

Select Entity Type	Name and City	Date of Exam	
Charter #		Prepared By	

#2 – FIDUCIARY AND CORPORATE MANAGEMENT (Risk Focused)

ASSIGNMENT OVERVIEW

Fiduciary management encompasses all aspects in the oversight of fiduciary matters of a trust institution. This would include direct Board oversight, if applicable, or the delegation of duties to various committees (Trust Committee, Trust Investment Committee, Audit Committee etc.) The level of oversight, the involvement of Board and/or committee members, the comprehensiveness of Board or committee minutes, and other such factors would determine, to a degree, the rating assigned this component. However, the effectiveness of the oversight will also be revealed in the condition of the other fiduciary areas (operations, internal controls, and auditing; fiduciary earnings; compliance; and asset management) and the ratings assigned those areas. Obviously, concerns or weaknesses in those areas would factor heavily into the fiduciary management rating. Apparent violations of a fiduciary nature are viewed critically, as well, and factor into the assigned rating. Although different levels of managerial supervision are required for institutions of different size and with different activities, certain basic principles of management are universal among all entities and necessitate a minimum level of supervision.

INSTRUCTIONS

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

All examiners performing these procedures must be listed above in the “Prepared By” section. 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. Items to Consider within the core analysis are not required to be commented on unless there are significant issues. The intent is to assist the examiner in expanding their thought process and analysis of that area.

**For Trust Departments, complete steps 1 -5, and 9
For Trust Companies, complete steps 1-9**

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

#2 MANAGEMENT – FIDUCIARY & CORPORATE

**Complete this section (Steps 1-5) for
Trust Departments and Trust Companies**

1. Prior Criticisms for Fiduciary and Corporate Activities

1. Determine whether deficiencies noted in the last examination and most recent internal/external audit (Agreed Upon Procedures and Financial Audit) have been addressed and/or corrected by management. Detail how deficiencies were corrected. *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. Policies and Procedures

2a. Determine whether written policies and procedures adequately address all corporate and fiduciary areas and are annually reviewed and approved by the Board. Determine if policies and procedures are followed. *Comment on any deficiencies or non-adherence to Board approved policies. Refer to [Appendix I](#) for additional guidance.*

Policies & Procedures are Adequate	Select Response
Policies & Procedures Reviewed Annually	Select Response
Date Approved by Board	Enter date
Policies & Procedures Followed?	Select Response

Comment:

2b. Determine whether the Board has annually approved and incorporated the Statement of Principles of Trust (Department) Management for the institution's use. *Note any non-adherence to the Statement of Principles.*

Date Approved by Board	Enter date
Policies & Procedures Followed?	Select Response

Comment:

#2 MANAGEMENT – FIDUCIARY & CORPORATE

3. Board/Committee Fiduciary Management Oversight

3. Evaluate the adequacy of Board/Committee fiduciary oversight. Summarize significant actions in fiduciary committee minutes.

Refer to [Appendix II](#) for guidance and key areas to address in the comment section. (*Board-Committee Member Attendance Worksheet optional*)



T02 Board-Cmmtee
WS.xlsx

Trust Company Only - Compliance with

TFC §[183.103](#) Board of Directors, Managers, or Managing Participants. (Shareholder approval of directors. number of directors and Oath of Acceptances)

Select Response

TFC §[183.105](#) Required Quarterly Board Meeting

Select Response

TFC §[183.106](#) Approval of Officers

Select Response

Comment:

4. Management's Actions and Ability

4a. Determine the adequacy of the institution's overall fiduciary risk management practices.

Address the following:

- Legal risk exposure
- Adequacy of insurance protection
- Management succession, training, and maintaining of staffing levels

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

Compliance with

TFC §[183.112](#) Bonding Requirements

Select Response

7 TAC §[17.4](#) Bonding Requirements

Select Response

Comment:

#2 MANAGEMENT – FIDUCIARY & CORPORATE

4b. Determine if a management information system (MIS) exists that informs management of the status of all activities within the institution and can be relied upon when making decisions. *Comment on weaknesses.*

Adequate MIS

Select Response

Comment:

4c. Evaluate management and the Board's due diligence process for selecting and monitoring outside service providers (e.g. investment managers, investment advisors, consultants, custodians, brokers/dealers). Refer to [Appendix IV](#) for guidance.

Comment:

4d. If the trust department or trust company is under any form of administrative action (chartering orders, board resolutions, MOU, etc.), evaluate the steps taken by the Board since the previous examination to reach compliance with the administrative action. *Administrative Actions can be found in EDISON*

Administrative Actions

Select Response

Comment:

4e. Comment on the nature and level of current/previous violations of law and management's ability/actions to make corrections.

Current/Previous Violations of Law

Select Response

Comment:

4f. Determine if management and the Board have developed and adopted a strategic plan. Note any deficiencies with management's ability to plan effectively or with the trust company's/departments' Strategic Plan. Review for compliance with [Supervisory Memorandum 1009](#) - Business Plans and Strategic Planning. Refer to [Appendix V](#) for additional guidance.

Comment:

5. Organizational Chart and Structure

5a. Review the corporate/fiduciary division's organizational chart to determine if it accurately portrays the structure of the bank/trust company and if it provides a well-organized division of duties. Comment on key elements of the organizational structure and any deficiencies. *Include Org chart in 2N workpapers.*

#2 MANAGEMENT – FIDUCIARY & CORPORATE
Comment:
<p>5b. Determine if any dominant individual or authority exists. Consider if any individual controls or dominates the board; controls the board reporting; or all areas of policies and operations. Refer to Appendix VIII for potential controls to reduce the risks of having one dominant official in the organization. <i>Comment on any deficiencies in segregation of duties, director independence and involvement, audit functions, code of conduct/ethics/conflict of interest policies and practices</i></p>
Comment:
<p>5c. For bank trust departments, go to the Final Analysis.. For trust companies, continue to the next section.</p>

#2 MANAGEMENT - CORPORATE	
Complete this section (Steps 6-8) for Trust Companies Only	
6. Corporate Records and Applications	
<p>6a. Review the Certificate of Formation and By-Laws.</p> <p>Determine whether any amendments have been made to the Certificate of Formation since the last examination. If yes, determine compliance with the following:</p> <ul style="list-style-type: none"> Is there evidence that prior approval was acquired from the owners of two-thirds of the capital stock as required by §3.052 of the Business Organization Code; and Is there evidence that the original and/or re-created Certificate of Formation was filed with the Banking Commissioner for approval as required by Texas Administrative Code §21.9 <p>Review the trust company's by-laws and determine:</p> <ul style="list-style-type: none"> Are the by-laws being adhered to by the Board? Have there been any changes to the by-laws since the last examination? If yes, comment on the changes. 	
Amended Certificate of Formation	Select Response
If yes, indicate Compliance with:	
TAC §21.9 Corporate Filings	Select Response
BOC §3.052 Procedures Amend Certificate of Formation	Select Response

Adherence to By-Laws	Select Response
Changes to By-Laws	Select Response
Comment:	
<p>6b. Determine if the Department approved any corporate applications (i.e. merger, branch open/close, office relocation, etc.) since the previous examination. If yes, investigate if the approval was contingent upon any subsequent action(s) and if the contingency has been met. Comment on applications filed and any noncompliance.</p>	
Corporate Applications filed Since Last Exam	Select Response
Comment:	

7. Stockholders and Board of Directors

The following worksheets may be utilized in completing this section.



T02 Shareholder
WK2.xlsx



T02 TC Board
WK3.xlsx

7a. Read and brief the minutes of all stockholders' and Board of Directors' meetings since the previous examination. Record major actions taken in board meetings held since the previous examination which is not part of a normal monthly meeting. *Include in work papers.*

Determine if the board elected a principal executive officer and an officer responsible for corporate books and records as required by TFC §183.106. *Indicate who performs this duty in the comment section.*

Verify compliance with the applicable Business Organizations Code (BOC) and Texas Finance Code (TFC) statutes related to ownership and management of a state trust company. *Comment on non-compliance and any weaknesses.*

Consider the following:

- Determine if an annual meeting of the shareholders has been held within the last twelve months as required by BOC §21.351 and that a quorum of shareholders of the majority of shares entitled to vote were present, either in person or by proxy, as required per §21.358 of the BOC
- Determine if the board has had meetings on at least a quarterly basis, as required by §183.105 of the TFC.
- Determine if the board approves the minutes of the preceding meeting, sufficiently reviews the operations, activities, and financial condition of the trust company, and records all actions of the board in the minutes, as required by TFC §183.105.

<p>d) Determine if any special committees have been created, and the compensation that is received from being a committee member. Determine if payment is automatic, or contingent upon attendance.</p> <p>e) Determine if the board approved any and all transactions between the trust company and directors or their interests. Did the interested director(s) abstain from voting on the matter?</p> <p>f) As per TFC §183.109(a), did the trust company obtain prior approval of a disinterested majority of the board before selling, leasing, or purchasing any assets to (or from) any of its officers or directors? If not, did the trust company obtain prior written approval of the Banking Commissioner? Refer to 7 TAC §17.3 relating to the sale or lease agreements with an officer, director, principal shareholder, or affiliate.</p> <p>g) As per TFC §183.109(b), did the trust company obtain the prior written approval of the Banking Commissioner before consummating, renewing, or extending a real property lease in which an officer, director, manager, managing participant, or principal shareholder of the trust company, or an affiliate of the trust company, has an interest?</p> <p>h) Determine if there are advisory directors attending the board meetings that need to sign a confidentiality agreement. Is confidential information related to the trust company or company's clients disclosed? Per TFC §183.104, did the board adopt a resolution that identifies the advisory director and describes the purpose for disclosure of the information? Has the advisory director signed a confidentiality agreement?</p>	
Compliance with:	
TFC § 183.105 Quarterly Required Board Meeting	Select Response
TFC § 183.106 Officers	Select Response
TFC § 183.109(a) Transactions with Management and Affiliates	Select Response
TFC § 183.109(b) Commissioner's Approval for Transactions with Management and Affiliates.	Select Response
TFC § 183.104 Advisory Director	Select Response
BOC § 21.351 Annual Meeting	Select Response
BOC § 21.358 Quorum	Select Response
7 TAC § 17.3 Sale or Lease Agreements with an Officer, Director, Principal Shareholder, or Affiliate	Select Response
Principal Executive Officer	Insert name here
Corporate Records Officer	Insert name here
Comment:	
<p>7b. Verify compliance with Texas Finance Code §183.103 relating to members of the Board of Directors. <i>Comment on any weaknesses or non-compliance.</i></p>	

Consider the following:

- a) Does the trust company have between five and twenty-five directors, the majority of whom are Texas residents, as required by TFC §183.103(a)?
- b) Is the principal executive officer a qualified member of the board as required by TFC §183.103(a)?
- c) Is there evidence that any director may be prohibited from serving due to exclusionary factors listed in TFC §183.103(b):
 - A judgment against him/her in favor of the trust company?
 - A charged off obligation at this trust company?
 - A felony conviction?
 - Person has violated general duties with respect to a trust which the trust company has fiduciary responsibility and has not been corrected.
- d) Have all directors been elected within the last twelve months, and any interim vacancies been properly filled, as required by TFC §183.103(c)&(d)?
- e) Has each director submitted an [oath of office/acceptance](#) as required by TFC §183.103(e) prior to taking office?(Department of Banking website has an optional form to use)

Compliance with TFC §[183.103](#)

Select Response

Comment:

7c. Review the information on the directors to determine the quality of board composition and interaction. Provide an assessment in the comment section.

Consider the following:

- a) Does there appear to be a reasonable range of knowledge/expertise among board members to meet the needs of the bank as well as those of the local economy?
- b) Are there sufficient outside directors to provide alternative perspectives and objectivity?
- c) Have all directors demonstrated active participation in the board through attendance of regularly scheduled meetings?
 - Is there any member who has attended less the 50% of the meetings?
- d) Is there any evidence of domination by a particular member or group?
- e) Do directors' fees appear reasonable for the size and condition of the institution, and for the contribution of individual directors?

Comment:

7d. Review the information provided in the board packet from either the most recent board meeting or a sample of meetings between examinations. Determine if the board receives sufficient information on a regular basis to supervise the activities of the trust company. *Indicate any weaknesses in the packet in the comment section.*

Refer to Appendix VI for guidance.	
Board Packet Materials Sufficient	Select Response
Comment:	
7e. If any specialty examinations (Bank Secrecy Act or Information Technology) received a composite rating of less than satisfactory, consider the impact to the overall management rating at this examination and comment below.	
BSA/AML Review Less Than Satisfactory	Select Response
IT Exam Less than Satisfactory	Select Response
Comment:	

8. Audits	
8. Evaluate corporate audit practices and ensure annual financial statement audits are conducted. Refer to Appendix VII for additional guidance.	
Annual Financial Statement Audit Performed If No, provide comments.	Select Response
Comment:	

Trust Departments and Trust Companies	
9. Final Analysis	
9. Assess the overall capability and performance of management and the board of directors. Prepare a Management comment(s) and assign a rating(s) for the trust department / trust company as applicable. Refer to Supervisory Memorandum 1001 for trust department ratings and SM 1002 for trust company ratings.	
TRUST DEPARTMENT: Complete the Fiduciary Summary of Findings and assign a rating.	
TRUST COMPANY: Complete the Fiduciary and Corporate Management Summary of Findings and assign ratings	

SUMMARY OF FINDINGS – FIDUCIARY MANAGEMENT

#2- FIDUCIARY MANAGEMENT

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 RISK RATING ASSIGNED - FIDUCIARY: Select Rating

Risk Rating 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.

[Return to Core Analysis](#)

SUMMARY OF FINDINGS – CORPORATE MANAGEMENT

#2- CORPORATE MANAGEMENT

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 RISK RATING ASSIGNED - CORPORATE: [Select Rating](#)

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



Ratings
Definitions.xlsm

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.

Policies and Procedures

Consider the following to determine whether written policies and procedures adequately address all fiduciary areas and whether they are annually reviewed and approved by the Board.

1. Determine if Operations “Summary of Findings” and/or work papers indicate there are written procedures detailing each operations position. If not, is there a need for such for succession or continuation purposes?
2. Determine if Operations work papers indicate there is a written audit policy—external, internal, or both—that addresses internal controls, segregation of duties, etc. and areas in need of annual or periodic review.
3. Determine if Compliance work papers indicate that policies adequately cover conflicts of interest and account administration.
4. Determine if Asset Management work papers indicate that policies adequately address investments and administration of the fiduciary investment portfolio.
5. Determine if a strategic plan has been prepared and implemented with Board approval.
6. Determine if the institution has established proxy voting policy guidelines and procedures suitable to the assumed responsibilities on fiduciary accounts. (Note: in all but perhaps the smallest trust institutions, guidelines should address (1) voting of routine proxies and (2) identification and handling of proxy or tender determinations when involving sensitive social issues, conflicts of interest, significant increases in management power or privileges, or merger or buy-out proposals.
7. Determine if there a need for additional policies and procedures for any fiduciary area that is not adequately addressed.
8. Determine if policy and procedures manuals are readily available for use by, and adequately communicated to, all personnel involved in fiduciary activities.

[Return to Core Analysis –Q 2a](#)

APPENDIX II

Board, Committee, and Trust Management Oversight

Consider the following when evaluating Board and Committee oversight:

1. Determine if the Board supervises the trust functions directly or has delegated authority to a Trust Committee or committees. Determine what committees exist.
2. Ensure any delegation of authority is consistent with by-laws and any other licensing or chartering requirements.
3. Determine if Board minutes reflect periodic, but timely, review and approval/disapproval of various committee actions.
4. Analyze audit and regulatory reports (and management proposals and corrective measures in response thereto), litigation developments, earnings and expense reports, and changes to fee schedules.
5. Determine if Board or committee minutes provide for documented approval of acceptance of new accounts, account terminations, establishment of changes in operating procedures, deviations from fee schedules, and discretionary distributions of income and principal.
6. Determine if the Board or committee is being presented a periodic position of the institution's volume of assets and accounts.
7. Determine if minutes of the Board reflect, as provided in the Statement of Principles, that its members:
 - attend monthly or quarterly scheduled meetings with reasonable frequency (Refer to Board-Committee Attendance Worksheet, if used);
 - designate an officer, qualified and competent, to be responsible for and administer the activities of the institution and define that officer's duties;
 - name a trust committee consisting of at least three directors to be responsible for and supervise the activities of the trust institution (outside representation on committee is encouraged);
 - receive reports from the trust committee(s) and record actions taken in its minutes; and
 - review examination reports of the trust institution by supervisory agencies and record actions taken in its minutes.
8. In addition to compliance with the Statement of Principles, determine if the Board and management are adhering to all applicable laws and statutes, including the Uniform Principal and Income Act and the Uniform Prudent Investor Act.
9. Determine if the Board and management have implemented an overall effective Customer Identification Program (CIP) and if administrators are obtaining and documenting the appropriate information.

[Return to Core Analysis](#)

APPENDIX III

General Practices – Overall Fiduciary Management

Consider the following when determining the adequacy of the institution's overall fiduciary risk management practices.

1. Determine if any changes in the institution's bylaws affected the fiduciary activities since the last examination.
2. Review the minutes of the Board and all fiduciary committees for adequacy.
3. Review the resumes of all senior officers involved in fiduciary activities not obtained during the previous examination.
4. Review the current organization chart, job descriptions, and organization plans for fiduciary activities.
5. Review the most recent annual and interim financial performance data for fiduciary activities to assess profitability.
6. Assess current training program.
7. Determine if management has a current analysis of investment performance for fiduciary activities.

Evaluate current year and future business plans for fiduciary activities, including products and services development and marketing plans.

General Practices – Legal Risk

Consider the following when assessing the institution's legal risk:

- Evaluate whether the institution has access to competent legal counsel as provided in the Statement of Principles.
- Identify any pending or threatened litigation and whether possible losses are significant.
- Determine if there are any activities or unique circumstances inherent within this institution that would heighten adverse legal risk.

Insurance Protection

Consider the following when evaluating the level of insurance protection for the institution:

- Blanket bond and related coverage should exceed the minimum required for commercial operations in accordance with vault and custody obligations including the trust function.
- Fiduciary Errors and Omissions and other related coverage (e.g. blanket real estate coverage and mailing or shipping coverage) based on the character of the institution's trust business.
- Ensure the amount of fiduciary coverage is adequate.

Staffing

Consider the following when evaluating staffing competence levels and requirements:

- Evaluate whether staffing is adequate in numbers and qualifications to handle current trust and trust-related business.
- Determine if there is adequate provision for management succession, or for continuing operations, in case of loss of key personnel.
- Determine if senior management is aware of its responsibilities in connection with, and has it established written policies and procedures to ensure compliance with, any applicable regulatory reporting and compliance requirements.
- Determine that all appointments and changes in key personnel are noted in the minutes.

Recruiting and Maintaining Adequate and Capable Personnel

Recruiting, training, and personnel activities are vital to the development and continuity of a quality staff. Some features of good personnel administration are a designated organization structure, detailed position descriptions, carefully planned recruiting, appropriate training and developmental activities, a performance appraisal system, quality salary administration, and an effective communications network.

Consider the following:

1. Does the bank or trust company have an ongoing hiring program to ensure consistency in qualified hires?
2. Do performance standards exist to assist in fair and consistent evaluations?
3. Are training programs employed?
4. Is there sufficient staffing to provide for management succession in all important functions?
5. Does there appear to be excessive turnover, which may indicate other management problems?
6. Are salaries consistent with the local economy and competition?
7. Does the bank or trust company have a vacation policy?

Personnel Issues

Consider the following:

1. Do directors' fees appear reasonable for the size and condition of the institution and the attendance of individual directors?

2. Review biographical information on key management personnel. Do managers appear well qualified given the nature and volume of assets under administration?
3. Do overall staffing levels appear sufficient to administer corporate and trust functions?
4. Are salaries and other forms of compensation reviewed by the Board for appropriateness in relation to duties, performance, etc.?
5. Does the Board or a committee thereof, at least annually review the CEO's performance and progress toward attaining objectives set by the Board?
6. Is the compensation amount unreasonable or disproportionate to the services provided?
7. Review fringe benefits (country club memberships, automobile, etc.) paid on behalf of executive officers.
8. Do the type and amount of expenses appear reasonable for benefits derived?
9. In select circumstances, examiners may want to review a sample of credit card or other personal-type expenses paid by the trust company to ensure that expenses appear appropriate.

[Return to Core Analysis](#)

APPENDIX IV

Selecting and Monitoring Outside Service Providers

Consider the following when evaluating management and the Board's due diligence process for selecting and monitoring outside service providers:

1. Determine that each relationship established pursuant to a written agreement that clearly defines the scope and terms of any third-party relationships, including:
 - duties and responsibilities of each party;
 - compensation and any cost sharing;
 - ownership of files and records;
 - access to trust accounts or activities by auditors and regulators;
 - terms under which agreement may be terminated;
 - liability of each party in event of surcharges or losses;
 - requirements for bonding or fidelity insurance; and
 - privacy.
2. Determine if trust institution is advised of all transactions and recommendations pertaining to discretionary matters, etc., on a timely basis.
3. Consider if the trust institution acts promptly in transferring assets, documentation, and pertinent information to the agent.
4. Determine if the trust institution retains final control and has documented approval of investment decisions and other discretionary responsibilities.
5. Determine if the Board or committee conducts and documents an adequate due diligence review before contracting with a third party. Consider whether the following is evaluated:
 - financial strength of servicing organization;
 - ability of servicing organization to handle the volume and nature of trust accounts and assets to be serviced;
 - investment results of servicing organization;
 - policies, procedures, and controls of servicing organization;
 - audit coverage of servicing organization; and
 - fidelity insurance coverage of servicing organization.
6. Determine if written agreements with agents are periodically reviewed and approved by the Board or committee and whether performance is monitored for compliance with written agreements.

[Return to Core Analysis](#)

Strategic Planning

Consider the following to determine how major decisions are made:

1. Is the trust company independent or part of a holding company?
2. Who makes decisions related to acquisitions, divestitures, and branching?
3. How involved are the directors?
4. For holding company institutions, is there a degree of autonomy in product development, advertising, market research, etc.?

Consider the following to determine techniques management uses in planning:

1. The role of the CEO
2. Directors, senior managers, and middle managers involvement in the planning process
3. How goals and objectives are communicated to all employees

Evaluate strategic and capital planning, referring to Supervisory Memorandum 1009 “Business Plans and Strategic Planning” for guidance.

Consider the following:

1. Does the trust company have any formal plans outlining short- and long-term goals, and strategies for meeting such?
2. Are plans based upon reasonable assumptions?
3. If expansion/growth is envisioned, do plans indicate a realistic means of maintaining capital adequacy?
4. Do the plans address:
 - a. Competition?
 - b. Technology?
 - c. Customer wants and needs?
 - d. New products?
5. Are the fiduciary plans consistent with the trust company's:
 - a. Financial condition?
 - b. Facility?
 - c. Location?
 - d. Customer base?
 - e. Management ability?
6. Is the trust company operating within the framework of the plan, or has significant deviation occurred?

[Return to Core Analysis](#)

Board Meeting Materials

Consider the following regarding Board meeting materials. Determine if the board receives sufficient information on a regular basis to supervise the activities of the trust company.

1. Does the board package contain at a minimum, the following information?

Corporate Activities:

- A monthly statement of condition and income used for comparative analysis between projections and performance, with notes explaining any significant deviations.
- Review of corporate investments.
- An analysis of the trust company's capital position.
- An analysis of the trust company's liquidity position.
- A list of any new litigation, a status report on existing litigation, and review of compliant letters.
- A report on any major endeavors, such as mergers, acquisitions, branch applications, and/or material building plans.

Fiduciaries Activities:

- Ratification of trust committee minutes? (if the Board has delegated its responsibility).
- Approval of all accounts opening and closing.
- Overdrafts.
- Review of fiduciary investments.
- Annual account reviews.
- Discretionary distributions or extraordinary expenditures.
- Litigation or complaint letters.

2. Do the committees report regularly and in sufficient detail to the full Board as to keep it fully informed?
3. Are committee records sufficient to determine which accounts were reviewed and actions approved?

[Return to Core Analysis](#)

APPENDIX VII

Audits

Consider the following:

1. Has the Board appointed an independent Audit Committee?
2. Does the Audit Committee meet on a scheduled basis?
3. Do minutes and other reports reflect the proper discharge of duty?
4. Has the Board adopted an audit policy?
5. Does the policy provide adequate guidance?
6. Review the most recent audit, engagement letter, and response by management.
7. Does the engagement letter cover all corporate activities?
8. Does the audit identify any major deficiencies?
9. If so, have all major deficiencies been corrected?
10. Will the same firm be employed to conduct the next audit?
11. If not, describe reasons for change.
12. Has an engagement letter been executed?
13. Will the scope of the next audit be satisfactory?
14. Does the company have a formal internal audit program?
15. Does it function independently?
16. Is the internal audit program heavily weighted toward fiduciary activity?
17. Does the Internal Auditor report directly to the Audit Committee?
18. What is the scope and frequency of internal audits?
19. Is the internal audit program satisfactory?
20. Has management addressed and corrected all criticisms in the latest audit?
21. Are any uncorrected matters repeat criticisms?
22. Has management addressed and corrected all criticisms in the previous report of examination?
23. Is there a recurring pattern of criticism that could be attributable to carelessness, ignorance, or a disregard for regulatory and industry standards?
24. Does management offer a positive response to reasonable recommendations from auditors and regulatory agencies?

[Return to Core Analysis](#)

Concentrations of Authority and Potential Controls

If the bank /trust company or the board is dominated by one official, it is important to assess the bank/trust company's control environment. The following serve as potential controls to mitigate the risk posed by a dominant individual of authority.

Consider and assess whether:

1. An appropriate segregation of duties and responsibilities is achieved, or alternative actions are taken to mitigate the level of control exercised by the one individual.
2. Director involvement in the oversight of policies and objectives of the bank/trust company is at an appropriate level.
3. The diversity of the board membership provides the bank/trust company with an assortment of knowledge and expertise, including, but not limited to, banking, accounting, and the major lending areas of the bank's target markets.
4. There are a sufficient number of outside and independent directors.
5. Committees of major risk areas exert a proper level of function, responsibility, and influence, and the value of the committees is exhibited in the decision-making process. If a committee is chaired by a member of executive management, consider the impact on the committee and the decisions of the committee. Consider the dollar threshold for committees (such as loan committees) and whether it is appropriate.
6. A proper level of independence has been achieved for board committees of major risk areas, including, but not limited to, audit committees.
7. An adequate audit committee has been established with only, or at least a majority of, outside directors.
8. A need exists for the performance of annual financial audits by an independent certified public accounting firm.
9. A qualified, experienced, and independent internal auditor is in place at the bank/trust company.
10. A proper segregation of the internal audit function is achieved from operational activities.
11. An appropriate rationale was established regarding changing the bank/trust company's external auditors, independent of oral discussions with management, including, but not limited to, a review of the audit committee minutes or a review of auditor notifications.
12. Adequate written code of conduct and ethics and conflicts of interest policies has been established.
13. A need exists for the bank/trust company's board to perform and report on an annual conflict of interest and ethics review.
14. A need exists for the bank/trust company to engage outside consultants to conduct an external loan review.
15. A proper segregation of the internal loan review process is established.

[Return to Core Analysis](#)