Chapter 20

REPORT WRITING

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APPENDIX 20A – AIRES Reports 20A-1

Chapter 20
REPORT WRITING

Report Writing Objectives

- Develop a professional, concise report that is easy to read and understand by the credit union officials
- Focus the report on applicable risks from the seven risk areas
- Relate the applicable risk areas to the CAMEL ratings
- Develop the interrelationships between the Overview, Document of Resolution, Examiner's Findings, and Loan Exceptions
- Present for discussion and adoption (or revision) necessary plans for correcting problems and reducing unacceptable risks
- Ensure the report serves as a documented administrative record for NCUA

Overview

The examination report, which is NCUA's official report to the credit union, serves as an important communication tool between the examiner, the credit union, and NCUA. The examiner-in-charge receives pertinent information from team members on the areas they reviewed, prepares the report, and delivers it to the board of directors at the conclusion of the examination. The examiner should individualize the report for the officials, who comprise the report's primary users.

Examiners should set aside time throughout the examination for discussion with management and officials regarding developments and findings in the examination. They are encouraged to provide the officials a draft copy of the report and give the officials and management sufficient time to review it before the joint conference or exit interview. Nothing presented at the joint conference, exit interview, or in the examination report should surprise the officials.

The examination report presents a written conclusion, documenting all significant items, agreements, and guidance to the officials. Examiners must retain a copy of the official report, including workpapers, schedules, checklists, forms, and examiner-prepared notes that support their conclusions. Appendix 20A lists (1) a complete set of all AIRES workpapers; (2) the minimum required workpapers for the field file;

and (3) the minimum required reports the examiner must provide in the examination report to the credit union.

Components

Examiners must complete the following required workpapers:

- Scope Workbook,
- Examiner Contact Information,
- Table of Contents,
- Examination Overview,
- Document of Resolution (if applicable),
- Confidential Section, and
- Compliance Violation Form (if applicable).

The following required questionnaires document performance of the three minimum exam procedures:

- 5300 Review Questionnaire,
- Supervisory Committee Audit and Verification Review Questionnaire, and
- Bank Secrecy Act Questionnaire.

Although these comprise the required workpapers, examiners must also document additional areas they reviewed and the steps they performed during the examination. This documentation will support the examiner's findings and conclusions, and will serve as an administrative record for NCUA. Examiners will use their judgment to determine which workpapers appropriately document the work they perform and which they will include in the copy of the report to the credit union.

Regional directors have separate agreements with various state supervisory authorities (SSAs) regarding completion of examination reports. Therefore, when performing reviews of FISCUs, examiners should follow regional guidance.

Scope Workbook

The Scope Development and Planning chapter of this Guide and the Scope Workbook User's Manual provide guidance on completing the Scope Workbook.

Examiner Contact Information

The Examiner Contact Information workpaper updates NCUA's database with certain information compiled during examinations and supervision contacts. The data for this report flows from input in the Exam Properties screen, Problem Records screen, and the CAMEL evaluation worksheet.

Table of Contents

Examiners will use the AIRES Table of Contents to organize the report given to the officials and to document which workpapers they included in the report.

Examiners will provide the credit union copies of the Overview and the Document of Resolution (if applicable). The credit union will not receive a copy of the Scope Workbook, Examination Contact Information, or the Confidential Section. Examiners may provide the credit union any schedules, findings, optional workpapers, questionnaires, or examiner-designed workpapers needed to support their conclusions and assist in gaining resolution to problems uncovered during the examination or supervision process.

Examination Overview

During each federal credit union examination, examiners will complete an Overview that, at a minimum, discloses both the component and composite CAMEL ratings. If no material risks exist, the Overview will usually be brief.

If material risks exist, the examiner should structure the Overview to discuss the most critical risks first. In addition, the Overview should:

- Relate the applicable risks to the CAMEL ratings;
- Develop the interrelationships between the Overview, Document of Resolution, Examiner's Findings, and Loan Exceptions; and
- Develop a professional, concise report that is easy to read and understand by the credit union officials.

The report should enable the credit union officials to relate the issues of risk and CAMEL ratings. Usually, the Overview provides the best place to discuss this relationship and assist the officials in

understanding how the credit union's risk profile affects its CAMEL rating.

Document of Resolution

Examiners use the Document of Resolution to outline plans and agreements reached with the officials to reduce areas of unacceptable risk. An area of unacceptable risk is one for which management does not have the proper structure for identifying, measuring, monitoring, controlling, and reporting risk. The Document of Resolution should parallel the Overview (most critical to least critical risks); however, the Document of Resolution will include persons responsible and timeframes for correction.

Examiners should not address minor issues in the Document of Resolution, but should discuss minor issues with management. Examiners can document these minor issues using an optional AIRES or examiner-prepared workpaper and provide it to management for correction. For the administrative record, the region's copy of the report should include workpapers provided to management.

Examiners should strive to reach agreements with the officials on needed corrective action. If the officials will not agree to a Document of Resolution, the examiner should work with them to develop alternative solutions or give them additional time to develop acceptable plans of their own.

In instances where the officials did not adopt the Document of Resolution, the Confidential Section should explain why. The following example documents an appropriate footnote to a Document of Resolution not adopted:

> These plans for action, although not approved by the credit union officials, are recommended to correct the area of concern. The officials have agreed to review the plans and to notify the Regional Director, National Credit Union Administration, (insert appropriate address), by (insert date), of the actions to be taken.

Examiners may, at their option, add the following wording to the footnote:

> If appropriate, the officials will submit alternate plans of action for review.

In rare instances, the directors do not agree to the Document of Resolution nor do they offer acceptable alternate plans within agreed upon timeframes. In these cases, the examiner should consider the nature of the Document of Resolution and discuss the course of action with the supervisory examiner following regional policy. The examiner may consider drafting a Regional Director Letter urging the officials to formulate an acceptable plan that recognizes and resolves the problems. However, when the overall risk to the credit union so warrants, the examiner and supervisory examiner may find it necessary to recommend administrative action, again following regional policy.

When the examiner must repeat a Document of Resolution from a previous examination because the officials failed to sufficiently correct the area of concern, the examiner should emphasize the repeated agreement. The examiner should identify the item and footnote the lack of corrective action to draw management's attention to the ongoing problem.

Confidential Section

The Confidential Section is for NCUA's internal use only. Examiners should comment briefly, but completely enough to clearly reflect actions taken during the examination. The Confidential Section should not repeat items covered in the Scope Workbook, Overview, or other sections of the report, unless additional information is warranted.

If not discussed elsewhere in the report, the Confidential Section should state what formal actions the board took and how the officials will handle major problems. Examiners should also discuss agreements reached with officials apart from the Document of Resolution.

The Confidential Section should document (1) whether the examiner held a joint conference, (2) whether the officials requested the joint conference (if Code 1 or 2), and (3) the attendees at the joint conference or exit meeting. It may also document discussions with management about correction of minor issues and should document discussions regarding expansion into underserved areas. (See the Joint Conference/Exit Meeting chapter for additional guidance.)

Examiners should cover pertinent matters of a private or restricted nature, including personal opinions based on the examiner's observations. However, the examiner should not make statements based on gossip or hearsay. Courts have directed the release of all or part of a particular Confidential Section. Further, NCUA may release some parts of a Confidential Section in compliance with a Freedom of Information Act request. The possibility of release should not dissuade examiners from presenting necessary information; however, examiners should maintain their professionalism and objectivity when writing the Confidential Section.

Examples of material that examiners may cover in the Confidential Section include the following:

- Perspective on a new credit union's progress;
- Comments on the attitudes and abilities of the officials;
- Potential difficulties facing the credit union;
- Plans for monitoring the credit union (i.e., on-going risk-focused supervision); and
- Other appropriate topics.

Examiners should use the Confidential Section as extensively as necessary, but they should not clutter the section with inconsequential or irrelevant facts and opinions.

Compliance Violation Form

Examiners must document violations of federal regulations detected during the complaint handling or examination and supervision process on the Compliance Violation Form.

Supplementary Facts

Examiners may use the Supplementary Facts to discuss material facts or situations not contained in other narrative sections of the examination report (e.g., bond claims, discussion of fraud, progress on Letters of Understanding and Agreement, progress on Net Worth Restoration Plans, etc.). If there is no need to prepare the Supplementary Facts, examiners will not include the form with the workpapers.

LUAs, NWRPs, and Revised Business Plans

The examiner may use either the Supplementary Facts or the Overview to document management's progress in complying with outstanding Letters of Understanding and Agreement (LUAs), Net Worth Restoration Plans (NWRPs), and Revised Business Plans.

Examiners should record the date the officials signed one of the above agreements, and any subsequent revisions to the agreements. Examiners should list each item of the agreement and document the degree of compliance. In the rare event NCUA publishes an LUA, the examiner should contact the supervisory examiner before discussing compliance with the terms of the LUA in the report.

Examiner's Findings

Examiners may use the optional Examiner's Findings workpaper to list material operating exceptions, violations of law or regulation, and unsafe and unsound policies, practices, and procedures. Examiners should not discuss minor, infrequent infractions in the Examiner's Findings since they detract from the more important matters. As previously discussed, other vehicles exist for documenting discussions of minor concerns with management.

Examiners, at their discretion, may include the Examiner's Findings in the Examination Report to the board of directors or they may provide the workpaper to credit union management and not include it in the report.

When identifying a finding, the examiner should cite the specific section of the *FCU Act*, *FCU Bylaws*, *NCUA Rules and Regulations*, or other authority. In the event the credit union violates more than one of the above, the examiner should cite the highest authority.

Examiners should list exceptions noted during previous examinations, but not yet corrected, under a heading such as "Findings Noted at Previous Examination That Are Not Yet Corrected" or by identifying the exception and footnoting it with similar wording.

Informal Discussion Items

Examiners may use the optional Informal Discussion Items workpaper to informally address minor concerns or weaknesses with staff.

Minor concerns or weaknesses could include:

- Recordkeeping concerns, which are not widespread or material;
- Procedural issues of minor nature that staff can easily correct in the regular course of business;
- Compliance issues due to human error rather than a systemic problem;
- Missing insurance documents; or
- Inaccurate debt ratio calculations that are not serious enough to contribute to a major loan quality concern.

Workpapers

- Workpapers
  - Scope Workbook
  - Examiner Contact Information
  - Examination Overview
  - Document of Resolution
  - Supplementary Facts
  - Examiner's Findings
  - Confidential Section
  - Table of Contents
  - Compliance Violation Form (if applicable)
  - Informal Discussion Items

Possible Additional Actions

- Submittal of Periodic Reports. Under the risk-focused approach, examiners will supervise the credit union throughout the year. As part of that supervision, examiners may request that the credit union mail them copies of the monthly financial reports, delinquency reports, board minutes, etc. to monitor existing and potential risks.

- Regional Director Letters. In problem credit unions, regions attempt to correct noted problems by sending Regional Director Letters to the credit union in question. In severe cases, the letters indicate that unless the credit union takes corrective action or makes reasonable progress, NCUA may pursue administrative action. The letter should cite the serious or persistent problems and the unsafe or unsound practices that exist. The examiner should follow regional policy for wording and processing of the letter. The examiner should tailor the letter's contents to suit the needs of the individual credit union.

- Administrative Action. The Administrative Action chapter outlines procedures for when the examiner believes that an administrative action is necessary to correct financial or operational deficiencies.

Workpapers

- Workpapers
  - Scope Workbook
  - Examiner Contact Information
  - Examination Overview
  - Document of Resolution
  - Supplementary Facts
  - Examiner's Findings
  - Confidential Section
  - Table of Contents

AIRES REPORTS - APPENDIX 20A

Legend:

✓ Minimum requirement for report to NCUA
✓✓ Minimum requirement for report to credit union
1 If violation noted is repetitive or substantial
2 Required, if applicable
3 Completed as set forth in agreements between individual SSA and regional director

Report Name	FCU	FISCU	CU
General			
Examiner Contact Information	✓	✓	
Compliance Violation Input Form	✓1	✓1	
Scope Workbook	✓	✓	
Credit Union Location Information			
Review Considerations			
Credit Union Update			
Analyst Report Review			
Final			
Table of Contents	✓	✓	✓✓
Executive Summary			
Examination Overview	✓	✓	✓✓
CAMEL Rating Explanation			
Supplementary Facts			
Document of Resolution	✓2	✓2	✓✓2
Examiner Findings			
Examiner Findings Abbreviations			
Confidential Section	✓	✓	
Informal Discussion Items			
Board Minutes			
Items Needed for Examination			
Financial			
CAMEL Evaluation			
Key Ratios			
Key Ratio Definitions			
Financial History			
Solvency Evaluation			
Statement of Financial Condition			
Statement of Income			
Reasonableness Ratios			
Budget Analysis			
Comparative Analysis			
Exam Trends			
Projections			
Two Minute Profitability Test			
General Ledger			
General Ledger Journal Adjustments			
Operating Fee/Share Insurance			
Risk-Based Net Worth			

Report Name	FCU	FISCU	CU
General Ledger (Continued)			
Alternative Components for Risk-Based Net Worth			
Allowance for Loan Losses			
GL – Cash on Hand			
GL - Cash on Deposit			
GL – Cash Equivalents			
GL - Prepaid and Deferred Expenses			
GL – Land			
GL – Buildings			
GL – Furniture and Equipment			
GL – Leasehold Improvements			
GL – Leased Assets Under Capital Lease			
GL - Other Real Estate Owned			
GL – Accounts Payable			
GL - Notes Payable			
GL - Regular Reserves			
GL – Appropriation for Non Conforming Investments			
GL - Other Reserves			
GL – Retained Earnings Reconciliation			
GL – Undivided Earnings			
GL – Unrealized Gains/Losses on AFS			
GL – Miscellaneous Equity			
Loans			
Loan Trends			
Loan Analysis			
Allowance Evaluation			
Watch List Loans			
Loan Exceptions			
Loan Profile			
Insider Loans			
Delinquency Calculator			
Investments			
Investment Trends			
Investment Maturity			
Investment Classification			
Amortizing Investments Review			
Certificate Review			
Shares			
Share Trends			
Shares Greater Than $100,000			
Shares Less Than $0			
Asset Liability Management			
IRR – Part A			
IRR – Part B			
IRR – Part C			
IRR – Part D			

Report Name	FCU	FISCU	CU
Asset Liability Management (Continued)			
17-4 Test (ALM Analysis)			
Pricing Table Input (ALM Analysis)			
Shock Summary (ALM Analysis)			
Liquidity – Part A			
Liquidity – Part B			
Liquidity – Part C			
Questionnaires			
Checklist			
5300 Review	✓	✓	
ACH – Optional			
IRR – Part A			
IRR – Part B			
IRR – Part C			
IRR – Part D			
Liquidity – Part A			
Liquidity – Part B			
Liquidity – Part C			
BSA – Bank Secrecy Act	✓	✓	
OFAC		3	
Compliance Program			
Security Program			
E – Commerce I			
E – Commerce II			
EDP Review			
Enforcement Authority			
IC – ATM			
IC – Cash			
IC – CUSO			
IC – Financial Triggers			
IC – LOC			
IC – Management			
IC – Money Orders & Travelers Checks			
IC – Security			
IC – Wire Transfers			
Inv – Account Controls			
Inv – Cash Forward			
Inv – CDs			
Inv – Controls			
Inv – Fed Funds			
Inv – IC – Optional			
Inv – IRPS 98-2 Optional			
Inv – Mutual Funds			
Inv – Optional – IC			
Inv – Repurchase Transaction			
Inv – Reverse Repurchase			
Inv – SBA			
Inv – Securities Lending			

Report Name	FCU	FISCU	CU
Questionnaires (Continued)			
Ln – Agricultural			
Ln – ARM			
Ln – Business Loans			
Ln – Collection Program			
Ln – Construction			
Ln – Controls		3	
Ln – Credit Cards IC		3	
Ln – Credit Practices Rule		3	
Ln – FHA-Real Estate		3	
Ln – FDPA–Flood Disaster Protection Act		3	
Ln – Home Equity			
Ln – HOPA–Homeowners Protection Act		3	
Ln – Indirect Lending		3	
Ln – Leasing–IC		3	
Ln – Leasing-IC		3	
Ln – Lines of Credit-IC		3	
Ln – Optional IC		3	
Ln – Real Estate-IC		3	
Ln – Reg B-Equal Credit Opportunity		3	
Ln – Reg B-Real Estate		3	
Ln – Reg C-HMDA		3	
Ln – Reg M – Leasing		3	
Ln - Reg Z-Closed End Credit		3	
Ln - Reg Z-HELOCs		3	
Ln - Reg Z-Open End and Credit Cards		3	
Ln - Reg Z-Variable RE Loans		3	
Ln - Reg Z-General		3	
Ln – Reg Z-Closed End Credit		3	
Ln – RESPA		3	
Ln - Reg Z-Right of Recision		3	
NWRP - Net Worth Restoration Plan			
Privacy of Consumer Information		3	
COPPA			
Red Flag Procedures			
Red Flag			
Supervisory Committee Audit and Verification Review	✓	✓	
SC – CPA Non-Opinion			
SC – CPA Opinion			
SC – General Review			
SC – Internal Audit			
SC – SC Audit			
Sh – Controls			
Sh – Optional-IC			
Sh – Reg CC-Expedited Funds Avail.		3	
Sh – Reg D – Reserve Requirements		3	
Sh – Reg E – Electronic Funds Transfer		3	

Report Name	FCU	FISCU	CU
Questionnaires (Continued)			
Sh – Share Drafts-IC			
Sh – TISA-Truth in Savings Act		3	

NOTE: In order to complete the required reports, **examiners must complete the required inputs, all color-coded yellow.**

At the examiners' option, they may also provide to the credit union any reconciliation workpapers, questionnaires, and examiner-designed workpapers as needed to assist in gaining resolution to problems.

Agreements between the SSA and the regional director may permit variations of these reports. SSAs may prescribe additional examination elements which are peculiar to their states.