

Other Assets and Liabilities

Examiners should evaluate the above-captioned function against the following control and performance standards. The Standards represent control and performance objectives that should be implemented to help ensure the bank operates in a safe and sound manner, and that the entity's objectives are carried out. Associated Risks represent potential threats to the bank if the standards are not achieved and maintained. The Standards are intended to assist examiners in analyzing important functions that may warrant additional review. All of the following Standards may NOT need to be considered at every bank. Conversely, these do NOT represent all of the control and performance standards needed for every bank. Examiners should continue to use their judgement when assessing risk.

Standards	Associated Risks
MANAGEMENT AND CONTROL	
<p>Management establishes the controls necessary to safeguard bank assets and provide for accurate accounting of assets and liabilities.</p> <p>The bank's internal and external audit procedures are adequate.</p>	<p>Assets may be misappropriated or lost.</p> <p>Asset carrying values may be overstated or liability carrying values understated resulting in an overstatement of capital.</p> <p>Errors in accounting may occur and may not be detected in a timely manner.</p> <p>Customer goodwill is jeopardized due to inaccuracies in deposit accounting.</p>
<p>Losses are recognized in a timely manner.</p>	<p>Carrying values may be overstated.</p> <p>Deferred losses may result in overstated earnings in the current period.</p>
PERFORMANCE	
<p>Bank personnel perform timely and accurate reconciliations of subsidiary accounts to general ledger controls.</p> <p>Management makes periodic comparisons of amounts recorded by the accounting system with physical assets where appropriate.</p>	<p>Discrepancies between books and records could go undetected. Failure to identify and investigate differences could result in increased risk of loss or error.</p> <p>Amounts carried on the balance sheet and in operating accounts may not be accurate.</p>
<p>Real estate acquired for development or investment is monitored by management.</p>	<p>Poorly monitored real estate projects can incur cost overruns or other related losses affecting the anticipated return of the project.</p>
<p>Management adheres to pertinent accounting standards and pronouncements.</p>	<p>Reports of Condition and Income and other published reports may misstate the bank's financial position.</p>
<p>Investment in non-earning assets, including premises and equipment, is reasonable.</p>	<p>Excessive investment in non-earning assets may burden earnings through diminished revenues.</p>
<p>Asset quality is satisfactory.</p>	<p>Poor asset quality may strain earnings, reduce capital levels, and restrict management's flexibility to react to changing circumstances.</p>
MANAGEMENT AND CONTROL	
<p>Management information systems are adequate for the bank's needs and provide relevant data to management.</p>	<p>Ineffective information systems could lead to uninformed business decisions, inappropriate reactions to external influences, and lost opportunities.</p>

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Core Analysis Decision Factors

Examiners should evaluate Core Analysis in this section for significance and to determine if an Expanded Analysis is necessary. Negative responses to Core Analysis Decision Factors may not require proceeding to the Expanded Analysis. Conversely, positive responses to Core Analysis Decision factors do not preclude examiners from proceeding to the Expanded Analysis if deemed appropriate.

Do Core Analysis and Decision Factors indicate that risks are adequately identified, measured, monitored, and controlled?

Core Answer: General Comment:(If any)

Core Analysis Decision Factors

C.1. Are the bank's operating policies, procedures, and risk limits adequate?

C.2. Are internal controls adequate?

C.3. Are the audit or independent review functions adequate?

C.4. Are information and communications systems adequate and accurate?

C.5. Is there adequate information to justify the carrying values and are adjustments made on a timely basis?

C.6. Do the board and senior management provide effective supervision?

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Expanded Analysis Decision Factors

This section evaluates the significance and materiality of deficiencies or other specific concerns identified in the Core and Expanded Analyses.

Do Expanded Analysis and Decision Factors indicate that risks are adequately identified, measured, monitored, and controlled?

Expanded Answer: General Comment:(If any)

Expanded Analysis Decision Factors

E.1. Does management provide the proper supervision and take the appropriate action to address other asset and liability deficiencies?

E.2. Are deficiencies immaterial to the bank's financial condition?

Other Assets and Liabilities

Consider the following procedures at each examination. Examiners are encouraged to exclude items deemed unnecessary. This procedural analysis does not represent every possible action to be taken during an examination. The references are not intended to be all-inclusive and additional guidance may exist. Many of these procedures will address more than one of the Standards and Associated Risks. For the examination process to be successful, examiners must maintain open communication with bank management and discuss relevant concerns as they arise.

Preliminary Review

- 1 Review prior examination reports, prior examination work papers, UBPRs, Reports of Condition and Income, General Ledgers, pre-examination memoranda, and file correspondence for an overview of any other asset or liability concerns.
- 2 Review internal and external audit reports and assess the adequacy of the audit scope.
- 3 Review remedial actions taken by management to correct audit and examination deficiencies.

Cash Accounts

- 4 Evaluate policies and procedures for controlling cash. At a minimum, guidelines should consider the following items:
 - 4 A Limits on tellers' cash drawers.
 - 4 B Separation of duties and joint custody requirements, including vault access, night depository, and ATMs.
 - 4 C Surprise cash counts.
 - 4 D Depth of review of overages and shortages.
 - 4 E Compliance with applicable laws and regulations, e.g., Currency and Foreign Transaction Reporting Act and the Bank Secrecy Act (FRB: Sec. 208.61 of Regulation H).
 - 4 F Compliance with limits stated on bonding applications.
- 5 Evaluate any written policies for controlling cash items. At a minimum, policies should consider the following items:
 - 5 A Maximum holding periods. (Note: Items should be cleared or charged-off in a timely manner.)
 - 5 B Reasons why items will be held.
- 6 Determine that bank management periodically performs a complete inventory of cash and reconciles aggregate balances to department controls or to the general ledger.
 - 6 A Review reconciling items for reasonableness.
 - 6 B Evaluate the use of suspense accounts.
 - 6 C Determine if items in suspense accounts are considered stale.

- 6 D Check that employees preparing reconcilements are independent from control of cash and preparation of entries to the accounting system.
- 7 Determine that internal and external audit coverage is sufficient to substantiate the effectiveness of internal controls.
- 8 Determine that management receives and reviews cash reports.
- 9 Evaluate the documentation maintained to support carrying values.
 - 9 A Consider the reasons the item is held, date originated, and collectability. Classify accordingly.
 - 9 B Determine that items not in process of collection are reported appropriately for Reports of Condition and Income purposes.
- 10 Evaluate management's follow-up actions regarding reported problems or items. (Note: Appropriate bank authorities should approve policy exceptions, and only on an infrequent basis.)

Correspondent Bank Accounts and Interest Bearing Balances

- 11 Evaluate policies and procedures for monitoring correspondent bank account and interest bearing balances. At a minimum, guidelines should consider the following items:
 - 11 A Individuals assigned responsibility for reconcilements and maintenance of records. (Note: If the size of the institution precludes full separation of duties, alternative procedures should be in place to ensure one individual does not have exclusive control over reconcilements while also preparing or entering data to the general ledger or subsidiary ledger.)
 - 11 B Supervisors responsible for regular review of reconciliations and reconciling items.
 - 11 C Approval procedures for all entries to the accounts.
 - 11 D Time guidelines for charge-off of stale items.
 - 11 E Procedures to prevent excessive exposure to any individual correspondents. (Note (1) Required by Section 308 of the FDIC Improvement Act of 1991 and Federal Reserve Board Regulation F, Limitations on Interbank Liabilities; (2) This rule covers all credit exposure to a correspondent.)
 - 11 F Arrangements regarding compensating balances for loans to the parent, an affiliate, or insiders. (Note: Federal Reserve Board 23A and FDIC Part 349.)
- 12 Examine a sample of reconcilements to evaluate internal controls. Consider the following items:
 - 12 A Statements for each account should be reconciled promptly upon receipt.
 - 12 B Starting balances should agree with related general ledger accounts and correspondent bank statements. (Note: Defalcations or losses will generally arise in the We Debit side of the reconciliation).
 - 12 C Reconcilements should be printed, dated, and initialed by the employee who performs the reconciliation and an officer or supervisor who reviews it.

12 D Reconcilements should not be prepared by persons who also prepare/approve general ledger entries, effect funds transfers, issue drafts or official checks, or prepare/approve entries to due from bank accounts.

12 E Records of open item investigations should be maintained, even after an item has cleared.

12 F An aging report should be prepared for management that reflects the number and amount of open items for each due from account that notes the status of large and long-term open items. General time frames for credits and debits are as follows:

1 Cash letters - the next day.

2 ACH transactions - the same or next day.

3 ACH returns - generally within two days. (NOTE: ACH rules now allow for three returns rather than the paper presentation of two times. However, only two of the returns can be by the same method, i.e., 1 physical and 2 ACH, or 2 physical and 1 ACH.)

4 Non ACH returns - generally within one week.

5 E bonds and TT&L - depends on how transmitted, but generally within two to three days.

6 Cash shipments - the next day.

7 Bond transactions - same or next day.

8 Interest payment or charges - generally the next day.

13 Evaluate the most recent internal and external audit that reviewed correspondent bank accounts. Consider the following items:

13 A Scope of the review.

13 B Instances of noncompliance with written policies and procedures.

13 C Inaccuracies or lack of completeness of any information obtained.

13 D Instances of noncompliance with Section 23A of the Federal Reserve Act.

13 E Corrective actions planned by management for any noted deficiencies.

14 Determine that management receives and reviews suspense account and stale item reports.

15 Determine that documentation supports general ledger carrying values.

15 A Investigate any items that are unusual or have been outstanding for an undue period of time.

15 B Determine if a charge-off or other classification is necessary.

Permissible Activities and Equity Investments

Note: A listing of permissible national bank activities and equity investments is available on the Internet at <http://www.fdic.gov/regulations/resources/permissible/index.html>.

16 Determine that the bank obtained appropriate approvals for any activities or equity investments that are not permissible for national banks. Consider the following guidance:

16 A Banks that engage, directly or indirectly, in any activities or equity investments that are not permissible for national banks must meet applicable capital standards. (FDIC: Part 362 of the FDIC Rules and Regulations, FRB: 12 CFR Part I of the OCC Investment Securities Regulation, prescribed under Section 5136 of the Revised Statutes.)

16 B Banks must meet applicable capital standards when Subsidiaries of the bank engage, directly or indirectly, in any activities that are not permissible for national banks.

16 C Management must monitor compliance with all regulatory conditions and restrictions imposed by approval orders.

16 D Make certain the investments and activities are adhering to the strategies and business plans as presented with the bank's application.

17 Determine that the board has approved all equity investments and activities.

18 Evaluate business plans and strategies regarding permissible and approved activities and equity investments.

19 Evaluate internal and external audits of all permissible and approved activities and equity investments.

20 Determine that management and the board receive appropriate financial and operating information regarding each activity and equity investment.

Premises and Fixed Assets

21 Evaluate policies and procedures regarding premises and fixed assets. At a minimum, guidelines should consider the following items:

21 A Requirements that the directorate approve all major purchases.

21 B Guidelines that discourage conflicts of interest or self dealing with vendors, servicers, and insurers.

21 C Guidelines for maintaining the level and nature of premises and fixed asset investments in compliance with applicable laws and regulations. (e.g. State laws and Section 24A of the Federal Reserve Act.)

22 Evaluate internal controls. Consider the following items:

22 A Individuals who post purchase and sale records should not also be responsible for the custody or inventory of the property.

22 B Subsidiary ledgers of depreciation should be balanced to the general ledger by persons who do not also have sole custody of property.

22 C Periodic physical inventories should confirm asset values.

22 D Adequate fire and extended insurance coverage should be in force for bank premises, furniture, and equipment.

22 E Sales of assets, including the recognition of gains and losses, should be properly recognized.

22 F Appropriate disclosures, including the existence of liens, should be made.

23 Determine the investment in premises and equipment is reasonable and in compliance with state laws.

24 Determine that audit procedures consider premises and equipment that are held by the bank, a subsidiary, or an affiliate realty corporation as part of sale and leaseback transactions or as lease-purchase contracts.

24 A If significant, auditors should ensure capitalized lease designations are appropriate. (Refer to SFAS 13.)

24 B If part of sale-leaseback agreement, they should review for proper accounting treatment. (Refer to SFASs 28 & 66.)

25 Determine whether information and reporting regarding fixed assets to senior management and the board is adequate.

26 Determine that real estate held for future expansion still qualifies as bank premises.

Deposit Activities

27 Evaluate policies and procedures for deposit account activity. At a minimum, policies should consider guidelines for the following items:

27 A Opening and closing accounts.

27 B Dormant and inactive accounts.

27 C Hold mail and returned mail.

27 D Overdrafts.

27 E Uncollected funds.

27 F Deposit sweep activities.

27 G Account maintenance.

27 H Escrow accounts.

28 Evaluate internal controls. Consider the following items:

28 A Frequency of reconciliations.

28 B Accuracy of deposit categorization.

28 C Reconciliations should not be performed by persons responsible for posting or who handle cash or official checks.

28 D Items held in suspense accounts should clear in a timely manner.

28 E New account documents should be pre-numbered and issued in strict numerical sequence.

28 F Transactions affecting customer accounts and other internal entries should be properly and promptly processed with appropriate approval.

28 G Controls over dormant and inactive accounts.

- 28 H Overdrafts, large uncollected funds, and kiting suspect reports should be reviewed periodically.
- 29 Evaluate internal and external audit programs. Consider the following items:
- 29 A Frequency and scope.
 - 29 B The program should include a comprehensive confirmation program with customers of each deposit category maintained by the institution.
- 30 Determine that audit recommendations are appropriately addressed.
- 31 Determine that appropriate periodic reports are prepared for management on open items in suspense, in process, and other deposit accounts and that the reports include an aging of items and the status of significant items.
- 32 Review and evaluate overdraft, large item, uncollected funds, and check kiting reports, periodically throughout examination for irregular activity. Pay particular attention to activities of bank insiders.
- 33 Evaluate how management addresses any outstanding adjustments or differences.
- 34 Determine if the bank utilizes retail repurchase agreements (a.k.a. sweep accounts.) If so, consider the following items:
- 34 A Advertising must disclose that the instrument into which deposit funds are swept is not insured by the FDIC and is not an obligation of or guaranteed by the bank.
 - 34 B Determine if proceeds of deposit sweep arrangements are invested only in short-term bank obligations, short-term U.S. Government securities, or other highly liquid, readily marketable investment grade assets that can be disposed of with minimal loss of principal.
 - 34 C Confirmations should comply with the requirements of the Government Securities Act.
- 35 Determine the existence of any unsatisfactory features regarding deposits made by brokers that require the bank to make loans or purchase securities.

Official Checks

- 36 Evaluate the bank's policies and procedures regarding official checks. At a minimum, guidelines should address the following items:
- 36 A Accounts should be maintained for each type of official check.
 - 36 B The board should designate appropriate signing authorities.
 - 36 C Management should establish authority for issuing and approving certified checks.
- 37 Evaluate internal controls. Consider the following items:
- 37 A Records should be maintained for tracking checks by serial number.
 - 37 B Reserve supplies of unissued checks should be under appropriate controls.

37 C Periodically, reserve supplies of checks should be independently reconciled using the vendors invoice.

37 D Management should periodically trace certified checks for appropriate charges to customers' accounts to determine whether the accounts had sufficient balances at the time of certification.

37 E Determine that outstanding checks are reconciled on a regular basis.

38 Evaluate the most recent time internal and external audit of official checks. (e.g., expense checks, cashiers checks, loan disbursement checks, certified checks.)

Official Checks

39 Ascertain that management maintains an appropriate reporting mechanism for reconcilements, inventories, and check signing.

Other Items

Note: It is virtually impossible to develop procedural guidance for examining all asset and liability categories. Regardless, examiners are responsible for evaluating significant risk areas to determine the existence of effective policies and procedures, strong internal controls, appropriate levels of audit, and effective management information systems. To the extent there may be overstatements in asset accounts, losses would exist and, if material, should be scheduled in the examination report.

40 Evaluate other asset categories on the general ledger. The following points address some of the more common problem areas:

40 A Book values should not exceed cash surrender values for life insurance policies insuring the lives of key officers. (Note: Substantial amounts of cash value in excess of carrying value may be shown in the report as Sound Banking Values Not Shown on Books. Overstatements should be classified loss. Refer to APB 21, FASB Technical Bulletin No. 85-4, Section 24 of the FDI Act, and FIL-60-93 for additional information.)

40 B Non-booked assets (for example, fine art and software) should remain in control of the bank. (Note: Insurance riders may show assets insured but no longer in the bank.)

40 C Capitalization of bonding company claims is rarely justified unless the surrounding factual situation is such that realization is assured beyond any reasonable doubt.

40 D Deferred tax assets can be recognized for operating loss and tax credit carryforwards just as they are for deductible temporary differences. As a result, a bank can recognize the benefit of a net operating loss for tax purposes or a tax credit carryforward to the extent the bank determines that a valuation allowance is not considered necessary. For example, if the realization of the benefit is more likely than not. (Note: Refer to Part 325.5 of the FDIC Rules and Regulations regarding treatment of deferred tax assets.)

40 E Costs associated with prepaid services (surety bonds, insurance policies, advance rental payments) should be charged to current expenses over the life of the purchased goods or services.

41 Evaluate other liability categories on the general ledger. The following points address some of the more common problem areas:

41 A Review Treasury, Tax, and Loan accounts for appropriate controls. Consider the following items:

Core Analysis

1 Balances should be periodically confirmed by personnel not involved with account activity.
2 Balances should transfer the next business day when the remittance option is used by the bank.

41 B Determine if there are any liabilities not reflected on the bank's books. (Note: This information may be obtained through discussions with bank personnel, auditors, or through findings resulting from examiner review of other functional areas.)

41 C Determine that reports, which provide an aging of applicable liability accounts, are prepared and reviewed by management on at least a quarterly basis.

41 D Determine that detailed records or calculations are maintained to support the liabilities recorded.

Other Assets and Liabilities

Generally, procedures used in the Expanded Analysis should target concerns identified in the Core Analysis and Decision Factors. Expanded procedures associated with Core Analysis and Decision Factors of no concern need not be used. The flexible guidelines specified for the Core Analysis also apply here.

Cash Accounts

Cash on Hand

- 1 Determine that all tellers, including relief tellers, have sole access to their own cash supply and cash drawer.
- 2 Find out if duplicate keys and combinations are under dual control.
- 3 Conclude that when a teller is leaving for vacation or absent for any other extended period of time, that the teller's total cash supply is counted under dual control.
- 4 Notice if cash drawers or teller cages have locking devices to protect the cash during periods when the teller is absent from his/her window.
- 5 Determine if each office and teller maintains currency within pre-established cash limits.
- 6 Determine if "bait money" is maintained appropriately.
- 7 Establish that daily checks compare each teller's cash, in aggregate, to an independent control from the proof or accounting control department.
- 8 Ascertain that teller differences are cleared daily.
- 9 Find out if cumulative over and short records are maintained for all persons handling cash.
- 10 Determine that each teller prepares and signs a daily proof sheet detailing currency, coin, consignment items, and cash items.
- 11 Ascertain that tellers report large differences to a responsible official for clearance.
- 12 Establish that the bank has a policy that prohibits tellers from maintaining "kitties."
- 13 Observe that teller transactions identify the responsible teller.
- 14 Ascertain that both tellers verify and initial teller transfer entries.
- 15 Find out if tellers possess operational guidelines which establish dollar limits on check cashing or withdrawals without officer approval.
- 16 Conclude that tellers can not process transactions to their own accounts.
- 17 Determine that tellers clear all checks from their funds daily.
- 18 Observe that teller duties are restricted to teller operations.
- 19 Determine that vault opening and closing procedures are adequate.
- 20 Detect that the vault cash is appropriately controlled.

- 21 Determine that the bank maintains records showing amount and denominations of vault cash.
- 22 Find out if currency shipments are prepared and sent, and received and counted under dual control.
- 23 Ascertain that someone independent of the teller function controls the master teller machine key.
- 24 Observe that tellers remove their keys when they leave their window.

Night Depository

- 25 Determine that the bank has established written contracts that authorize opening night deposit bags.
- 26 Find out if the bank provides lockable bags to customers.
- 27 Establish that two employees open night deposit bags; initial recording of bag numbers, envelope numbers, and depositors' names in the register; and count and verify contents.

Automated Teller Machines (ATM)

- 28 Establish that the bank's ATMs limit the amount of cash and number of times dispensed during a specified period for each account.
- 29 Determine that ATMs capture the card if the wrong personal identification number (PIN) is consecutively used or an invalid card is used.
- 30 Find out if the machine automatically shuts down after it experiences recurring errors.
- 31 Learn if a representative of the bank must be present during maintenance of the machine.
- 32 Observe if there is adequate lighting for the ATM.
- 33 Inquire about negative file capability. If the machine is operated "off-line", determine if it includes lists of lost, stolen, or other undesirable cards which should be captured.
- 34 Discover if a "suspicious activity" report identifies usage of an ATM by an individual customer in excess of that customer's past history. (e.g. three uses during the past three days as compared with a history of one use per month.)
- 35 Ascertain that safeguards prevent disclosure of a customer's PIN during use by others observing the PIN pad.
- 36 Find out if a communication interruption between an ATM and the central processing unit triggers the alarm system.
- 37 Determine if all ATMs contain alarm devices.
- 38 Establish that the bank mails PINs separately from cards.
- 39 Determine that personnel who have custody of cards can not also have access to PINs at any stage (issuance, verification, or reissuance).

Cash Items

- 40 Determine that someone other than the teller who originated the transaction handles returned items.
- 41 Observe that an officer, or other designated individual, reviews the nature of all cash items over a specified dollar limit with respect to collection and credit.
- 42 Establish that an officer of the bank, or other designated individual, reviews and initials a daily report of all cash items.
- 43 Determine that the bank's procedures forbid the holding of overdraft checks in the cash item account.
- 44 Observe that the directorate, a designated committee thereof, or an officer with no conflicting responsibilities reviews and approves cash items recommended for charge-off.

Proof and Transit

- 45 Detect that individuals working in the proof and transit department cannot work in other departments of the bank.
- 46 Determine that the bank handles cash letters appropriately. Consider the following items:
 - 46 A Cash letters should be prepared and sent on a daily basis.
 - 46 B Cash letters should be imaged before they leave the bank.
 - 46 C A copy of the proof or hand-run tape should be identified and retained.
 - 46 D Records of cash letters sent to correspondent bank should be maintained with identification of the subject bank, date, and amount.
 - 46 E Remittances for cash letters should be received by employees independent of those who send out the cash letters.
- 47 Conclude that all entries to the general ledger have been proofed.
- 48 Establish that all entries prepared by the general ledger or customer account department receive a review by a supervisor other than the person preparing the entry.
- 49 Determine that another employee or designated officer correct errors detected by the proof operator.
- 50 Ascertain that appropriate source documents support all posting to the general ledger.
- 51 Determine that the bank appropriately handles returned items. Consider the following items:
 - 51 A Returns should be handled by an independent section of the proof and transit department or delivered unopened to personnel not responsible for preparing cash letters or handling cash.
 - 51 B Returned items should be periodically reviewed by supervisory personnel to determine that items are being handled correctly by the proof and transit section and are clearing on a timely basis.

- 51 C Returned items should be scrutinized for employee items, and large or repeat items.
- 52 Determine that items reported missing from the cash letter are promptly traced and a copy sent for credit.
- 53 Evaluate the rotation of duties in the proof and transit area.
- 54 Ascertain that the bank prohibits proof machine operators from filing checks or deposit slips, or preparing deposit account statements.

Correspondent Bank Accounts and Interest Bearing Balances

General

- 55 Consider contacting the correspondent to obtain a cut-off statement. (Note: The statement should be sent to the EIC's attention. If the bank receives a statement daily, obtain it before bank personnel open it.)
- 56 Prepare correspondent account reconcilements and trace exception and open items. (Note: Examiners are instructed to review the bank's internal reconcilements in the Core Analysis. If reconcilements do not exist or are incomplete, then examiners should perform this function.)

Permissible Activities and Equity Investments

- 57 Confirm that the bank is complying with all conditions imposed by regulations and orders, including investment limitations or divestiture plans.
- 58 Determine that accounting records accurately record income and expenses generated by the investments and ventures.
- 59 Determine if any contingent liabilities exist.

Premises and Fixed Assets

- 60 Reconcile premises and equipment subsidiary ledgers to the general ledger.
- 61 Determine the reasonableness of investment in premises and equipment.
 - 61 A Review the current and prospective use of fixed assets in serving banking needs.
 - 61 B Review UBPR schedules to determine the reasonableness of the following items:
 - 1 Investment in premises and fixed assets in relation to total assets.
 - 2 Percentage of operating income absorbed by occupancy expense.

Deposit Activities

- 62 Determine if deposit records provide satisfactory audit trails. (Note: Can the transaction be traced from initiation to final disposition.)
- 63 Determine if changes to customer account records require separation of duties between origination, input, and review.
- 64 Determine if source documents for customer deposit account modifications are supported by proper authorizations. (For example, address change or name change.)

- 65 Review a sample of internal control overrides for appropriateness and approval.
- 66 Verify that management does not pay fees until funds are verified and physically transferred (the bank does not give a broker an advance fee for his or her services prior to settling the transaction).
- 67 Find out if the institution maintains documentation supporting a current reconciliation of each deposit account category recorded on the general ledger.
- 68 Verify that reconciliations are performed by an individual that is not directly involved in accepting or preparing transactions or entries to customer accounts.
- 69 Determine that the preparation of input and posting of subsidiary deposit records are performed and /or adequately reviewed by persons who do not also(1) accept or generate transactions or (2) handles cash.
- 70 Establish that in-process, suspense, interoffice accounts, related to deposit accounts are closely monitored by individual(s) that do not have posting or reconciling duties.
- 71 Verify that the bank segregates deposit account files of employee, officers and directors and any related business interests.
- 72 Ascertain if posting and check filing are separated from statement preparation.
- 73 Find out if customer transactions and interest statements are mailed in a controlled environment.
- 74 Determine that the opening of new accounts and access to unused new account records are not handled by an individual who makes entries to customer accounts or the general ledger.
- 75 Verify if a periodic review of inactive accounts is performed to determine if they should be place on dormant status.
- 76 Conclude that the closed account lists are prepared and circulated to appropriate management for review.
- 77 Discover if accounts for which contact cannot be reestablished and that do not reflect recent activity are removed from the active files and clearly classified as dormant.
- 78 Ascertain that signature cards for closed accounts are promptly pulled from the active account file and placed in the closed one.
- 79 Verify compliance with state escheat laws.

Official Checks

- 80 Determine that reconcilements are a part of the overall deposit function. If not, consider the following items:
 - 80 A Outstanding checks should be listed and reconciled to the general ledger.
 - 80 B Permanent evidence of reconcilements should be maintained.
 - 80 C Clear separation of duties or reconciliation duties should be rotated on a formal basis.
 - 80 D Reconcilements should be reviewed by an officer.

- 80 E Authorized signatures and endorsements should be checked.
- 81 Investigate the types of checks issued. Consider the following items:
 - 81 A Multicopy checks and certified check forms should be used, if not detailed registers of disbursed checks should be maintained.
 - 81 B All checks should be pre-numbered and issued in numerical sequence.
 - 81 C Check preparation and issuance should be separate from recordkeeping.
 - 81 D Signing checks in advance should be prohibited.
 - 81 E Procedures prohibit issuance of a check before the credit is processed.
 - 81 F Customer accounts should be debited when certified checks are issued. (Note: Holes are often punched at the bottom of certified checks to prevent double posting.)
- 82 Test for appropriate controls over check signing machines, if used:
 - 82 A Verify if procedures in effect to preclude certification of checks drawn on uncollected funds.
 - 82 B Test if voided checks and certified check forms promptly defaced and filed with paid checks.

Other Items

- 83 Test the accuracy of the accrual system. Determine whether any of the income earned but not collected is contingent upon items in default or otherwise of doubtful collection.
- 84 Test the accuracy of liability accrual systems.
- 85 Establish if the preparation of entries and posting of subsidiary other liability records is performed or tested by persons who do not also have direct control of the related liabilities.
- 86 Establish if subsidiary other liability records are approved and balanced to the general ledger on a monthly basis by persons who do not also have direct control of the related liabilities.
- 87 Conclude that the bank books contingent liabilities for future expenditures or losses at the time they become probable and can be reasonably estimated.
 - 87 A Ascertain if such accounts are closely monitored and provide for periodic status reports to management.
- 88 Notice if sufficient documentation (i.e. broad resolutions) is available to support any amounts due officer, directors, and their related interest.
- 89 Determine that all payroll tax liabilities reconcile to appropriate payroll records.
- 90 Ascertain if liabilities for undistributed customer receipts (i.e., deposits, funds transfers, dividend/interest payments, securities fails) are controlled in separate accounts.
- 91 Determine if customer receipts are treated as deposits for reporting and reserve requirements.

Expanded Analysis

92 Find out if amounts that cannot be credited or otherwise paid to the rightful owner, are classified as dormant and placed under dual control of individuals not engaged in making entries to the accounts.

93 Ascertain that formal approval procedures are independent from recordkeeping for all other liabilities that are charged off or revalued.

94 Establish that the booking of obligations are made immediately upon receipt of invoices or bills for services received.

95 Verify that procedures are in place to ensure that invoices and bills are:

95 A Verified for accuracy prior to payment.

95 B Approved by designated employees prior to payment.

95 C Paid within the discount period.

Other Assets and Liabilities

Impact Analysis reviews the impact that deficiencies identified in the Core and Expanded Analysis and Decision Factors have on the bank's overall condition. Impact Analysis also directs the examiner to consider possible supervisory options.

- 1 Determine the impact of the deficiencies on the bank's capital, earnings, and asset quality.
- 2 Determine the need for administrative and enforcement actions, formulate specific recommendations, and advise the appropriate supervisory officials. (FDIC: Field Office Supervisor, Regional Office.)
- 3 Discuss the possibility of administrative and enforcement actions with the EIC, executive management, and the board of directors.
- 4 Determine the circumstances and facts regarding Civil Money Penalties, Suspicious Activity Reports, and removal action under Section 8 of the FDI Act, if necessary.