



Thomas A. Schweich  
Missouri State Auditor

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# INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

## Division of Credit Unions

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August 2013

Report No. 2013-084



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<http://auditor.mo.gov>



# CITIZENS SUMMARY

## Audit of the Department of Insurance, Financial Institutions and Professional Registration, Division of Credit Unions

Background	The Division of Credit Unions (DCU) of the Department of Insurance, Financial Institutions and Professional Registration regulates and examines state-chartered credit unions for solvency to protect depositors. The DCU is responsible for the examination, supervision, chartering, merger, and liquidation of all state-chartered credit unions. The DCU also responds to consumer requests or complaints regarding state-chartered credit union services or operations.
Credit Union Examinations	Section 370.120.1, RSMo, requires annual examinations of credit unions; however, examinations of qualifying credit unions may be extended up to 18 months. Criteria that may be considered when determining examination frequencies are specified in the Code of State Regulations, but the DCU does not document its consideration of the criteria when determining which credit unions qualify for an extended examination frequency.

In the areas audited, the overall performance of this entity was **Good**.\*

\*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

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# Division of Credit Unions

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# **THOMAS A. SCHWEICH**

## **Missouri State Auditor**

Honorable Jeremiah W. (Jay) Nixon, Governor  
and  
John M. Huff, Director  
Department of Insurance, Financial Institutions and Professional Registration  
and  
Kenneth J. Bonnot, Director  
Division of Credit Unions  
Jefferson City, Missouri

We have audited certain operations of the Department of Insurance, Financial Institutions and Professional Registration, Division of Credit Unions, in fulfillment of our duties under Chapter 29, RSMo. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2013, and 2012. The objectives of our audit were to:

1. Evaluate the division's internal controls over significant management and financial functions.
2. Evaluate the division's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the division; and testing selected transactions. Citing confidentiality requirements and pursuant to the confidentiality agreement entered into between the division and the State Auditor, the division did not permit us full access to the examination history tracking report or examination reports and related documentation. In addition, the division did not permit us to retain documentation of the work performed to support significant judgments and conclusions. As a result, we could not audit certain information because of the limitations the agreement imposed on the scope of our audit, and were unable to document specific records examined. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

Except as discussed in the second paragraph, we conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the division's management and was not subjected to the procedures applied in our audit of the division.

For the areas audited, we identified (1) no deficiencies in internal controls, (2) no significant noncompliance with legal provisions, and (3) the need for improvement in a management practice and procedure. The accompanying Management Advisory Report presents our finding arising from our audit of the Department of Insurance, Financial Institutions and Professional Registration, Division of Credit Unions.

A handwritten signature in black ink, reading "Thomas A. Schweich". The signature is fluid and cursive, with the first name "Thomas" and last name "Schweich" clearly legible.

Thomas A. Schweich  
State Auditor

The following auditors participated in the preparation of this report:

Deputy State Auditor:	Harry J. Otto, CPA
Director of Audits:	John Luetkemeyer, CPA
Audit Manager:	Jeannette Eaves, CPA
In-Charge Auditor:	Robyn Lamb
Audit Staff:	Gina Henley, MBA

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# Division of Credit Unions

## Management Advisory Report

### State Auditor's Finding

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#### **Credit Union Examinations**

The Division of Credit Unions (DCU) does not document its consideration of criteria established to determine which credit unions qualify for an extended examination frequency. As a result, the DCU is unable to demonstrate compliance with state law.

The DCU does not document the criteria set forth in state regulation for extending credit union examinations beyond 12 months. The frequency of credit union examinations is governed by Section 370.120.1, RSMo, which requires annual examinations of all credit unions; however, examinations of qualifying credit unions may be extended up to 18 months. Criteria that may be considered when determining examination frequency is defined in 20 Code of State Regulation (CSR) 1100-2.005(3) and includes:

- Length of credit union operation, tenure and quality of its management, and general economic conditions
- Not operating under a Net Worth Restoration Plan, Letter of Understanding and Agreement, or administrative order and no major changes in balance sheet structure or new programs with high balance sheet risk within the preceding 12 months
- Positive return on average assets and net worth ratio greater than 7 percent
- Accurate and current books and records and adequate asset liability management mechanism

We reviewed the frequency of the most current examinations completed as of February 1, 2013, for all 119 credit unions, and found 22 examinations, or 18 percent, were performed less frequently than annually. We reviewed four of the 22 examination reports with the extended examination frequency and noted comments in the reports did not specifically address each of the established criteria that determine if the credit union qualifies to be examined less frequently than annually.

The DCU criteria consideration process should be adequately documented and retained to support decisions made and demonstrate compliance with state law.

#### **Recommendation**

The DCU develop a process to document its consideration and determination of whether a credit union qualifies for an extended examination frequency.

#### **Auditee's Response**

*The Division of Credit Unions complies with state law regarding the timing of extended examinations for qualifying credit unions. Future examination reports of qualifying credit unions will include documentation that confirms such compliance.*

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## Division of Credit Unions

### Organization and Statistical Information

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The Division of Credit Unions (DCU), created in 1927, operated under the Division of Finance until July 1, 1974. With the enactment of the Reorganization Act of 1974, the DCU was transferred to the newly created Department of Consumer Affairs, Regulation and Licensing. The passage of Constitutional Amendment No. 6, adopted on August 7, 1984, renamed the Department of Consumer Affairs, Regulation and Licensing to the Department of Economic Development. Under the authority of the Reorganization Act of 1974 and executive order 06-04, effective August 28, 2006, the DCU was transferred from the Department of Economic Development to the Department of Insurance, Financial Institutions and Professional Registration.

The DCU regulates and examines state-chartered credit unions for solvency to protect depositors. The DCU is responsible for the examination, supervision, chartering, merger, and liquidation of all state-chartered credit unions. The DCU also responds to consumer requests or complaints regarding state-chartered credit union services or operations. The DCU is an accredited agency through the National Association of State Credit Union Supervisors (NASCUS). At June 30, 2013, the DCU regulated 119 credit unions with assets exceeding \$11 billion and approximately 1.2 million members. All member deposits are insured by the National Credit Union Administration (NCUA), an agency of the federal government.

The DCU operates under the authority of Chapter 370, RSMo. Section 370.120, RSMo, provides that each state-chartered credit union be examined by DCU staff at least once each year, except qualifying credit unions may be examined at least once each 18 calendar months. The criteria defining a qualifying credit union is documented at 20 Code of State Regulation (CSR) 1100-2.005(3).

The DCU is self-supporting through statutory assessments and fees paid by the state-chartered credit unions, based on total assets of the state-chartered credit unions and DCU costs of operations. These fees and assessments are deposited into the Division of Credit Unions Fund, authorized by Section 370.107, RSMo, which is administered by the DCU.

The Credit Union Commission, was created in 1998 pursuant to Section 370.061, RSMo, to handle appeals from decisions of the DCU Director, approve regulations proposed by the DCU Director, and advise the DCU Director on matters pertaining to the supervision of credit unions. This bipartisan commission is composed of seven members serving six-year terms; one must be a



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Division of Credit Unions  
Organization and Statistical Information

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lawyer in good standing with the Missouri Bar Association; four must be credit union representatives with at least five years experience as an officer, director, or member of a supervisory committee; and two must be lay members not involved in the administration of a financial institution. Not more than four members may be members of the same political party.

Credit Union Commission  
Members at June 30, 2013

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Member	Term Expires
Richard Orr	January 1, 2017
Cathy E. Stroud (1)	January 1, 2013
Susan Venable	January 1, 2015
Harold E. James (1)	January 1, 2013
Laura Verhulst	January 1, 2017
John Hanneke	January 1, 2015
Vacancy	

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- (1) Although the member's term has expired, he or she continues to serve on the Credit Union Commission until a successor is appointed by the Governor.

At June 30, 2013, the DCU had 15 full-time employees and 1 part-time employee, with the majority of these consisting of examiners (10 examiners, 1 Chief examiner). The DCU maintains a central office in Jefferson City, with field examiners located in the Jefferson City, St. Louis, and Kansas City areas of the state. The Director is appointed by the Governor with the advice and consent of the Senate. Kenneth J. Bonnot was appointed Director on January 18, 2011.



## Appendix A

Division of Credit Unions

Division of Credit Unions Fund

Comparative Statement of Receipts, Disbursements, and Changes in Cash  
and Investments

	Years Ended June 30,	
	2013	2012
RECEIPTS		
Financial institutions examination fee	\$ 1,507,064	1,463,664
Miscellaneous	161	255
Interest	5,346	4,725
Total Receipts	<u>1,512,571</u>	<u>1,468,644</u>
DISBURSEMENTS		
Personal service	972,166	944,089
Employee fringe benefits	357,130	348,324
Expense and equipment	98,696	95,763
Cost allocation plan	18,662	17,756
State owned facilities operations	25,099	23,778
Transfers out to Department of Insurance, Financial Institutions and Professional Registration Administrative Fund	6,242	27,333
Total Disbursements	<u>1,477,995</u>	<u>1,457,043</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>34,576</u>	<u>11,601</u>
OTHER FINANCING (USES)		
Appropriations Exercised by Other Agencies	(5,260)	(2,130)
Total Financing (Uses)	<u>(5,260)</u>	<u>(2,130)</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING (USES)	29,316	9,471
CASH AND INVESTMENTS, JULY 1	497,301	487,830
CASH AND INVESTMENTS, JUNE 30	<u>\$ 526,617</u>	<u>497,301</u>

Appendix B

Division of Credit Unions  
Comparative Statement of Appropriations and Expenditures

	Year Ended June 30,					
	2013			2012		
	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Lapsed Balances
DIVISION OF CREDIT UNIONS FUND						
Division of Credit Unions expense and equipment	\$ 119,084	98,696	20,388	123,775	95,763	28,012
Division of Credit Unions personal service	1,135,603	972,166	163,437	1,126,071	944,089	181,982
Operation of state-owned facilities, related services, utilities, systems furniture, structural modifications, and related expenses						
expense and equipment	25,100	25,099	1	24,122	23,778	344
Total Division Of Credit Unions Fund	<u>\$ 1,279,787</u>	<u>1,095,961</u>	<u>183,826</u>	<u>1,273,968</u>	<u>1,063,630</u>	<u>210,338</u>

## Appendix C

### Division of Credit Unions Comparative Statement of Expenditures (From Appropriations)

	Year Ended June 30,				
	2013	2012	2011	2010	2009
Salaries and wages	\$ 972,166	944,089	853,374	824,584	901,538
Travel:					
In-state	62,071	58,262	58,559	64,459	62,212
Out-of-state	4,794	1,423	468	2,116	5,593
Supplies	13,360	7,493	20,747	18,220	15,231
Professional development	2,833	8,818	17,795	7,979	14,976
Communication services and supplies	0	0	462	0	0
Services:					
Professional	141	896	0	63	98
Maintenance and repair	21	66	54	116	340
Equipment:					
Office	166	114	1,106	2,197	2,695
Other	0	0	459	0	0
Building lease payments	25,099	24,194	25,267	28,372	33,413
Miscellaneous expenses	238	144	274	0	748
Rebillable expenses	15,072	18,131	20,034	24,949	21,306
Total expenditures	\$ <u>1,095,961</u>	<u>1,063,630</u>	<u>998,599</u>	<u>973,055</u>	<u>1,058,150</u>