

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

#3 – OPERATIONS, INTERNAL CONTROLS & AUDITS (Risk Focused)

ASSIGNMENT OVERVIEW

The operations area of a trust institution often is considered the most difficult area to evaluate. Activities performed by fiduciary operations must encompass the numerous fiduciary services provided as well as the specialized accounting requirements of the different types of accounts under administration. The institution's accounting system must be capable of providing detailed accounting information to management, customers, regulatory agencies, and other appropriate parties. Although organizational structure and record keeping systems may vary widely in accordance with the size and relative complexity of fiduciary activities, certain basic principles and controls should be present in fiduciary operations.

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.

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

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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 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. Audit Function

2. Determine if the institution has a written audit program and risk assessment which has been approved by the Board or audit committee. Consider the following to determine the adequacy of the program based on the size and complexity of fiduciary accounts administered:

- Is the scope and audit coverage appropriate based on fiduciary activities?
- For internal audits, review a sample of the audit workpapers.
- The qualifications of the audit team.
- Is the frequency of the audit review sufficient based on the risk assessment?
- Does the institution have a monitoring system to ensure audit findings are properly addressed and outstanding items are escalated accordingly (Audit Matrix)?

Comment:

3. Operations, Accounting, and Internal Controls

3a. Evaluate the accounting and data processing systems to ensure its effectiveness in relation to the institution's size and complexity. Determine if there are material weaknesses noted in the accounting system and/or data processing system that require further review.

The data processing system should provide for fundamental reports (including investment analysis reviews, large cash balance/overdraft reports, anticipated dividend/interest/maturity reports, security location reports, an automated tickler system, and account document imaging system), the separate accounting of principal and income, and satisfactory customer or court accountings.

Comment:

3b. Determine if an effective system of internal controls is maintained. Dual controls should provide for an adequate separation of duties and responsibilities among personnel as well as proper protection of

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fiduciary assets, (fiduciary assets kept separate from corporate assets) as provided in the Statement of Principles of Trust Management.

Address the following:

- Are dual controls in place for the initiating, authorizing, disbursing, and reviewing of : check requests, working check supply, reconcilements of fiduciary assets, securities purchases and sales, medallion stamp, wires or ACH, and assets under safekeeping?
- Are there dual control procedures for safeguarding assets in the residence of a decedent until they can be transferred to the institution or distributed?
- Where practical, are duties rotated between employees?
- Are appropriate controls and procedures in place for system access controls, specifically for employees transferred to other areas of the bank/trust company or no longer employed by the bank/trust company?
- Are controls adequate over administered fiduciary assets that are pledged (mostly for bank loans)?

Comment:

3c. Evaluate the vacation policy and/or procedures to ensure that employees in key sensitive positions are absent from their duties for a minimum of two consecutive weeks annually. This would also include denying access to individuals who have electronic access to systems and records from remote locations.

Prepare a comment for the report of examination and give to the EIC if the two-week absence from duties is not met or there are significant deficiencies in the bank's procedures to ensure an employees' absence from duties.

For guidance, refer to [SR 96-37](#) Supervisory Guidance on Required Absences from Sensitive Positions and [. Trust Examination Manual Section H2- Vacation Policy](#)

Comment:

3d. Review a copy of the overdraft and large uninvested cash balance report to identify if there are any large and long-standing items (typically 30 days). Through discussions with management determine the reason and management's action plan to remediate the outstanding items.

Comment:

3e. Review the reconcilements of cash, assets, and any suspense accounts.

Verify that reconcilements are adequate; and reconciled by someone other than the person who maintains/posts these records on a regular basis.

All reconcilements:

- Should be performed timely, regularly (daily or no less than monthly),
- Should not include any stale items (any outstanding items older than 30 days), and

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- Should be properly reviewed and approved (a least two signatures per reconcilements)

Determine the purpose and use of all in-house/suspense accounts. Investigate all large and stale dated items held in these accounts.

Comment:

3f. Are original trust agreements maintained in fireproof cabinets, the vault, or imaging system? If imaging is utilized, where are the hard copy original agreements stored?

Comment:

3g. Does the institution hold any trust assets in vault safekeeping (onsite and/or offsite)? If so, consider the following and comment on the adequacy of controls:

- Determine if any exceptions were noted during the last audit of assets held in safekeeping.
- Are fiduciary items held in safekeeping segregated from bank-owned assets and are physical safeguards in place?
- Are duplicate safekeeping receipts issued, with a full description of the items accepted?
- Are the receipts prenumbered?
- When the items are released, are receipts obtained from the customer?
- Is vault under dual control?

Comment:

3h. Determine whether procedures are in place for the escheating of returned checks, unclaimed checks, or other funds as provided in §74.101 (Property Report) of the Texas Property Code? Ensure all items noted in outstanding checks, returned checks, suspense accounts, and reconcilements are less than three years?

For additional information refer to:

Texas Comptroller's [Texas Unclaimed Property](#) -Website for Reporting and Claiming Property

Texas Comptroller's [Unclaimed Property Reporting Guidelines](#)

Texas Property Code §§ [72](#), [73](#), [74](#), [75](#), and [76](#)

Comment:

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4. External Vendors – TRUST DEPT. ONLY

4a. Determine if the bank employs any external agents to conduct fiduciary business or provide support services. If so, consider the following and comment on adequacy of oversight.

- Examination findings of the Department of Banking IT Vendor Management assessment
- Annual Independent reviews (risk assessments, financial condition, SOC reports, vendor visits, litigation exposure etc.)
- Documentation (written contracts, ongoing Board/Committee monitoring)

Comment:

5. Disaster Recovery/Business Continuity – TRUST DEPT. ONLY

5. Does the institution have a satisfactory written disaster recovery and business continuity plan in place? If so, consider whether the plans for possible failures of critical systems have been tested, including the frequency that contingency plans are tested *Trust Companies are provided a full scope Information Technology Examination, which includes a review of disaster recovery and business continuity.*

Comment:

6. Final Analysis

6. Complete the Summary of Findings.

SUMMARY OF FINDINGS

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Describe all strengths evident from the evaluation.

Describe all weaknesses evident from the 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: 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.

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