



ACCREDITATION

AND

AGENCY BEST PRACTICES



Performance Standards Committee

2014

Introduction

Through the NASCUS Accreditation process, state agencies complete a self-evaluation questionnaire that evaluates performance in six areas of agency operations: Administration and Finance; Personnel; Training; Examination; Supervision; and Legislative Powers. The Self-Evaluation Review for Accreditation (SERA) forms the initial basis for on-site and off-site examination by an Accreditation Review Team and the Performance Standards Committee in determining that a state agency meets the standards necessary to earn recognition as a NASCUS Accredited State.

The NASCUS Accreditation Best Practices are modeled after the Best Practices developed by the Conference of State Bank Supervisors (CSBS), but have been modified to be specific to credit union supervision and to incorporate recommendations made by previous NASCUS Accreditation Review Teams.

The Performance Standards Committee, in adopting these “Best Practices”, continues to recognize the uniqueness of each state and each state agency. As the administrator of the NASCUS program, the PSC acknowledges and recognizes that the highest level of excellence and efficiency may be achievable

through means other than the exclusive application of these Best Practices.

The Performance Standards Committee believes, however, that these Best Practices provide valuable guidance to state agencies for achieving maximum effectiveness in their examination and supervision programs. It is intended that these Best Practices will serve as a reference for measuring overall operational execution and performance in the six accreditation review areas and used as guiding principles for developing and initiating appropriate actions or improvements.

I. DEPARTMENT ADMINISTRATION AND FINANCE

The Department Administration and Finance Section of the Self-Evaluation Questionnaire (SERA) evaluates the overall administration and funding of the state's department.

Describe the department's mission and the purpose of the organization. Are they found in the credit union codes and/or strategic plan, and how are they communicated the department's employees?

◆BEST PRACTICE: The department should have a mission statement and a strategic plan with measurable goals and assigned accountability. The strategic plan should be reviewed and adjusted at least annually.

Describe the department's organization. Is there clear accountability for significant areas such as examination, finance, personnel, training, and legislation? Are the lines of communication clearly defined?

◆BEST PRACTICE: The department should have an up-to-date organizational chart indicating direct lines of

responsibility that correspond to supervisory roles.

Describe the department's formal procedure and time frames whereby rules or regulations are promulgated.

◆BEST PRACTICE: Procedures for promulgation of Department rules and regulations should follow the administrative procedures act as prescribed by state law unless the Department is specifically exempt from such an act. “Emergency procedures” should be provided and the Department should be the initiator of proposed rules and regulations.

Describe the department's processing method and timeliness in handling applications for new charters, branches, mergers, acquisitions, etc., including protest procedures, if any, and/or justification requirements, if any.

◆BEST PRACTICE: If not prescribed by state law, departments should establish written timeframes and procedures for processing applications. The Department should meet the timeframes established with any exceptions approved by the appropriate persons or committees. The

state should have expedited procedures for appropriate activities and approval powers for all applications as listed above. A system should be in place for tracking turnaround time on applications.

Describe the process of the department's communication with the federal regulatory agencies. How does the communication affect the scheduling of examinations, participation in examinations, (including insurance reviews and specialty examinations), sharing of information, exit conferences and enforcement actions?

◆BEST PRACTICE: The department should have signed agreements with all relevant regulators for sharing of information and joint/alternating examination procedures. They should also have a designated contact and meet at least annually. Sharing of information should include not only safety and soundness examination but also specialty examinations (i.e., information systems servicers, trust, and compliance.)

Describe the process of the department's communication with the other state credit union departments. How does the communication affect the scheduling of examinations,

participation in examinations (safety and soundness and specialty examinations), sharing of information, exit conferences and enforcement actions?

◆BEST PRACTICE: The department should have written agreements with all host or home states regarding interstate regulation of financial institutions. The department should also meet with other states at least annually and provide periodic updates on the condition of financial institutions involved in interstate branching.

Describe the department's system for holding periodic staff meetings either state-wide, by region, or through systematic visitation, to keep professional staff informed of administrative matters, provide legislative and regulatory updates, and provide a forum for the exchange of ideas. Describe any other means of staff communication.

◆BEST PRACTICE: The department should facilitate a conference with all employees at one location at least annually with input from field examiners as to topics and items to be covered. If the state is large enough for districts, district meetings should be held at least quarterly.

Describe the department's direct and/or indirect access to legal assistance, advice and support.

◆BEST PRACTICE: The department should have an attorney on staff to interpret and draft credit union laws for the Department and a specifically assigned attorney from the Attorney General's Office to represent the department if required by state law. The department should also have the ability to hire outside counsel when necessary.

Describe the department's physical facilities (including the security of the office and confidential files).

◆BEST PRACTICE: All department offices should have either keyed or coded entry. Confidential files should be in locked area with limited access. There should be a procedure for maintaining control of confidential files and security when not in a locked area. Space should be adequate to accommodate all examiners. Facilities should have adequate fire safety (sprinklers, evacuation procedures, etc.)

Describe the use of the department's computer system, including central office computers, such as the LAN system, E-mail, etc., equipment for field examination staff and access to state, federal and private information sources for examination and economic data.

◆BEST PRACTICE: The department's computer system should be adequate to provide the necessary tools for regulation of financial institutions and should be compatible with the programs necessary to perform examinations. Computers should be replaced at least every three years. Each examiner should have his or her own computer and E-mail address with access to the Internet. Computer systems should have adequate firewalls, virus protection, and intrusion detection. The department should have adequate off-site backup and a disaster recovery plan.

Describe the department's revenue source(s). Note the percentage of total funds obtained from assessments on the assets of the credit unions supervised, the percentage of total funds obtained from fees for time spent on examinations, if any, the percentage of total funds obtained from state general revenue funds, and the percentage of total funds obtained from

other sources. Considering possible future changes in the credit union industry and funding sources, describe contingency plans if applicable. Describe the process of preparing the department budget, including the procedure for reviewing monthly or periodic budget reports and making appropriate changes. To what extent do supervisors and/or managers with income and/or expense responsibilities contribute to the preparation process?

◆BEST PRACTICE: The department should be self-supporting with the majority of the income arising from income other than examination fees. The department should have a contingency fund (actual fund or cash balance or proven ability) to cover at least 3 months worth of expenses. Input into budget process should include all individuals who will be responsible for monetary controls of portions of the budget. Budget versus actual expenses should be reviewed monthly and reported to senior management.

Describe the existing budget's adequacy to:

1) Meet the minimum statutory requirements regarding examination and supervision of credit unions under the department's authority, and

2) Sufficiently allow for the examination of all state-chartered credit unions without any help from the federal regulatory agencies and in accordance with your department's goals.

◆BEST PRACTICE: The department should have sufficient funds to operate and to examine financial institutions in poor economic times as well as during times of good economy including the ability to hire additional examiners if necessary. The contingency amount should have some back-up documentation to substantiate the total.

II. PERSONNEL

The Personnel Section of the SERA evaluates various aspects of the “people” side of the government policy.

Describe the department's Personnel Manual in terms of completeness, relevancy of material, and maintenance procedures.

◆BEST PRACTICE: The department should have an approved Personnel Manual. The Manual should be reviewed at least annually and should include department specific procedures regarding hours, travel, per diem, etc. The Manual should be available to all employees either in hard copy or electronically and should be reviewed with employees periodically as needed.

Describe the department's written job descriptions and their frequency of revision.

◆BEST PRACTICE: Job descriptions should describe duties performed, be up-to-date, and be reviewed at least annually. They should include positions that the individual

supervises, state who that individual's supervisor is and correspond to the organizational chart.

Describe the personnel recruiting procedures and hiring policies used to allow employment of the type and number of personnel needed for credit union examination, regulation and supervision.

◆BEST PRACTICE: Although most states have an agency which provides hiring and recruiting duties for the entire State Government, supervisors from the department should be included in the recruiting process in some way. The supervisor should participate in the hiring interview for individuals whom they will directly supervise.

The department should have the ability to recruit through optional sources, such as college job fairs.

Describe the department's salaries and benefits as compared to federal regulatory agencies and other state agencies, particularly as it impacts the department's ability to hire and retain employees for a reasonable time.

◆BEST PRACTICE: Department salaries should be equal to or better than comparable salaries of contiguous states and federal regulators. The Department should provide adequate benefits, including comparable per diem and mileage equal to amounts allowable by IRS. Funds should be sufficient to pay merit increases for above average performance for examiners.

The department should consider instituting quality of life incentives to offset disparities in salaries.

Describe the performance appraisal and review process used by your department, including the process for new hires, trainees and experienced staff.

◆BEST PRACTICE: Performance appraisals should not only include an evaluation of the employee's performance over a definitive timeframe but should provide a plan for the next timeframe with set goals agreed to by the employee and supervisor. All employees should have at least one annual review with more frequent evaluations for new hires and persons recently promoted to a new position. All reviews should be conducted in person and signed by the employee and supervisor. There should be more employees

rated as average than above average.

Evaluations should avoid template style language and should emphasize individual strengths and weaknesses.

Describe the ability of your department's organizational structure to provide a career path that will enable the department to hire and retain qualified personnel for a reasonable time.

◆BEST PRACTICE: In order to provide an examiner career path with adequate advancement opportunity, the department should have at least four levels of field examination staff with three of those levels not limited in the number of positions. In small agencies where the career path is limited because of the size of staff, efforts should be made to develop specialized experts, thereby expanding the career path professionally if not vertically.

III. TRAINING

The Training Section of the SERA evaluates the department's ability to improve department skills over time.

Describe the position to which the department assigns overall training responsibility. Describe the department's written policy on in-house training as well as its use of formal training programs such as those offered by NCUA, NASCUS, the Federal Financial Institutions Examination Council, the FDIC, the Federal Reserve System and others. How is the policy's effectiveness evaluated?

◆BEST PRACTICE: The responsibility for oversight of training should be assigned to one individual. The effectiveness of training should be evaluated at least annually.

◆BEST PRACTICE: The department should have a written training policy that includes a listing of core classes for each level of examiner. The policy should be reviewed annually. The examiners should have the ability to request training that will be subject to a supervisor's approval and budgetary constraints. The training goal should be for each

examiner to have, at a minimum, “outside classes” with at least 16 hours of instruction annually.

◆BEST PRACTICE: The department should provide training for conducting exit meetings. This may take the form of outside schools or internal training including audio and/or visual presentations. Training should also include attendance at such meetings and presentation of various portions of the examination findings prior to taking the lead in conducting the exit meeting.

Describe your department's training materials in terms of completeness, relevancy, and maintenance procedures. How do the materials address issues specific to your state?

◆BEST PRACTICE: The department should have a written training manual. Federal manuals may be used; however, the department should have some type of written “state specific” procedures for examination.

Describe the department's methods for providing continuing education on emerging issues, such as white collar crime, EDP, ALM, etc.

◆BEST PRACTICE: The department should maintain training logs and ensure that examiners receive specialized training on a regular basis.

Describe the department's written policy (i.e., tuition reimbursement and/or leave policies) for external academic training programs.

◆BEST PRACTICE: The Department should have a policy on advanced/academic training, which reimburses tuition and allows flexibility of time to attend classes. This includes full-time college classes and graduate courses. To prove encouragement, there should be continuous attendance in this type training if there are eligible examiners.

Describe the department's training budget and expenditures. What percentage of the total budget is allocated to training?

◆BEST PRACTICE: The training budget should be at least 2% of the total department budget. The dollar amounts for training should include registration and travel

expenses. This percentage should be higher if the core training is high due to newly-hired employees.

IV. EXAMINATION

The Examination Section evaluates the department's examination program.

Describe the statutory requirement, department policy, and actual frequency of state-chartered credit union examinations.

◆BEST PRACTICE: The department's written policy on examinations should state that each credit union should be examined every 15 months for "1" and "2" Composite rated credit unions and may be extended to 18 months depending on the condition of the credit union. Troubled credit unions should be examined more frequently. The department should have a written policy on examination frequency.

Describe the department's examination manual in terms of completeness, relevancy of material, and maintenance process.

◆BEST PRACTICE: The department should have examinations manuals addressing policies and procedures for safety and soundness examinations and specialty examinations as applicable. These manuals may be a

duplicate of federal training manuals, but should also address state specific areas.

Describe the department's ability to examine all areas of a credit union's operations, including specialty areas.

◆BEST PRACTICE: The department should have a sufficient number of trained examiners to perform independent examinations or at least 50% of the financial institutions regulated [The department should be the lead examiner on joint examinations]. The department should have the authority and a sufficient number of qualified examiners to examine all specialty areas.

Describe the department's systematic method for organizing and planning individual safety and soundness and as specialty examinations.

◆BEST PRACTICE: The department should have established procedures for organizing safety and soundness and specialty examinations including coordination with federal agencies as necessary. Internal procedures should provide at least one month's notice to the assigned

examiner-in-charge for scheduling purposes in order to provide lead time to do pre-planning and scoping examinations.

The department should have a system of completing pre-examination work prior to the examination to reduce on-site time at the credit union.

For each of the areas of examination, describe your department's examination report for completeness, clarity, and ease of understanding. Also describe the department's system for periodic review of the various examination forms and report pages.

◆BEST PRACTICE: Examination forms should be sufficient to include comments and pertinent information on all CAMEL areas. In most instances, these forms will be AIRES with some state specific pages as necessary. Describe the department's procedures and ability to conduct exit conferences with the board of directors or senior management of each credit union examined.

◆BEST PRACTICE: The department should conduct some form of exit meeting at each examination and require a Board meeting for all “3”, “4”, and “5” rated institutions.

Describe the department's procedure for internally reviewing the examination report before it is returned to the credit union, including the adequacy of the department's staffing and systems to assure the prompt return of accurate examination reports. Also include an explanation of the department's procedures for senior staff members to prepare, review, and approve examination report transmittal (i.e., cover) letters.

◆BEST PRACTICE: Report turnaround time should average no more than 30 calendar days from the time the examiner leaves the credit union.

◆BEST PRACTICE: Procedures for drafting transmittal letters on “1” and “2” composite rated credit unions may be less stringent than those for problem institutions. For better efficiency, the field staff should be adequately experienced and trained to draft transmittal letters for non-problem institutions.

◆BEST PRACTICE: Transmittal letters requiring response to problem areas in examinations findings should be signed by the highest level of authority within the department.

◆BEST PRACTICE: Financial institutions should be required to respond within a minimum of 30 days after receipt of the report of examination and a transmittal letter. Individuals should be assigned to track and review the responses. Notation of reviews should be made and retained in the files. The Examiner-in-Charge should be involved in the response to problem credit unions.

Describe the department's procedure for following up problems discovered and ensuring credit unions undertake required corrective actions. Indicate the staff members responsible for follow up and explain how the department utilizes visits as part of its monitoring system.

◆BEST PRACTICE: Computer generated reports and documentation of surveillance reviews on all credit unions should be maintained in the credit union files. When problems are noted, procedures should be established for assigned responsibility of written and/or oral

communication with the credit union, other regulators, and field personnel with appropriate documentation in the individual credit union file. This information should be available for review by the appropriate field personnel including the assigned examiner-in-charge.

V. SUPERVISION

The Supervision Section describes the department's ongoing credit union surveillance systems and enforcement authority.

Surveillance System: Describe the department's system for off-site monitoring of credit unions. How is statistical data utilized to monitor or improve the credit union operations or the stability or insurability of credit unions. Describe the use of computer-generated reports, board minutes, and the procedures and frequency for analyzing available financial information and assuring that the information is current.

◆BEST PRACTICE: The department should have a written surveillance program to monitor all financial institutions under the purview of the department, with approved parameters set for variance and exceptions. Reviews should be performed on all institutions at least quarterly.

Enforcement Authority: Describe the department's statutory authority for taking enforcement actions against credit unions

(e.g., informal agreements, memorandum of understanding, civil money penalties, officer and director removal, cease and desist orders, etc.).

◆BEST PRACTICE: The department should have specific enforcement powers. The department should have the ability to issue Cease and Desist Orders, Memorandums of Understanding or other forms of informal agreements. The department should also have the authority to remove officers, directors and employees; and to prohibit such individuals from serving in any capacity in any other financial institution that the department regulates.

The department should have the ability to assess civil money penalties sufficient to deter violations of laws and regulations and/or violations of orders or agreements. CMPs should be per violation per day.

VI. LEGISLATIVE POWERS

Describe the frequency of revision or updating the document creating the state credit union department and outlining its responsibilities and duties. Describe when the last revision occurred and any area of change needed. Are there any existing plans to recodify the state credit union laws, and when?

◆BEST PRACTICE: The credit union code should be reviewed in its entirety at least once every three years to determine if recodification is needed. Once the determination is made that recodification or revision is necessary, the code should be revised within 5 years.

Department management should indicate that the credit union provides the department or the commissioner with the necessary powers to perform prescribed duties and responsibilities. Any areas needing improvement should be identified with any current actions in progress being noted.

Describe the department's involvement in the legislative process, including the ability to initiate legislation, review legislation, and

otherwise have an impact on legislation affecting the institutions under its purview.

◆BEST PRACTICE: The department should have input into any proposed legislation regarding areas under its purview with adequate opportunity to defend the proposals before the legislature. There should be a process in place to identify and review any proposed legislation that would impact the department.