

DISASTER RECOVERY: How Prepared Are You Really?

By Travis Pettyjohn



How comfortable are you with your Credit Union's disaster recovery plan? Many of you feel very comfortable. You have taken the time and spent the money to lease data space in Honolulu, Hawaii, - a location voted by Forbes magazine to be the nation's safest city in terms of frequency and severity of natural disasters. Annually, you test the disaster recovery plan, ensuring the data can be retrieved, it is accurate, and it can be uploaded without a hitch. Great job! You are on your way to complying with National Credit Union Administration (NCUA) Rules and Regulations Part 749 Appendix B "Catastrophic Act Preparedness Guidelines".

Now, consider a natural disaster has just occurred, knocking out power and all communication systems in the vicinity. Suddenly, you and hundreds of local businesses are scrambling to secure the limited supply of industrial sized generators, satellite communications, and new workspace to facilitate accessing your data according to your disaster recovery plan. Unfortunately, your Credit Union wasn't on the top of the list, and although your member data is residing safe and sound in Honolulu, you can't access it, your facilities are unusable, and your credit

union's reputation and member service is suffering at a time when your members may need you most.

This scenario is not unrealistic. According to the NCUA, Hurricane Katrina affected 139 credit unions, including 69 credit unions left without the ability to operate or communicate in the days following. Many of these credit unions had backed up data available to them; they just had no way to access it because they lacked the physical locations, electricity, and communication and data lines.

Now, imagine this same scenario, but this time, you have a way to access that data during a disaster. At a recent credit union league annual meeting, I had the opportunity to talk with Jon Newman of Agility Recovery Solutions, a fellow vendor. Through our discussions, I learned that his company had a unique concept, in that for a small monthly fee (it was \$275 per month at the time), they guarantee your credit union would have access to temporary physical facilities, generator power, and satellite voice and data connections within a 24-48 hour period to allow your credit union to continue to serve your members with minimal interruption. The cost to rent the facilities, the satellite link, and the generators are typically established to be covered by the credit union's business interruption insurance, so the cost can be minimal to the credit union (you will want to check your policies to ensure coverage).

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More Questions?

If you have more questions about this issue, send an email to CreditUnions@mossadams.com.



Performing a Fraud Risk Assessment

By Ryan Sturgis

The risk of fraud never seems to diminish. With the current state of the economy creating financial strains on individuals, fraud risk also increases, whether it be from external or internal sources. **The potential for fraud is continuously present, and if you haven't already, this may be a good time to update (or start) your fraud risk assessment.**

Although management is responsible for performing this, the Supervisory Committee should have an active role in overseeing the process and in understanding the identified fraud risks. This Committee oversight not only helps ensure that management fulfills its responsibility, but also can act as a control in itself to help deter management from committing fraud.

Critical Factors To Consider

To help with the risk assessment process, here are some items to take into consideration:

- Are the appropriate personnel involved in the fraud risk assessment (i.e., management, internal audit, business process owners and the Supervisory Committee)?
- What is the risk of management's override of internal controls? The Credit Union may think a control exists to mitigate fraud risk, but if management can override the control, then the effectiveness of that control is weakened. Think of the various scandals in the public markets, if management override was considered, some of these frauds could possibly have been prevented.

- Are there any undue pressures or incentives (aggressive bonus plans) for management to misstate financial results?
- What has happened to other institutions and how has the Credit Union acted to mitigate the risk internally?
- Based on knowledge of the current control system, are there opportunities to commit fraud? Look at repeat findings from regulators or your auditors.
- Consider a brainstorming session and include "what if" scenarios?
- What is the tone at the top? Does management show a disregard for internal controls?
- Are there appropriate control activities over journal entries, estimates, and unusual or non-routine transactions?
- Is a Whistleblower program in place?
- What are some of the reoccurring control comments noted by regulators, external auditors, or even through your own monitoring activities?

WHAT'S NEXT?



Is there a topic you'd like to read about? Submit your audit topic to CreditUnions@mossadams.com. If your topic is selected, your credit union will receive a complementary Peer Analysis Report.

The Next Step

Now that the risks are identified, management should address each identified risk by determining whether control activities exist and take action to mitigate those risks. Control activities are policies and procedures designed to address risks and help ensure the achievement of the entity's objectives. Control activities occur throughout the organization, at all levels and in all functions.


Antifraud control activities can be preventative as well as detective in nature. Preventative controls are designed to mitigate specific fraud risks and can deter fraud from occurring, while detective control activities are designed to identify fraud if it occurs. Detective controls can also be used as a monitoring activity to assess the effectiveness of antifraud controls and may provide additional evidence of the effectiveness of antifraud programs and controls. Where control activities are not already present, management should design and implement additional controls to specifically address the identified fraud risks.

Monitoring

The controls have been identified, and now the appropriate individuals of the Credit Union should monitor the quality and effectiveness of these antifraud programs and controls. Monitoring activities and assessments consist of procedures that include independent evaluations of antifraud controls that may be performed by internal audit or other groups, such as process owners, and can be built into normal recurring operating activities, such as effective and timely account reconciliations.

The more frequent monitoring can be done the more effective the process. Many Credit Unions build the monitoring procedures into normal recurring operating activities, which can often be more effective than separate evaluations due to timeliness.

The Communication Factor

Effective communication is an important element of all phases of the implementation of antifraud programs and controls. The company's philosophy on fraud prevention and antifraud programs and controls should be clearly communicated throughout the organization so that employees are aware of antifraud activities, have a clear understanding of what is expected of them, and know that the organization takes the risk of fraud seriously. With the current state of the economy, increased financial pressures exist for many individuals, thus this might be a prime time to re-visit your overall fraud risk assessment. 



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Credit Union ADVANTAGE



DISASTER RECOVERY: **How Prepared Are** **You Really?** *continued*

There are similar companies out there offering the same service, but this was the first time I had heard of it. After speaking with Jon, it opened my eyes about whether my clients are truly prepared for the logistical needs during a disaster. Disasters can take on many forms. Have you considered in your planning; what the systems are, the people that your credit union can't function without, and what is the critical timeline to have them back up and running? In your risk assessment process have you considered the most likely type and nature of disasters your credit union may face? Further, have you ensured that your Credit Union will be able to meet the necessary timelines?

The aftermath of Katrina, as well as recent floods, windstorms and wildfires have demonstrated time and again that it is vitally important for your credit union to address the guidelines delineated in the NCUA's Catastrophic Act Preparedness Guidelines. In considering a potential large-scale disaster, Credit Unions need to ask, just really how prepared are we? 