



National Credit Union Administration
REGION II

LETTER OF UNDERSTANDING AND AGREEMENT
ISSUED BY AND BETWEEN
NATIONAL CREDIT UNION ADMINISTRATION,
AND
VALLEY PRIDE FEDERAL CREDIT UNION

This Letter of Understanding and Agreement (“LUA”) is made and entered into on June 11, 2013, by and between Valley Pride Federal Credit Union (“VPFCU”), a credit union organized under the laws of the United States of America and doing business at Rear 34 North River Street, Plains, PA 18705 and the National Credit Union Administration (“NCUA”).

VPFCU is an insured credit union within the meaning of Section 101(7) of the Federal Credit Union Act, 12 U.S.C. § 1752(7). As such, VPFCU is subject to the jurisdiction of the NCUA and NCUA’s authority to initiate administrative enforcement actions against it pursuant to Section 206 of the Federal Credit Union Act, 12 U.S.C. § 1786.

This LUA sets forth significant adverse conditions and unsafe and unsound practices, identified by NCUA as of result of its examination of VPFCU with an effective date of March 31, 2013, and the agreements and timeframes by the Credit Union’s officials to resolve them. If left unresolved, these adverse conditions and unsafe and unsound practices may jeopardize the financial condition and/or operations of VPFCU. By signing this LUA, the Board of directors of VPFCU hereby acknowledges that serious areas of concern exist and agrees to take the necessary actions set forth below to restore VPFCU to a safe and sound condition.

In consideration of VPFCU entering into this LUA, the undersigned Regional Director hereby agrees to refrain from recommending any formal administrative action in connection with the specific conditions addressed in this LUA, provided that VPFCU and its officials make a sustained, effective, and good faith effort, as determined by NCUA in its sole discretion, to comply with all terms, actions, and corresponding timeframes prescribed in this LUA.

In the event that NCUA determines that VPFCU or its officials have failed to make a sustained, effective, and good faith effort to comply with the terms, actions, and corresponding timeframes prescribed in this LUA, it is understood and agreed that NCUA may undertake appropriate administrative action, including but not limited to, issuing an order to cease and desist, assessing civil money penalties, or placing VPFCU into conservatorship, as provided by the Federal Credit Union Act, 12 U.S.C. § 1786, et. seq.

During the March 31, 2013, follow-up examination conducted by NCUA, the examiner identified adverse conditions and trends at VPFCU. If left uncorrected, these conditions and trends will continue to undermine VPFCU’s financial and operational stability. Specifically, the examination report identifies and addresses the following adverse trends and conditions:



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- a. Failing to comply with requirements of previous Reports of Examination and previous enforcement actions, to include agreements reached in a prior LUA;
- b. Operating without adequate supervision and direction by the credit union's Board of Directors over the senior operating management of the credit union to prevent unsafe and unsound banking practices;
- c. Failing to maintain accurate books and records, despite persistent warning signs that problems existed;
- d. Operating without adequate oversight by the Supervisory Committee;
- e. Failing to establish internal controls commensurate with the Credit Union's size and complexity;
- f. Operating in violation of applicable laws and regulations, including, but not limited to, NCUA Rules and Regulations, Part 748, Appendix A, *Guidelines for Safeguarding Member Information*.

AGREEMENTS AND TIMEFRAMES

1. Troubled Condition.

As a result of the most recent examination, the Credit Union now meets the definition of "troubled condition" as defined by Section 701.14 of the NCUA Rules and Regulations, 12 C.F.R. § 701.14.

Therefore, VPFCU must comply with Section 701.14 of the NCUA Rules and Regulations by submitting appropriate applications to NCUA for any proposed changes in the Board of Directors, committee members, or senior executive staff, at least 30 days prior to the effective date of any such changes, and obtain prior approval from NCUA.

2. Action Plan and Financial Reports.

Because of continued non-compliance with previous examination reports and enforcement actions, the Credit Union is required to do the following:

- a. Develop and submit to NCUA, within thirty (30) calendar days of the date specified in the first paragraph of this LUA, a written Action Plan that addresses the provisions contained in this LUA, as well as addresses the remaining examination items identified in the March 31, 2013 Exam Report.

Such an Action Plan shall identify, as a minimum:

1. the item, condition or trend,
2. the required corrective action,
3. the person responsible for implementing the corrective action, and
4. the date by which corrective action will occur.



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The Action Plan shall be submitted to the NCUA Regional Director, who shall have thirty (30) calendar days to review and approve or disapprove the Action Plan. Within thirty (30) calendar days from the approval by the NCUA Regional Director, the Board shall approve the Action Plan and record its approval in the minutes of the Board meeting.

The Board shall review management's adherence to the Action Plan, at a minimum, on a monthly basis and prepare a written progress report. Copies of the Action Plan progress reports shall be submitted monthly to the NCUA examiner

- b. Furnish to the NCUA examiner, by the close of business every Thursday, weekly status reports that describe the progress of completing the account reconciliations for the Mid Atlantic S1 and Citizens Bank accounts.
- c. Furnish, within fifteen (15) calendar days of the prior month-end, the following reports and documents:
 1. The monthly balance sheet and income statement,
 2. Delinquency Summary report,
 3. Board of Directors minutes including special meetings minutes, executive session meeting minutes, and Audit and Credit Committee meeting minutes, and
 4. Such other reports and documents as may be requested by NCUA from time to time.

All progress reports and other written responses to this LUA shall be reviewed and approved by the Board and made a part of the minutes of the Board meeting prior to submitting it to NCUA.

3. Accurate Books and Records.

The Credit Union must take the following actions:

- a. Engage a certified public accountant ("CPA") to perform an opinion audit in accordance with generally accepted auditing standards ("GAAS"). The effective date of the audit will be September 30, 2013, with completion and delivery of the audit report by December 31, 2013.
- b. Provide the NCUA examiner with a copy of the proposed engagement letter with the CPA for review and comment before it is executed. The engagement letter, at a minimum, must include:
 1. A description of the work to be performed under the engagement letter;



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2. The responsibilities of the CPA;
 3. An identification of the professional standards covering the work to be performed;
 4. The qualifications of the individual(s) who are to perform the work;
 5. The time-frame for completion of the work;
 6. Any restrictions on the use of the audit report; and
 7. A provision for unrestricted examiner access to work papers of the CPA.
- c. Provide a copy of the CPA's final audit report to NCUA upon completion of the engagement.
- d. Restate all applicable NCUA Call Reports within thirty (30) days of receipt of the audit report, if the audit reveals that adjustments are needed in prior periods.
- e. Engage a qualified individual who can reconcile the Credit Union's Mid-Atlantic S1 and Citizens Bank accounts in accordance with the following schedule:
1. Reconcile 2011 Mid Atlantic S1 by July 31, 2013;
 2. Reconcile 2012 Mid Atlantic S1 by September 30, 2013;
 3. Reconcile Citizens Bank account through May 31, 2013 by June 30, 2013.
- f. Reconcile the Citizens Bank and the Mid Atlantic S1 account for 2013 on a daily basis. Maintain the same out of balance amount until all prior reconcilements are completed and adjustments posted.
- g. Post all adjustments that are verified as legitimate on the Mid Atlantic S1 account reconcilements by September 30, 2013.
- h. Address all remaining bookkeeping issues identified in the September 30, 2012 and March 31, 2013 examination reports, in particular the recommendations for the teller change fund.
4. Board and Management Oversight.

Going forward from the effective date of this LUA, the Board:

- a. Must fulfill its fiduciary responsibility to the membership of the Credit Union. NCUA will measure the Board's effectiveness in this regard as demonstrated by the Board's willingness and ability to correct deficiencies cited in this LUA and accompanying examination report, within the timeframes specified.



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In collaboration with operating management, shall establish a written plan, acceptable to NCUA, for requiring and obtaining adequate training in all areas of Credit Union operations on a routine basis within thirty (30) days from the effective date of this LUA. Staff and Officials must obtain training in accounting and financial analysis fundamentals.

5. Supervisory Committee Oversight

- a. By June 30, 2013, the Supervisory Committee shall develop a matrix to monitor all findings from recent audits, reviews, and examinations. The matrix must include, at a minimum:
 1. Information describing the finding,
 2. How it will be remedied,
 3. Who is responsible for implementing the corrective action, and
 4. Progress toward completing the corrective action.

While this tracking matrix may initially be part of the Action Plan described above, tracking future audit and examination findings must be part of routine operations going forward.

- b. Going forward from the effective date of this LUA as described in the first paragraph, the Supervisory Committee shall ensure it meets with any auditors or consultants, when the results of such engagements pertain directly to the Committee's oversight responsibilities. Further, such meetings should be held, at least in part, without members of operating management present.
- c. Implement all internal control corrective procedures identified in the March 31, 2013 examination report within 30 days from the effective date of this LUA as described in the first paragraph.

Given the Credit Union's size, establishing ideal segregation of duties may not be practical. As such, the Supervisory Committee's oversight role must be expanded and enhanced. In particular, the Supervisory Committee must ensure the Credit Union's operating bank accounts are reviewed monthly in detail.

6. Compliance with Laws and Regulations.

- a. The Board of Directors along with management must ensure compliance with NCUA Rules and Regulations Part 748, Appendix A, as it pertains to information security.



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This LUA will remain in effect until the conditions cited above have been resolved and the agreements reached have been fully met.

Upon publication, VPFCU agrees that the LUA shall be considered a written agreement pursuant to 12 U.S.C § 1786(s)(1)(A), for which a violation may be enforced by NCUA.

The following individuals, as authorized by the Board of Directors of the Credit Union, indicate they understand and agree with the contents of this Agreement by affixing their signatures below. The officials understand by signing the Agreement, they must make a sustained and conscientious effort to resolve the conditions and trends cited.

AGREED TO AND ACCEPTED by the undersigned on behalf of Valley Pride Federal Credit Union and the National Credit Union Administration.

For the Valley Pride Federal Credit Union:

 6-11-13
Thomas Brannigan Date
Chairperson

 6/11/13
Richard Tomko Date
Vice Chairperson

 6/11/13
Kenneth Burke Date
Treasurer

 6/11/13
Karen Burke Date
Secretary

 6-11-13
Paul Makuch Date
Board Member



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For the National Credit Union Administration:

Jane A. Walters
Jane A. Walters, Regional Directors

6-12-2013
Date

Marcus Vander Wall
Marcus Vander Wall, Supervisory Examiner

6/11/13
Date

Jo-Ann Joyce
Jo-Ann Joyce, Principal Examiner

6-11-13
Date

II/DOS/JJ:mdh
FCU 23467-D1

ecc: ADRP Lay
SE Vander Wall
EX Joyce



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bcc: File FCU 23467
Reading File
Administrative Action File

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