

# Board of Directors and Management Oversight – Examination Procedures

Examiners should request/ review records, discuss issues and questions with senior management. With respect to board and senior management oversight, examiners should:

1. Review board meeting minutes and supporting materials during the period under review for coverage of compliance matters.
2. Determine board committee structures and delegated responsibility for compliance matters, such as to an audit committee or risk committee, and review the meeting minutes and supporting materials of those committees for coverage of compliance matters.
3. Determine any management committees with delegated authority and accountability for compliance matters, including fair lending, and review their composition, functions, and reporting to committees of the board or to the board.
4. Determine the authority and accountability for compliance matters of business units; and review their composition, functions, and reporting.
5. Review policies for clarity, comprehensiveness, currency, and compliance issues and risks facing the organization.
6. Review the minutes of the board of directors or an appropriate committee of the board, and determine the resource allocation to compliance as part of the entity's budget and planning process.
7. Identify the chief compliance officer and other responsible individuals.
8. Review the role of the chief compliance officer for authority to lead a compliance program and independence from business units.
9. Review board and board committee records for evidence of the chief compliance officer's independent access to board members and governance bodies.
10. Review processes for the identification of new regulatory requirements, changes in requirements, and planning for implementation.
11. Review processes for development and implementation of new consumer financial products or services, distribution channels or strategies, to determine degree of compliance function participation. Determine whether these processes consider fair lending compliance risk.
12. Determine degree of compliance review of draft marketing material (including scripts) and their implementation (including website).

13. Review reporting for the identification and resolution of issues and the timeliness and completeness of such actions.

14. Review board or committee consideration of compliance audit matters for coverage of key risks, independence from business functions, and resolution of identified issues.

15. Draw preliminary conclusions about the strength, adequacy, or weakness of board and senior management oversight, subject to risk focused review and testing for compliance.

The examiner should determine that the person or group exercising similar oversight functions receives relevant information about compliance and consumer protection matters and takes steps to ensure that the key elements, resources, and individuals necessary for a compliance management system -- commensurate with the credit union's risk profile -- are in place and functioning.

# Compliance Program

A sound compliance program is essential to the efficient and successful operation of the credit union, much as a business plan. A compliance program includes the following components:

- Policies and procedures;
- Training; and
- Monitoring and corrective action.

A credit union should establish a formal, written compliance program, and that program generally should be administered by a chief compliance officer. In addition to being a planned and organized effort to guide the credit union's compliance activities, a written program represents an essential source document that may serve as a training and reference tool for employees. A well planned, implemented, and maintained compliance program will prevent or reduce regulatory violations, protect consumers from non-compliance and associated harms, and help align business strategies with outcomes.

The examination objectives and procedures for the compliance program are divided in this section of the Manual among the three components.

## Policies and Procedures – Examination Objectives

Compliance policies and procedures should be documented and in sufficient detail to implement the board-approved policy documents. Overall, examiners should seek to determine whether compliance policies and procedures:

1. Are consistent with board-approved policies.
2. Address compliance with applicable Federal consumer financial laws in a manner designed to prevent violations and to detect and prevent associated risks of harm to consumers.
3. Cover product or service lifecycles.
4. Are maintained and modified to remain current and to serve as a reference for employees in their day-to-day activities.

# Policies and Procedures – Examination Procedures

Examiners should request and review compliance policies and procedures and discuss elements with compliance officers or other responsible officers and employees of the credit union, as follows:

1. Request and review policies and procedures related to consumer compliance, including fair lending and other Federal consumer financial laws and policies and procedures related to offering consumer financial products and services.
2. Review policies and procedures for changes management committed to make following recent monitoring, audit, and examination findings and recommendations.
3. Review policies and procedures to determine whether and how they address new or amended Federal consumer financial laws and regulations since the preceding examination.
4. Request and review policies and procedures to determine whether they cover consumer financial products or services introduced since the preceding examination
5. Review policies and procedures relating to compliance with specific regulatory requirements (such as fair lending or the privacy of consumer financial information) and their implementing procedures.
6. Review for outdated content, the names of unaffiliated entities, or other indicators that policies are overly general or not tailored to the needs and actual practices of the credit union.
7. Review policies and procedures for products with features that may inhibit consumer understanding or otherwise pose heightened risks of (a) unfair, deceptive, or abusive practices, or (b) fair lending.
8. Review policies and procedures for products containing features that may pose heightened risk of unlawful discrimination. Such features may include: 
  - a. particular incentives created by employee compensation structures;
  - b. discretion over product selection, underwriting, or pricing; or
  - c. distinctions related to geography or prohibited bases (such as age or marital status).
9. Review policies and procedures designed to ensure that the credit union's service providers comply with legal obligations applicable to the product or service of the credit union and the provider.
10. Review policies and procedures maintained by different business unit, or legal entities subject to the same corporate or board-level policies for consistency.
11. Review policies and procedures for record retention and destruction timeframes to ensure compliance with legal requirements.
12. If compliance procedures are embedded in automated tools or business unit procedures, determine that a qualified compliance officer or contractor reviewed these tools for

consistency with policies and procedures and compliance with applicable Federal consumer laws or State laws and approved them for the purpose for which they are utilized.

13. Draw preliminary conclusions regarding the strength, adequacy, or weakness of policies and procedures, and identify business units, delivery channels, or offices for transaction testing. Test to confirm that actual practices are consistent with strong or adequate written policies and procedures. Test to determine the impact of apparently weak procedures.

# Training – Examination Objectives

Education of the credit union's board of directors, management, and staff is essential to maintaining an effective compliance program. Board members should receive sufficient information to enable them to understand the credit union's responsibilities and the commensurate resource requirements. Management and staff should receive specific, comprehensive training that reinforces and helps implement written policies and procedures. Requirements for compliance with Federal consumer financial laws, including prohibitions against unlawful discrimination and unfair, deceptive, and abusive acts and practices, should be incorporated into training for all relevant officers and employees, including audit personnel.

Examiners should seek to determine whether:

1. Compliance training is current, complete, directed to appropriate individuals based on their roles, effective, and commensurate with the size of the credit union and nature and risks to consumers presented by its activities.
2. Training is consistent with policies and procedures and designed to reinforce those policies and procedures.
3. Compliance professionals have access to training that is necessary to administer a compliance program that is appropriate for the credit union and its business strategy and operations.

# Training – Examination Procedures

Examiners should request and review training records and interview management and staff as appropriate to evaluate this element of the compliance program and to refine and focus the examination. Examiners should:

1. Request and review the schedule, record of completion, and materials for recent compliance training of board members and executive officers.
2. Determine the involvement of compliance officer(s) in selecting, reviewing, or delivering training content.
3. Request and review policies, standards, schedules, and records of completion for compliance-specific training of compliance professionals, managers, and staff, and documents demonstrating that service providers who have consumer contact or compliance responsibilities are appropriately trained.
4. Request and review samples of the content of training materials and comprehension tests, including training related to fair lending, new regulatory requirements, new products or channels of distribution, and marketing (including scripts).
5. Request and review training developed as a result of management commitments to address monitoring, audit, or examination findings and recommendations or issues raised in consumer complaints and inquiries.
6. Determine whether the program is designed to provide training about the specific regulatory requirements relevant to the functions of particular positions for loan officers, such as the Truth in Lending Act and the Equal Credit Opportunity Act.
7. Review records of follow-up, escalation, and enforcement for units with training completion rates that do not meet the credit union's standards or deadlines.
8. Request and review the credit union's plans for additions, deletions, or modifications to compliance training over the next 12 months and any plans for changes to the overall training resources and compare actual training activities to prior plans.
9. Draw preliminary conclusions about the strength, adequacy, or weakness of the training element of the compliance program, and select lines of business, organizational units, or other areas for more detailed review and testing.

# Monitoring and Corrective Action – Examination Objectives

Monitoring is a compliance program element that seeks, in an organized and risk-focused way, to identify procedural or training weaknesses in an effort to provide for a high level of compliance by promptly identifying and correcting weaknesses. Monitoring and testing is generally more frequent and less formal than compliance audit coverage and reporting, may be carried out by the business unit, and does not require the same level of independence from the business or compliance function that an audit program does.

Examiners should evaluate monitoring and audit programs to determine whether, considered together, they are adequate and comprehensive. Examiners review of compliance monitoring and testing should determine whether:

1. Monitoring is scheduled and completed and leads to timely corrective actions where appropriate.
2. The credit union is determining that transactions and other consumer contacts are handled according to the credit union's policies and procedures.
3. Monitoring and testing consider the results of risk assessments or other guides for prioritizing reviews.
4. Monitoring addresses deficiencies identified in internal or external audits, and the board's or management's directives on resolving the deficiencies.
5. Findings are escalated to management and to the board of directors if appropriate.



# Monitoring and Corrective Action – Examination Procedures

Examiners should review monitoring, testing, and corrective action reports; sample supporting documents; and interview individuals responsible for compliance monitoring, testing, and corrective action.

Examiners should:

1. Determine the chief compliance officer’s role in the compliance monitoring element of the compliance program.
2. Request and review the monitoring and testing schedule (audit schedule) for the current year or next 12 months, and assess reviews in process against the current schedule.
3. Request and review the risk assessments or other documents that led to the monitoring and testing program plan, including any fair lending risk assessments.
4. Discuss with the compliance officer or monitoring manager the coverage of third-party service providers that have contact with consumers and the efforts made to review their record of compliance.
5. Determine whether and to what extent monitoring includes calculation tools, the content of consumer disclosures and notices, marketing materials, and scripts or guides for employee contacts with consumers.
6. Request and review all compliance monitoring, testing and corrective action reports completed during a specific period of time. Include reports related to fair lending compliance, such as fair lending “self-evaluations.”
7. Review reports for indications of systemic weaknesses, repeat violations of law and resulting risks or harms to consumers, or other matters of significant concern such as potential discriminatory effects of policies or procedures or particular business units with continuing or high levels of non-compliance.
8. Review a sample of reports and supporting documents covering potential unfair, deceptive, or discriminatory practices or related matters that pose heightened risks to consumers for thoroughness of review, accuracy of findings, and appropriateness of recommendations.
9. Determine whether monitoring results in corrective action that is timely and appropriate in size and scope.
10. Draw a preliminary conclusion regarding the strength, adequacy, or weakness of the monitoring and corrective action element of the compliance program, and select areas for further review either because of lack of coverage by the monitoring program or to confirm monitoring or corrective action findings.

# Consumer Complaint Response

An effective compliance management system should ensure that a credit union is responsive and responsible in handling consumer complaints and inquiries. Intelligence gathered from consumer contacts should be organized, retained, and used as part of an institution's compliance management system.

## Consumer Complaint Response – Examination Objectives

Examiners will consider consumer complaints to determine whether:

1. Consumer complaints and inquiries, regardless of where submitted, are appropriately recorded and categorized.
2. Complaints and inquiries, whether regarding the credit union or its service providers, are addressed and resolved promptly.
3. Complaints that raise legal issues involving potential consumer harm from unfair treatment or discrimination, or other regulatory compliance issues, are appropriately escalated.
4. Complaint data and individual cases drive adjustments to business practices as appropriate.
5. Consumer complaints result in retrospective corrective action to correct the effects of the credit union's actions when appropriate.
6. Weaknesses in the compliance management system exist, based on the nature or number of substantive complaints from consumers.

## Consumer Complaint Response – Examination Procedures

Examiners should review records, interview management, and contact consumers if needed to evaluate this consumer response component of the compliance management system. Examiners should:

1. Obtain and review records of recent consumer complaints and inquiries received by DCU about the credit union and its service providers.
2. Request and review from the institution being examined its policies and procedures for receiving, escalating, and resolving consumer complaints and inquiries.
3. Request and review the record of consumer complaints and inquiries received by the credit union for a specific recent period of time.
4. Identify complaints alleging deception, unfair treatment, unlawful discrimination, or other significant consumer injury; and review some or all of those complaints for handling, timeliness, disposition, and any prospective and retrospective corrective actions.
5. Determine whether corrective action is offered or taken for any complaint resulting in a conclusion of violation of law or regulation.
6. Determine whether complaints involving service providers or other third parties referring business to the credit union receive prompt and appropriate handling and follow-up by the credit union.
7. If a credit union maintains multiple consumer response centers or units, determine whether it employs a common set of best practices as applicable.
8. Determine whether evaluations of consumer contacts are shared within the credit union and included in compliance management reporting to the Board and senior management, and whether such information is used in modifying policies, procedures, training, and monitoring.
9. Draw preliminary conclusions regarding the strength, adequacy, or weakness of the credit union's response to consumer issues and concerns, and identify business conduct areas, specific regulations, or organizational units for more detailed review.

# Compliance Audit

Audit coverage of compliance matters is the fourth component of an effective compliance management system. The audit function should review an institution's compliance with Federal consumer financial laws and adherence to internal policies and procedures and be independent of both the compliance program and business functions that include customer sales or service.

A compliance audit program provides a board of directors or its designated committees with a determination of whether policies and standards adopted by the board to guide risk management are being implemented to provide for the level of compliance and consumer protection established by the board. The audit should also identify any significant gaps in board policies and standards.

The DCU Director expects an independent compliance audit to be conducted on all credit unions with assets over \$500 million. An independent compliance audit is optional for all other asset sizes but may be required by the examiners at any asset size as the situation warrants.

## Compliance Audit – Examination Objectives

Examiners will seek to determine whether:

1. The audit program is sufficiently independent and reports to the Supervisory Committee and the Board.
2. The audit program addresses compliance with all applicable Federal consumer financial laws.
3. The schedule and coverage of audit activities is appropriate to the size of the credit union, its consumer financial product offerings, and its manner of conducting its consumer financial products business.
4. All appropriate compliance and business unit managers receive copies of audit reports in a timely manner.
5. Audit results lead to appropriate, timely corrective action.

## Compliance Audit – Examination Procedures

Examiners will review records of the compliance audit program and discuss the audit methods, results, and reporting with audit managers. Examiners should:

1. Request the credit union’s audit plans and schedules for the prior year, current year, and the following year.
2. If compliance audit is performed by a third party, request and review the engagement letters or contracts covering the prior year and the current year.
3. Determine the basis for the audit plan and schedule and whether reporting is to the Supervisory Committee and the Board.
4. Request and review all compliance audit reports for a specified period of time, including any fair lending audit reports.
5. Determine whether written audit reports identify the scope, sampling techniques, findings/deficiencies, recommendations for corrective action, and management responses with time frames for corrective action.
6. Determine whether audit scopes include previous audit, and examination findings, new requirements, new products and channels, and self-identified higher risk areas of the credit union’s operations.
7. Request and review audit workpapers for a sample of audits covering fair lending laws and regulations; potential unfair, deceptive, or abusive practices; or other areas that may pose heightened risks to consumers.
8. Determine whether corrective actions are tracked and any delay in appropriate management response or lack of corrective action is escalated.
9. Determine whether the credit union’s chief compliance officer and appropriate business unit head(s) receive copies of audit reports, so that adjustments can be made to compliance program elements in a timely manner.
10. Review audit function structure and policies and procedures to ensure that the audit function, whether internal or external, is sufficiently independent of the business line and compliance management function.
11. Draw preliminary conclusions about the strength, adequacy, or weakness of the compliance audit component of the compliance management system, and identify areas for further review based on gaps in audit coverage or to confirm the accuracy of audit findings and reporting.