance Fund (NCUSIF).

No exceptions were noted.

**Accounts Payable and Other Accrued Liabilities**

1. We reviewed accounts payable and other accrued liabilities as of December 31, 2009. We compared the accounts payable and other accrued liabilities subsidiary ledgers to the general ledger.

No exceptions were noted.



**SAMPLE AUDIT REPORT**  
**SAMPLE CREDIT UNION**  
**REPORT ON OPERATIONS**  
**AS OF AUDIT DATE**

2. We examined, on a sample basis, invoices supporting documentation in order to assess the validity of the recorded liabilities.

No exceptions were noted.

3. We performed a review of material expense disbursements subsequent to December 31, 2009. Identified expense disbursements were reviewed to determine if unrecorded liabilities existed as of the audit date.

No exceptions were noted.

4. We reviewed dividends payable for reasonableness. This was accomplished by comparing dividends payable balances in the general ledger to supporting computer trial balance totals.

No exceptions were noted.

**Notes Payable**

1. We reviewed general ledger accounts pertaining to borrowed funds, and recomputed interest expense for the twelve months ended December 31, 2009.

No exceptions were noted.

**Members' Shares and Equity**

1. We compared the trial balance and general ledger totals as of December 31, 2009, for shares, share equivalents, and loan accounts. We also traced all financial statement balances to the respective general ledger accounts.

No exceptions were noted.

2. We reconciled the balance of credit card loans per the general ledger with the totals provided to the Credit Union by the credit card processor.

We found no exceptions as a result of the procedures.

3. We read the Board of Directors minutes to determine whether dividend rates were declared and approved. We reviewed the accuracy of dividends posted to members' accounts and interest charged on members' loans for the twelve months

**SAMPLE AUDIT REPORT**  
**SAMPLE CREDIT UNION**  
**REPORT ON OPERATIONS**  
**AS OF AUDIT DATE**

ended December 31, 2009. Specifically, dividends were recalculated on a sample of members' share accounts.

No exceptions were noted.

Interest charged to members was recomputed for a sample of various loan types.

Based on the tests performed, it appears that interest on loans was being calculated properly during the twelve months ended December 31, 2009.

4. We reviewed the activity in the general ledger equity accounts for the twelve months ended December 31, 2009. We determined whether the statutory reserve requirements are adequately funded in accordance with the Prompt Corrective Action requirements of Section 702 of the NCUA Rules and Regulations. The Credit Union had an actual total reserve balance of approximately \$3,455,000 and a net worth ratio of 12.9%.

The Credit Union is considered "well capitalized". No exceptions were noted.

5. We reviewed the loan and share trial balance to ensure that there were no accounts in negative status for more than one month. An overdrawn share account represents an interest-free loan to the member and every effort should be made to collect these moneys.

No material exceptions were noted.

### **Income and Expenses**

1. We reviewed total interest on loans, total dividends on deposits, other operating income, and compensation expense for reasonableness for the twelve months ended December 31, 2009.

No exceptions were noted.

2. We selected a sample of expense disbursements paid during the twelve months ended December 31, 2009, and inspected supporting documentation for proper approval, cancellation, propriety of account, whether sales taxes were paid, and proper invoice totals. In addition, we performed an analytical review of general ledger expense variances.

No exceptions were noted as a result of our review.

**SAMPLE AUDIT REPORT  
SAMPLE CREDIT UNION  
REPORT ON OPERATIONS  
AS OF AUDIT DATE**

3. We reviewed the appropriateness and documentation for purchases on the Credit Union's corporate credit card during the twelve months ended December 31, 2009.

Our review disclosed no exceptions.

4. We performed a recalculation of a sample of individual payroll amounts during the twelve months ended December 31, 2009. Our testing included comparing gross payroll amounts, recalculation of federal and state taxes, and verification of the payment of the net payroll amount to the employee.

Our testing disclosed no exceptions.

5. We reviewed the Credit Union's non-operating income/expense accounts for reasonableness for the twelve months ended December 31, 2009.

Our review disclosed that non-operating income/expense was reasonably stated, and no exceptions were noted.

**LOAN REVIEW**

The annual audit encompassed a review of the Credit Union's loan policies, procedures, and operations. We reviewed all loans granted to officials and employees, and a sample of new loans granted to the members during the twelve months ended December 31, 2009. The review included, but was not limited to, real estate, credit card, vehicle, share secured, and signature loans. Each loan type was specifically reviewed for compliance with the Credit Union's written loan policy requirements and limitations. We verified that each file contained a loan application with proper approval, a completed and signed note, a credit report, and evidence of title and insurance, where applicable. In addition, we verified the loan amount, debt ratio calculation, income/employment verification, and substantiation of an ability to repay the Credit Union.

Overall, we found the loan files to be adequately documented. The results of our tests are presented below:

1. Our review of loans to officials, employees, and members yielded the following exceptions:

Member	Acct. #	Loan Date	Collateral	Comments
Sample	Sample	12/10/08	Share	First payment date exceeds twelve months.
		12/19/08	Auto	Proof of insurance has wrong CU address. No documentation of collateral value.
		06/03/08	Auto	No proof of current insurance. No documentation of collateral value.
		11/24/08	Sign	No income verification.
		10/07/08	Sign	Most recent income verification dated 3/23/06.
		09/08/08	Sign	Most recent income verification dated 7/31/04.

**SAMPLE AUDIT REPORT  
SAMPLE CREDIT UNION  
REPORT ON OPERATIONS  
AS OF AUDIT DATE**

		08/25/08	Sign	No income verification.
		11/28/08	Auto	Financed for six months over policy maximum.
		10/06/08	Other	Credit score = 164. Policy does not allow for RV loan with credit score < 300.
		10/14/08	Auto	No documentation of collateral value.
		09/18/08	Other	Additional income of \$2000/month not verified. No proof of current insurance.
		09/26/08	Other	No title or proof of lien. No proof of current insurance. No documentation of collateral value.
		08/06/08	Auto	No proof of current insurance.
		07/07/08	Other	Financed for twenty-nine months over policy maximum. Most recent income verification dated 5/5/05. No proof of current insurance. Could not determine if collateral value was sufficient to secure loan.
		07/16/08	Auto	No documentation of collateral value. Used income of spouse to qualify for loan. Spouse had not signed an application of Loanliner plan agreement.
		04/14/08	Auto	Did not include mortgage payment in calculation of debt ratio. Financed for six months over policy maximum. Co-owner of collateral did not sign pledging collateral.

2. We obtained delinquent loan listings during the annual audit period to verify that the proper amounts were being reported to the Board of Directors. We reviewed the delinquent loan listing as of December 31, 2009 to determine the collectability of loans two months or more delinquent. We also reviewed the collection procedures on delinquent and charged-off loans used by the Credit Union to determine their adequacy in protecting the best interests of the Credit Union.

Our review disclosed no exceptions.

3. We reviewed the loan and share trial balance to ensure a sample of share secured loans were correctly stated and adequately pledged as of December 31, 2009. Share secured loans are granted at reduced interest rates based on the dollar-for-dollar security offered by the member. When these loans are not adequately pledged, the Credit Union is assuming an unnecessary risk of loan loss.

Our review disclosed no exceptions.

4. We reviewed the loan and share trial balance for loans paid ahead. The objective of reviewing loans paid ahead is to ensure that the next payment due dates for all loans are correctly stated and in accordance with the specific terms of the loan note for each loan type, and that potentially delinquent loans are not included in these loans.

Our review disclosed no exceptions.

5. We reviewed a sample of loan extensions granted during the twelve months ended December 31, 2009. Our review included procedures to ensure that loan

**SAMPLE AUDIT REPORT**  
**SAMPLE CREDIT UNION**  
**REPORT ON OPERATIONS**  
**AS OF AUDIT DATE**

extensions were granted in compliance with the Credit Union's written loan extension policy guidelines and limitations.

Our review disclosed no exceptions.

6. The annual audit included a review of the Credit Union's outstanding/pending title process to ensure that the Credit Union is adequately monitoring uncollected titles on secured loans.

Based on our review, the Credit Union appears to be adequately monitoring the pending titles on secured loans.

7. We reviewed the internal controls surrounding the loans and lending process to ensure adequate measures are being taken within the Credit Union to safeguard its assets, check the accuracy and reliability of its loan data, promote operational efficiency, and encourage adherence to managerial policies.

Based on our review, the Credit Union's internal controls surrounding the loans and lending process appears to be adequate.

8. We reviewed the Credit Union's loan policies and procedures to gain an understanding of the various loan programs and services offered by the Credit Union and to ensure the continuation of prudent lending practices. The Credit Union's loan policy should include such items as the requirement for completed applications, current credit reports, debt ratio analysis, verification of income, loan extensions, collection of delinquent loans, and when to charge off non-performing loans.

Our review disclosed no exceptions.

### **INTERNAL CONTROLS**

Internal controls comprise the plan of organization, operating procedures, and measures within the Credit Union to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to managerial policies. We reviewed internal controls in order to obtain an understanding of the internal control structure and to assess our level of control risk. Based on our level of control risk, we determined the nature, timing, and extent of our substantive testing detailed throughout this report. Our review of the Credit Union's internal controls disclosed the following:

**SAMPLE AUDIT REPORT**  
**SAMPLE CREDIT UNION**  
**REPORT ON OPERATIONS**  
**AS OF AUDIT DATE**

1. We recommend that the Supervisory Committee, Board of Directors, or some other third party continue to perform review procedures on a periodic basis (at least quarterly) to compensate for the lack of segregation of duties and to strengthen the internal controls. At a minimum, such procedures should include:
  - Regular review of the bank, investment, and Corporate Credit Union account statements and reconcilements.
  - Regular review of employee statements. Such a review serves as a deterrent to, and a mechanism for, the detection of unauthorized transactions.
  - Regular review of computer exception reports such as dormant account activity, masterfile changes, and negative balance accounts. These reports should be initialed and dated after review to evidence the performance of the review.
  - Perform surprise cash counts and reconcile the results to the general ledger.
  - Review of new loans issued for proper documentation and authorization.
  - Perform account verifications, including closed accounts, as required by the NCUA.
  
2. We reviewed certain areas of control over the Credit Union's (on-line) computer system. Specifically, we reviewed the physical layout of the system and the controls over it, controls over software and files, controls over computer operators, access controls, controls over computer output (reports) processing and distribution, input/output controls, supervisory controls, and security controls.

Our review disclosed no material weaknesses as of December 31, 2009.
  
3. We reviewed certain areas of control over the Credit Union's teller controls. Specifically, we reviewed controls over ATM balancing and replenishment, controls over computer operators, access controls, controls over computer output (reports) processing and distribution, input/output controls, supervisory controls, and security controls. Management has adequately addressed all aspects of security and control and our review did not disclose any material weaknesses other than those discussed in conjunction with internal controls.
  
4. We reviewed the Credit Union's general operating policies and procedures to ensure the effectiveness of internal controls.

Our review disclosed no material weaknesses as of December 31, 2009.

**SAMPLE AUDIT REPORT**  
**SAMPLE CREDIT UNION**  
**REPORT ON OPERATIONS**  
**AS OF AUDIT DATE**

**OTHER COMMENTS**

1. We reviewed the Credit Union's surety bond coverage as of December 31, 2009, to determine if the coverage complied with NCUA regulations.

Our review indicated that the coverage was adequate as of the annual audit date, and no exceptions were noted.

2. We reviewed the minutes of the Board of Directors to verify that the minutes were properly signed, prior minutes were approved, dividends were approved, transfers to and from undivided earnings and appropriated undivided earnings were approved, loan charge-offs were approved, loans to officials (excluding share-secured loans) in excess of \$20,000 were approved, and material equipment and building acquisitions were approved.

Based on our review, no exceptions were noted.

3. We performed a review of the procedures used by the Supervisory Committee or Board of Directors during their most recent verification of members' accounts. Our review disclosed the verification process was conducted in compliance with regulatory requirements surrounding the verification of members' accounts.

No exceptions were noted.

4. We reviewed the Credit Union's general operating policies and procedures to ensure the continuation of current practices. Written policies also serve as training tools and guidelines for employees.

No exceptions were noted.