



Examination Process – Final Examination Report

October 28, 2002

The examination report is the official report from the regulator to the credit union. It is an important part of the communication process, as it allows the regulatory body to communicate its assessment of the credit union's overall condition. The report should document all significant items discussed during the examination and describe in great detail the credit union's strengths, weaknesses, and the corrective actions needed to resolve any problems. The examination report should be viewed as a diagnostic tool, which is used to clearly communicate the overall safety and soundness of the credit union.

The lead examiner (if there is more than one examiner performing the exam) prepares the report and delivers it to the key officials no later than two weeks after the close of the examination. The officials are the primary users of the report and its audience, therefore, the examiner should make the report specific to each credit union. Two reports should be generated upon the termination of the exam. Examiners should retain a copy of the official or field report, including all workpapers, schedules, checklists, forms, and examiner developed documents. This copy will be a part of the official file maintained within the regulatory agency for each credit union. The other copy will be delivered to the credit union and should include, at a minimum, the documents discussed below.

Examination Report Components – Required examination workpapers as outlined in the table below, form the basis of the examination report. Additional workpapers, checklists, and/or examiner-developed documents may be included, at the discretion of the examiner. This auxiliary information should provide in-depth information concerning problem areas or evaluate specific problems, provide support for examination findings, and assist in the resolution of the identified problem(s).

Name of Form or Workpaper	Credit Union Report	Regulatory Report
Balance Sheet	Yes	Yes
Income Statement	Yes	Yes
PEARLS Ratios	Yes	Yes
Examination Overview	Yes	Yes
Examination Scope	No	Yes
Examiner Findings	Yes	Yes
Confidential Section	No	Yes
General Ledger Review Workpapers	No	Yes
Investment and Cash Review Workpapers	No	Yes
Management Review Workpapers	No	Yes
Loan and Collection Analysis Workpapers	No	Yes
Asset Liability Management Analysis Workpaper	No	Yes
Savings/Reserves/Profitability Analysis Workpapers	No	Yes

Loan Exceptions	Yes	Yes
Document of Resolution	Yes	Yes
Other examiner developed workpapers	Yes/No Examiner Discretion	Yes

Final Report Organization – The documents that concisely present the financial and operational condition of the credit union should be placed at the beginning of the report. These forms include the Examination Overview, the Document of Resolution, Examiner Findings, Loan Exceptions, and PEARLS ratios. All of the other workpapers should follow and be organized as to their importance to the reader of the report.

Examination Overview – This document organizes and presents, in a clear and concise manner, all of the examiner’s major or material observations, comments, recommendations and conclusions. Examiners can use the overview, which discusses and supports the examiner’s analysis and findings, to place examination findings into proper perspective. The lead examiner (if more than one examiner performs the exam) writes the overview and it should be directed to the credit union’s management and officials. The depth and complexity will vary depending on the severity of the problems. If no material risks exist, the overview should be brief, usually less than three pages. Conversely, if the credit union has serious problems, the overview should be more detailed. Comments in the overview should fully support the assigned regulatory rating as of the exam date.

Normally the overview is written as the examination comes to a close, but prior to the exit meeting with the officials. If an examiner learns of additional information during or after the exit meeting that would effect the content of the overview, it can be amended.

Document of Resolution – This is the key document for resolving problems in the credit union. While the overview discusses the credit union’s financial condition, examiner conclusions and recommendations, it is the Document of Resolution (DOR) that lays the groundwork for corrective action. As such, it must clearly convey the problem areas, their significance, and the how the corrective actions should be taken. The greater the credit union’s problems the more extensive, detailed, and specific the DOR should be.

Examiners should develop the DOR jointly with officials and credit union management. The DOR will specifically state the corrective action needed to solve the problem, who is responsible for correcting the problem, and the timeframe in which the problem should be resolved. Essentially, the DOR contains the agreements reached with officials to correct major areas of concern and will be used at the next contact or examination as a means to follow-up on problem resolution. Examiners discuss corrective action for minor problems with the officials or management and in the Examiner’s Findings document. For example – if the general ledger account for computer equipment was out of balance with the subsidiary ledger, this problem would be noted in the Examiner Findings. However, if the Bank account had not been reconciled for the last 2 months, the corrective action for this problem would be addressed in the DOR. In other words, the DOR is limited to major problems, those that could effect the credit union’s financial condition or interfere with daily operations.

The keys to drafting a results-oriented DOR are:

- Open lines of communication between credit union officials and management and regulatory authorities,
- Involvement of credit union management and officials in developing the corrective actions to be taken to solve the identified problems,
- Realistic solutions and time frames to solve the identified problems, and
- Discussions between management, officials, and examiners throughout the examination concerning all of the problem areas and the corresponding corrective actions so that there are no surprises at the exit meeting when the DOR is discussed.
- The DOR should be SMART, or in other words,
 - Actions to be taken should be **S**pecific,
 - The timeframes **M**easurable,
 - The corrective actions **A**chievable, and
 - The document **R**esults-oriented and **T**imely.

The DOR should be succinct. Each item or directive on the DOR should start with an action verb such as – reconcile the bank account general ledger balance to the bank statement (subsidiary ledger) or contact all delinquent borrowers within 10 days of a missed payment. The DOR should not include acronyms, abbreviations, and/or jargon; it must be understood and clear so that the corrective actions are undertaken as anticipated by the examiner. The items or directives on the DOR should be prioritized; the most serious problems should be addressed first. The examiner should also establish follow-up steps in the DOR. He/she should request that the credit union send financial statements, copies of board minutes, credit union policies, etc. to demonstrate that the requested corrective steps are being taken as agreed upon and within the established time frames.

The examiner, credit union officials, and management discuss the DOR in-depth at the exit meeting. The DOR may be modified during this meeting if all parties agree with the document and the changes. The modified DOR would then become a part of the final report. When the DOR is satisfactory to all parties, it should be approved at the exit meeting by a vote of the board of directors.

Examiner Findings – The Examiner Findings document lists operating exceptions, violations of law or regulation, and unsafe and unsound policies, practices, and procedures. When identifying a finding, the examiner should cite the specific section of the Law, bylaws, rules and regulations or other authority. In the event that the credit union violates more than one of the above, the examiner should cite the highest authority.

This document will also be used as the DOR, as a follow-up tool for the examiner at the next contact or examination. During the next contact or examination, the examiner will review all of the findings cited at the previous examination and determine if they were corrected. Examiners should list exceptions noted during previous examinations but not yet corrected under a heading similar to: “Findings Noted at Previous Examination That Are Not Yet Corrected”.

Credit union management should be allowed to correct as many exceptions as possible before the close of the examination. The examiner will then note on the document that these items have been corrected.

Examples of examiner findings are:

1. The loan policy did not state that a credit report older than 6 months should not be used to qualify a member for a loan,
2. The cashier left her drawer unlocked on four occasions during working hours, or
3. The accounts payable general ledger balance was not supported by a subsidiary ledger.

Loan Exceptions – This document is used to note the specific borrower loan exceptions to policy and procedure and the general exceptions to sound loan underwriting. Within this document the borrower's account number should be referenced, along with the current loan balance, the date of the loan, and the specific borrower loan exception.

Examples of specific loan exceptions are:

1. The borrower's debt to income ratio was 47% with no explanation why the loan was granted when the maximum debt ratio noted in the loan policy is 45%,
2. The co-borrower did not complete an application, or
3. The credit union did not secure a lien on the used vehicle that was taken as collateral.

Examples of general loan exceptions are:

1. The loan policy does not state that the borrower's income must be verified prior to the loan approval,
2. The loan policy does not state that the co-signer's ability to repay the loan should be determined just as that of the primary borrower, or
3. The loan policy does not state the maximum number of borrowers any co-signer can sign for.

Confidential Section – This document is for the internal use of the regulatory agency. The confidential section discloses what the prior exam did and did not accomplish and can be used to relate information that was not disclosed in the Examination Overview of the current examination. Examiners should comment briefly about results of all meetings and discussions held with management, the formal actions the board took to resolve the major problems, and agreements reached with officials outside of the DOR.

Examiners should cover pertinent matters of a private or restricted nature in the confidential section including personal opinions based on the examiner's observations. However, the examiner should not make statements based on gossip or hearsay. Examples of material covered in the document include: an appraisal of a new credit union's prospects, comments concerning the attitudes and abilities of the officials or daily management, further difficulties facing the credit union, and plans for monitoring the progress of the SCU (e.g. supervision contacts, follow-up examinations). The confidential section should be used as extensively as is necessary, but it should not be cluttered with inconsequential or irrelevant facts and opinions.

Examination Workpapers - Workpapers are the written documents prepared or obtained by the examiner while performing an examination. Included in the workpapers are schedules, memos and other items, along with the analysis used by the examiner to reach his/her conclusions. The workpapers serve as the basis of the work performed and support the results of the examination and the opinions of the examiner. Because of the importance of the workpapers, they must provide sufficient detail and support to allow an independent reader to understand how each conclusion was reached, including a detailed description of the methodology used to calculate certain ratios or prepare financial statements or similar reports. The workpapers should provide sufficient information so that the reviewer does not have to obtain any additional information from the credit union to support the conclusions, once the examination has been completed.

Workpapers should be organized in sections that correspond with the examination work performed, such as: general ledger review, employee loan analysis, delinquent loan analysis, cash review, etc. As a result, each section should include the following at a minimum:

- Specific identification of the person who performed the work including the exam date and the date the work was performed;
- The objective, scope, and nature of the work performed;
- The name and title of the employee at the credit union who is familiar with and/or provided the information needed to complete the work;
- All documents used to support the conclusions of the examiner, including detailed support indicating where figures were obtained or explaining how each one was calculated; and
- An indexing system that allows the work to be filed and retrieved in an orderly manner.

Upon termination of the examination, the workpapers should be maintained within the regulatory agency, in a safe place, along with the final report. They should be available for review and used at the next examination.

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