

Bank:
Charter #:

Date of Exam:
Prepared By:

#7 – COLLECTIONS, CONSIGNED ITEMS, SAFEKEEPING, AND SAFE DEPOSIT BOXES (Risk Focused)

ASSIGNMENT OVERVIEW

Banks often provide a number of customer services in an agent or other fiduciary capacity which normally does not result in the recording of assets or liabilities on the general ledger. These services may include: collection services, customer safekeeping, safe deposit box rentals, and the sale of consigned items. The bank assumes a contingent liability in connection with these activities and must properly maintain and safeguard all consigned items. For more detailed guidance, consult the “Contingent Liabilities” section of the [FDIC Risk Management Manual](#) and the internal Reference document associated with this procedure.

INSTRUCTIONS:

All examiners performing these procedures must be listed above in the “Prepared By” section. Completion of this procedure must be done electronically. All of the CORE ANALYSIS PHASE should be completed. Comments and findings for each step should be made in the comment box below each question. Reference to work paper documentation should also be included here. Documentation is to be sufficient to allow an audit trail of the examiner’s thought process and all significant findings.

Based on any significant/critical findings in the CORE ANALYSIS PHASE or as directed by the EIC, the applicable SUPPLEMENTAL ASSESSMENT PHASE (SAP) should also be performed. Responses should be entered in the SAP. All of the important findings/deficiencies identified while performing the SAP should be summarized in the corresponding CORE ANALYSIS comment section.

The EIC/AEIC should review this procedure when complete. Acknowledgement that this procedure has been reviewed by the EIC/AEIC will be indicated on the SCOPE FORM.

EXAMINERS ARE RESPONSIBLE FOR EXERCISING SOUND JUDGMENT AND UTILIZING REASONABLE INVESTIGATIVE AND ANALYTICAL SKILLS TO ARRIVE AT AN ACCURATE ASSESSMENT OF THE RISK PROFILE OF THIS SEGMENT OF THE INSTITUTION’S OPERATIONS. PERFORMING ALTERNATE PROCEDURES NOT LISTED WITH THESE GUIDELINES MAY BE NECESSARY TO COMPLETE THIS RISK ANALYSIS.

CORE ANALYSIS PHASE

#7 Collections, Consigned Items, Safekeeping, and Safe Deposit Boxes

1. Prior Criticisms

1. Determine whether deficiencies noted in the last examination and most recent internal/external audit have been addressed and/or corrected by management. Detail how deficiencies were corrected. *Include copy of exam and/or audit exceptions and management response in work papers, or summarize exceptions/criticisms below or indicate the page number in the last examination report where deficiencies are noted, if applicable.*

Comment:

2. Collections

2a. Review significance of cash collection items (amount, volume, and type) and quality of controls. Comment on findings. Refer to [Appendix](#) for guidance.

Comment:

2b. Determine if the bank has any outgoing non-cash collection items or incoming collection items. If yes, perform the following:

- Balance the list of cash collection items to the general ledger and inform loan examiners of cash collection items outstanding, if necessary. *Include copy of reconciliation and list of items in 7-A and 7-B of work papers.*
- Review the bank's documentation for those outgoing/incoming items.
- Perform follow-up to identify and document those items that have not been paid promptly or returned or have been outstanding for more than 30 days (stale items). These items may be subject to a loss classification.
- Review procedures for giving immediate credit considering officer approval requirements and officer limits.

Comment:

3. Consigned Items

3a. Obtain and review the most recent reconciliation of consigned items. Comment on any adjustments needed. *Include copy of reconciliation in 7-C of work papers.*

Comment:

3b. Review handling procedures ensuring working supply and the entire inventory is maintained under dual control. Major deficiencies observed with respect to dual control warrants a complete

#7 Collections, Consigned Items, Safekeeping, and Safe Deposit Boxes

examiner reconciliation. Comment on adequacy of internal controls. Refer to [Appendix](#) for additional guidance.

Comment:

4. Safekeeping

4. If the bank holds any customer items in safekeeping for purposes other than collateral, ensure items are segregated from bank owned assets and maintained under dual control. Comment on the adequacy of internal controls, specifically identifying any weaknesses.

Comment:

5. Safe Deposit Boxes

5. If deficiencies are noted in previous exams or audits and compliance hasn't been achieved, or if a review of the safe deposit box area was not performed at the last exam, perform the [SAP](#) and summarize findings, including compliance with the Texas Finance Code, in the comment section.

Comment:

6. Final Analysis

6. Complete the [Summary of Findings](#).

SUMMARY OF FINDINGS

#7- COLLECTIONS, CONSIGNED ITEMS, SAFEKEEPING & SAFE DEPOSIT

Describe all strengths evident from the evaluation.

Describe all weaknesses evident from evaluation, including violations of law/regulation/rules; noncompliance with Departmental policies/guidelines; internal policy deficiencies/noncompliance; internal control weaknesses; MIS problems; and deficiencies in management supervision.

Report Worthy:

Not Report Worthy:

Determine why weaknesses exist and comment on management's response and plan of action. Identify bank personnel making the response.

SUMMARY RISK RATING ASSIGNED: enter rating here

Definitions

1-Strong; 2-Satisfactory; 3-Less than satisfactory; 4-Deficient; 5-Critically deficient; NR-Not Rated

Provide copy of this page to EIC/AEIC. Receipt and review of this form by the EIC/AEIC will be evidenced by his/her initials in the appropriate column for this procedure on the SCOPE FORM.

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SUPPLEMENTAL ASSESSMENT PHASE (SAP)

SAP

Document findings within the SAP and summarize (include weaknesses and statements on compliance with regulations or policies) in the corresponding CORE ANALYSIS section.

SAFE DEPOSIT BOXES (Q5a)

Determine compliance with the following:

1. Each safe deposit box in use has a signed lease contract.
2. Receipts for keys to the safe deposit box are obtained.
3. Officers or employees of the bank prohibited from having access to safe deposit boxes except their own.
4. The guard key to safe deposit boxes are maintained under absolute bank control.
5. Admittance slips are signed in front of the clerk and filed numerically.
6. Bank personnel are prohibited from assisting the customer in looking through the contents of the box.
7. A file is maintained of all attachments, notices of bankruptcy, letters of guardianship and letters of testamentary served on the bank.
8. Acknowledgment of receipt of all property and a release of liability is signed upon termination of occupancy.
9. Locks are changed when boxes are surrendered, whether or not keys are lost.
10. The drilling of boxes is witnessed by two individuals.
11. The contents of drilled boxes are inventoried, packaged, and placed under dual control.
When the bank relocates a safe deposit box, or opens the box to relocate its contents to another box or location, the bank must comply with the requirements of [Section 59.108](#) of the Texas Finance Code.
12. All keys issued to boxes are imprinted with the bank's routing number, and any defaced or altered keys are reported as per [Section 59.110](#) of the Texas Finance Code and Title 7 Texas Administrative Code (7 TAC) [§3.35](#).

Comment:

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APPENDIX

COLLECTIONS

The collection department is one of the most diversified areas in the bank. It engages in receiving, collecting, and liquidating items, which generally require special handling. The customer normally receives credit only after the bank receives final payment. Some of the common types of collection items include drafts, notes, acceptances, bonds, or bond coupons presented for payment, and contracts in which the bank, on behalf of the holder, collects proceeds. As far as collection items are concerned, the bank acts as agent for its customers or correspondents and receives a fee for that service. General ledger accounts rarely are used in the collection process. The importance and value of customer assets under bank control, however, demand the use of accounting procedures adequate to provide a step-by-step historical summary of each item processed. The bank must also maintain an audit trail to substantiate the proper handling of all items and to reduce the bank's potential liability

Internal Controls:

1. Are permanent registers kept for incoming and outgoing collection items?
2. Are all collections indexed in the collection register?
3. Do registers furnish a complete history of the origin and final disposition of each collection item?
4. Are receipts issued to customers for all items received for collections?
5. Are incoming tracers and inquiries handled by an officer or employee not connected with the processing of collection items?
6. Have procedures been established for sending tracers and inquiries on unpaid collection items in the hands of a correspondent?
7. Is an itemized daily summary made of all collection fees, showing collection numbers and amounts?
8. Are collection files clearly and distinctly segregated from bank owned assets?
9. Does the bank service notes for any customer? (These are typically notes in which the bank performs the servicing, i.e. collecting payments for a fee, for the holder of the note.)
 - (a) Is any kind of ledger maintained on these notes and balanced on a regular basis? If not, recommend that a ledger be kept and balanced regularly.
10. Are collection files locked when the employee handling such items is absent?
11. Does the collection teller turn over all cash to the paying teller at the close of each business day, and start each day with a standard change fund?

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APPENDIX

CONSIGNED ITEMS

The most common items held on consignment by banks are unissued traveler's checks, food stamps, and U.S. commemorative coins. Physical security and inventory controls should be sound; they should be similar to the controls in place for the bank's own supply of negotiable forms. Banks generally maintain a working supply of all consigned items at the teller line or selling station. They also maintain a reserve supply under dual control in the bank's vault. The bank is responsible for all unissued items and must maintain accurate inventories and accounting records on sales. Management should strive to maintain an inventory, which provides customers with adequate selection, without being excessive.

Balancing & Reconciliation:

1. Does the bank receive at least a quarterly inventory statement from the consigned item issuers?
2. Does the bank perform an inventory count at least on a quarterly basis or more frequently if necessary?
3. Is the person responsible for counting inventory separated from the sale or control of consigned items?

Internal Controls:

1. Is the reserve stock of consigned items kept under dual control?
2. Are working supplies kept to a reasonable minimum, i.e. 2 or 3 days' supply?
3. Are working supplies adequately protected during banking hours?
4. Is the working supply kept in the vault during non-banking hours?
5. Are remittances for sales made on a regular, if not daily, basis?
6. Review on a test basis to ensure items are issued numerically. Investigate any missing numbers.

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