

UNITED STATES OF AMERICA
Before The
OFFICE OF THRIFT SUPERVISION
DEPARTMENT OF THE TREASURY

IN THE MATTER OF

Schneider, Downs & Co., Inc.,
a Certified Public Accounting
Firm, its former partner Henry F.
Larkin, Jr. and its former manager
Richard E. Spence, accountants for
Grandview Savings Association,
Pittsburgh, Pennsylvania

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: Re: NE93-7
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Dated: March 3, 1993

STIPULATION AND CONSENT TO ENTRY OF ORDER
TO CEASE AND DESIST AND TO DIRECT RESTITUTION

The Office of Thrift Supervision ("OTS") and Schneider,
Downs & Co., Inc. ("SD & Co.") hereby stipulate and agree as
follows:

1. Consideration. The OTS is of the opinion that grounds
exist to initiate an administrative cease and desist proceeding
against SD & Co. pursuant to Section 8(b) of the Federal Deposit
Insurance Act ("FDIA"), as amended by the Financial Institutions
Reform, Recovery, and Enforcement Act of 1989, Pub. L. No.
101-73, 103 Stat. 183 ("FIRREA"), 12 U.S.C. § 1818(b) (1988 &
Supp. I 1989), based upon accounting and tax services provided
by SD & Co. SD & Co. desires to avoid the time and expense of
such administrative litigation and, without admitting or denying
such grounds exist, hereby stipulates and agrees to the
following terms in consideration of the forbearance by OTS from
initiating such administrative cease and desist litigation

against SD & Co. with respect to the matters covered in the accompanying Order to Cease and Desist and to Direct Restitution ("Order").

2. Jurisdiction.

(a) SD & Co., a certified public accounting firm, served as the auditor of Grandview Savings Association, Pittsburgh, Pennsylvania ("Grandview"), for the years 1981 through 1990.

(b) Grandview was a "savings association" within the meaning of Section 2(4) of the Home Owners' Loan Act of 1933, as amended by FIRREA, 12 U.S.C. § 1813(b) (1988 & Supp. I 1989). Accordingly, it is an "insured depository institution" as that term is defined in Section 3(c) of the FDIA, as amended by FIRREA, 12 U.S.C. § 1813(c) (1988 & Supp. I 1989).

(c) Pursuant to Section 3(q) of the FDIA, as amended by FIRREA, 12 U.S.C. § 1813(q) (1988 & Supp. I 1989), the Director of OTS is the "appropriate Federal banking agency" to maintain an enforcement proceeding against such a savings association or its institution-affiliated parties. SD & Co. stipulates that it is subject to the jurisdiction and authority of the OTS to initiate and maintain a cease and desist proceeding against it.

3. Consent. SD & Co. consents to the issuance by the OTS of the Order, agrees to comply with the terms of the Order upon issuance and stipulates that the Order complies with all applicable requirements of law. SD & Co. acknowledges and states that it enters into this Stipulation and Consent

voluntarily, with benefit of counsel and without any coercion or promise of any kind from the OTS or any officer, attorney, agent or employee thereof.

4. Finality. The Order is issued under Section 8(b) of the FDIA, as amended by FIRREA, 12 U.S.C. § 1818(b) (1988 & Supp. I 1989). Upon its issuance by the Director of OTS, it shall be a final order, effective and fully enforceable under the applicable provisions of the FDIA, as amended by FIRREA.

5. Waivers. SD & Co. waives its right to a notice of charges and the administrative hearing provided by Section 8(b) of the FDIA, as amended by FIRREA, 12 U.S.C. § 1818(b) (1988 & Supp. I 1989), and waives its right to all post-hearing proceedings, and the entry of findings of fact or conclusions of law under the Administrative Procedure Act ("APA"), 5 U.S.C. §§ 554-557, 12 U.S.C. § 1818(b), and the OTS Rules of Practice and Procedure in Adjudicatory Proceedings, 12 C.F.R. Part 509 (1992), or any other applicable provision of law. SD & Co. waives its right to appeal the Order pursuant to Section 8(h) of the FDIA, as amended by FIRREA, 12 U.S.C. § 1818(h) (1988 & Supp. I 1989), or any other applicable provision of law.

6. Settled Claims.

(a) SD & Co. agrees that its stipulation and consent to the entry of the Order is for the purpose of resolving this OTS enforcement matter only, and does not resolve, affect or preclude any other civil or criminal proceeding which may be or has been brought against SD & Co. by the OTS or another governmental agency.

(b) With respect to paragraph (a) above, the phrase "this OTS enforcement matter" is based on claims arising from the facts alleged and set forth in the accompanying Order or otherwise known to the OTS either through its various formal examinations of Grandview or as a result of its related proceedings concerning Feitt.

(c) SD & Co. understands that the OTS has not relinquished the right to take additional action of a regulatory or other nature based on facts other than those referenced in paragraph 6(b) above.

(d) The Stipulation and Consent, the Order and the payment by SD & Co. of any monies or providing any other financial relief as contemplated by the Order, does not compromise, settle, dismiss, resolve, or in any way affect any civil actions, charges against, or liability of SD & Co. that arise pursuant to this action or otherwise, and that may be brought or have been brought by any governmental entity other than the OTS.

WHEREFORE, in consideration of the foregoing, the OTS, by and through the OTS Director of the Northeast Region, and SD & Co., by and through Raymond W. Buehler, Jr., its Co-Managing Partner and an authorized representative, execute this Stipulation and Consent to Entry of Order to Cease and Desist and Direct Restitution.

UNITED STATES OF AMERICA
Before The
OFFICE OF THRIFT SUPERVISION
DEPARTMENT OF THE TREASURY

IN THE MATTER OF

Schneider, Downs & Co., Inc.,
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ORDER TO CEASE AND DESIST AND TO DIRECT RESTITUTION

WHEREAS, the Office of Thrift Supervision ("OTS") has conducted a formal examination pursuant to section 5(d)(1)(B) of the Home Owners' Loan Act of 1933, as amended, 12 U.S.C. § 1464(d)(1)(B);

WHEREAS, as a result of that examination, the OTS has reason to believe that:

Schneider, Downs & Co., Inc. ("SD & Co."), a certified public accounting firm, served as the independent auditor of Grandview Savings Association, Pittsburgh, Pennsylvania ("Grandview"), for the years 1981 through 1990. During the years 1982 through 1989, information contained in the books and records of Grandview reflected that approximately \$291,508 in Grandview funds were expended by Grandview's President and Managing Officer, Ward H. Feitt ("Feitt"), which

expenditures were not supported by documentation demonstrating a business-related purpose. SD & Co. and the audit engagement partner, Henry F. Larkin, Jr. ("Larkin"), failed to conduct additional audit procedures to confirm that these expenditures were business-related and not Feitt's personal expenses, and failed to notify Grandview's Board of Directors or its audit committee. Instead, SD & Co. accepted Feitt's oral statements that the disbursements were for legitimate business purposes, although Grandview's expense files lacked invoices or receipts that would demonstrate the purpose of the expenditures.

For each year in which it audited Grandview, SD & Co. issued an opinion on the financial statements of Grandview stating that it had conducted an examination in accordance with generally accepted auditing standards ("GAAS"). However, between 1982 and 1989, SD & Co. was aware of a continuous absence of documentation or inadequate documentation to justify expenditures from Grandview's officer and director expense account and from other expense accounts. SD & Co.'s audit workpapers and draft management letters, prepared by the SD & Co. staff, contain repeated references to the lack of documentation to demonstrate the business purpose for tens of thousands of dollars in expenditures during this period. In addition, the 1982 audit workpapers reflect that Feitt told Larkin that he did not keep expense

records available and that he did not believe that SD & Co. had a right to review such records of Grandview expenditures as part of its audit process. SD & Co. failed to take any action in response to Feitt's statement, and rejected the recommendation of one of its staff accountants to include a statement concerning inadequate documentation of employees' expense accounts in its 1982 and 1983 management letters to Grandview's Board of Directors.

Further, during the audit year 1987, Feitt admitted to the SD & Co. audit manager, Richard E. Spence ("Spence"), that he had used \$5,000 to \$8,000 in Grandview funds to pay for his own personal expenditures. Despite the admission that Feitt had engaged in illegal conduct, no action was taken to notify Grandview's Board of Directors or its audit committee of the intentional misuse of association funds by its senior operating official; SD & Co. failed to notify state or federal regulatory officials; SD & Co. failed to consider the effect of the illegal act on Grandview's financial statement and system of internal controls; SD & Co. failed to expand the scope of its audit to determine whether the misuse of association funds extended beyond the amounts admitted by Feitt; and SD & Co. failed to consider whether it should withdraw from the audit engagement.

By its improper auditing procedures as described above, SD & Co. knowingly and recklessly engaged in unsafe and unsound practices and violations of law and regulation that caused Grandview to suffer substantial monetary loss.

WHEREAS, the OTS has determined that SD & Co. participated in the conduct of the affairs of Grandview and is an institution-affiliated party of Grandview, and that proper grounds exist, pursuant to FDIA Section 8(b), 12 U.S.C. § 1818(b), for the imposition of the relief set forth herein;

WHEREAS, SD & Co. charged Grandview approximately \$140,000 for performing audits and preparing federal and state income tax filings for the years 1982 through 1989; and

WHEREAS, SD & Co., without admitting or denying that grounds exist for the institution of enforcement proceedings, has executed a Stipulation and Consent to Entry of Order to Cease and Desist and to Direct Restitution ("Consent") which is accepted by and approved by the OTS.

NOW, THEREFORE, It Is Ordered that:

Restitution

1. SD & Co. shall pay to Parkvale Savings Association, Monroeville, Pennsylvania ("Parkvale"), the successor through merger to Grandview, the sum of TWO HUNDRED AND TWENTY THOUSAND DOLLARS (\$220,000) as restitution to Grandview. The payment shall be made by check made payable to Parkvale Savings Association. A payment of \$120,000 will be made within 10 days of the issuance of this Order to Cease and Desist and to Direct Restitution

("Order"). The balance will be paid within 180 days of the issuance of the Order. Both payments will be delivered to:

Parkvale Savings Association
c/o Robert J. McCarthy, President
4220 William Penn Highway
Monroeville, Pennsylvania 15146

A copy of the check and the transmittal letter will be delivered to:

Robert D. DeCuir
Senior Deputy Director, Enforcement
Office of Thrift Supervision
1700 G Street, N.W.
Washington, D.C. 20552

Indemnification

2. SD & Co. shall provide at no cost to Parkvale any and all future accounting and auditing services required by Parkvale to correct, through amendments, filings or otherwise, misstatements concerning any of the matters mentioned herein, or to assist in the defense or representation of Parkvale in connection with any federal or state tax investigation arising from or related to its audits of Grandview; provided, however, that such additional services provided at no cost as required under this Order shall not exceed a market value of THIRTY THOUSAND DOLLARS (\$30,000). The rates charged when calculating this amount will be at the level SD & Co. charged to financial institutions for auditing services on September 1, 1991. No services so charged shall include the work product of either Larkin or Spence.

Accounting Service Requirements

3. SD & Co. shall not provide any accounting services to any "insured depository institution(s)" as defined by 12 U.S.C. § 1813(c)(2) (1988 & Supp. I 1989), unless the services are provided: (1) in a manner that conforms to all applicable laws, rules and regulations; (2) in a safe and sound manner; (3) as required by professional accounting and conduct standards; (4) in a manner consistent with the guidelines issued by the "appropriate Federal banking agency" as defined by 12 U.S.C. § 1813(q) (1988 & Supp. I 1989); and (5) in accordance with this Order.

4. SD & Co. shall not perform audits of insured depository institutions, unless said audits are performed in accordance with 12 C.F.R. § 571.2 (1992), which requires, inter alia, that SD & Co. and its auditors performing the audits must: (1) be qualified and independent; (2) follow recognized rules of ethics and conduct; and (3) comply with such additional requirements as may be contained in bulletins issued by OTS or the appropriate Federal banking agency.

Qualified Auditors

5. SD & Co. shall require, in connection with audits of insured depository institutions commencing on or after the date of this Order:

a. Each partner, senior manager, manager or senior accountant assigned to such audits shall possess the requisite background, experience and technical training with respect to insured depository

institutions to perform their duties competently and professionally.

b. Each partner, senior manager, manager or senior accountant assigned to such audits shall:

(i) be a certified public accountant ("CPA") licensed to practice by and in good standing with the State board of accountancy of the State in which he or she is practicing;

(ii) complete at least twenty (20) hours of continuing professional education in one or more subjects relevant to audits of insured depository institutions in each calendar year. This training must include current, relevant topics regarding financial institution regulatory, accounting or auditing requirements; and

(iii) have successfully completed a basic audit course that covers inherent risk, control risk and detection risk, and the concepts of materiality.

Professional Standards

6. SD & Co. shall perform all audits of insured depository institutions in accordance with GAAS, the Statements on Auditing Standards ("SAS"), and the Public Accounting Bulletins prescribed by OTS, including, but not limited to, Accounting Bulletin PA-7a, 42 Fed. Reg. 29962 (June 10, 1977). The SD & Co. representatives who perform said audits shall properly apply these standards and bulletins. Specifically, SD & Co. shall prepare and perform all

audits of insured depository institutions in accordance with GAAS including, but not limited to:

- a. exercising due professional care, as set forth in SAS No. 1 (codified at AU § 150);
- b. utilizing adequate planning that includes the preparation of planning memoranda that identify areas of audit and operations risk based on a review of internal controls (codified at AU § 311);
- c. exercising adequate supervision of the audits (codified at AU § 311);
- d. obtaining competent evidentiary material that supports management's representations in the financial statements (codified at AU §§ 311 and 326); and
- e. maintaining the proper degree of professional skepticism in the conduct of the audit, including an evaluation of the insured depository institution's officer and director expenses (codified at AU §§ 150 and 316).

Management Letter

7. SD & Co. shall include in each management letter sent to the audit committee or Board of Directors of an insured depository institution such information known to it that discloses any material weaknesses in the institution's internal controls. In determining the adequacy of the institution's internal controls, SD & Co. shall include as an audit procedure the examination of officer and director expense accounts to determine (1) whether the expenditures are properly supported by invoices or receipts; and

(2) whether the records are sufficient to enable the auditors to conduct audit tests to confirm the nature and purpose of the expenditures. Copies of each management letter will be promptly provided to the appropriate Federal banking agency.

Errors and Irregularities

8. In connection with the detection of errors and irregularities in conducting audits of insured depository institutions, SD & Co. shall comply with GAAS and, when an audit indicates a material irregularity may exist, shall perform such additional procedures required in accordance with SAS No. 53, The Auditor's Responsibility to Detect and Report Errors and Irregularities. Specifically, SD & Co. shall:

- a. plan its audits to search for irregularities that would have a material effect on the institution's financial statements;
- b. extend the auditing procedures as required when its audits indicate that material irregularities may exist;
- c. plan and perform its audits with a proper degree of professional skepticism to achieve reasonable assurance that material errors or irregularities will be detected;
- d. conduct substantive tests to obtain sufficient evidentiary material to determine whether the expense transactions are proper and valid; and

- e. consider the possibility that management may have made material misrepresentations or may have overridden control procedures.

Disclosing Document Deficiencies

9. Pursuant to SAS No. 53, if SD & Co. becomes aware of any irregularity that is not clearly inconsequential, SD & Co. shall discuss the irregularity, including any evidence as to the lack of proper documentation of officer and director expenses, with a level of authority above the person involved, and with the audit committee and the Board of Directors.

Materiality

10. In determining materiality, SD & Co. shall follow the guidance of SAS No. 47, Audit Risk and Materiality in Conducting an Audit, and shall:

- a. consider the interaction of quantitative and qualitative considerations in materiality judgments;
- b. seek sufficient evidentiary material to obtain reasonable assurances that irregularities of a material nature do not exist;
- c. consider the cumulative effect of possible improper transactions over a number of years; and
- d. consider the effect of each transaction that appears to be illegal, or that constitutes a misapplication of funds or a violation of law, rule, or regulations (e.g., violations of the Internal Revenue Code), thereby subjecting the institution to fines, penalties, costs, losses or damages.

Defalcation

11. Upon discovering that a defalcation may have occurred at an insured depository institution, SD & Co. shall determine whether the institution has notified the Federal banking agency in writing of the apparent defalcation. If the institution has not made such notification, or does not immediately do so, SD & Co. shall immediately notify the appropriate Federal banking agency of any possible defalcation.

12. Upon discovering information concerning a possible illegal act at an insured depository institution, SD & Co. shall follow SAS No. 54 and take into consideration:

- a. whether transactions were improperly recorded or not recorded in a complete manner to maintain accountability for assets;
- b. whether the laws and regulations that may have been violated have a direct and material effect on the determination of financial statement amounts;
- c. the materiality of the apparent illegal acts and the effect on the amounts presented in the financial statements, including related contingent monetary effects of the violations such as fines, penalties and damages which would be loss contingencies; and
- d. the implications of an apparent illegal act in relation to the intended degree of reliance to be placed on internal accounting controls and on the representations of management.

13. Upon discovering information concerning a possible illegal act at an insured depository institution, SD & Co. shall follow SAS No. 54 and:

- a. record the information in the audit workpapers;
- b. prepare a memorandum outlining in detail all the known facts;
- c. instruct staff accountants and others below the level of partner to communicate the information to the SD & Co. assigned audit partner and managing partner; and
- d. communicate the information to an appropriate level of authority within the institution and notify the appropriate Federal banking agency if the institution has not already done so.

14. SD & Co., when it prepares income tax filings for an insured depository institution, shall:

- a. require the SD & Co. audit staff to alert the SD & Co. tax staff of any improprieties in the records or transactions that might affect the tax filings;
- b. not submit tax filings that include what SD & Co. knows or has reason to know is false or misleading information;
- c. make the institution's audit committee and/or the Board of Directors aware of the false or misleading information; and

d. not utilize undocumented and/or improperly documented transactions to substantiate deductions on the institution's tax filings.

Audit Review

15. SD & Co. shall require that the engagement partner who signs an audit on behalf of SD & Co. for an insured depository institution personally review the workpapers and discuss in detail any problem areas with the audit manager before signing. In addition, the engagement partner shall take whatever additional action is required, including, but not limited to, increasing the scope of the audit or qualifying the audit opinion.

Document Maintenance Workpapers

16. SD & Co. shall maintain the workpapers and related documentation for all work performed on behalf of any insured depository institution client and any documentation required by this Order for a period of ten (10) years after the completion of the assignment performed for the institution. Upon request, SD & Co. shall make these materials available to the appropriate Federal banking agency.

Compliance Report

17. For a period of five (5) years from the effective date of this Order, SD & Co. shall provide to the OTS, on or before December 31 of each year, a written report setting forth the manner and form in which it has complied with this Order during the previous calendar year, and any apparent violations of this Order.

Peer Review

18. SD & Co. shall periodically, but at a minimum triennially, have an independent peer review performed of its insured depository institution audit and accounting practices by an accounting firm professionally qualified to perform such reviews. SD & Co. will correct any deficiencies noted in such reviews on a timely basis. Copies of the reports of the peer reviews, as well as the corrective action taken, shall immediately be sent to the OTS and any other appropriate Federal banking agency.

Review Order

19. For a period of five (5) years from the effective date of this Order, SD & Co. shall require the following persons to read this Order and acknowledge, in writing, that they have done so:

- a. each SD & Co. partner and senior manager at the beginning of each audit of an insured depository institution;
- b. each SD & Co. manager and accountant at the beginning of each audit of an insured depository institution; and
- c. each person undertaking to perform a peer review of SD & Co.

Policies and Procedures

20. Within ninety (90) days of the effective date of this Order, SD & Co. shall file with the Chief Accountant of the OTS a comprehensive plan, satisfactory to the OTS, for establishing,

maintaining and reviewing compliance with policies and procedures to implement the terms of this Order. The policies and procedures will then be implemented and followed by SD & Co. Any further changes in said policies and procedures must receive the prior approval of the OTS.

Implementation

21. SD & Co. will take whatever steps are necessary to ensure full compliance by SD & Co. with the requirements of this Order.

22. All technical words or terms used in this Order, for which meanings are not specified or otherwise provided by the provisions of this Order, shall insofar as applicable, have meaning as defined in Chapter V of Title 12 Code of Federal Regulations, and any such technical words or terms used in the Order and undefined in the above, shall have meaning that accord with the best custom and usage in the savings and loan industry.

23. A copy of this Order shall be served upon SD & Co. in accordance with the general regulations of the OTS.

Office of Thrift Supervision

/S/

By:

Angelo A. Vitna
Director, Northeast Region