



DCU BULLETIN

Division of Credit Unions

Washington State Department of Financial Institutions

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Board of Directors Examination Questionnaire

“Credit Union Board Effectiveness”, a video by the Filene Institute, recommends many successful strategies for board of directors, including strengthening board training. We agree. The Division of Credit Unions encourages directors to take training that will assist them on their oversight of the credit union.

To continue our emphasis on board training, we are using an examination questionnaire as the basis to explore the Board of Directors. During each exam we will be inviting one or more members of the Board of Directors to meet with the examiner for an informal discussion (typically 30-60 minutes). Management is also welcome to attend. Our purpose is to provide an opportunity for board members and examiners to share common concerns about the credit union, examination, or competitive financial service environment. We hope the discussion will help both the examiner and the board in understanding how the board is fulfilling their responsibilities.

To assist examiners on what is the board of director’s role, we developed a questionnaire for the following areas:

- Board duties
- Fiduciary responsibility
- Limiting personal liability
- Supervisory committee role
- Oversight of management
- Planning
- Succession planning
- Compensation
- Examination red flags

Examiners typically answer many of these questions as they review board packets and other exam information. While the questionnaire is somewhat lengthy, only some of the questions will be discussed during a particular exam. We welcome feedback on the exam questionnaire and particularly what areas the board would like more training.

In addition to this bulletin, the questionnaire is available on our web site at www.dfi.wa.gov/cu/default.htm or from any of our examiners. Please contact Jane Johnson at 360 902-0508 or Doug Lacy-Roberts at 360 902-0507 for additional information about the questionnaire.

Examination Questionnaire for Board of Directors	
<u>Duties of Board</u>	COMMENTS
1. How does the board:	
a. Maintain independence from management	
b. Enforce regular board meeting attendance	
c. Avoid conflicts of interest and self-serving practices	
d. Ensure the credit union serves the credit and savings needs of its field of membership	
2. Does the demographics and diversity of the board reflect the diversity of the membership?	
3. How does the board recruit board members?	
4. When vacancies occur, does the board or nominating committee determine the skills needed on the board and recruit nominees for board membership who can fill these skills?	
<u>Fiduciary</u>	COMMENTS
1. How does the board provide training to new board members in the risks and responsibilities of fiduciary responsibilities?	
2. Who is responsible to make the final determination as to whether a fiduciary responsibility has been breached?	
3. Does the board allow attendance at board meetings via telephone conference call?	
4. Has any board member had a transaction with the credit union other than loans as typically granted to non-affiliated members or savings accounts on terms found with non-affiliated members?	
a. Describe the transactions:	
b. If it involved real property, was an independent appraisal obtained?	
c. If not real property, did the board obtain sealed bids for the transaction?	
d. Did the affiliated director recuse himself and leave the room while the transaction was discussed, deliberated, and voted upon?	

e. Do the minutes reflect this recusal?	
5. Are all loan transactions, including new loans granted and refinances, at terms and conditions both available to the membership at large as well as used by the membership at large?	
6. How many board members met with the examiner in charge at the last exam to hear his/her concerns?	
7. Who represents the Supervisory Committee at each board meeting?	
8. Is the use of credit union property restricted to authorized activities?	
9. Have any credit union assets been sold to any board member?	
<u>Limiting Personal Liability</u>	COMMENTS
1. Obtain copies of the written duties and responsibilities for board members.	
2. Obtain copies of the written performance standards and expectations for board members.	
3. Is each director, officer, committee member, and employee of a credit union adequately bonded?	
4. Does the board retain an attorney to opine on compliance when implementing new services or products?	
5. Does the board and management comply with laws and regulations that promote equal opportunity for all members regardless of race, color, religion, gender, national origin, age or handicap?	
<u>Supervisory Committee</u>	COMMENTS
1. How does the supervisory committee stay fully informed as to the financial condition of the credit union and the decisions of the credit union's board?	
2. Did the credit union use an independent auditor / firm for the last audit? If yes, who/ which?	
<i>If yes click here:</i>	

a. Describe the bid and interview process used by the supervisory committee to hire the firm used.	
b. Was the last audit report addressed to the Supervisory Committee?	
c. How did the Supervisory Committee coordinate management's response to the audit report?	
3. How many members of the Supervisory Committee met with the last examination team to hear their concerns?	
4. What criteria has the Supervisory Committee determined will trigger their hiring an internal auditor?	
5. If the credit union currently has an internal auditor, who does that person report to?	
Information	COMMENTS
1. Describe the training each board member received in the past year to carry out his/her duties and responsibilities?	
2. Describe the board packet of information received prior to each Board meeting.	
3. Did the board design and designate what information will be included in the board packet?	
4. What additional information would you like to see?	
5. Does each board member receive adequate information to carry out his/her duties and responsibilities?	
6. How much time does each board member have to read and digest the board packets prior to having to make decisions?	
7. How do you train new board members so they might understand the terminology, calculations, relevance, and materials used in the board packet to ensure that they can adequately analyze and participate in a discussion on matters before the board?	
8. How does each board member keep up with changes in the environment / regulations? (How do board members hear about changes in regulations?)	

<u>Oversight of Management</u>	COMMENTS
1. When did the board last review the written performance standards for the CEO to ensure they are relevant and address the current needs of the credit union?	
2. Does the board routinely discuss and either provide correction or approval of major management strategic decisions, degree of management's due diligence, and management's effectiveness in carrying out policies and procedures?	
3. Describe the internal systems used by the board to monitor operations and ensure that management takes appropriate actions that conform to board approved policies and directives.	
4. Describe the process used by the board to discuss and prepare a written performance evaluation on the CEO.	
5. Describe the process used by management to obtain board approval before implementing new policies, offering a new service, or engaging in new activities.	
6. Describe management's ability to effectively handle day-to-day management leaving the board free to focus on strategic and policy issues.	
<u>Planning</u>	COMMENTS
1. Has the board established a strategic plan (plan)?	
a. How many years does the plan address?	
b. Does the plan set broad goals?	
c. Which areas of the credit union's operation does the plan encompass?	
d. How did you assess the credit union's strengths and weaknesses?	
e. Is the strategic plan referred to frequently throughout the year?	

f. Does the plan assign responsibility to individuals to accomplish these tasks and milestones?	
g. Can the strategic plan be quantified to measure success?	
h. Does the board packet routinely contain ratios and other quantifiable data that the board can use to measure success to their strategic plan?	
i. Does the budget match and support the strategic plan?	
2. Has the board established a business plan?	
a. What time period does the business plan cover?	
b. Does the business plan implement the strategic plan?	
c. How did the board assess the business environment in which the credit union will operate?	
d. Does the business plan include a clear, written statement of key objectives which are:	
(1) Consistent with the strategic plan?	
(2) How is this measured?	
3. When were the plans implemented?	
4. How is achieving the strategic and business plans included as an performance element for key management?	
Succession Planning	COMMENTS
1. What is your plan for succession of key management in the disaster recovery plan?	
2. How many years do your key managers state that they plan to work before retirement?	
<i>If >5 years click here:</i>	
a. Is the board familiar with the various methods of searching for new management?	
b. How often does the board discuss succession planning?	

<i>If <5 years click here:</i>	
c. Describe the optimal knowledge, skills & abilities (KSA) the board has determined is needed by a CEO to promote his/her vision for the credit union.	
d. Has the board reviewed the skill set of other employees to determine if any of them can be "groomed" for the promotion to CEO?	
e. What method will the board use to find a new key managers?	
f. How often does the board discuss succession planning?	
<i>If <2 years click here:</i>	
g. How has the board begun implementing their plan to replace key personnel?	
h. Who is on the committee established to do the tasks necessary?	
i. How often is succession planning discussed at board meetings?	
j. Has the board decided if there will be an overlap between the 2 persons if there is a transition period between out-going CEO and in-coming CEO?	
<i>If yes click here:</i>	
(1). Who will establish clear limits and authorities during this transition period?	
k. Who is responsible for training the new key manager?	
l. Describe the compensation package for the retiring key manager (Income continuation, lump sum, continue paying benefits, life insurance coverage, etc.) and what is the total cost.	
m. Describe the board's method to screen and do background checks on CEO applicants.	
<u>Compensation</u>	COMMENTS
1. Where does your CEO's compensation rank among the salaries of CEO's of other similar sized and complexity financial institutions?	

<i>If low compensation compared to national CEO surveys of similar size financial institutions or don't know, click here:</i>	
a. How will the board attract a replacement CEO when the time comes?	
b. How has the low CEO compensation impacted the compensation level of other employees?	
2. How does the board routinely compare the compensation package given to the CEO compare with those of other financial institutions?	
NCUA's Red Flags¹	COMMENTS
1. How does the board protect the credit union from:	
a. Overly dominant manager	
b. Manager or key employee involvement in gambling	
c. Manager or key employee not taking regular vacations or always working late	
d. Nepotism	
e. Insider abuse or preferential treatment	
f. Limited personnel not conducive to segregation of duties	
g. Lack of adequate segregation of duties when there is adequate staffing to achieve such	
h. Failure to provide, delays in providing, standard reports, records, and documents	
i. Records maintained at home and not in credit union's control	
j. Management or staff provide copies of documents rather than originals	
k. Inactive Supervisory Committee	
l. Lack of, unacceptable, or non-independent audit or verification	
m. Inadequate internal controls and information system (IS) controls	
n. No internal review of override of non-financial reports	

¹ This is an excerpt from the NCUA Examiner Guide, Chapter 7 on Management. The Board should know what safeguards are in place to identify “red flags”, such as timing/adequacy of standard reports to Board, internal auditor reports, supervisory committee reviews, whistleblowing protections for employees, and general Board awareness of the manager’s activities.

o. Bank account frequently overdrawn	
p. Large amount of cash in transit	
q. High volume of excessive transactions	
r. Use of borrowed funds in spite of large cash balances	
s. Lack of fraud policy	
t. Extravagant management or employee lifestyle relative to salary	
u. Low return on assets or on various asset categories	
v. Payment of above market dividends to attract deposits	