

INTRODUCTION

The examination program serves as a guide for the orderly completion of an examination. This Handbook Section offers information on program use, gives an overview of the program format, sets forth procedures for documenting work papers, and lists sources of information that may be useful during the examination process.

Programs supply the regulator with objectives for the review of a subject and a series of procedures for completing those objectives. Examination programs also help determine the examination scope and organization, serve as documentation, and help establish conclusions and recommendations. Once completed, the program becomes part of the foundation for an effective quality review process.

Each program corresponds to a handbook section for the examination process. Each handbook section contains a discussion of the subject area, examination objectives, examination procedures, questionnaires, and pertinent appendices, if any.

PROGRAM ORGANIZATION

Examination programs mirror the format of a portion of their corresponding handbook section. Each program includes examination objectives and procedures, a summary section, and regulatory references. Space is provided for conclusions, recommendations for corrective action (if necessary), and other comments. An index block is also provided so that the regulator may index the program to the corresponding work papers. Each of the program segments is described briefly below.

Examination Objectives

Objectives listed on each program refer to specific areas of review. Handbook Section 010, Handbook Use, also presents and discusses some common objectives the regulator should be aware of throughout the examination process.

Examination Procedures

Examination procedures are organized in a top-down fashion and are divided into three groups, each representing a different level or depth of review: Levels I, II, and III. The top-down approach begins with a review of policies, procedures, and internal controls while focusing on the safety and soundness of the institution (Level I). With this approach, regulatory personnel can expeditiously assess the degree of risk in each area of a particular institution's operations early in the examination and determine the depth of review and the procedures (Levels II and III) needed.

The programs are intended to serve as guides and reminders for the regulator. Less experienced regulators will find the programs especially useful as guides for the effective completion of assigned phases of examinations. More experienced regulators will tend to use the programs as reminders of what is expected to be reviewed within each phase of an examination.

Handbook Section 010 contains a list of general procedures for all facets of the examination not necessarily included in individual programs, with which the regulator should be familiar.

Not all programs will be applicable to an institution. Further, of those programs that are used for a particular examination, not all procedures will be needed. The examination scope should help determine the level of review and procedures needed in each area. See Handbook Section 060, Examination Strategy, Management, and Scoping. When selecting programs and procedures for review, the regulator must ensure that procedures are sufficient to: (1) address the concerns in the scope and any other problems found during the review, (2) assess the safety and soundness of the institution, and (3) update and support the CAMELS composite and component ratings.

When using this risk-based examination approach, the regulator should use sound professional judgment to ensure that the depth of review is sufficient to accurately assess the institution's condition, but is not excessive. Following is a discussion of the three levels of procedures and the national policy guidelines for their use.

Level I

Level I procedures focus on the review of examination scoping materials and institution documents, such as policies and procedures. The Level I review is followed by interviews with personnel to determine if practices conform to written guidelines and to confirm any other preliminary findings.

If significant items of concern are uncovered during Level I analysis, or if significant problems were identified during the pre-examination monitoring and scoping, the regulator may need to use Level II procedures. In certain circumstances, the regulator may need to complete Level III procedures as well.

Level II

Level II procedures focus on the analysis of institution documents such as loan files, management reports, and supporting financial records. The regulator should select and complete Level II procedures when Level I procedures do not reveal adequate data on which to base a conclusion for an area of review. Regulators may develop an independent analysis of asset values at this level as well as independent verification of other items.

Level I and selected Level II procedures normally provide a comprehensive analysis from which conclusions can be drawn, but do not include any significant auditing procedures. If the regulator cannot rely on the data contained in institution records, Level III procedures may be necessary.

Level III

Level III procedures include steps that auditors usually perform. Although certain situations may require Level III procedures, it is not standard

practice of Office of Thrift Supervision (OTS) regulatory staff to duplicate the testing efforts of auditors.

Again, it may not be necessary to complete every program or every procedure within a program. The regulator must use discretion in determining which programs and procedures are necessary to address the scope and reach a sound conclusion. In some situations it may be appropriate to customize existing procedures or to perform procedures that are not listed within a program in order to achieve the most efficient and meaningful analysis. The regulator should document any decisions to deviate significantly from the initial scope instructions or to modify existing procedures on the relevant programs.

Programs and Work Papers

Properly prepared examination work papers are essential to the examination process. They are relied upon to support the conclusions and findings set forth in the report of examination (ROE). Conclusions regarding the effectiveness of the OTS examination process may be determined, in part, by the adequacy of work paper documentation. Proper documentation of procedures and subsequent conclusions leaves an effective audit trail for users of the completed programs. More-over, examination work papers are often used by legal staff to support the OTS' position in litigation matters.

The programs allow space to the right of each procedure to record a work paper cross-reference that indicates where supporting documentation is found whether under the same topic or contained in another program. All substantive conclusions must be supported. Additional space between each procedure allows the regulator to include any pertinent information.

For those examination programs and procedures deemed unnecessary, you should include a notation, i.e., "N/A," "not required by scope," or other explanation, either on the index or on the program itself, as appropriate.

The following items are examples of information that should be included in work papers and programs, as appropriate:

- Statement of purpose, title, or heading
- Scope of review
- Procedures used
- Legend or explanatory footnotes, if necessary
- Results of testing
- All substantive conclusions
- Sources of information, including names or titles of institution contact personnel
- Identification of regulator performing the procedure
- Identification of person completing the review
- Institution name and location
- Institution docket number
- Examination date
- File index number
- Cross-references, where needed.

Regulator Summary, Recommendations, and Comments

The regulator should complete this portion of the program in narrative form, summarizing the following:

- Examination scope, including identification of any procedures used that are not already printed on the program.
- Salient findings as well as a conclusion regarding the strengths and weaknesses of the institution's operations in the particular area of review.
- Recommendations for corrective action, which may include a statement about the adequacy of management's response and commitments. (Note: The regulator should address any recommendation for revision of a formal supervisory action in a separate memorandum.)

The regulator may attach continuation pages for any additional comments. The regulator should

support in the work papers all substantive findings regarding the overall condition of the institution. It may be useful to attach copies of draft comments or schedules included in the ROE to this portion of the program.

Regulatory References

This segment contains a list of pertinent legislative and regulatory citations. References to relevant documents and industry sources are also identified where appropriate. If the institution under review is state chartered, the regulator should refer to appropriate state legislation.

The companion handbook section contains an identical list of references.

Index Block

The title of each program is centered in the top and bottom margins. The lower right-hand corner contains an index block for the following items: Examination Date, Prepared By, Reviewed By, and Docket Number. The regulator should fill in each of these items before completing the examination.

File work papers according to the OTS program number. To locate examination programs easily, the regulator may use the Handbook table of contents or the program index as a cover page for file folders. Information germane to the ROE or review process should be cross-referenced to supporting documentation.

SOURCES OF INFORMATION

Following is a generic list of information sources that may be helpful in successfully completing the programs.

OTS documents:

- Laws and regulations
- Standard and supplemental accounting manuals
- Published memos
- OTS Training and Development materials

- Uniform Thrift Performance Report (UTPR)

Regional office examination materials:

- Previous ROEs, General File, and work papers
- Correspondence from the regional office
- Continuing Examination File (CEF), if applicable
- Thrift Financial Reports (TFRs)
- Regional office instructional manuals

Institution's documentation:

- Completed Preliminary Examination Response Kit (PERK) schedules
- Business plan
- Operating budget and forecasts
- General ledger trial balance
- Loan trial balance
- Investment trial balance

Reports and minutes:

- Independent audit report
- Internal audit report
- Internal management and board reports
- Securities and Exchange Commission (SEC) annual report, 10K, 10Q, and 8K (if stock institution)
- Board of directors' minutes

- Board committee minutes
- Operating committee minutes

New or revised policies, procedures, and corporate documents:

- Real estate lending policies
- Real estate appraisal policy
- Environmental risk policy
- Classification of assets policy
- Investment policies
- Interest rate risk policy
- Asset/liability management policy
- Interbank liabilities policy
- Futures and options policy
- Charter, bylaws
- Security policy
- Currency and Foreign Transactions Reporting Act (CFTRA) policy
- Community Reinvestment Act (CRA) statement
- Contracts (information systems, service bureau, employment, etc.)
- Contingency planning policy
- Leases (office building, etc.)
- Payments systems risk policy