QUESTIONNAIRES

This discussion briefly addresses subjects in the Internal Control Questionnaire and Funds Transfer Questionnaire. The association completes these Questionnaires as part of the PERK. You should follow up with an interview and indicate on the form any answers that you verified. The association must explain negative responses and you should review through interview and observation any problems needing supervisory attention. Many of these topics are somewhat self-evident and the Handbook covers others in more detail in other sections.

Internal Control Questionnaire

Internal Audit

Associations should have an internal auditing program that is appropriate to its size and the nature and scope of its activities. Associations should follow specific procedures to test accounting information and internal routine and controls. Preferably, the internal auditor should report findings to the board of directors or an audit committee consisting of outside directors. Internal audit reports should include suggested corrective actions to noted problems. The board or audit committee should ascertain whether management made adequate corrections when recommended. A full-time internal auditor should preferably serve the board or audit committee. If this is impractical, at least the board or audit committee should review the auditor's performance. It should set the salary to keep the auditor independent of the audit subjects, especially top management. Refer to Thrift Activities Regulatory Handbook Section 355, Internal Audit.

General Items

The records and systems should enable others to trace any given item as it passes through the association's books. Exception or large item reports list all transactions over a specific dollar amount, regardless of whether they involve cash, check, etc. The association should have a person not involved in the transaction review the report for unusual items. You may suggest to management that they create such reports if the association does not currently prepare them.

Cash and Cash Items

Cash items are "near cash" checks received as deposits from customers. In the normal course of business, the association sends these items to a correspondent that collects them from the drawee institution. The association receives immediate credit for them. The correspondent will return some items as cash items in which the association will have to resend for collection again. The association may also return them to the depositor.

Checks drawn on uncollected funds in an association are a form of loans to depositors. Management should use software controls and a daily drawing on uncollected funds report to monitor these checks. You can identify these checks by deposit accounts with deposit totals for the past three days being greater than the balance for the day. Checks drawn on uncollected funds must be limited to prevent abuse by depositors unworthy of credit. Some associations reject all checks drawn on uncollected funds. If an association permits drawings on uncollected funds, then management should allow such drawings only after they make a credit decision on the creditworthiness of the depositor. You should determine how management controls or prevents checks drawn on uncollected funds.

Overdrafts are loans made by paying checks that draw a deposit account into a negative (debit) balance. Management should permit overdrafts only after it makes a credit decision on the customer (borrower). An officer should review overdraft activity every day for old, overly large, or inappropriate overdrafts.

Return items are checks deposited in an association, but drawn elsewhere and returned for some reason, usually non-sufficient funds (NSF). The normal procedure for handling return items is to call the depositor and ask if the depositor knows if the item will be good if sent for collection on that day, or if it should be bought back by the depositor. The appropriate staff person should record return items as return item assets if not debited to a customer's deposit account. The association should not hold return items for days pending a decision. They may result in losses, if not paid soon. Management should maintain over and short accounts for each person with a cash drawer. If activity is minimal, then each entry should identify the person with the cash difference. Larger operations may have over and short accruals to compare actual performance with projections.

Management must ensure that accounting controls over all liquid assets prevent personal use by employees. Management's policies should not permit "IOUs" in cash or cash item totals. An appropriate staff person should record all cash and cash item transactions and review them daily to limit abuse.

Association (Official) Checks

Many associations use checks drawn on themselves (known variously as "on-us checks" or "official checks") for payment of expenses, interest, dividends, and loan proceeds. They may also sell them to customers as cashier's checks or money orders. The association must honor its own checks or risk its reputation. The association cannot reject its checks unless there is fraud. For these reasons, management must have policies in effect to control official checks.

One common control is to require two authorized signatures. If management does not require two signatures, someone without signature authority should control the unsigned blank checks. This person should fill out the check amount and payee based on an approved voucher. The approving officer should compare the voucher to the check before signing it. Ideally, the appropriate staff person should verify unused check supplies to a shipping invoice to ascertain that the supply has not been lost and subject to misuse. After checks are paid, someone should review the checks for authorized signatures and compare them with vouchers for alteration. Someone should reconcile copies of outstanding checks to vouchers and the respective liability accounts.

Due From Banks

Due from banks describes assets that consist of demand and time deposits maintained in other financial institutions to facilitate the transfer of funds. Also called correspondent bank balances, these accounts enable the transfer of funds between financial institutions, resulting from the collection of cash items and cash letters, the transfer and settlement of securities transactions, the transfer of participating loan funds, the purchase or sale of federal funds, and from many other causes. Shortcomings in procedures and controls, as they relate to due from bank accounts, can lead to manipulation and shortages. The association must check incoming statements from banks to record copies in each instance to protect against fraud and errors.

Investments and Securities

Transactions in investment securities are typically large and involve liquid movable assets, thus making controls in this area very important. To ensure accurate records as well as discourage fraud, appropriate staff should implement the following controls:

- Document transactions and maintain them separately from the initiating officers and the executing traders (if the association has its own trading operation).
- Record all transactions and all holdings in a securities ledger system.
- Reconcile the transactions and the securities ledger to confirmations and broker statements daily.
- Reconcile transactions and the securities ledger to the general ledger at least monthly.
- Maintain accrual accounts to ensure income is collected.
- Review broker statements and confirmations and reconcile them to the books before they go to the investment officers (this action limits the chance of abuse by unauthorized officers in concert with brokers).

Management should enforce policies that limit, by dollar amount, board-granted investment authorities. They should require dual approval for unusually large transactions. Management should make this policy clear to brokers doing business with the association. Brokers should never have the authority to manipulate association assets without prior approval for every transaction. Investment advisors should advise the association, not the broker.

Brokers frequently engage in borrowing of customers' assets through repurchase agreements or use of customers' assets as collateral for their own trading. Management should only permit this for the most creditworthy dealers, who are typically the primary dealers in treasury issues subject to daily monitoring by the Federal Reserve.

To discourage unauthorized and unrecorded transactions (personal trading with association assets), the authorizing officer should initiate book entries for transactions by memo to the paying officer who books the transaction. Both parties perform their part of the transactions simultaneously on the clearing day. Therefore, all securities transactions should be delivery versus payment.

Most associations hold securities in safekeeping under delivery versus payment procedures. Management should permit free deliveries; those not requiring payment (such as a transfer from one safekeeping agent to another), only under contract specified dual approval to deter theft of the portfolio. When the association holds negotiable securities on premises, the securities should be under strict dual control at all times. Refer to Handbook Section 540, Investment Securities.

General Lending

To control the income from loan originations, management should provide a written schedule of fees and interest rates for originators to follow. Loan administration personnel should test loan originations to assure compliance with policy. Associations must establish a lending limit in accordance with 12 CFR § 560.93, Lending limits, to prevent overlending to any one borrower. Loan administration should enforce the limit by ensuring that it does not fund loans in excess of the association's legal lending limit. The internal auditor should report any excess loans to the board of directors.

Management should base the allowance for loan and lease losses (ALLL) on an internal asset review (IAR). They should then periodically review the credit quality and collectability of the association's loans and leases. Staff members that review and grade assets as part of the IAR should not be responsible for originating or servicing activities.

Loan originators may request loan disbursements. Until loan administration verifies that the disbursement is in agreement with the contract and the loan complies with policies, management must not authorize the disbursement. Loan administration staff should obtain and verify credit information. They should not be involved in the loan origination. These are essential segregation of duties preventing loan officers from misapplying funds.

Internal lending limits are an extremely important control. The board of directors should implement all of the following safeguards:

- Set low individual lending limits for all officers.
- Require two or more officers to co-approve larger loans.
- Require advisory committees to co-approve especially complex or very large loans.

All loans not meeting strict board approved limits and policies should require prior board approval before commitment or funding.

A central loan (or liability) ledger should tie together all direct and indirect credits and commitments for each borrower. Otherwise, the association runs a risk of lending too much to one borrower in violation of internal policies or regulations.

Construction Lending

Construction lending involves many disbursements to cover construction costs as construction progresses. The association must have a construction inspector on site to verify that requests for funds (draws) are legitimate. The inspector should check to make sure material is on site and that the contractor follows construction plans. It is also prudent to occasionally alternate inspectors at each site. Their supervisor should occasionally perform a review inspection to ascertain that inspections are reliable. Before disbursement of funds, loan administration should match inspection reports to draws. They should compare them with construction plans to ensure that work is progressing accordingly. Loan administration should never authorize cash disbursements.

Staff should not make payments to third parties directly. To prove that a borrower received funds, the appropriate staff should make the payments to the borrower's account for payment of specific draws. Checks, however, may be payable jointly to the borrower and a supplier or subcontractor. When a contractor provides paid bills and materialmens' lien wavers, staff should compare them with draws to be certain that the loan funds will pay for actual expenses. Loan administration should compare progress from draws with construction plans to ensure that they are not funding cost overruns without due consideration. Refer to Thrift Activities Regulatory Handbook Section 213, Construction Lending.

Loan Servicing and Recordkeeping Functions

After loan approval, staff should take the following steps:

- Maintain records under careful control to ensure that collection will be possible if legal action is necessary.
- Keep all collateral secure, so it cannot be lost, stolen, or released to the borrower early.
- Place large dollar collateral under dual control so that employees do not release it in error or through collusion with a borrower.
- Maintain complete collateral documents to ensure perfected collectible liens.
- Control advance payments on loans with appropriate accounting procedures.
- Whenever possible, cross-collateralize loans with the same obligor, that is, all collateral should cover all loans of the obligor.

Loan administration must be careful to adjust interest rates according to contracts. Collection efforts should follow official procedures to avoid legal complications. Collectors should keep a log of all contacts with delinquent borrowers, detailing any promised action. Management should use insurance ticklers to ensure that borrowers pay insurance premiums on time.

Accrued Interest Receivable

To prevent diversion of interest earned by the association and to ensure that interest calculations are correct, the appropriate staff should perform audit tests on interest calculations.

Advance Payments by Borrowers for Taxes and Insurance

Borrowers often make regular payments to an association for real estate taxes and insurance on collateral real estate. The association credits these funds to escrow or impound accounts. Staff should analyze these accounts annually to make sure the association is receiving adequate funds to cover the next expense payments. As a further control practice, the association should send the borrower an annual statement of escrow account activity. It should involve the audit department in any customer disputes. Refer to the Mortgage Banking sections of this Handbook.

Loans in Process

The association typically places funds allocated for construction loans in a "loans-in-process" (LIP) account and pays draws from this account. Management should review, approve, and audit draws from LIP to ensure proper application of funds. Refer to Thrift Activities Regulatory Handbook Section 213, Construction Lending.

Commercial Lending

The variety and risks of commercial lending require administrative controls on both information and collateral. Management should put a tickler system into operation to ensure timely requests for financial statements from borrowers and guarantors, and to track exceptions. Qualified persons should evaluate collateral and appraise it for adequacy. Management should control collateral release to prevent loss from untimely release. Refer to Thrift Activities Regulatory Handbook Section 214, Other Commercial Lending.

Other Loans (unsecured, mobile homes, etc.)

Loan administration must control the entire process of lending and collecting. When a government agency is involved in a loan, the association must strictly meet the requirements for the guarantee or participation or the agency is generally relieved of duty to honor the guarantee. The association should verify the amount of Federal Housing Administration reserve accounts annually with the Department of Housing and Urban Development.

Dealer paper refers to loans originated by a retail seller of merchandise that the association funds or purchases. In funding such loans, management must maintain strict segregation of duties to avoid loss, because the association has no control over the dealer's employees. The association must record collateral liens according to state law before another creditor records a lien. Management should inform the board of directors of charge-offs and recoveries to ensure that diversion of funds does not occur. The association must control and inspect collateral, because unlike real estate, merchandise is moveable. A financially healthy dealer can deteriorate quickly in an adverse economy. Thus, management should control collateral and carefully inspect it, since it may become the only source of payment.

Many manufacturers of mobile homes and other consumer items may have a variety of dealer financing plans that can distort the true dealer cost through rebates and volume discounts. Lending based on an invoice is, therefore, very risky. If the association finances inventory, the association must be familiar with the current wholesale market value of such inventory. Refer to Thrift Activities Regulatory Handbook Section 216, Floor Plan and Indirect Lending.

Credit Quality Review

Credit quality review, also known as the internal asset review or the internal classification review, is a vital credit quality control program. Refer to Thrift Activities Regulatory Handbook Section 260, Classification of Assets.

Deposit Account Loans

Losses can be serious if the association does not adequately control loans secured by deposit accounts. Lack of control may result in serious problems. These problems include:

- Forged signatures on the loan documents.
- Misapplication of loan proceeds.
- Withdrawal of collateral deposits without paying the loan. Refer to Thrift Activities Regulatory Handbook Section 560, Deposits/ Borrowed Funds.

Real Estate Owned and Other Repossessed Assets

The association must establish ownership of real estate, acquired because of debts previously contracted, according to local laws and customs under legal advice. Accounting practices require a prompt appraisal to determine the correct carrying value of the new association asset. Management must periodically inspect properties for needed maintenance to limit deterioration. If properties have material value, the association's management should bond collection and management agents, or at least ensure that they are bondable. The association should acquire hazard insurance, when available. Refer to Thrift Activities Regulatory Handbook Section 251, Real Estate Owned and Other Repossessed Assets.

Real Estate Held for Investment

Management should control each parcel separately to provide for informed decisions to hold or sell. They must maintain accounting controls to create reliable records. Refer to Thrift Activities Regulatory Handbook Section 230, Equity Investments, for more comments.

Fixed and Other Assets

While these assets may not require as much attention as others, management must maintain routine accounting controls as support for the general ledger and tax returns. Refer to Thrift Activities Regulatory Handbook Section 250, Other Assets/Liabilities, and Section 252, Fixed Assets.

Deposit Accounts

Due to the high volume of activity in deposit accounts, management may streamline routines for convenience and to minimize expense. To limit loss from errors and irregularities, management must ensure that controls are in place to recognize unusual transactions and limit loss. These controls should include:

- Officer approval and reviews for propriety regarding any unusually large transactions.
- Routine procedures and activity reviews that ensure segregation of duties and confirm transactions with customers when they open and close deposit accounts.
- Reconciliation of deposit ledgers to the general ledger daily.
- Testing of interest calculations periodically to ensure correctness.
- Testing of accrued interest accounts for adequacy to ensure no misapplication of funds, or under accrual of expense.
- Dual control of all deposit accounts used as collateral to prevent inappropriate withdrawals.
- Periodic advertisement of unclaimed balances.
- Crediting unclaimed balance accounts to the State according to State escheat laws. (Escheat laws limit the build-up of dormant accounts). Refer to Thrift Activities Regulatory Handbook Section 560, Deposits/ Borrowed Funds.
- Review of check kiting reports.

  Service providers normally provide a check-kiting report (for example, “Kiting Suspect Report”) to associations that identifies potential check-kiting situations. The report shows those accounts with activity indicating the drawing upon uncollected funds, and the recurring presence on the report by an account holder could indicate a kiting situation. However, the parameters for these reports may vary depending on whether the service provider allows the association to set up specific parameters; otherwise, a default setting may be used. Most of the account holders identified on the report are not involved in check kiting, but it does provide management with a good overview of the operation and possible check kiting. The service provider usually runs the report on a daily basis. Someone who does not have access to teller operations should review the report.

Deferred Credits

Generally accepted accounting principles require recognition of loan origination fees as income over the life of the loan in accordance with SFAS No. 91. The association should carry such deferred income as a deferred credit. See the Thrift Activities Regulatory Handbook Section 251, Real Estate Owned and Other Repossessed Assets, for comments on accounting conventions for sale of these assets.

Other Liabilities

Management should periodically review miscellaneous accounts to deter misuse. These accounts should be minimal.

Capital (Reserves, Undivided Profits, etc.)

Management must carefully control all changes in the ownership records of the association through the officially designated registrar. Management should report all capital account entries to the board of directors. Refer to Thrift Activities Regulatory Handbook Section 110, Capital Stock and Ownership.

Letters of Credit

These credit documents require strict controls similar to loans. Although letters of credit do not appear on balance sheets, they can result in liabilities for payment. A bona fide commitment for a letter of credit generally carries the same contingency for liability as a letter of credit, if the holder can prove the authenticity of the commitment. Refer to the Thrift Activities Regulatory Handbook Section 215, Letters of Credit, for additional discussion.

Funds Transfer Questionnaire

The transfer of funds is an essential activity for all depository institutions. It is, however, a source of extreme vulnerability to material loss from mistakes and fraud if not adequately controlled. Control procedures and fidelity bond coverage can limit the risk to capital. However, management should not use the bond deductible and coverage as a substitute for adequate controls. A quick review of the blanket bond deductible and coverage amount and any related policy riders will give you an idea of the reliance the association places on control procedures to limit risk from funds transfer activities.

In your review, you should ascertain the following information:

- Whether the transfers pose risk to capital.
- Whether management prescribes reasonable controls.
- That management confirms or tests the controls periodically.

Use of the Funds Transfer Questionnaire and examination procedures should provide you with enough information to make a reliable judgment on the adequacy of transfer controls.

This Appendix discusses the following:

- Background information.
- The transfer process.
- Common effective control procedures.

<u>Background Information</u>

Transfers may originate internally or externally. They can be among internal accounts or external accounts and can involve one customer or many customers. Essentially, all transfers are instructions by an authorizer to debit an account at a institution for credit to another account at either the same or another institution.

For this discussion, funds transfer includes the transfer of control over funds, both internal and external, to an association. Two common examples of internal transfers are: loan fundings and deposit transfers among customers' accounts in the association. External transfers are payments involving more than one depository institution.

All associations engage in transfers. Most are involved in large transfers relative to their capital accounts, and blanket bond coverage with deductibles. Associations without correspondent banking departments and major corporate deposit accounts may not have a large volume of transactions.

Many routine control procedures exist that can limit risk from funds transfer activities. The procedures in use must be compatible with the following parameters:

- The volume of activity the association expects related to capital.
- Insurance coverage and deductibles.
- The size and diversity of the association's staff.

Association management must ensure that staff encrypts all data transmissions using algorithms. This protects information from improper disclosure or alteration. You can find additional text on electronic funds transfer systems in Section 10 of the Federal Financial Institutions Examination Counsel (FFIEC) Information Systems (IS) Examination Handbook used by OTS. However, it does not address control procedures required by funds transfer activities.

Transfer Process

Associations execute internal transfers through the accounting system. Internal transfers may be initiated on paper, by direct key entry, or through other computer links.

Associations may execute external transfers through any of the following means:

- Official (drawn on us) checks
- Drafts on correspondent accounts
- Customer depository transfer checks
- Customer checks or drafts
- Computer link to independent transfer systems
- Direct computer link to a correspondent
- Voice telephone (voice transmission) call to a correspondent.

Transfers may use various transmission mediums such as:

- Dial-up common carrier lines (telephone, telex, electronic mail)
- Dedicated lines
- Hard-wire terminals requiring no dial up
- Paper text
- Electronically transmitted-image facsimile (FAX)
- Voice
- Encrypted data.

These mediums may use various technologies such as wires, radio phone, cellular radio telephone, microwave, or fiber optic lines, each with different security and vulnerability. There are several wire transfer service providers:

- Fedwire
- CHIPS
- SWIFT
- The Federal Home Loan Banks
- Other correspondent banks
- Electronic mail services.

Each medium, method, technology, and service has strengths and weaknesses, and none are perfect.

Common Effective Control Procedures

A customer or association employee may initiate a transfer, which debits the customer's account. Appropriate association personnel must verify that the account holder authorized the customer debit. Management must ensure that authorizations include a written contract specifying how, when, and who can initiate transfers. A depository contract on a signature card may also detail authorizations. Authorizations may be specific or general. General authorizations may be blanket for any amount or repetitive for the same amount. A general authorization must include who may make transfers, how much the transfers can be, and when the transfer can occur.

Appropriate staff should record general authorizations in system controls for automatic confirmation of authorization. General authorization controls may require initiator and sender identification codes, unique passwords, cipher codes, set procedures, and limited channels of communication. Appropriate staff must initiate requests for transfers using contractually agreed upon means permitting confirmation before execution.

Preferably, before a sender executes any transfer requests originating in the association, appropriate association personnel must verify the initiator's authorization and provide an approval to the sender. Management should segregate the duties of initiating and executing a transfer. If prior approval is not practical, then management should establish a transaction ceiling – an amount above which a lack of prior approval will stop the transfer.

After execution of the transfer, appropriate association personnel should send notice of transfers to the account holders' address of record. Someone other than the initiator or executor should send the confirmation to prevent tampering. The initiator or another person should review transfer accounting entries for authenticity by comparing the transfer accounting entry with the approved request.

It is very important that funds transfer approval levels increase proportionately with the amount of the transfer. For example, for transfers less than $10,000, staff members or junior officers may make approval. For amounts of $50,000 to $100,000, a junior officer may authorize the transfer once they determine the transfer is valid. For amounts greater than $100,000, the association should require dual officer approval. For amounts greater than $1 million, dual senior level officers should approve the transfer with required callbacks from the receiving bank.

An example of a typical transfer is a customer phoning a request to transfer funds from a savings account to a checking account. The customer is an authorized drawee on both accounts. This is not problematic provided control procedures ensure that the authorizing customer is a drawee on both accounts. Management should instruct association employees to verify that a drawee authorized, in writing, any requested transfer from one customer's account to another customer's account, prior to making the transfer. Large or unusual transfers should require higher level or approval before execution. Subsequent controls should include either a review of debits to ascertain that the debit and credit are between accounts with a common drawee, or that both an initiator and an approver have confirmed the drawee's authorization of the transfer.

To avoid misunderstandings with multiple drawee accounts, a drawee should sign a written authorization indicating that the association should honor telephone requests for transfers between accounts. Management should ensure that employees maintain a file of the written authorizations.

A typical two-party transfer is a debit to a checking account and credit to a utility or other creditor for a monthly billing. The appropriate employee executes the transfer using a draft supported by an authorization. Another typical two-party transfer is a debit to a loan or loans process account and a credit to a supplier or contractor. For all transfers from one drawee's account to another drawee's account, the association should have a written authorization or request from a drawee. The written authorization or request should specify the following information:

- The amount the drawee wants transferred.
- The account to debit (charge, or transfer money from).
- The account to credit (transfer money to).

The authorization may cover several specific transfers, a series of transfers, or one transfer.

Follow-up controls should include confirmation of signatures on authorizations or requests. A person independent of the initiation of a request should be involved in either the approval or the confirmation process. This assures segregation of duties and limits opportunities for collusion. For example, the initiator and sender of transfers should be separate; one individual should initiate the securities transaction while another individual executes it. Payment (settlement) should only occur upon confirmation of the initiated order to the executed trade ticket.

Transfers of funds outside of the association (external transfers) must be through accounts of the association at correspondents. The appropriate association personnel should initiate the transfer through regular communication channels.

Daylight overdrafts are overdrafts existing between the daily closing of accounting records. Even when daylight overdrafts are properly controlled, they are a credit risk. If inadequately controlled, daylight overdrafts may be a very serious transfer risk. When a correspondent permits daylight overdrafts, funds available for transfer may be virtually unlimited and may be unrecoverable. To facilitate maximum volume of transactions, controls on daylight overdrafts usually do not prevent excessive over drafting; instead, they stop continued over drafting after the association exceeds a certain limit. For this reason, internal controls on external transfers must be rigid and subject to frequent testing and review to discourage and prevent loss.

Refer to Thrift Activities Regulatory Handbook Section 580, Payments System Risk, for discussion of the setting of limits for daylight overdrafts.

A low-volume voice transmission operation must also have rigid controls. Voice recognition alone is unacceptable as a control. Generally, there is no witness to verify recognition and no call back to verify the location of the caller. Typical controls require a four party callback or confirmation process on all external transfers. For example, once the association receives a customer request, appropriate personnel must confirm the request as authorized in writing by the customer, and approve it as confirmed. The sender then executes the request by transmission to a correspondent. The usual means is by a telephone call. The correspondent receiver hangs up the phone, and has an approver confirm the transfer request with a separate confirmer at the association, usually by a telephone call back. This process must involve four persons (two at each institution) to be a valid control procedure. It relies on segregation of duties to prevent collusion at either institution. Management should implement the following additional steps:

- Provide each person with a recognizable identity such as a name, code word, or number.
- Identify each transfer by sequence number known to both the sender and receiver.
- Record all calls.

Segregation of duties requires that wire transfer senders not be initiators or approvers. Senders should always look for the required approvals before sending a message. To control wire transfers, someone not involved in either initiating, approving, or sending messages should frequently review all messages. In low-volume PC operations, daily review of an unbroken printout of all messages (comparing the record of messages with the approved request forms) is a common control review.

Other common control safeguards include the following procedures:

- Limited signing authorities.
- Dual controls over forms.
- Supervisor's key controls on computer terminals.
- Unique passwords for transfer clerk (sender) and releaser.

It is common for institutions to number each message with an encoded sequence number and require use of a confidential test key to decode the number. For this control procedure to have integrity, the holders of the test key should not have the ability to send or receive messages.

Management may require additional controls, such as limiting the funds available for transfer. Correspondent banks require this procedure for extremely weak institutions to prevent daylight overdrafts on respondent accounts. A correspondent relationship may also require that the institution make all outgoing transfers from one specific account not used for incoming transfers. In addition, the correspondent banks may not permit daylight overdrafts. This procedure requires the sending association (respondent) to transfer funds from an operating account at the correspondent to a transfer account before transferring funds to another institution. The first transfer request makes funds available for transfer. The second transfer request executes the external transfer.

Someone without signature authority should control supplies of negotiable forms such as single signature official checks and drafts. This person must require an authorized voucher for release of a check or draft, preferably after it is prepared for signature. The appropriate staff should reconcile paid official checks to accounting records of vouchers and review them for authorized signatures.

Whenever check-signing procedures use signature machines, the signature plates should be under key control at all times, with dual control on dual signature machines and plates. Daily control procedures should include reconciling the signature counter totals to the number of check authorizations to ascertain that no one signed extra checks.

Daily independent reconcilement of wire transfers with correspondent accounts and general ledger accounts is an essential control to ensure detection of any errors or misapplications of funds. Any chances of retrieval of missent funds diminish quickly. You should check whether the institution has routines that require action by two people to complete a transfer, one to receive or initiate the request and another to confirm authenticity. If the association makes transfers to offshore privacy havens, determine how management investigates the transfer for legitimacy.

Due to the detail involved, you should review the internal controls on funds transfers by interview and observation rather than by audit methods. Any procedures allowing one person to remove unlimited funds from an account without immediate detection should receive report comment and follow-up at the next examination. Initiate enforcement action to correct unsafe and unsound operating procedures whenever association management is uncooperative in resolving inadequate controls.

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INTERNAL CONTROL QUESTIONNAIRE
Preliminary Examination Response Kit
Office of Thrift Supervision

Docket #: >
Institution Name: >
Examination As of Date: >

A management official of the association should complete this questionnaire. If the association lacks an effective system of internal audit or control, the examiner should verify appropriate responses and initial in the verified column. The flagged questions are the suggested minimum verifications. Management must provide the examiner with an adequate written explanation of all "No" answers, with an appropriate reference to the question, and supply copies of applicable written procedures. If a question is not applicable to the association, respond with NA.

Internal Audit

Verified by Examiner			Yes	No
________	1.	Does the association have an internal audit program?	_____	_____
________	2.	Do the internal audit programs contain written, specific instructions for audit procedures for the internal auditor to perform?	_____	_____
________	3.	Does the board of directors or the audit committee review internal audit reports?	_____	_____
________	4.	Does the audit committee consist only of outside directors?	_____	_____
________	5.	Do internal audit reports suggest actions to correct internal control or procedural deficiencies?	_____	_____
________	6.	Is there a subsequent review to ascertain that the association implemented suggestions for corrective actions?	_____	_____
________	7.	Does the internal auditor report to or receive salary reviews by the audit committee or board of directors?	_____	_____
________	8.	Did the external auditor communicate any reportable conditions, either orally or in writing, to management, the board of directors, or the audit committee?	_____	_____

INTERNAL CONTROL QUESTIONNAIRE
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Verified By Examiner		Yes	No

General Items

_________ 9. Does the association reconcile the following accounts to the general ledger at least daily (if activity is minimal, weekly or monthly reconciliations may be appropriate)? _____ _____

- Loans in process
- Suspense accounts
- Accounts out of balance

_________ 10. Does the association reconcile the following accounts to the general ledger at least monthly? _____ _____

- Loans
- Investment securities
- Real estate owned
- Borrowings
- Checking and deposit accounts

_________ 11. Does a person not involved in general ledger entries perform the reconciliations? _____ _____

- Person responsible? ___________________________________

_________ 12. Does a person not involved in the transactions periodically review and investigate activity on exception and/or large items report(s)? _____ _____

- Person responsible? ___________________________________

_________ 13. Does the association perform a regular review of insider activity for unusual activity and compliance with Regulation O? _____ _____

INTERNAL CONTROL QUESTIONNAIRE
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Verified By Examiner		Yes	No
________	14. Does the association appropriately capitalize and expense all items?	_____	_____
________	15. Does the association periodically review deferred asset and liability accounts?	_____	_____
________	16. Does the association clearly show the nature and purpose of each entry to the deferred asset and liability accounts?	_____	_____
________	17. What is the name and position of the person authorized to make entries to the deferred asset and liability accounts?		

- Person responsible? ________________________________
- Position of person? ________________________________

________	18. Does the association balance and reconcile to third-party reports monthly any association assets that others service or hold in safekeeping?	_____	_____

- Person responsible? ________________________________

Cash and Cash Items

________	19. Does the association reject checks when the collected balance of the customer's demand deposit account is not sufficient to cover the item?	_____	_____
________	20. Are all personnel who have cash approval and disbursement authority required to take annual vacations of at least two consecutive weeks?	_____	_____
________	21. Does an independent officer review all overdraft activity?	_____	_____

- Person responsible? ________________________________

________	22. Are controls in effect to prevent withdrawals of uncollected funds?	_____	_____
________	23. Does the association promptly record on the books returned items previously deposited?	_____	_____

INTERNAL CONTROL QUESTIONNAIRE
Preliminary Examination Response Kit
Office of Thrift Supervision

Docket #: >
Institution Name: >
Examination As Of Date: >

Verified By Examiner		Yes	No
______	24. Are procedures adequate to ensure that the association monitors and clears uncollected items?	____	____
	Person responsible? ______________________		
______	25. If the association maintains a petty cash fund, are all additions and withdrawals documented?	____	____
______	26. Does the association balance the petty cash fund periodically?	____	____
______	27. Does the association have procedures that prevent the use of liquid assets as compensating balances or collateral for personal loans of officers, directors, or employees?	____	____
______	28. Does the association record cash items appropriately in the general ledger?	____	____
______	29. Does the association review teller and accounting system override reports and file maintenance summaries for unusual activity on a regular basis?	____	____
	Person responsible for accounting overrides? ____________		
	Person responsible for teller overrides? ______________		
______	30. Are loan accounting systems included in the override reports?	____	____
______	31. Are personnel who have control over cash barred from performing overrides?	____	____
______	32. Do only designated personnel who have no control over cash approve and review overrides?	____	____
______	33. Does the association, at both home and branch offices, perform daily cash reconciliations?	____	____
______	34. Does a person without teller responsibilities perform the daily cash counts?	____	____
______	35. Are overages and shortages properly recorded in a cash over and short account?	____	____

INTERNAL CONTROL QUESTIONNAIRE
Preliminary Examination Response Kit
Office of Thrift Supervision

Docket #: >
Institution Name: >
Examination As Of Date: >

Verified By Examiner		Yes	No

_____ 36. Does the association maintain records showing the person involved in the cash over or short situation? _____ _____

_____ 37. Does the association investigate and act upon all cash over and under amounts? _____ _____

_____ 38. Does the association have appropriate controls over unissued deposit certificates, travelers' checks, savings bonds, food stamps, and other consigned items? _____ _____

- Person(s) responsible? ______________________

_____ 39. Does the association periodically reconcile consigned items? _____ _____

- Person responsible? ______________________

Association (Official) Checks

_____ 40. For checks signed by hand: Are two signatures (signer and approver) required on association (official) checks? _____ _____

- Names of persons authorized to sign? ______________________

_____ 41. For checks signed by hand: Are unsigned blank checks in the possession of an officer or employee who does not have singular signature authority? _____ _____

- Responsible officer or employee? ______________________
- Position title? ______________________

_____ 42. For checks signed by stand-alone mechanical or electronic facsimile check signing machines connected to computers: Is the inventory of unsigned blank checks available verified daily and compared to the work of other positions that issue checks during the day? _____ _____

- Person(s) responsible? ______________________

INTERNAL CONTROL QUESTIONNAIRE
Preliminary Examination Response Kit
Office of Thrift Supervision

Docket #: >
Institution Name: >
Examination As Of Date: >

Verified By Examiner		Yes	No
______	43. For checks signed by stand-alone mechanical or electronic facsimile check signing machines connected to computers: Is there an approval process for checks in excess of a certain dollar amount?	____	____
	If so, what is the amount? ________________________		
______	44. For checks signed by stand-alone mechanical or electronic facsimile check signing machines connected to a computer: Is the association's copy of the check voucher initialed by the person preparing the check and, for those checks in excess of a certain amount, initialed by a person authorized to approve?	____	____
______	45. Does the association have controls in place to ensure that the employee fills out the amount of the check and payee information before the signatures are on the checks?	____	____
	Person responsible? ________________________		
______	46. Is the supply of unused checks periodically reconciled to the shipping invoice by persons without signature authority?	____	____
	Person responsible? ________________________		
	How often? ________________________		
______	47. Does a person independent of the check writing function review the paid (canceled) checks for proper signatures and reconcile the check to vouchers?	____	____
	Person responsible? ________________________		
	How often? ________________________		
______	48. Does the association periodically reconcile outstanding checks to vouchers and liability accounts?	____	____
______	49. Does the association periodically transfer all outstanding six-month old association checks to a liability account?	____	____

INTERNAL CONTROL QUESTIONNAIRE
Preliminary Examination Response Kit
Office of Thrift Supervision

Docket #: >
Institution Name: >
Examination As Of Date: >

Verified By Examiner		Yes	No
______	50. Does the association keep the facsimile check writing machine under proper control?	_____	_____

Due From Banks

______	51. The association receives bank statements: Daily _____ Monthly _____ Quarterly _____		
______	52. Does the association reconcile bank accounts on a regular and timely basis?	_____	_____
______	53. Are there any unreconciled bank accounts? If so, what is the date of the latest reconciliation? __________	_____	_____
______	54. Are there are any out of balance accounts? If so, what is the date the association expects it to be reconciled? __________	_____	_____
______	55. Is the person who reconciles the bank statements independent of the deposit and check writing process? Person responsible? __________	_____	_____
______	56. Do checks drawn on bank accounts need more than one signature?	_____	_____
______	57. Does a person who does not have signature authority periodically reconcile unsigned checks to the shipping invoice? Person responsible? __________ How often? __________	_____	_____

INTERNAL CONTROL QUESTIONNAIRE
Preliminary Examination Response Kit
Office of Thrift Supervision

Docket #: >
Institution Name: >
Examination As Of Date: >

Verified By Examiner		Yes	No

Investments and Securities

Verified By Examiner	No.	Question	Yes	No
______	58.	Is documentation supporting account entries, broker's advice, and journal entries received and maintained by a person independent of the authorized trading officer?	____	____
______	59.	Does the association maintain an investment security ledger or worksheet that details all securities held and all security transactions?	____	____
______	60.	Are the security ledger totals for principal and accrued interest, balanced to the general ledger at least monthly by an independent person?	____	____
		Person responsible? ____________________		
______	61.	Does the association have procedures to ensure that they collect all income due on the investment security portfolio promptly?	____	____
______	62.	Does the association have procedures that will indicate any relationship between brokers who purchase securities for the association and association officers, directors, or employees?	____	____
______	63.	If the board of directors authorized an officer to have sole authority to purchase and sell securities, is the authority limited to fixed dollar amounts, above which a second officer must approve the transaction before its commitment?	____	____
		Authorized person(s): ____________________		
		Limits: ____________________		
______	64.	Does the association prohibit broker/dealers from having discretionary trading authority?	____	____
______	65.	Does the association place all orders only with broker/dealers not affiliated with investment advisors retained by the association?	____	____
______	66.	Does the association engage in reverse repurchase agreements and lending of securities only with firms designated by the Federal Reserve Board as primary dealers in government securities?	____	____

INTERNAL CONTROL QUESTIONNAIRE
Preliminary Examination Response Kit
Office of Thrift Supervision

Docket #: >
Institution Name: >
Examination As Of Date: >

Verified By Examiner		Yes	No
______	67. Does a person who does not execute or book transactions receive confirmations from the broker/dealer?	____	____
	Person responsible? ______________________		
______	68. Does a person without transaction authority receive monthly statements direct from the brokerage firm indicating all transactions during the period?	____	____
	Person responsible? ______________________		
______	69. Are all securities transactions for delivery versus payment?	____	____
______	70. Does the association prohibit “free” deliveries in written contracts with depositories and safekeeping agents unless approved by two senior officers?	____	____
______	71. Does the association hold securities on the premises under dual control?	____	____
______	72. Is an independent party performing tests to determine that the yield on investments actually received is in line with the weighted average coupon of such assets?	____	____
	Name of the independent party: ______________________		
	How often: ______________________		
	Date of last test: ______________________		
	Period analyzed: ______________________		

General Lending

______	73. Does the association have and adhere to a written schedule of fees and rates charged on new loans?	____	____
______	74. Does the association policy limit the number or amount of loans involving any individual borrower or contractor?	____	____

INTERNAL CONTROL QUESTIONNAIRE
Preliminary Examination Response Kit
Office of Thrift Supervision

Docket #: >
Institution Name: >
Examination As Of Date: >

Verified By Examiner		Yes	No
___________	75. Is there a procedure of internal review to ensure compliance with the above policy by a person or persons who are independent of the loan approval function?	_____	_____
___________	76. Are there procedures, and does staff follow the procedures, to periodically review and document the adequacy of the ALLL?	_____	_____
___________	77. Are the persons that periodically review and document the adequacy of the ALLL independent of the loan approval function?	_____	_____
___________	78. Does the association defer loan fees in accordance with generally accepted accounting principals (GAAP), and not recognize fees as current-period income?	_____	_____
___________	79. Are lending officers prohibited from authorizing loan disbursements?	_____	_____
___________	80. Do persons independent of the loan officer obtain or verify credit information?	_____	_____
___________	81. Are lending authorities, granted by the board of directors, setting tiered dollar limits for individuals, co-approval limits for committees, and higher limits for approval by the board of directors?	_____	_____
___________	82. Is there a record system that lists the total of outstanding credits and commitments (direct and indirect) for each borrower?	_____	_____

Construction Lending

___________	83. Are inspectors rotated at least every third inspection and for final draws?	_____	_____
___________	84. If the association does not rotate inspectors, does the inspector's supervisor perform review inspections?	_____	_____
___________	85. Is there segregation of duties between inspection and disbursement functions?	_____	_____
___________	86. Does the association prohibit disbursing loans in cash or to third parties?	_____	_____

INTERNAL CONTROL QUESTIONNAIRE
Preliminary Examination Response Kit
Office of Thrift Supervision

Docket #: >
Institution Name: >
Examination As Of Date: >

Verified By Examiner		Yes	No
__________	87. Does the association compare paid bills and lien waivers with items listed for disbursements?	_____	_____
__________	88. Does the association have safeguards to ensure that sufficient funds always remain available to complete construction?	_____	_____

Loan Servicing and Recordkeeping Functions

__________	89. Does the association support advances by written evidence or re-inspection of property?	_____	_____
__________	90. Are all notes and other loan documents kept in a vault or fire-resistant cabinet and under a sign-out control system?	_____	_____
__________	91. If the association holds additional collateral, do they safeguard it?	_____	_____
__________	92. Does the association maintain a record of such collateral?	_____	_____
__________	93. Does the association obtain written acknowledgment from the borrower for the pledging of savings accounts or the assignment of life insurance policies?	_____	_____
__________	94. Does the association adequately control advance loan payments if they do not immediately credit the advance to the loan account?	_____	_____
__________	95. Does the association test periodic adjustments to adjustable-rate mortgage loans for compliance with the terms of the note?	_____	_____
__________	96. Does the association have written collection policies and procedures that the board of directors approves?	_____	_____
__________	97. Do collectors document the contact with borrowers and indicate promised action?	_____	_____
__________	98. Are there procedures that ensure the maintenance of necessary hazard, flood, and other insurance coverages throughout the life of the loan?	_____	_____

INTERNAL CONTROL QUESTIONNAIRE
Preliminary Examination Response Kit
Office of Thrift Supervision

Docket #: >
Institution Name: >
Examination As Of Date: >

Verified By Examiner		Yes	No

Accrued Interest Receivable

__________ 99. Does the association perform tests to determine that it is receiving the appropriate interest? _____ _____

__________ 100. Does a person, independent of the cash receipt and bookkeeping for interest receivable, perform and document an analysis to determine if the yield on mortgages and investments actually received is in line with the weighted-average coupon rate of such assets? _____ _____

__________ 101. Are accounting entries for accrued interest receivable supported by proper explanations evidencing the nature and purpose of each entry and signed by a responsible individual? _____ _____

Advance Payments by Borrowers for Taxes and Insurance

__________ 102. Is each escrow (impound) account analyzed at least once a year to ensure that the payments will cover the disbursement(s)? _____ _____

__________ 103. If this analysis results in a revision of monthly payments, is the revision made promptly and the borrower notified? _____ _____

__________ 104. Does the association inform borrowers at least annually of the balance in their account and the most recent year's transactions in that account? _____ _____

__________ 105. Do statements indicate that borrower's disputes regarding the balances of their escrow accounts be sent to internal audit or a department independent of escrow transactions? _____ _____

Loans in Process

__________ 106. Are loans in process reviewed periodically to determine whether the association makes disbursements on a timely basis and in accordance with the terms of loan agreements? _____ _____

__________ 107. Do personnel not responsible for the loans in process accounts conduct periodic tests to determine propriety of disbursements? _____ _____

INTERNAL CONTROL QUESTIONNAIRE
Preliminary Examination Response Kit
Office of Thrift Supervision

Docket #: >
Institution Name: >
Examination As Of Date: >

Verified By Examiner		Yes	No

Commercial Lending

Verified By Examiner	No.	Question	Yes	No
______	108.	Does the association update borrower's and guarantor's financial statements at least annually?	___	___
______	109.	Do qualified individuals evaluate the collateral?	___	___
______	110.	Does the association inspect collateral periodically to ensure maintenance of sufficient value?	___	___
______	111.	Does the association release collateral only upon the approval of an officer or committee having a lending limit greater than or equal to the value of the collateral the association is releasing?	___	___
______	112.	If the association releases collateral upon payment of the loan, do they release the collateral only upon receipt of collected funds?	___	___

Other Loans (unsecured, mobile homes, etc.)

Verified By Examiner	No.	Question	Yes	No
______	113.	Are the association's procedures adequate to ensure compliance with the requirements of any government agency insuring or guaranteeing the loan?	___	___
______	114.	Does the association maintain an adequate loan register? The register, as a minimum, should contain the following: loan number, loan amount, date of loan or date of purchase, dealer, recourse or repurchase provisions, interest rate, and term.	___	___
______	115.	Do personnel who do not handle cash process loan applications and initial the notes?	___	___
______	116.	Do employees not connected with the granting or acquisition of loans collect and process receipts, and prepare delinquency lists?	___	___
______	117.	Are liens and other documents, including titles, promptly recorded?	___	___

INTERNAL CONTROL QUESTIONNAIRE
Preliminary Examination Response Kit
Office of Thrift Supervision

Docket #: >
Institution Name: >
Examination As Of Date: >

Verified By Examiner			Yes	No
________	118.	Are there procedures that provide for board of directors approval of charge-offs and subsequent recoveries?	_____	_____
________	119.	If the association holds additional or side collateral for unsecured loans, does the association also adequately document and safeguard the collateral and maintain a proper record?	_____	_____
________	120.	Does the association reference the FHA publication that lists companies and individuals who have not properly performed under FHA programs?	_____	_____
________	121.	Floor planning loans:	_____	_____
		• Does the association make unannounced inventory inspections on a rotating basis at least every 30 days?		
________		• Do the inventory inspections include, as a minimum, the following: serial number verification of unit, inventory of equipment and furnishings, condition and location of unit, and units sold out of trust or rented?	_____	_____
________		• Does the association maintain records of floor plan inspections?	_____	_____
________		• Does the association actually inspect demos at a subsequent date, if necessary?	_____	_____
________		• Does the association rotate inspectors or have a supervisor or auditor accompany them?	_____	_____
________		• Does the association inspect and appraise trade-ins for wholesale value?	_____	_____
________		• Does the dealer submit financial and operating statements monthly?	_____	_____
________		• Does the association retain title or lien control?	_____	_____
________		• Do floor plan agreements provide for periodic reductions (curtailments) in outstanding unit loan balances?	_____	_____

INTERNAL CONTROL QUESTIONNAIRE
Preliminary Examination Response Kit
Office of Thrift Supervision

Docket #: >
Institution Name: >
Examination As Of Date: >

Verified By Examiner		Yes	No
______	122. For dealer financing, does the dealer application include the following:	____	____
	• Business address and location of all sales and storage lots?		
______	• Names of all manufacturers represented and general description of units stocked?	____	____
______	• A statement as to whether each manufacturer subscribes to the Truth in Invoicing Practices Statement adopted by the Manufactured Housing Institute?	____	____
______	• A statement as to the willingness of the dealer to sign recourse or repurchase agreements?	____	____
______	• Name and percentage of ownership of all persons with interests in the dealership?	____	____

Credit Quality Review

Verified By Examiner		Yes	No
______	123. Does the association have a credit quality review program?	____	____
______	124. Does credit quality review include testing for compliance with regulation, association policy, officer lending limits, and association underwriting standards?	____	____
______	125. Does credit quality review include classification or grading of assets?	____	____
______	126. Are the findings of the persons responsible for credit quality review reported directly to the board of directors?	____	____

Deposit Account Loans

Verified By Examiner		Yes	No
______	127. Are sufficient controls in effect to prevent a loan approver from disbursing loan proceeds?	____	____
______	128. Does the association flag pledged deposit accounts to prevent collateral from withdrawal?	____	____

INTERNAL CONTROL QUESTIONNAIRE
Preliminary Examination Response Kit
Office of Thrift Supervision

Docket #: >
Institution Name: >
Examination As Of Date: >

Verified By Examiner		Yes	No
______	129. Does withdrawal of pledged funds require a supervisory override?	____	____
______	130. Are procedures in effect to ensure that the total loan and accrued interest does not exceed the balance amount of the deposit account?	____	____
______	131. Are procedures in effect for initial and periodic positive mail confirmations with deposit loan customers?	____	____
______	132. Are periodic monitoring reports adequate for the review of savings deposit loan activity?	____	____

Real Estate Owned and Other Repossessed Assets

______	133. Does the association follow routine legal procedures that will result in a valid title to the property and evidence of such title?	____	____
______	134. Does the association promptly value real estate that it acquires?	____	____
______	135. Does the association use a current valuation to establish the sales price of a property?	____	____
______	136. Does the association physically inspect properties at periodic intervals?	____	____
______	137. Do such inspections indicate the condition of the property and occupancy status?	____	____
______	138. Are there maintenance procedures in effect to ensure that properties will retain their market value?	____	____
______	139. Does the association maintain separate subsidiary records for each parcel showing items capitalized, expenses, rentals, etc.?	____	____
______	140. Does the association balance subsidiary ledgers for the individual properties to the general ledger at least monthly?	____	____
______	141. Does the association maintain separate files for each parcel of real estate owned and are such files complete?	____	____

INTERNAL CONTROL QUESTIONNAIRE
Preliminary Examination Response Kit
Office of Thrift Supervision

Docket #: >
Institution Name: >
Examination As Of Date: >

Verified By Examiner			Yes	No
______	142.	Does the association maintain controls over the receipt of rental income?	____	____
______	143.	Does the association's advertising for the sale or rental of real estate owned comply with the provisions contained in the Department of Housing and Urban Development's advertising guidelines?	____	____
______	144.	Are agents who collect rents and manage properties bonded?	____	____
______	145.	Are security deposits properly controlled?	____	____
______	146.	Does the association have procedures to ensure maintenance of hazard insurance?	____	____

Real Estate Held for Investment

______	147.	Does the association maintain separate subsidiary records for each parcel showing items capitalized, expenses, rentals, etc.?	____	____
______	148.	Does the association balance subsidiary ledgers for the individual properties to the general ledger at least monthly?	____	____
______	149.	Does the association maintain complete, separate files for each parcel of real estate owned?	____	____
______	150.	Does the association maintain adequate control over rental income?	____	____
______	151.	Are agents who collect rents and manage properties bonded?	____	____
______	152.	Are security deposits properly controlled?	____	____
______	153.	Does the association maintain adequate controls over all disbursements?	____	____
______	154.	Does a senior officer compare disbursements to determine whether they are for budgeted purposes and in line with the overall budget?	____	____
______	155.	If not, is the board of directors notified promptly of budget overruns?	____	____

INTERNAL CONTROL QUESTIONNAIRE
Preliminary Examination Response Kit
Office of Thrift Supervision

Docket #: >
Institution Name: >
Examination As Of Date: >

Verified By Examiner		Yes	No

Fixed and Other Assets

		Yes	No
______	156. Does the association retain invoices in support of all additions to fixed asset accounts?	___	___
______	157. Does the association ensure that the accounting department knows about any major retirement of fixed assets?	___	___
______	158. Does the association keep a detailed record of fixed assets?	___	___
______	159. Does the association retain depreciation schedules supporting each asset or class of assets?	___	___
______	160. Does the association charge depreciation and amortization expenses at least quarterly?	___	___
______	161. Does the association retain evidence of valid titles for all properties owned?	___	___
______	162. If the association has rented space in its buildings, does it have adequate control over the recording and collection of rental income and the control and recording of expense?	___	___
______	163. Are there record keeping procedures to ensure that the association maintains adequate supporting documentation for other assets acquired?	___	___
______	164. Are journal entries prepared that show clearly the nature and purpose of each charge to expense from deferred accounts and evidence of approval by authorized personnel?	___	___
______	165. Does the association have effective control procedures for all large disbursements to ensure their propriety?	___	___
______	166. Does the association maintain subsidiary records for the various other asset accounts?	___	___

INTERNAL CONTROL QUESTIONNAIRE
Preliminary Examination Response Kit
Office of Thrift Supervision

Docket #: >
Institution Name: >
Examination As Of Date: >

Verified By Examiner		Yes	No

Deposit Accounts

________	167. Is there any limitation on the amount of withdrawal that employees may pay without officer approval?	_____	_____
	If so, what is the amount? ____________________		
________	168. Are procedures in effect to ensure the timely and accurate completion of the appropriate signature cards upon the opening of deposit accounts?	_____	_____
________	169. Does the association segregate duties so that persons opening new certificate accounts do not have sole control over the receipt of cash, account data entry, and the preparation of certificates or receipts?	_____	_____
________	170. Does the association balance the deposit accounts before and after posting of interest to ascertain correctness of total amount posted?	_____	_____
________	171. Does the association maintain general ledger subsidiary accounts for each class of accounts?	_____	_____
________	172. Is an analysis made periodically to determine the adequacy of accrued interest earned and unpaid?	_____	_____
	How often? ________________________________		
	Last as of date? ______________________________		
	Person responsible? ____________________________		
________	173. Does the person who performs the analysis have an account at the association?	_____	_____
________	174. If so, who reviews the account of the person who performs the analysis?		
	Person responsible? ____________________________		
________	175. Does the association investigate and adjust differences between the accrual balance and the interest paid?	_____	_____

INTERNAL CONTROL QUESTIONNAIRE
Preliminary Examination Response Kit
Office of Thrift Supervision

Docket #: >
Institution Name: >
Examination As Of Date: >

Verified By Examiner		Yes	No

___________ 176. Does the association reasonably estimate accruals for reporting purposes? _____ _____

___________ 177. Are policies in effect to maintain compliance with state escheat laws? _____ _____

___________ 178. Does the association flag dormant accounts so they can monitor activity?

___________ 179. Does the association waive significant amounts of account fees? _____ _____

___________ 180. Does the association generate a demand deposit overdraft report? _____ _____

___________ 181. Does the demand deposit overdraft report identify the name and position of the person(s) responsible for approving overdrafts? _____ _____

___________ 182. Does the demand deposit overdraft report identify large borrowers and insiders? _____ _____

___________ 183. Do designated personnel review the demand deposit overdraft reports? _____ _____

- Person responsible? ___________________________________
- Approval limits? ___________________________________

___________ 184. Does the association generate a check-kiting report? _____ _____

___________ 185. Is the check-kiting report prepared by an individual who does not have an account with the financial association or is the preparer's account independently reviewed? _____ _____

___________ 186. Does the check-kiting report identify insiders and major borrowers? _____ _____

___________ 187. Is the person responsible for reviewing check-kiting reports independent of the preparation of the reports? _____ _____

- Person responsible? ___________________________________

___________ 188. How often does the association review check-kiting reports?

____

INTERNAL CONTROL QUESTIONNAIRE
Preliminary Examination Response Kit
Office of Thrift Supervision

Docket #: >
Institution Name: >
Examination As Of Date: >

Verified By Examiner		Yes	No

Deferred Credits

________	189.	Does the association maintain records supporting the recognition of profits resulting from the sale of real estate owned?	_____	_____
________	190.	Does the association maintain records supporting loan acquisition credits deferred and earned, by semiannual periods?	_____	_____
________	191.	Does the association amortize loan origination fees in accordance with FASB 91?	_____	_____

Other Liabilities

________	192.	Does the association maintain a detailed inventory or subsidiary records for the various other liability accounts?	_____	_____
________	193.	Does a designated officer make periodic reviews of the activity in other liability accounts?	_____	_____

Designated officer: ______________________________

Capital (Reserves, Undivided Profits, etc.)

________	194.	Does management review and the board of directors approve all transfers to and from the capital accounts?	_____	_____
________	195.	Does the association clearly explain and adequately document all transactions involving the capital accounts?	_____	_____
________	196.	Does the corporate officer designated in the bylaws or by the board of directors control stockholder records?	_____	_____
________	197.	Does the association promptly cancel surrendered stock certificates to prevent their reuse?	_____	_____

INTERNAL CONTROL QUESTIONNAIRE
Preliminary Examination Response Kit
Office of Thrift Supervision

Docket #: >
Institution Name: >
Examination As Of Date: >

Verified By Examiner			Yes	No
___________	198.	Does an officer designated in the bylaws or by the board of directors sign stock certificates?	_____	_____

Letters of Credit

Verified By Examiner			Yes	No
___________	199.	Does the association have any outstanding unexpired letters of credit?	_____	_____
___________	200.	Has the board of directors adopted a written letter of credit policy?	_____	_____
___________	201.	Does the board review the policy annually and note the review in the minutes?	_____	_____
___________	202.	Does the association maintain a daily transaction journal that summarizes all outstanding letters of credit?	_____	_____
___________	203.	Who is responsible for the preparation and posting of subsidiary records and accounting for fee income?		
		◆ Person responsible? ____________________________________		
		◆ Title? ____		
___________	204.	Has the association made commitments on letters of credit that they have not issued and for which the commitment period is unexpired?	_____	_____
___________	205.	Has the association issued any letters of credit on behalf of directors, officers, employees and their interests, or for other insiders?	_____	_____
		◆ If so, please list: _______________________________________		
___________	206.	Has the association issued or confirmed letters of credit to officers or directors of another financial institution?	_____	_____
___________	207.	Does the association's internal loan review process review letters of credit for adequacy of underwriting, documentation, and credit quality?	_____	_____
___________	208.	Are letters of credit of questionable quality listed on the association's problem asset list?	_____	_____

INTERNAL CONTROL QUESTIONNAIRE
Preliminary Examination Response Kit
Office of Thrift Supervision

Docket #: >
Institution Name: >
Examination As Of Date: >

Verified By Examiner			Yes	No
__________	209.	Has the association had to pay a draft without receiving payment from a customer?	_____	_____
__________	210.	Has the association extended any loans because of letters of credit?	_____	_____
		List all loans extended because of letters of credit: ____		
__________	211.	Are there any outstanding lawsuits because of letters of credit?	_____	_____

Prepared By: ____

Verified By: ____

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FUNDS TRANSFER QUESTIONNAIRE
Preliminary Examination Response Kit
Office of Thrift Supervision

Docket #: >
Institution Name: >
Examination As of Date: >

A management official of the association should complete this questionnaire. If the association lacks adequate internal controls regarding funds transfers, the examiner should verify appropriate responses and initial in the verified column. The flagged questions are the suggested minimum verifications. Management must provide the examiner with an adequate written explanation of all "No" answers, with an appropriate reference to the question, and supply copies of applicable written procedures. If a question is not applicable to the association, respond with NA.

Verified by Examiner		Yes	No

Funds Transfer and Wire Transfer Controls

Verified by Examiner			Yes	No
______	1.	Indicate the method that the association uses to wire funds: Fedline: ______ Money Transfer Workstation: ______ Voice: ______		
______	2.	Average dollar volume and number of transfers: ______		
______		Specify per day, week, month, or other: ______		
______	3.	Average daily amount available for transfer, if limited: ______		
______	4.	Peak amount available for transfer, if limited: ______		
______	5.	Does the association have written wire transfer procedures?	______	______
______	6.	Do personnel consistently follow the procedures?	______	______
______	7.	Who is responsible for supervising the wire transfer activity to ensure compliance with the written procedures? ______		
______	8.	Is an internal or independent audit performed of the wire transfer procedures?	______	______
______	9.	Does the association provide adequate training to personnel involved with the wire transfer process?	______	______

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______	10. Does the association segregate securities-transaction-related duties among the buyer/seller, the trader, and settlement clerk?	___	___
______	11. Are dual authorizations (maker, approver) required before the sending department acts upon internal wire transfer requests?	___	___
______	12. Do procedures require that the association actually transfer collected funds out of the customer account before the wire transfer department makes outgoing transfer orders?	___	___
______	13. Do personnel involved with wire transfers receive proper background screenings, including criminal record investigation?	___	___
______	14. Are sendable funds limited by using separate correspondent accounts to send and to receive funds?	___	___
______	15. Are controls to limit daylight overdrafts effective?	___	___
	Briefly describe the controls: ______________		
______	16. Does the association audit the wire transfer log periodically?	___	___
______	17. Does the association keep a complete log of wire transfer activity for audit?	___	___
______	18. Does software provide a log of all wire transfer activity?	___	___
______	19. If a data terminal is used, is an unbroken paper printout copy of all activity reconciled to requests daily?	___	___
______	20. Are interim daily reconcilements and end-of-day reconcilements performed with all reconciling items cleared?	___	___
______	21. Does the association prohibit the person who performs end-of-day balancing from executing wire transfers?	___	___
______	22. Is the person who executes wire transfers prohibited from access to cash (such as having a teller drawer)?	___	___

PERK 018 (02/02) Funds Transfer Questionnaire Page 2 of 6

FUNDS TRANSFER QUESTIONNAIRE
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Docket #: >
Institution Name: >
Examination As Of Date: >

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______	23. Does the association prohibit the person who reconciles the association's deposit account affected by wire transfer activity from executing wire transfers?	______	______
______	24. Is a timely reconciliation made, by a person not involved in the wire transfer process, of wire transfer activity statements from a service provider compared with internal wire transfer activity records?	______	______
______	25. Does the association keep a permanent record of all customer wire transfers listing the date, amount of the transfer, person authorizing the transfer, test code or PIN, and detailed instructions?	______	______
______	26. Does the association restrict access to test codes to only those employees authorized to handle wire transfer requests?	______	______
	27. Does the association keep the test codes in a secure place?	______	______
______	28. If the association uses code words do they change them periodically?	______	______
	How often? ______________________		
______	29. Does the association strictly forbid the transfer of uncollected funds?	______	______
______	30. Does the association require dual officer approval for large-dollar transfers?	______	______
	Who is authorized and what are the limits? ______________		
______	31. Does the association require customer and/or bank verification callbacks for voice wire transfers above an established dollar threshold?	______	______
	Who is responsible for verification? ______________		
______	32. Does the association make all securities-transaction-related transfers only after the verified receipt of securities (delivery versus payment)?	______	______
______	33. Does a person independent of the transaction approval or processing balance wire transfers at least daily?	______	______

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________	34.	Does the association have a dual entry/release system for wire transfers? For computerized systems, does one person input transfer instructions and another person verify and release the transfer? For associations that call in wire instructions to a correspondent institution that performs the wire transfer, does one authorized person originate the call; then does the correspondent institution have a second person make a callback to a second authorized person to verify the authenticity of the sire instructions?	____	____
________	35.	Has the association made unusual, frequent, or sizable transfers offshore to Privacy Act Havens (such as Panama, Switzerland, the Netherlands Antilles, or the Cayman Islands)?	____	____
________	36.	Does the association require that customer wire-transfer requests be in writing and signed by the customer wiring the funds?	____	____

Wire Transfers Using Personal Computer Systems

________	37.	Does the association keep the personal computer executing wire transfers in an area that is physically secure from unauthorized employees and the public?	____	____
________	38.	Does each authorized user of the wire transfer system have a unique password known only to that user?	____	____
________	39.	Do separate persons enter and release outgoing transfers with separate unique passwords?	____	____
________	40.	Do employees adequately protect passwords to ensure that only the authorized user is aware of the password?	____	____
________	41.	Does the system require users to change their password periodically?	____	____

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______	42.	Are procedures (such as the system requiring two users' passwords) in place to ensure that one person enters the wire transfer and another person verifies it before releasing the wire transfer?	______	______
		If so, what is the time interval for going into waiting mode? ___		
______	43.	When each user finishes a series of transactions, and leaves the wire transfer terminal unattended, does the terminal go into a waiting mode where it is not possible to send outgoing wire transfers?	______	______

Branch Procedures (Customer-Requested Wire Transfers)

______	44.	Does a branch procedures manual contain a clear and concise description of branch wire transfer procedures?	______	______
______	45.	Are telephone requests from the branch office to the main office for two-party wire transfers accepted?	______	______
______	46.	Briefly, describe the procedures the association uses to ensure that such requests are authentic. ______________________		
______	47.	Does the association identify all transfers by sequential code or encrypted passwords in prearranged order with correspondents?	______	______
______	48.	Are third-party wire transfers by telephone confirmed by four-person callback procedure (sender, receiver, approver, confirmer)?	______	______
______	49.	Does the association record all calls?	______	______
______	50.	Does each participant document callbacks?	______	______
______	51.	Is a signed customer-authorization form required as a source document and proof of authorization for customer-requested wire transfers?	______	______
______	52.	Do the forms indicate the date, time of day, wire-from- and wire-to-account instructions, and initials or signatures of personnel who processed the request?	______	______
______	53.	Does the association retain customer authorization forms?	______	______

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Internally Generated Wire Transfers (Department Requests for Wire Transfers)

________	54. Does the association require that all departmental wire transfer requests be in writing, on a preprinted form?	_____	_____
________	55. Does the request form contain all necessary from-account and to-account information?	_____	_____
________	56. Do departmental request forms indicate the initials or signatures of the initiator and approver who authorized the wire transfer?	_____	_____
________	57. Do separate persons originate, approve, and send internally generated wire transfers?	_____	_____
________	58. Do department wire transfer telephone or facsimile requests made from remote locations require a callback to that location to ensure that the wire transfer request actually originated there?	_____	_____
________	59. Recommend any improvements needed to prevent individuals from transferring funds to another's account while acting alone.	_____	_____

Prepared By: ______________________________

Verified By: ______________________________