

Thank You

**2002 Power for Just Pennies Pacesetters
and
Community Investment Fund Contributors**

The Pacesetters are a group of organizations that have generously donated \$1,000 or more between the Michigan Credit Union Foundation (MCUF) and the National Credit Union Foundation since the 2001 MCUL Annual Convention and Exposition Grand Banquet and May 22, 2002. The Pacesetters are:

- FROM OUR FAMILY TO YOURS
- GETTING IT DONE
- AM I COMMUNICATING WITH RESPECT?
- CREDIT UNIONS HELPING CREDIT UNIONS
- HR TIPS
- RETHINKING LEADERSHIP
- OFAC COMPLIANCE OPTIONS VARY
- MANY FORMS OF CHECK FRAUD
- CHECK OUT CUNA'S COMPLIANCE CHALLENGE
- WHY REVIEW FILE MAINTENANCE/CHANGE REPORTS?
- TRI-STATE SAS CU CONFERENCE
- POWER FOR JUST PENNIES

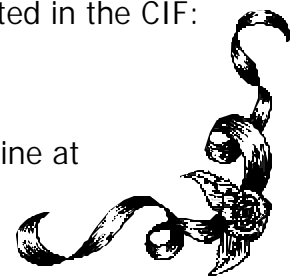
AAA Michigan – Group Services
Central Corporate Credit Union
Clinton County FCU
Community Choice CU
Communications Family CU
Co-op Services CU
CUcorp
Credit Union ONE
CUNA Mutual
Detroit Edison CU
Downriver Catholic CU
Elga CU
Huron River Area CU
Huron Valley Chapter

Kalamazoo Chapter
Lansing Automakers FCU
Lansing Chapter
Members First CU
Michigan Credit Union League
Northland Area FCU
Oakland Catholic CU
Omni Family CU
Research FCU
Security FCU
Service 1 FCU
Service Centers Corporation
T & C Federal CU
University of Michigan CU

In February 2002, the Michigan Credit Union League in collaboration with CenCorp introduced the Community Investment Fund (CIF). The CIF gives credit unions in Michigan an innovative way to invest in the future and vitality of the credit union movement while receiving financial benefit from their investment. The benefit to the MCUF from credit unions investing in the CIF gives the Foundation another source of revenue for the General Fund.



To date there have been two credit unions that have invested in the CIF:
Oakland Catholic Credit Union
Oakland County Credit Union



More information on the MCUF is available online at
www.foundation.mcul.org
or by calling MCUL ext. 339.

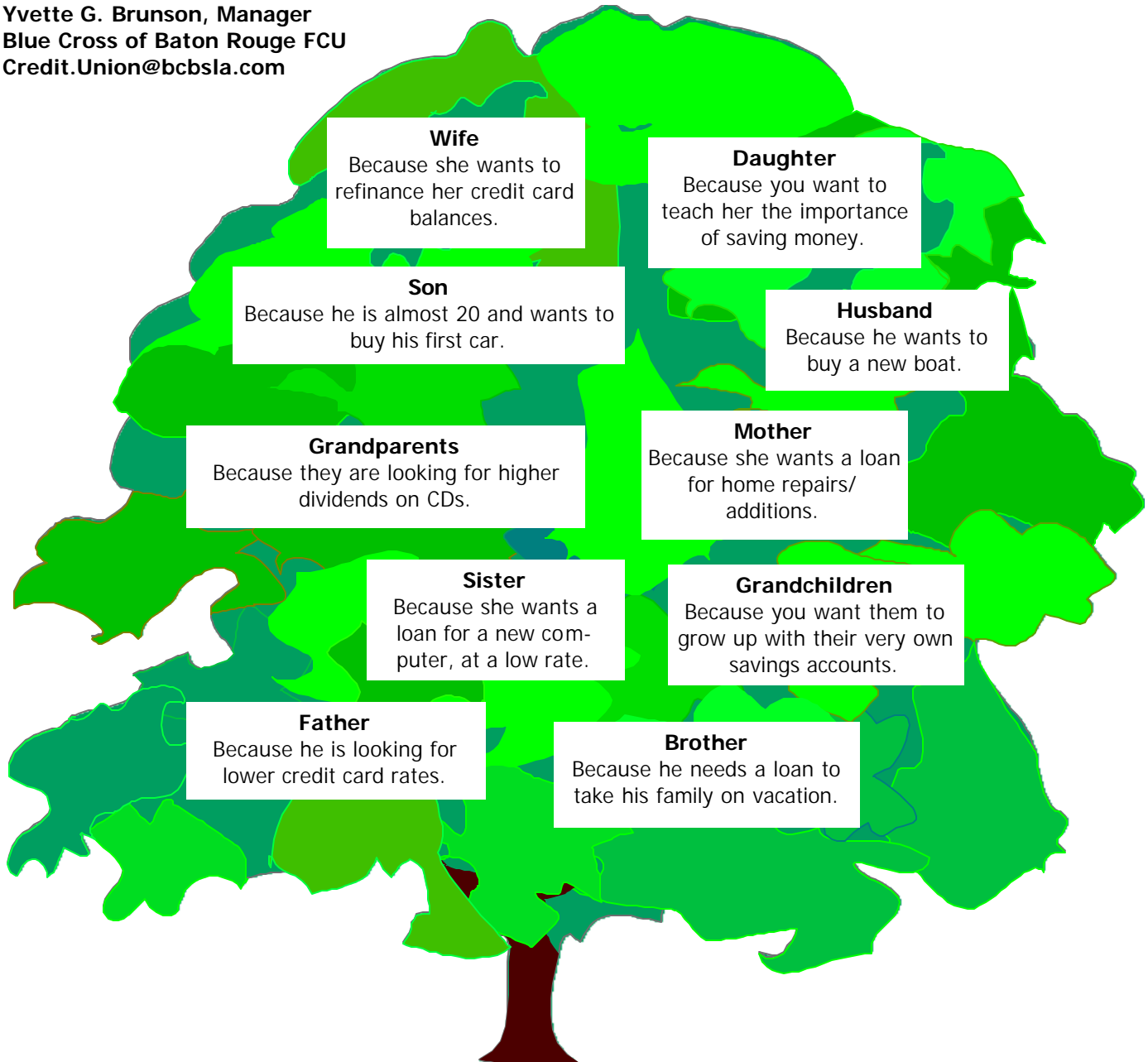
SUBMIT ARTICLES TO:
CAROLYN MILLER
MIL@MCUL.ORG
1-800-262-6285
EXT. 753

From Our Family to Yours

When one credit union was looking for a way to remind its members that their family could join the credit union and take advantage of its services, they came up with the following, which they mailed out as a full-page promotion.

When I think of relatives, I think of a family tree – so I created the family tree below as an invitation, giving them reason to invite their family to join them at our credit union. It was a success! We had many members who didn't realize their family was eligible until they saw the invitation. I think it helps to have a visual image to get the message across.

Yvette G. Brunson, Manager
Blue Cross of Baton Rouge FCU
Credit.Union@bcbsla.com



Blue Cross of Baton Rouge Federal Credit Union

Cordially invites your family to join ours!

One of the perks of being a Credit Union member is that your immediate family members are also eligible to join.

Once they are a member, they will be able to take advantage of our great services!

Call the Credit Union for more details.

Getting it Done

The emphasis of the Spring SAS CU Conference, which was held in conjunction with the Michigan Credit Union League's Annual Convention and Exposition (AC&E) in Grand Rapids on May 30-June 1, was "Getting it Done."

Carlene Napier, an instructor for the Center of Progressive Learning, guided the 34 attendees through topics including Time Management, The Art of Delegation/Empowerment and Evaluating Employee Performance.

Napier has 30 years of experience in the financial industry, management, marketing and training including bachelor's and master's degrees in Business, guided the 34 attendees through topics including Time Management, The Art of Delegation/Empowerment and Evaluating Employee Performance.

In the time management segment of her presentation, Napier focused on Attitude and how it affects how we choose to spend our time; as well as Goals, which are powerful tools that can help us to achieve what we want for ourselves.

Clear goals are SMART goals and will work because they meet several criteria — they are specific, measurable, achievable, realistic, timed and written. Priorities go hand-in-hand with goal setting and refer to the important things and how to get better results by spending more time doing the important tasks.

The keys to successful planning, which can break us out of reactive patterns, are summed up in these six simple questions:

1. Results – What are my goals; what do I expect to accomplish?
2. Activities – What will I have to do to get these results?
3. Priorities – What are the priorities involved?
4. Time estimates – How much time will each activity require?
5. Schedules – When will I do each activity?
6. Flexibility – How much flexibility must I allow for the unexpected things I can't control?

"Clear goals are SMART goals and will work because they meet several criteria—they are specific, measurable, achievable, realistic, timed and written. Priorities go hand-in-hand with goal setting..."

Other factors that affect time management are scheduling, interruptions, meetings that are time wasters and procrastination.

During the Delegation/Empowerment segment of the presentation, Napier discussed the six steps to productive delegation – Clearly defining the task, giving guidelines to begin or follow, giving authority to accomplish the task, monitoring the tasks without hovering, giving feedback along the way, and rewarding and recognizing the effort as well as the results.

Some examples of obstacles that can hinder delegation include staff deficiencies, management deficiencies, the "I can do it better myself" syndrome, doing what comes naturally, the "multi-hat" syndrome, perfectionism and adversity to risk. Empowering staff through delegation is a powerful tool in staff development.

Napier ended the session with a discussion on the importance of employee performance evaluations being an ongoing process



Carlene Napier speaks to 34 attendees at the Spring SAS CU Conference, held in conjunction with the MCUL 2002 AC&E.

and outlining the three key phases of a performance period (one year). The key phases are planning – at the beginning of the performance period, ongoing communication – during the performance period, and a review – at the end of the performance period.

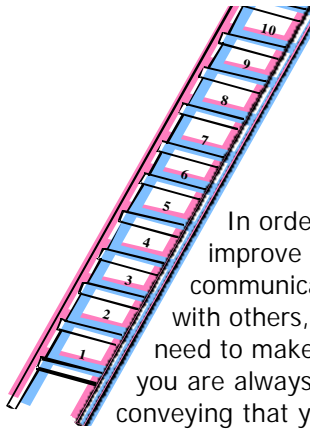
Discussions about performance can be sensitive for many reasons. By using the following key principles during these discussions you'll show your employee that they are important, that you value what they have to say and that you support their efforts to do a good job. The key principles are maintaining or enhancing self-esteem, listening and responding with empathy, asking for help and encouraging involvement, sharing thoughts, feelings and rationale provide support without removing responsibility.

**Carolyn Miller, Senior Consultant
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Attendee Comments

Time Management: I came "out of the box" and tried a new time management technique. I was getting behind on my reading, e-mails, letter responses, updates on compliance and regulations, etc. - so the credit union bought me a computer, printer/fax for my home office. One day a week, which I schedule around my credit union appointments, I work out of my home office. This allows me quiet time and I found I get twice as much accomplished because I do not have any phone or employee interruptions. Our work schedules continue to get more and more hectic, with no more additional hours to keep caught up - get "out of the box" - TRY IT -- YOU'LL LOVE IT!!!

Glenda West, CEO
DuPont & Associates FCU
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In order to improve communication with others, you need to make sure you are always conveying that you respect them as a person. Sadly, I must say I often see this trait missing especially between employees and managers.

Here is a quick test that will help you know if you always convey that you respect the other person. Give yourself a point for all the ones you do consistently.

1. You bring pen and paper to meetings and take notes to show your interest and the importance of what is being said.
2. You respond to all phone calls and E-mails within 24 hours even if it is only to say you will not have an answer until later.
3. You sit up with your shoulders back, plant your feet firmly and make eye contact during meetings and discussions.
4. With management, you appropriately challenge ideas always looking at what can be done to improve things. You never challenge by saying things are "stupid," "won't work," or by rolling your eyes.
5. You realize that bottom line your job is to support upper management in reaching the company's vision. Therefore, you take it upon yourself to look at what you need from your manager in order to do your job better taking full responsibility for your job.

Am I Communicating With Respect? 10 Steps To Communicating Respectfully

6. You do not interrupt while others are talking.
7. During arguments or heated discussions you repeat back what you think the other person said before you say your piece. That way you avoid misunderstandings or reading in to what the other person said.
8. Any disagreement you have with a person you take straight to him/her rather than gossip about it behind their back.
9. When listening to a person you make eye contact 70 percent of the time.
10. You believe that people are trying to do their best.

Score:

9-10 points: You really try to make everyone you come in contact with feel valued. You are probably targeted as a leader and someone that people look up to.

"In order to improve communication with others you need to make sure you are always conveying that you respect them as a person."

7-8 points: You will be respectful of those you feel deserve it but sometimes may be seen as not a team player. People may see you as "hot or cold."

6 or less: You probably come off as a person with a "chip on their shoulder." People are more likely to take what you say negatively because

they feel you don't respect them so they are not going to want to respect you. I recommend that you look at whether you are in the right

"People are more likely to take what you say negatively because they feel you don't respect them so they are not going to want to respect you."

workplace for you or if you need to find an environment where you can show a greater degree of respect for others.

Life is too short not to be happy at work.

Anne Warfield
Certified Speaking Professional

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As a leading Outcome Strategist, Anne Warfield shows people how to present their ideas, products and services so people WANT to listen. Fortune 500 companies around the world have utilized her expertise and her work has been published in *Business Week*, *Good Housekeeping*, and *Forbes Publications*. She has also been featured on ABC, NBC and CBS. Warfield speaks around the world about Outcome Focus™ Communication. For more information, call 888-imp-9421, visit online at www.impressionmanagement.com, or e-mail contact@impressionmanagement.com.

Credit Unions Helping Credit Unions

Members Credit Union in Traverse City has opened checking accounts for two smaller credit unions that were experiencing difficulty and high fees with their local financial institution.

The two credit unions that have created an alliance with Members CU are Cone Drive Gears FCU and Sheffer Collet/ITW EFCU. Both serve a singular industrial field of membership.

We welcomed the opportunity to be of service to our credit union colleagues in the Traverse City area. We feel that it is very important to cooperate in the true nature of credit unions themselves.

"At our credit union, Credit Unions Helping Credit Unions is something we experienced first hand."

Cone Drive Gears FCU was prompted to check around for a different financial institution after the one it had been doing business with for over 30 years informed them once again that service fees were going to be decreased. Cone Drive Gears FCU General Manager Barb Weber checked other financial institutions in the area and did not find cheaper fees, but fees as high or higher than what they were already paying. Weber brought the matter up at the monthly Board of Directors meeting. One of the directors had an account at Members CU and suggested they open an account with us.

Weber contacted me and within a few days I was able to call her back with the good news that it was possible for them to open an account with us and that we would be happy to serve them. Now, two years later, not only do they tell us they get better service, but they are still paying no service fees. Weber told me: "This, to us at Cone Drive Gears FCU, is what credit unions are all about, not just helping our members, but each other too! At our credit union, 'Credit Unions Helping Credit Unions' is something we experienced first hand."

Similarly, Joann Becker, Sheffer Collet/ITW EFCU Board secretary, told me: "The credit union is much easier to deal with and less expensive than the financial institution where we used to have our checking account."

If we had it to do over again, we certainly would not hesitate to be participants in serving the Michigan credit union cooperative community.

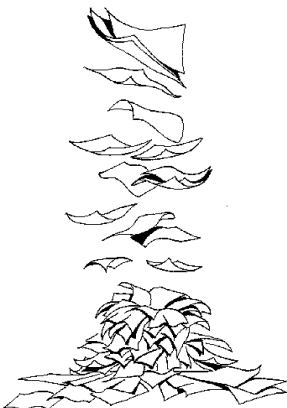


Dan Witkowski
President
Members Credit Union
231-929-2000

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**For more information, contact Ken Ross at
800-262-6285, ext 464
or kmr@mcu.org.**



HR Tips

Reducing Your Credit Union's Days of Business? Things to Remember from an HR Standpoint

If you are considering a reduction in the business hours or days and, subsequently, the number of hours employees work within a workweek, there are a few things to keep in mind. Let's say, for example, that your credit union is open for business Monday through Friday as well as Saturday morning, and you have decided to close the credit union on Tuesdays. In effect, your typical full-time employees may be reduced from a 40-hour workweek to a 32-hour workweek. Let's take a look at a few important things.

First of all, you'll want to inform your employees of this change and be open with them as to why the change is taking place. Employees are less resistant to change when they understand the reasons behind the change and the process for implementing the change. Also, you will want to give them as much notice as possible so that they can plan and prepare accordingly.

Next, you'll want to review each benefit plan and find those that specify the amount of hours for full-time status. For example, you may need to work with your insurance company or administrator to revise the definition of a full-time employee. Your plan may state, for example, that health insurance is offered to any employee who meets the full-time requirements of 40 hours. A change to your plan document may be necessary to redefine your full-time employees as those working 32 hours. You may also need to redefine how many hours

constitute a part-time employee. Essentially what you are doing is defining who is eligible to participate in the plans.

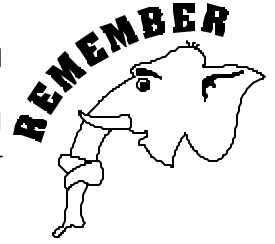
Review your guidelines for overtime pay. According to the Fair Labor Standards Act you do not have to pay wages at an overtime rate (time and a half) for any hours 40 and under. You may want to spell this out in your guidelines so that staff know that if they work "extra" hours (over their regularly scheduled 32 hours in a workweek) that it would not be paid at an overtime rate unless it went over 40 hours in that workweek.

"Employees are less resistant to change when they understand the reasons behind the change and the process for implementing the change."

Don't forget to check your policy on accruing for vacation, sick or paid time off. You may need to revise the language in your policies and redefine your accrual guidelines, especially if they are based on the number of hours worked. Your holiday pay policy may also need to be reviewed. What if a holiday falls on a Tuesday when the credit union is not open? Having questions similar to this answered in advance will help you to be better prepared.

A reduction in hours may make an employee eligible for some unemployment pay, depending on the amount of reduction. You may want to check with your local unemployment office to see how this may affect your credit union.

Finally, review your personnel policies manual as well as other procedural manuals to see if any other changes need to be made due to the reduction in your hours or days of operation.



Kristi Mc Nail
Former Director
Human Resources
MCUL

Questions can be directed to:

Jessica Strasser
Human Resources Manager
MCUL
800-262-6285, ext. 490

Questions on Form 1099-C: Discharge of Indebtedness

Answers can be found in:
The Tax/Accounting/Employment
Manual
of the MCUL's Compliance
Management System
or online at www.mcul.org, by
clicking on Credit Union Home, then
Regulatory Affairs, then CMS online,
then
Tax/Accounting/Employment and
scroll down to
Final Regulations on Reporting
Discharge of Indebtedness.
Answers are also available at
www.cuna.org, by clicking on
Regulations & Compliance,
then e-guide and scroll down to IRS
Reporting/Form 1099-C:
Discharge of Indebtedness.

Rethinking Leadership

You can learn more about leadership from miserable bosses than from exceptional leaders. One very valuable lesson: How NOT to lead others.

These folks may be from the 'old school' of hard Knox – and they may be very efficient managers... BUT how effective are they?

Picture the stereotypical 'my way or the highway' boss: a superior attitude, self-centeredness, and not being able to see the impact of their management style on others. Symptoms of their style of management include a lack of teamwork among the staff, low morale and poor communication.

If the leader's job is to know where they are going, then it is up to the staff members to get them there. No organization can achieve long-term success without truly recognizing the needs of the individual. Employees must have a real say in work being done.

Successful leaders lead by example. Honesty, fairness, openness to change and of course a special sense of humor. Easier said than done. The impact of those "miserable" leaders is so profound that we often revert back to inherited bad habits. Like parenting, leading others by being a role model is something you must consciously do every minute of every day. Otherwise, you will be perceived as very rigid and inflexible. You'll be unwilling to delegate and will not help subordinates grow in their positions.

For a credit union to sincerely embrace the teamwork concept, change needs to start at the management level. To win respect, step up and acknowledge your feelings and ask for everyone's support in improving communication. True success requires everyone "buy in" to the process.

At MCCU, we began with the establishment of a management team. Instead of an organizational structure with one manager and department supervisors, six people now share the leadership role.

Weekly meetings build upon a foundation or "container" which includes ground rules, values and feeling statements. Feelings help us to better understand one another. The best way to communicate feelings is by taking responsibility for them, speaking from the "I" and never placing the responsibility for how we feel on someone else.

- Examples of feelings from the "I" position: I feel tired; I feel frustrated; I am happy; I am glad; I was disappointed, sad, mad, glad or scared and why?
- Examples of placing the responsibility for your feelings on someone else: You are not listening; You don't care; You don't understand; You're not thinking of me; You made me feel upset.

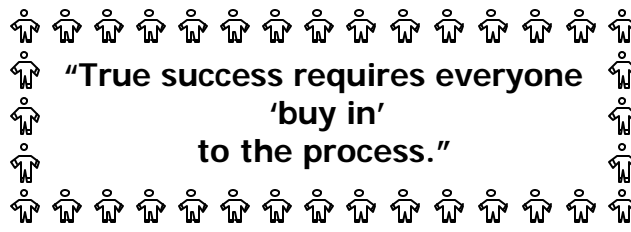
When your thoughts are clear and you "own" your feelings, you can simply state what you need or want effectively and unemotionally.

Once the management team was comfortable with the new process, managers took this approach to their various departments. The rewards of effective communication are many; including increased trust, commitment, self-esteem, less bickering and gossiping – overall improved relationships. Everyone is held accountable by their teammates, not just their supervisor.

Credit unions are known for their brand of personal, trustworthy service to members. At MCCU, the spirit has truly emerged. Empowered employees take initiative and respond to problems with solutions. Teamwork pays off where it counts – at the member level. Trusted, valued employees work to create experiences for our members that continually outpace their expectations.

This credit union spirit is indeed alive and well.

**Peggy Day, CEO
Marshall Community CU
616-781-9885**



OFAC Compliance Options Vary

Mention the compliance burdens associated with the Office of Foreign Asset Control (OFAC) to a credit union manager and you're likely to get an earful. Since OFAC couples complex regulations with heavy penalties (including jail time) for violations, an effective compliance program is not only suggested—it's essential.

A good OFAC compliance program starts with a solid risk assessment geared toward identifying what credit union activities present OFAC exposure. Risks should be managed by establishing a uniform policy or set of procedures that are subject to internal or third-party testing. As part of the policy, the credit union should designate an OFAC Compliance Officer, who would be responsible for monitoring compliance with OFAC, coordinating staff training, and overseeing blocked funds and reporting obligations.

Transactions that need to be monitored for OFAC compliance include those involving wire transfers; Electronic Funds Transfers; cashing or depositing share drafts or checks; opening new accounts or accounts for trusts; purchasing money orders or cashiers checks; disbursement of loan proceeds or acceptance of loan payments; safe deposit boxes; and credit cards.

Anyone involved in these types of transactions needs to be checked against the Specially Designated Nationals (SDN) list, which is maintained and updated by OFAC. In addition to principals, joint owners, co-signers, guarantors, collateral owners and those receiving wire transfers must also be checked.

In meeting their OFAC compliance obligations, credit unions can regularly print the OFAC list and manually check for matches; download the SDN list as a .pdf and search

it using the "find" command; or invest in OFAC compliance software.

Manual Search of the Paper List

The first option—running a hard copy of the list and manually checking it for matches—is arguably the worst possible alternative to choose. The primary benefit would lie in the low up-front cost associated with printing a copy of the list. Drawbacks would include the need to manually update your list on a routine basis to assure that you have a complete list and the time associated with manually checking and cross-checking names against the thousands on the list.

Manual Search of the Computerized List

The second option—downloading the SDN list as a .pdf and searching this file using the "find" command is definitely an improvement over the totally manual search. By searching a .pdf file, your computer does the legwork by scanning the file for you and identifying any matches. Providing that you have computers and Internet access, you should be able to download the file at no cost.

Like the manual system, to be effective you must be searching the latest version of the SDN file, so obtaining updated lists becomes essential. Additionally, while the "find" command will display exact matches, it may not provide you with near misses or give the user any rank ordering as to the relative strength of the match.

A variation on the second option would be to go to the SDN list maintained on the OFAC Web site and run searches directly against that file. While this would assure that you

were using the most up-to-date list, it would not address the other problems inherent to the basic “find” method.

Purchasing Filtering Software

The final option—purchasing OFAC compliance software, gives the credit union the highest level of protection against violations. Not only are potential matches identified, but they should be given a ranking that indicates the strength of the match, and this should decrease the resources needed to weed out false-positives. Software vendors should immediately update the SDN list when additions are made, taking that burden off credit union staff. The principal drawback associated with using a third-party software program is the cost.

Before investing in any new software, credit unions would be smart to talk to their data processor. Their contract may address liability

for continuing regulatory compliance or they may have their own OFAC software package available for your use.


Additional Information and Resources

Additional OFAC compliance resources can be found in the Regulatory Affairs area of the League Web site at www.mcul.org.

The OFAC SDN list can be found at <http://www.treas.gov/offices/enforcement/ofac/sdn/t11sdn.pdf>.

Providers of filtering software include Bridger Systems, Inc. (800) 915-8930 or www.ofacompliance.com and Thompson Financial Publishing (800) 321-3373 or www.tfp.com/risk_ofac.shtml.

Ken Ross
Director Regulatory Affairs
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E-mail: kmr@mcul.org



**Have you checked out the Audio Webcast
and the Archived Internet & Audio Conferences
on the Education Web site?**
**Both of these can be found at www.mcul.org
by clicking on Credit Union Home, then Education.
Once there, scroll down to the area of your choice.**

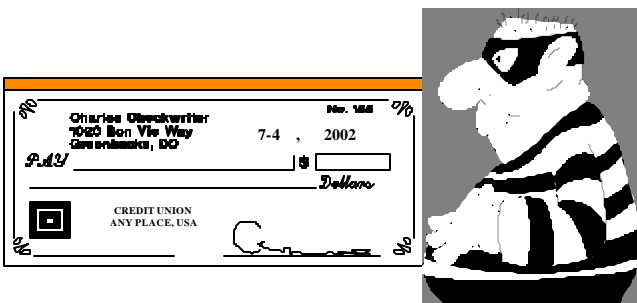
Many Forms of Check Fraud

Credit union employees need to be aware of several types of check fraud. Don't consider this an all-inclusive list. Variations and new scams are common, especially as technology and financial institution processes change. The good news, however, is that all frauds are subject to detection and prevention by alert, well-trained staff.

Altered checks. This is an authentic check with unauthorized changes, as in the check's amount or the payee's name. Sometimes the magnetic ink character recognition (MICR) line is altered to delay a check's clearance.

Counterfeit checks. This is done either by making a copy of a valid check and using the copy fraudulently or by creating checks from scratch. Custom check computer software that's readily available, such as VersaCheck (sells for \$29.95), produces checks that are authentic-looking in every way, including a MICR line. Almost any kind of check can be counterfeited, including cashier's, payroll, government, and traveler's checks.

Forged checks. Check forgery involves a false signature, either on the signature line or as the endorsement. Forgery is common with stolen checks and can be accompanied by stolen or fake identification and other elements of identity assumption.



Closed account. This scam involves writing checks on closed accounts and relies on the "float" time required to process the check between institutions.

Check kiting. This is a variation on the closed account scheme. It involves having multiple open accounts at different institutions and using the float time to make fraudulent deposits. A check drawn on a credit union, for example, is deposited in a second financial institution without having sufficient funds to cover the check. When the deposit is made, the financial institution grants a conditional credit, which lets the member/customer draw checks against uncollected funds.

**"...All frauds are subject
to detection and
prevention by
alert, well-trained staff."**

The member/customer then writes a check on the second institution and deposits it in the first credit union to cover the original check. This process can be continued indefinitely until the balance at one or both institutions is inflated enough for the member/customer to withdraw it.

Third-party bill paying services and demand drafts. These types of instruments are particularly susceptible to fraud because they have no payor signature. If legitimate, there should be some written or other physical evidence of the payor's authorization. An FTC rule requires such "verifiable authorization" in the case of telemarketers. Members who give out their account information too freely and credit unions that don't check demand drafts against preauthorization cards inadvertently encourage this kind of fraud.

Identity theft. This occurs when scam artists obtain information—name, address, account number, or Social Security number—about real members and use it to misrepresent themselves as members or to open new accounts.

New account fraud. This involves using fictitious information or falsely claiming someone else's identity—name, address, field of membership, employment, or a company name—to open an account. The Office of the Comptroller of the

Currency attributes a significant amount of check fraud to this type of scheme.

Collusion and insider fraud. Collusion involves criminals working with dishonest Employees or members to forge checks or create counterfeit ones using other people's valid account numbers. Insider fraud occurs when employees use account and other information to make fraudulent withdrawals.

How To Protect Your CU

There are many things credit unions can do to fight check fraud. These include written policies and procedures that are clearly understood and faithfully followed by employees; good internal controls that separate check handling, storage, and auditing functions; well-trained employees; and use of outside networks and systems (such as CUNA Mutual's Scam Alert) to provide fraud alerts and help detect fraud.

Common sense and caution will uncover many frauds, such as mismatches on the face of a check between the MICR line and the printed information. False identification, such as driver's licenses, sometimes have discrepancies that alert tellers can pick up. Or information on an application might raise red flags, such as the man who requested ATM cards for his alleged nine sons, at least three of whom were under age seven.

Placing holds on funds availability, consistent with Reg CC, will stymie a lot of new- and closed-account fraud, not to mention discouraging check kiting. There are software programs that will detect the patterns of check kiting and alert credit union staff.

Telephone, fax, and mail verification can uncover fictitious account names, bad checks

drawn on other institutions, or fraudulent use of real members' information.

None of these techniques are effective unless credit union staff, especially tellers and new-account executives, are trained to detect fraud. Tellers should be trained to a 60-second standard—examine within one minute the person, the identification presented, the transaction, and the instrument for any red flags that might indicate a problem.

“None of these techniques are effective unless credit union staff, especially tellers and new account executives, are trained to detect fraud.”

Risk management specialists from CUNA Mutual, and its frontline Scam Alert program, are available to help credit unions evaluate their procedures, train their personnel, and install protective measures. CUNA Mutual also offers a free "Risk Self-Assessment and Insurance Planning Guide—Check Fraud" to help any credit union evaluate its vulnerability to check fraud. The guide is available by calling 800-637-2676 and selecting option two.

Use all these measures, stay alert, insure against large losses, and your credit union's board, staff and members can all sleep soundly without fear of fraud artists stripping your assets away.



Kevin Treece
Corporate Property & Casualty Specialist
Midwest Marketing Division
CUNA Mutual Group
800-333-2644

Check Out CUNA'S *Compliance Challenge!* **(From the March, 2002 edition of *Credit Union Magazine*)**

Are you ready to take the *Compliance Challenge*? CUNA's *Compliance Challenge* is now available online at www.cuna.org. CUNA offers the *Compliance Challenge* free to members as a dues-supported service to help member credit unions with their compliance responsibilities.

Introduced in January, 2002, the *Compliance Challenge* is an electronic newsletter presented in "question-and-answer" format. This format is designed to challenge credit union staff to test their knowledge on emerging federal compliance issues that may affect the credit union's operations.

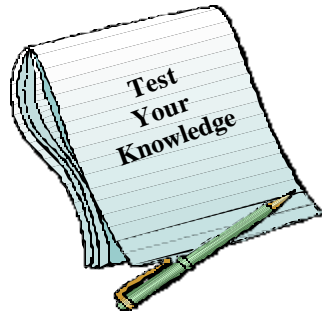
The *Compliance Challenge* highlights interpretations of laws and regulations, upcoming compliance dates, examination concerns, areas where credit unions are subject to penalties, and topics of continual inquiries. In addition, the *Compliance Challenge* will provide links at the end of each Q&A to suggest where credit union staff can go for further information. As an added bonus, many editions will end with a "SuperChallenge" to highlight a current "hot" issue.

New editions will be available the first week of every month, so be sure to check CUNA's Web site under "What's New," or go to "Regulation and Compliance" in the left hand margin and click on CUNA's *Compliance Challenge*.

Better yet, anyone at the credit union can sign up for a monthly e-mail reminder that new questions have been posted to CUNA's Web site by utilizing CUNA's permission e-mail service. (See box)

For follow-up inquiries about issues raised, or questions for future editions of the *Compliance Challenge*, contact the CUNA Compliance Department at cucomply@cuna.com.

So, check out this month's *Compliance Challenge* and test your knowledge!



BOX: What's "permission e-mail?" Permission e-mail allows credit unions to "opt in" to receive e-mailed information on specific topic areas via a subscription with CUNA. Topic areas subscribers can choose from include e-Commerce, Lending, Marketing Support, Member Research Regulation/Compliance, and Youth Programs. Participants subscribe by completing an electronic permission e-mail profile form,

located on CUNA's Web site at www.cuna.org. Then they select the information they want to receive via e-mails. Once registered, subscribers can return and modify their profile to add or delete topics, or unsubscribe, at any time.

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The Accounting Manual
for federally insured,
state-chartered credit unions
under \$10 million in assets can
be found at www.ncua.gov,
click on reference information,
then accounting manual.

Have you checked these out
at:
www.cunamutual.com
Lending Resource Newsletter,
listed under newsletters and
Highlights of the Discovery
2002 Conference

Why Review File Maintenance / Change Reports?

There is probably not a manager or supervisory committee chairperson who has not had the examiner or an auditor suggest that they review the file maintenance, or change reports, as a regular part of their daily routine or audit plan. However, our experience is that this area is often overlooked. So why is this procedure so important?

If we look at just what information these reports capture, the importance of monitoring them on a regular basis becomes more evident. The reports show changes in account status in areas such as the following:

- Changes in first payment date in loan histories
- Changes in "paid through" dates on loans
- Changes in interest rates on loans
- Changes in delinquency status
- Address changes
- Dividend changes
- and so on*

Let's consider what a few of those changes can do. If I was a teller and had a loan on which I was unable to make payments, I could change the first payment due date in the loan history, moving it forward several months. Now the loan would be paid ahead in the data system. Changing the paid-through date will accomplish the same thing. I would then be able to skip the payment(s) due without the loan being reported as delinquent. Changes in interest rates can be made to favor the borrower, also. We have encountered too many situations where this form of manipulation of the data system has occurred.

By instituting a regular review of the file maintenance reports, such problems can be avoided, or at least caught early on. Many individuals who have manipulated data feel that they are not really doing anything wrong; they will pay the loan eventually. Unfortunately, the problem usually compounds over time, until serious loss of interest and principal results. If staff is aware that management reports are being reviewed regularly and any irregular transactions are researched, the temptation to manipulate data will be greatly reduced. This is important in two major ways. First, you prevent loss to the credit union and the Surety company. Second, you may prevent a staff member from making a mistake that seems trivial at first, but ends with the loss of their job and inability to be bonded in the future. Quite often, the individuals making such mistakes are young and given a few more years of experience, would never make such a mistake. If you can prevent such an error in

judgment, much misery can be avoided for both your credit union and the employee.

"By instituting a regular review of the file maintenance reports, such problems can be avoided, or at least caught early on."

Why is this internal control step so often neglected? Well, the partial listing of what types of data shows up on the reports is just that, a *partial* listing. Many credit unions would have a 20-page report to review for each week. With all of the bases that must be covered, this report is often set aside. To prevent that, we suggest several approaches:

1. Define the most sensitive accounts; primarily staff, officials and their family members accounts. Prepare a listing of those accounts, and keep the listing current.
2. Determine who will perform the reviews. You may wish to have a staff member complete a daily or weekly review of the report. Then the supervisory/audit committee could "test" the reviews performed by that individual and would review at least a sample of reports for activity on the account of the staff member handling the daily/weekly review. The reports should be retained and the date of review and initials of the reviewer should be shown.
3. Areas of concentration will be determined to a large degree by what other internal control steps are routinely taken in your credit union. If dormant account activity is closely monitored and staff statements are reviewed at least twice per year, then the review can be more limited, concentrating on loan data changes, for example.
4. Be curious. If you see an address change of someone you know and are certain that they did not move, check the documentation. A major shortage was discovered by the manager of a client credit union when she noted an "incorrect" address change. Look for changes to accounts that are subsequently reversed. By having a routine established and targeting sensitive areas, this task can be accomplished in short order.

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FOR MORE INFORMATION CALL CAROLYN MILLER AT 800-262-6285 EXT. 753 OR E-MAIL mil@mcu.org, OR TO SIGN UP CALL THE ILLINOIS LEAGUE AT 800-942-7124 EXT. 3419.

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- Donation goals and updates are printed periodically in issues of *Michigan Monitor*
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