

Bank:
Charter #:

Date of Exam:
Prepared By:

#8– DEPOSITS and OFFICIAL CHECKS (Risk Focused)

ASSIGNMENT OVERVIEW

Deposits represent the predominant funding source for banks. The composition and pricing of deposit accounts are reviewed in the procedures for earnings and funds management. This procedure relates to the types of systems in place to account for and control deposit accounts and official checks. Compliance with regulations related to dormant accounts and unclaimed property is reviewed in the Other Supervisory Issues procedure. For additional information, see the Funding Sources and Other Liabilities section in the [FDIC Risk Management Manual of Examination Policies](#). The related DOB Reference document for this procedure identifies useful regulations, guidance, and other issuances by various regulatory authorities.

INSTRUCTIONS

Examiners must follow the requirements in the Examiner Bulletin addressing Guidelines for Procedures and Work Paper Documentation for Commercial Examinations.

All examiners performing these procedures must be listed above in the “Prepared By” section. 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.

Information on the Summary of Findings page must tie back to the findings noted within the procedure. The SEIC/EIC will determine which information in the Summary of Findings will be included in the Report of Examination.

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

#8 Deposits and Official Checks

1. Prior Criticism

1. Determine whether deficiencies were noted in the last examination and most recent internal/external audit. If so, determine if deficiencies have been addressed and/or corrected by management. Detail how deficiencies were corrected.

Review the scope of the internal audit for this area and make necessary recommendations for improvement, especially where there are weaknesses noted in the assignment review. Coordinate recommendations with the examiner performing the Audit procedure.

Include a copy of audit exceptions and/or prior examination criticisms and management response in work papers or indicate the page number in the prior report of examination where the deficiencies are noted, or summarize exceptions/criticisms below, if applicable.

Comment:

2. Balance and Reconcile

2. Reconcile and verify Call Report schedule RC-E. Comment on any deficiencies noted. *Include copy of reconciliations in 8-A of the work papers.*

Comment:

3. Internal Controls

3a. Evaluate internal controls of official checks. Refer to [Appendix](#) for guidance.

Comment:

3b. Describe the bank's practices regarding unrepresented official and miscellaneous checks. Include:

- if unrepresented checks are under special control procedures; and
- if outstanding official checks are ever transferred to an income or surplus general ledger account and if so, when does this occur and what account is used?

Refer to [Appendix](#) for a list of the types of checks and further guidance regarding unrepresented official checks.

Comment:

3c. Determine if stored-value cards are offered by the bank. If so,

- Determine if fees are assessed which reduce the unredeemed balance on the card. If so, what are the fees and when are they assessed?
- When does the bank transfer unredeemed balances to a separate liability or suspense account? Identify the ledger account(s).

#8 Deposits and Official Checks

Refer to [Appendix](#) for additional guidance.

Comment:

3d. Describe the bank's practices regarding unidentified deposits and remittances. Address the following:

- Are unidentified remittances and deposits recorded in a special liability or suspense account under dual custody?
- Does the bank transfer the unidentified remittances or deposits directly to an income or undivided profits account? If so, what ledger account is used?

Comment:

4. Final Analysis

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

SUMMARY OF FINDINGS

#8 – DEPOSITS AND OFFICIAL CHECKS

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.

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

SUMMARY RATING: Choose an item.

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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APPENDIX

Internal Controls – Official Checks

Sequentially numbered instruments should be used wherever possible. Pre-numbered documents aid in proving, reconciling, and controlling used and unused items. Number controls, including printer's confirmation, should be monitored by a person who is detached from that particular operation. Unissued, pre-numbered instruments that could be used to obtain funds should be maintained under dual control or joint custody.

Internal Controls:

- Bank's policy for issuing official checks should be reasonable and provide for adequate levels of approval based on transaction size;
- The posting of official checks to the ledgers is segregated and under dual control from the issuance of official checks;
- Periodic inventories of the working supply and or unissued checks is handled by someone other than the individual in control of the checks.
- Unissued checks are maintained under dual control to prevent the possibility of a large unrecorded liability.
- Unissued checks are pre-numbered and issued in numerical sequence
- Official checks are balanced and reconciled to the general ledger at least monthly

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Unpresented Official and Miscellaneous Checks

Types of Official and Miscellaneous Checks:

- Certified Checks
- Cashier's Checks
- Registered Checks
- Treasurer's Checks
- Drafts
- Warrants
- Foreign Exchange
- Dividend
- Trust
- Any other official checks or exchange items
- Expense
- Money Orders
- Traveler's Checks
- Interest Checks

(1) Unpresented or outstanding official checks can be reversed to the account from which they were drawn. For example, if a customer gets a cashier's check for closing on a house but then if the closing doesn't happen, the customer can return the check to the bank and ask that it be marked as "not used" and funds returned.

(2) The owner of an uncashed check is the payee (the entity to which the check is payable). Occasionally, banks will mistakenly not report cashier's checks in the Unclaimed Property Report because they know the whereabouts of the purchaser but, unless it is positively known that the purchaser is still holding the original copy of the check, contact with the purchaser is irrelevant.

(3) The bank should honor a "stale-dated" official check until it is escheated.

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Stored Value Cards

Stored Value Cards are addressed in both the Business and Commerce Code (B&CC) [Chapter 604](#) and Property Code (PC) Section [72.1016](#).

The following summarizes the requirements in both Codes.

A stored value card is **not reportable** as unclaimed property if (a) the stored value card **has no expiration date** and (b) **no fees are assessed**, other than those permitted under Section 604.051 of the Business & Commerce Code.

Reasonable fees permitted under B&CC Section 604.051 must be disclosed and may only be charged for:

- issuing a card
- adding value to the card
- accessing the card at an unmanned teller machine
- reissuing or replacing the card if it is lost or expired

If a card has either (a) an expiration date **or** (b) charges monthly service fees, other than those permitted under Section 604.051, **the net amount is reportable** as unclaimed property.

Additional service fees not specifically covered under Section 604.052:

- must be disclosed
- must be reasonable
- may not be assessed until the 13th month after the date the card was sold or issued

Per Property Code Section 72.1016 a fee may not be charged against a stored value card after the card is presumed abandoned.

Per Property Code Section 72.1016:

- If a card has an expiration date, the **balance is presumed abandoned** on the earlier of (a) the card expiration date or (b) three years from the issue date, if the card was not used or three years from the last activity date, if the card was used.
- If a card represents wages, the **balance is presumed abandoned** on the earliest of (a) the card expiration date or (b) one year from the issue date, if the card was not used or one year from the last activity date, if the card was used.

Per B&CC Section 604.051 and 604.052:

Disclosure of the following information must be clear and conspicuous:

- expiration date
- expiration policy
- fees
- other material restrictions or contract terms

Disclosure of the following information must be legibly printed on the card:

- expiration of a stored value card or
- a periodic fee that reduces the unredeemed value of a stored value card

Note: A stored value card sold without the disclosures mentioned above is valid until redeemed or replaced.

GENERAL:

- "Stored value card" means a record that evidences a promise made for monetary consideration by the seller or issuer of the record that goods or services will be provided to the owner of the record in the value shown in the record, that is prefunded, and the value of which is reduced on redemption. The term includes a gift card or gift certificate.
- If a stored value card seller in this state does not obtain or maintain the name and address of an apparent card owner, the address of the apparent owner is considered to be the Austin address of the Texas Comptroller.
- This statute does not apply to stored value cards that are:
 - distributed under an awards, rewards, loyalty, incentive, rebate or promotional program
 - sold below face value or donated to
 - an employee
 - a non-profit organization
 - an educational institution for fund raising
 - issued by a financial institution as financial agent for United States or Texas

- linked to and draws its value solely from a deposit account subject to Chapter 73 of the Property Code
- issued as a prepaid calling card
- issued by a licensed air carrier

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