

 Office of Credit Unions Policies and Procedures	POLICY NUMBER
	10005
EXAMINERS MANUAL - GENERAL	EFFECTIVE DATE
	11/01/2018
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I. PURPOSE

To outline scope considerations regarding onsite examination/supervisory contacts.

II. PROCEDURES

1. **Effective Dates:** The Examiner-In-Charge (EIC), with Regional Supervisor (RS) support, shall determine the effective date (and/or date range) of each review area, based on the examination timing, and duration and level of known or anticipated risks.
 - a. Review scope should include financial information to validate the most recent Call Report, including review of the quarter-end Call Report data. Analysis of the credit union's safety and soundness shall also include consideration of the most recent financial data available. Typically, the review of risk management activities (policies, board minutes, planning sessions, operational practices, etc.) and areas such as loan underwriting and investing, shall encompass the period from the last examination through at least the most recent month end, with consideration for prospective and/or planned future activities.
 - b. Report scope should include consideration of and related commentary on recent trends of note. As it derives from 5300 Call Report data, the standard Key Ratios and Financial History pages will reflect the most recent 5300 quarter-end. The exam report cover and related document headers should reflect the effective date as determined by the EIC (with RS support); this will typically be the most recent month end where financial and related information was complete and available for review.
2. **General Examination Scope:** The examination scope shall encompass those areas where the examiner's professional judgment determines risks are, or may be present, which could impact the credit union's safety and soundness. Examiners have the discretion to expand or reduce the scope of review areas, as appropriate, to maximize the efficiency of the examination process and the effectiveness of the examination results. The examination scope shall generally include:
 - a. **Known Concerns:** Areas identified in previous exams and/or audit reports as problematic areas and areas of concern otherwise identified (e.g. through other routine off-site monitoring, or through notification by consumers, vendors or others).
 - b. **Negative Trends:** Negative trends in the Key Financial Ratios or FPR, indicating problematic areas or potential emerging issues should always trigger further analysis and review.

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- c. **Emerging Issues:** Issues identified during routine examination procedures, including review of the board minutes, new products, personnel changes, policy changes, changes in strategy etc. and/or industry emerging issues (market issues or regulatory issues).
 - d. **Confidential:** Significant/unusual expansion or limitation of individual review areas by the EIC should be discussed with the RS and rationale documented by the EIC.
- 3. **Follow up Scope:** The scope of a follow up contact is typically limited to reviewing the status of problem areas previously identified. However, examiners may examine and report on other areas if in the examiner's professional judgement ongoing review is warranted and/or a problem may be developing. The EIC shall immediately inform the RS if material expansion of the follow up scope is anticipated.
- 4. **Materiality:** Determining materiality is not always quantifiable and will require the examiner to utilize professional judgment. Any item/issue may be deemed material if it has had, is having, or may have a significant negative effect on the financial condition of the institution, may represent a current or future threat to safety and soundness, or otherwise represents a condition which left unchecked could develop into a serious concern. Examiners should consult their RS in situations where the materiality of an item is questionable, providing the facts under consideration.
- 5. **Considerations:** The degree to which a potential misstatement or weakness may impact the financial condition of the credit union, its overall risk profile or the appropriate supervision level, shall be considered when examiners develop the scope of an exam and the distribution of examination resources (personnel and time).
 - a. **Impact on Financial Condition:** The degree to which an area could negatively impact the credit union's present or future net worth ratio, ROA, loss ratios etc. shall be a strong consideration. Also, the EIC shall consider the degree to which the individual or aggregate findings impact the credit union's long-term viability, or result in increased risks (credit, IRR/market, liquidity, strategic, reputation, transaction, legal/compliance).
 - b. **Impact on Supervision Plan:** Consideration of the degree to which the review area will or may impact the CAMELS Component or Composite ratings, thus the level of on-going supervision which would be needed or required as a result of the review.
 - c. **Nature of Findings:** The nature of findings, such as breaches of fiduciary responsibility (e.g. fraud, dishonesty, self-dealing, and insider abuse) may warrant expanded review in certain areas.

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- 6. Shortages and Improprieties:** The regulatory examination scope is not designed to locate improprieties or shortages occurring within the credit union’s daily operations; however, the examiner may discover improprieties and/or shortages during an examination. Such events will warrant additional review procedures to ascertain the nature and impact of the issues and determine an appropriate supervision plan. Intuition, perception and sound judgment are required to distinguish between evidence associated with criminal activity and evidence related to faulty operational practices due to poor policies/knowledge/training. Examiners should not prematurely reach conclusions or make any accusations until their investigation and research substantially proves the differences discovered are not merely bookkeeping errors.
- 7. Relativity:** The scope of testing and analysis depends primarily upon the nature and complexity of operations, known level of management effectiveness, and the seriousness of the adverse conditions.