

## **Recommended Fraud Audit Procedures** (adapted in part from the NCUA Examiners' Guide)

**The below are some fraud audit procedures recommended by the North Dakota Department of Financial Institutions. The exact name of each systems report identified may vary depending on the data service provider used, however most systems have these or similar reports. The list is not all inclusive, and the controls necessary to limit risk at a credit union must be tailored to a credit union's unique risk profile. The below list is intended as a starting point to review the sufficiency of the credit union's control process.**

**Review the File Maintenance report** – This report identifies all changes made through the computer system that affect members' accounts. Also called the Non-Financial Transaction report, this report usually differentiates between old and new data so the user can determine the credit union's changes. Changes that occur most often include: addresses, telephone numbers, loan due dates, payment amounts, interest rates, and maturity dates. The credit union should establish a process for reviewing these reports and for documenting of the review.

**Review the Paid Ahead Loans report** – This report identifies loans with advanced due dates. When reviewing this report, the reviewer should compare the borrower's actual payments over time to the note's required payment schedule. If discrepancies exist, the person reviewing the report should review a sample of related loan files, being especially cognizant of paid ahead loans where staff performs frequent file maintenance changes or where the last activity date is long past (may be a deficiency balance that the credit union failed to charge off). Since a payment is due every month on open-end loans, they should not appear on the paid ahead report. Most systems reports flag open end loans so they do not appear on this report; however, the credit union may not have implemented this feature.

**Review the Accrued Interest Greater than Scheduled Payment report** - Often reveals large portions of accrued interest that the credit union has not collected on specific accounts. In most cases, the majority of borrowers on this report are also delinquent. If the loan is not delinquent the person reviewing should determine why the account is on this report.

**Review the Interest Rates 0% or > 18% report** – The person reviewing this should review loan rates that fall into these categories and determine their accuracy. Interest rates greater than 18% may be in error. Likewise, the person reviewing should determine reasons for rates of 0% (loans with no or special interest rates could be work-out loans).

---

**Review a sample of loans from the New Loan Report** – A systems report outlining recently granted loans should be available. From this list, the person reviewing should sample new loans for documentation, reasonableness, and approval.

**Review a sample of loans from the Charged-off Loan Report** – A systems report outlining recently charged off loans should be available for review. Charged off loans should be reviewed for board approval, reasonableness of collection efforts, and for compliance with collection and charge-off policy.

**Review the Supervisory Override report** – This report documents system overrides by personnel who have the authority to make the specified changes. Credit unions should establish parameters that limit employees' access to override through proper segregation of duties. Because of staff limitations in small credit unions, one person may have the authority to make all changes, making the review of this report a critical part of the internal audit function.

**Review the Loan and Share Accounts with a PO Box report** - Reveals different accounts with the same post office box, which could disclose fictitious loans or shares. The person reviewing this report should trace a sample of accounts to membership cards and review them for validity.

**Review the Change of Address Report** – This report identifies accounts which have had the statement mailing address changed in the past month. The person reviewing these reports should select a sample of the changes and verify that the individual has in fact relocated. This could be as simple as sending a verification letter to the old address, which will then be forwarded by the postal service to the new address of record.

**Review the Non-Amortizing Loans report** - Reveals those loans with no principal reduction over time. Single payment or student loans may appear on this report. The person reviewing should review loans on the report and determine if due dates have been advanced or why the loan is not amortizing.

**Review the Cash Transactions over \$10,000 report** - Identifies cash transactions that the credit union must report on the Currency Transaction report and file with the Treasury Department. The review of this report may reveal fictitious deposits.

**Review the Negative Share and Share Draft report** – This identifies accounts with negative balances as of the report date (usually printed as of month end); however, person reviewing this should also ask the credit union to print the report for an other than month

end date to determine if the credit union is hiding overdrafts. Reviewing a sample of related accounts may allow reviewer to ascertain the reasons for and the duration of the negative accounts.

**Review the Systems Cash Report** – Quarterly or periodic surprise cash counts should be reconciled to systems generated cash reports. These reports should be periodically tied to the general ledger.

**Review the systems Checks Outstanding Reports and Bank Reconcilements** – The checks outstanding report should outline the outstanding items that have not cleared through the credit union’s overnight account. The amount reported as outstanding should be consistent with the amount used by management to balance the overnight account. The items on the Checks Outstanding report should periodically clear, as should any other outstanding item on the bank reconciliation. The person reviewing this account should also review a sample of checks and wires to ensure the beneficiary is as recorded in the system and all transactions appear to be for legitimate business purposes.

**Review the NSF’s YTD report** - Tracks those members with the most non-sufficient funds (NSFs) for the year. The reviewer should compare the report to the credit union’s share draft policies to review for NSF abuse. Most computer systems can generate this report.

**Review the Dormant Share Accounts report** - Identifies accounts with no activity for the past year (or another given time frame.) The report should also disclose the last activity date so that escheatable funds can be identified. The reviewer should watch for unusual activity on once dormant accounts and review a sample to ensure the person authorizing the activity and funds transferred out of the account appear to be legitimate.

**Review the Insiders’ report** – Identifies the accounts of officials and often includes accounts of key management and family members of officials and key management. Insider accounts should be reviewed for unusual activity and to ensure compliance with credit union policy.

**Review of the Income Statement** – The expenses recorded on the income statement should be reviewed to ensure they are legitimate credit union expenses. A sample of expenses should be reviewed and traced back to original invoices. The reasonableness of the expenses should be evaluated by the person doing the review, who should also ensure the process used to approve the payment of the expense was constant with credit union policy.