

Take Steps to Honor Members' Trust

Supervisory committee audits allow directors to advocate for members.

The increasing complexity of credit union operations makes effective supervisory committee and internal audits more important than ever.

NCUA examiners are paying close attention to supervisory committee and internal audits, specifically focusing on concerns about the committee's scope of internal audit and a lack of training. Since July 2019, NCUA has issued 17 prohibition orders—a constant reminder of the need for vigilance.

It's challenging enough to compete with other financial institutions in the market. No credit union wants to deal with fraud-related losses, which cause irreparable harm to their members' trust and the credit union's brand and reputation.

Roles and responsibilities

Credit union leaders and organizations are "trusts" for members' financial assets. In addition to providing members with sound advice and solutions to economic challenges, credit unions have a fiduciary responsibility to protect members' assets and their financial well-being. Relationships only exist where there is trust.

Fulfilling members' trust requires more than simply attending supervisory committee meetings. It also requires dedication to ongoing training and a commitment to being members' advocate with well-defined audits.

Two goals should guide the supervisory committee in its work:

1. Confirm and report that management meets its financial reporting objectives.

2. Ensure management practices and procedures safeguard members' assets.

Some of the activities the committee partakes in that support these goals include:

- **Verifying** internal controls.
- **Preparing** accounting records and financial reports. The board establishes relevant plans, policies, and controls.
- **Ensuring** safeguards are in place for errors, carelessness, conflict of interest, self-dealing, and fraud.
- **Completing** the supervisory committee audit at least annually.
- **Verifying** member accounts.
- **Reporting** to members at the annual meeting.
- **Recommending**, hiring, and working with external auditors or audit firms.
- **Working** with and overseeing internal auditors.
- **Meeting** with examiners.
- **Researching** and ensuring proper responses to member complaints.

Remember, it's not the supervisory committee's responsibility to make operating decisions.

Recruitment, training, and development

One of the biggest challenges facing credit union

FULFILLING MEMBERS' TRUST REQUIRES DEDICATION TO ONGOING TRAINING AND COMMITMENT TO BEING MEMBERS' ADVOCATE.

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QUICK TAKE FOR YOUR NEXT BOARD MEETING

CONSUMERS' PERCEPTION OF VOICE BANKING

More people see the benefits of voice banking: In 2019, 51% of consumers saw some benefit to the service, up from 41% in 2017. Still, many see no use for the technology, and 66% of consumers don't know if voice banking is even possible, according to Fiserv's "2019 Expectations & Experiences: Channels and New Entrants."



Source: Fiserv's "2019 Expectations & Experiences: Channels and New Entrants"



CUNA Supervisory
Committee and Internal
Audit Conference,
Dec. 8-11, Las Vegas,
cuna.org/sciac

boards is recruiting and retaining qualified and engaged supervisory committee members.

Three ways your credit union can succeed in this area:

1. Purpose focus. Have a compelling purpose-focused story to share with members and potential committee recruits. The credit union's purpose of community development, social justice, or financial inclusion is compelling and attractive to prospective committee members who want to be part of a worthy cause.

2. Career development focus. Promote the opportunity for career-minded people to build their resumes through volunteer service. Don't forget about younger members whose lives have been impacted by the credit union.

Contact past scholarship winners with a "remember us?" message, and invite them to consider serving on the supervisory committee after they have completed their education.

3. Perpetual recruitment focus. Always be in recruitment mode. Even when you have a full committee, continue to search for candidates for your pipeline. That way, when a vacancy does occur, you'll

have a stable of candidates to consider and will be able to fill the vacancy sooner.

Credit unions must provide initial and ongoing training for supervisory committee members. Sometimes, committee members may audit the right areas but not understand why they are doing so or what the results mean.

Have a robust, compliant, and ongoing training program in place to educate committee members.

While experience in accounting and/or auditing is a real plus, committee members must also be inquisitive, analytical, and committed to fulfilling their fiduciary role.

Credit unions that fail to miss fraud and consequently breach members' trust may never recover from the event. It's hard enough to compete in an overcrowded market and comply with regulations. A breach of trust could end it all.

Proper oversight is essential for all credit unions, regardless of size. The movement's collective brand sinks or swims together.

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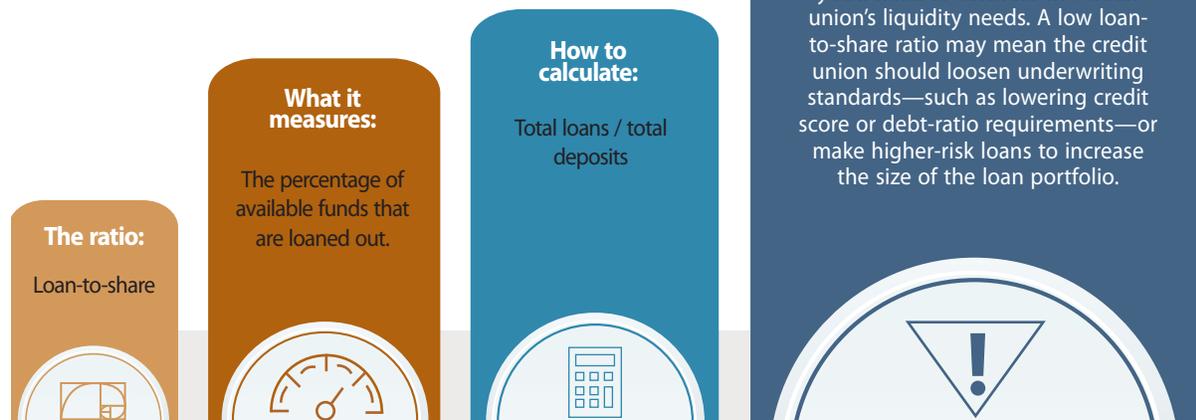


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Ratios to Remember

Financial statements—specifically the income statement and balance sheet—hold a wealth of information about the credit union. While the information is essential, these statements aren't all that useful when taken by themselves.

To get the most out of these statements, you must figure out the key ratios. *Credit Union Directors Newsletter* has been exploring 10 key ratios directors should know, including what the ratio measures, how to calculate it, and why the ratio is important.



Take Steps to Decrease Your Liability

Measures go beyond insurance to include education and policy reviews.

Beyond having bond insurance to cover fraud, questionable employment practices, or other issues that could cause trouble for the board, directors can take several steps to lessen their liability and provide another layer of protection for the credit union, says Mike Hoover, underwriting specialist at CUNA Mutual Group.

“Consider three key words to address this: care, loyalty, and diligence,” Hoover says. “Those are the three duties directors have to their credit unions.”

Carrying out these duties will ensure your credit union is protected from wrong-doing and risks that could jeopardize its safety and soundness.

The three duties are:



1. Duty of care. Be an active board member during meetings. Ask questions, review materials before the board meeting, focus on critical issues, and discuss alternatives to what you’re doing.

Don’t wait until there are problems to ask questions. Asking questions throughout the process will prove to be valuable.

“You need to question what’s going well by asking why?” says Kim Phelps, board vice chair at \$106 million asset University of Nebraska Federal Credit Union in Lincoln.

“This gets to the root of your question,” he continues, “which is, ‘what is the board doing to protect the membership from bad decision-making?’”

A lack of questions can get your board—and credit union—into trouble, Phelps says.

“Be assertive,” he advises. “You need to know not only the obvious things in front of you, you also need to consider what will happen six to 18 months down the road and how today’s decisions will impact the entire membership.”

Asking questions is one characteristic the board at Upward Credit Union wanted in a new director

when it needed to fill a vacancy created when a board member passed away.

“We sought out someone who would be a thought critic” and who looks at all of the details, says Annie Miller, board chair at the \$77 million asset credit union in Burlingame, Calif. “Our credit union is so well run that I sometimes have to look for things to question to make sure I’m doing my due diligence.”



2. Duty of loyalty. Disclose any conflicts of interest. If a conflict exists, make sure the credit union has the right of first refusal.

“Even if there’s a perception that you’re loyal, recuse yourself from certain situations” when necessary, Hoover says.

3. Duty of diligence. Make sure you conduct yourself as a director on an informed basis, in good faith, and with the belief that your actions are in the best interest of the credit union, Hoover says.



Part of that diligence involves implementing clear policies and procedures, Hoover says, and holding regular training to ensure the credit union takes the necessary steps to prevent potential lawsuits or liabilities.

Board certification

At Royal Credit Union, every board member is required to obtain CUNA’s Certified Credit Union Board Member certification within their first year of service, and then recertify every three years.

They are also required to attend at least one national conference a year, says Doug Olson, board chair at the \$2.6 billion asset credit union in Eau Claire, Wis.

“It really forces you to understand the financials, safety and soundness, regulations, and other requirements that go into operating a credit union,” Olson says. “We believe education is the best starting point for that.”

In addition to providing bond insurance, Hoover says if leadership focuses on selecting the right board members, providing ongoing education and training, and implementing clear policies and procedures, the credit union will lessen its risk and provide another layer of protection.

“It’s important for directors to understand ultimately who they serve, and that’s the membership of the credit union,” Hoover says. “It’s not the regulator, it’s not the CEO. It’s not anybody else other than the members.”



■ CUNA board and committee resources:

cuna.org/board

■ CUNA Mutual Group:

cunamutual.com





Credit Union Magazine's
2019 CU Rock Stars:
news.cuna.org/rockstar

Dedicated to Their Mission

Two directors honored as 2019 Credit Union Rock Stars.

Outstanding directors rise to meet the challenges their credit unions face, whether that means addressing technology needs or spreading awareness about the benefits credit unions offer.

Credit Union Magazine recently recognized two directors as 2019 Credit Union Rock Stars:

Andrew Vanjani knows the future of credit unions is tethered to technology and that keeping up with digital change is key to success.

A board member at \$242 million asset OAS Staff Federal Credit Union in Washington, D.C., Vanjani has played a transformative role in building the technology infrastructure that keeps the credit union a member-centric financial institution.

Technology is especially important for OAS Staff Federal because 42% of its members reside outside the U.S. "We have a lot of members in Latin America, and we weren't providing the major services they expected," says Vanjani, who is assistant cabinet secretary for operations at the State of Maryland's Department of Information Technology.

He took a leading role to ensure the credit union's core system was updated in order to improve

employee efficiency, cut operational costs, and improve the member experience.

"We want to leverage data to transform our credit union," he says.

A tireless advocate

Compression socks with the credit union logo isn't a sexy marketing idea—unless the target audience consists of police officers.

That was one idea from **Theresa Velez**, a 15-year veteran officer of the Hartford Police Department and a member of the board and supervisory committee at Greater Hartford (Conn.) Police Federal Credit Union.

"They're good for your circulation when you're on your feet a lot," Velez says. "That's good for police officers because we're on our feet all the time."

Wendy Tariff, CEO at the \$24 million asset credit union, says Velez is a tireless advocate.

"She has a great deal of marketing knowledge and comes up with unique and creative ideas to promote the credit union," Tariff says. "She fearlessly makes contacts, asks questions, and puts people together to form powerful teams."

Velez teaches at the police academy, preaches the virtues of credit union membership to recruits.

STATEMENT OF OWNERSHIP, MANAGEMENT, AND CIRCULATION

Title of publication: Credit Union Directors Newsletter

Frequency of issue: Monthly

Location of office of publication: 5710 Mineral Point Road, Madison, WI 53705-4454, Dane County

Location of the headquarters or general business office of the publisher: 5710 Mineral Point Road, Madison, WI 53705-4454, Dane County

Publisher: Ann Hayes Peterson, Credit Union National Association, 5710 Mineral Point Road, Madison, WI 53705-4454

Editor-in-chief: Ann Hayes Peterson, 5710 Mineral Point Road, Madison, WI 53705-4454

Owner: Credit Union National Association, 5710 Mineral Point Road, Madison, WI 53705-4454

Known bondholders, mortgagees, and other security holders owning or holding 1% or more of total amount of bonds, mortgages, or other securities: None.

I certify the above statements are true and complete—Ann Hayes Peterson, editor-in-chief, 10/1/2019

	Average No. Copies Each Issue During Preceding 12 Months	No. Copies of Single Issue Published Nearest to Filing Date
A. Total printed (Net press run)	2,232	1,778
B1. Paid/requested outside-county	1,773	1,677
B2. Paid in-county	0	0
B3. Sales through dealers, vendors and counter sales	0	0
B4. Other classes mailed	0	0
C. Total paid distribution	1,773	1,677
D1. Free outside-county	0	0
D2. Free in-county	0	0
D3. Other classes mailed	0	0
D4. Free outside the mail	25	0
E. Total free distribution	25	0
F. Total distribution	1,798	1,677
G. Copies not distributed	145	140
H. TOTAL	1,943	1,817
I. Percent paid	98.6%	100%
a. Paid electronic copies	139	147
b. Total paid print + paid electronic	1,912	1,824
c. Total print dist. + paid electronic	1,937	1,824
d. Percent paid (print & electronic)	98.7%	100%



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CREDIT UNION
Directors
NEWSLETTER

CREDIT UNION DIRECTORS NEWSLETTER (ISSN 1058-1561) is published monthly for \$142 per year by the Credit Union National Association, 5710 Mineral Point Road, Madison, WI 53705-4454. (Multiple-copy discounts available.) Also available as a downloadable PDF for an annual subscription rate of \$695. Periodical postage paid at Madison, Wis.

POSTMASTER: Send address changes to CREDIT UNION DIRECTORS NEWSLETTER, P.O. Box 461, Annapolis Junction, MD 20701-0461. Advertising is accepted only from reputable firms, but inclusion of advertising does not imply endorsement by the newsletter or CUNA Inc.

Publisher: Ann Hayes Peterson, vice president and editor-in-chief, apeterson@cuna.coop

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Design and production staff: Carrie Doyle, graphic designer, cdoyle@cuna.coop

Editorial: 608-231-4211 **Subscriptions:** 800-348-3646, fax 301-206-9789, or cuna.org/directors

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