

NCUA-IR - 80-12 VERIFICATION OF MEMBER ACCOUNTS 01/81

NATIONAL CREDIT UNION ADMINISTRATION  
INTERPRETIVE RULING AND POLICY STATEMENT

IRPS 80-12

DATE: January 28, 1981

TITLE 12 -- BANKS AND BANKING CHAPTER VII

[IRPS 80-12]

Statement of Interpretation and Policy: Verification of Member Accounts

AGENCY: National Credit Union Administration

ACTION: Statement of Interpretation and Policy

SUMMARY: This document permits the use of statistical sampling in satisfaction of the requirements of Section 115 of the Federal Credit Union Act (12 USC 1761d) and Section 741.2 of the National Credit Union Administration Rules and Regulations relating to the verification of members' accounts.

EFFECTIVE DATE: December 24, 1980

ADDRESS: National Credit Union Administration, 1776 G Street, NW,  
Washington, D.C. 20456

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Text of Statement of Interpretation and Policy [IRPS 80-12]

Section 115 of the Federal Credit Union Act (12 USC 1761d) and Section 741.2 of the National Credit Union Administration Rules and Regulations (12 C.F.R. 741.2) state in part that "... [t]he supervisory committee shall cause the passbooks and accounts of members to be verified with records treasurer from time time, not less frequently than once every two years."

The National Credit Union Administration Board interprets these sections to allow supervisory committees of Federal credit unions and Federally insured state chartered credit unions to use statistical sampling in carrying out this required verification activity. The statistical sampling must include the following minimum standards:

- (1) an error (occurrence) rate of 0.5 percent, a precision level of 1 percent; and a confidence level of 95 percent;
- (2) a random method of selection that will consist of using:

- (a) random number tables without replacement;
- (b) random number generators,
- (c) systematic selection; or
- (d) cluster selection; and

(3) the following statistical measurement methods:

- (a) Estimation Sampling For Attributes; or
- (b) Discovery Sampling, and

(4) the use of positive verifications (those requiring a reply) where adequate internal controls are not maintained and for such accounts as those having no activity for a year or more, deceased members' accounts, large balance accounts, or those having unusual activity.

A verification of "all" members' accounts will always be performed if the statistical sampling discloses fictitious or unauthorized transactions within the sample or where the subsidiary records do not agree with the General Ledger control accounts by a material amount.

When a certified public accounting firm is engaged by the supervisory committee to perform a verification of members' accounts, it may use whatever method of random statistical sampling it deems appropriate, which is consistent with generally accepted auditing standards (GAAS) of the American Institute of Certified Public Accountants. The verification activity must be a part of an audit that will result in the issuance of an audit report expressing an opinion on the financial statements. The opinion must be unqualified with respect to members' accounts. Otherwise, the certified public accounting firm will be subject to the above minimum standards.

Records of those accounts that were verified, using either statistical sampling or a verification of all members' accounts will be maintained. In regard to the use of statistical sampling, the record will include a detailed explanation as to which sampling method was used, the random number that was used to determine the starting point, the method of selection including the interval used, if applicable, the precision level, the confidence level and the occurrence (error) rate that was used. These records will be retained until the supervisory committee's next verification of members' accounts is completed. If these minimum standards and procedures are not adhered to, it may be interpreted as a violation of Section 115 of the Act or the National Credit Union Administration Rules and Regulations, Section 741.2.

ROSEMARY BRADY  
Secretary, NCUA Board

January 21, 1981