

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 flagged questions are the suggested minimum verifications. The association must explain negative responses and you should review through interview and observation any problems needing supervisory attention. For additional guidance in a certain area, see the referenced handbook section. Some of the handbook sections include more detailed questionnaires that may assist you in your interviews of management.

Internal Control Questionnaire

The Internal Control Questionnaire covers the following areas.

Internal Audit

Savings associations should have an internal audit 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 [Handbook Section 355](#), Internal Audit, and the [Internal Audit Questionnaire \(355Q\)](#).

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.

Dual control is the concept in which one person verifies or approves the work of another. The purposes of involving the second individual are to ensure that proper authority for the transaction or activity is given, that the transaction or activity is properly recorded, and that proper settlement is made. Dual control in automated systems should be used in the same manner as in manual systems. Supervi-

sory holds should be placed on customer accounts requiring special attention. For example, dormant accounts, collateral accounts, and accounts with large uncollected funds normally have holds that require the action of two people to remove. When a hold on an account is added/ removed or when a transaction requiring supervisory approval is completed on an automated system, exception reports will be printed and should be reviewed by a designated person not involved with the transaction. Used conscientiously, automated dual control methods are superior to the manual procedures.

Management should ensure that policies require personnel who have cash approval and disbursement authority take annual vacations and restrict employee access to the association's internal systems during their vacation absence.

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 for checks signed by hand 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.

The association should have certain controls in place for checks signed by stand-alone mechanical or electronic facsimile check signing machines connected to computers: an approval process for checks in excess of a certain dollar amount, 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, the check vouchers initialed by a person authorized to approve them. 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.

When planning for the purchase of laser check printing software, management should match the laser check printing needs of the association to software that has the desired level of controls, an acceptable level of risk, and a cost efficient price.

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 applicable).
- 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 clear-

ing day. Therefore, associations should hold securities in safekeeping under delivery versus payment procedures. To deter theft of the portfolio, management should prohibit free deliveries, i.e., those not requiring payment (such as a transfer from one safekeeping agent to another), unless the contract specifies dual approval. When the association holds negotiable securities on premises, the securities should be under strict dual control at all times. An independent party should perform tests to determine that the yields on investments actually received are in line with the weighted average coupon of such assets. Refer to [Handbook Section 540](#), Investment Securities, and the [Investment Securities Questionnaire \(540Q\)](#).

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 over lending 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 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.

Qualified and adequately trained individuals not involved in the loan production processes should review appraisals and evaluations. An association must establish more in-depth review procedures for

appraisals of large, complex, or out-of-area commercial real estate credits and for those appraisals and evaluations ordered by agents of the association, such as loan brokers or another financial services institution. Even small associations that cannot achieve absolute lines of independence should implement effective internal controls to ensure that no single person has sole authority to render credit decisions involving loans on which they ordered or reviewed the appraisal or evaluation. Further, lending officials, officers, or directors should abstain from any vote of approval involving loans for which they performed the appraisal or evaluation.

Refer to Examination Handbook Sections [201](#), [208](#), and [212](#), and the accompanying questionnaires.

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 materialmen's lien waivers, 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 [Handbook Section 213](#), Construction Lending, and the [Construction Lending Questionnaire \(213Q\)](#).

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. If the association has automated accounting entries for accrual of interest, they should explain what testing they do to be sure that the computer-generated figures are correct.

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 upcoming expenses. If the analysis results in a revised monthly payment, the association should make the revision promptly and notify the customer. 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 [Handbook Section 750](#), Mortgage Banking.

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 [Handbook Section 213](#), Construction Lending, and the [Construction Lending Questionnaire \(213Q\)](#).

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 [Handbook Section 214](#), Other Commercial Lending, and the accompanying questionnaire ([214Q](#)).

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 [Handbook Section 215](#), Letters of Credit, and the accompanying questionnaire ([215Q](#)).

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 portable. 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 [Handbook Section 216](#), Floor Plan and Indirect Lending, and the accompanying questionnaire (216Q).

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. The association's credit quality review should include testing for compliance with regulation, association policy, officer lending limits, and association underwriting standards. Refer to [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.

To prevent withdrawal of collateral, the association should flag pledged deposit accounts and require a supervisory override for withdrawal of pledged funds. It should have procedures in place to ensure that the total loan and accrued interest does not exceed the balance amount of the deposit account. Refer to [Handbook Section 560](#), Deposits/ Borrowed Funds, and the accompanying questionnaire (560Q).

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.

The association should maintain separate files for each parcel of real estate owned and maintain subsidiary records for each parcel showing items capitalized, expenses, rentals, etc. The association should balance subsidiary ledgers for the individual properties to the general ledger at least monthly. 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 and ensure maintenance of hazard insurance, when available. Refer to [Handbook Section 251](#), Real Estate Owned and Other Repossessed Assets, and the accompanying questionnaire (251Q).

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 [Handbook Section 230](#), Equity Investments, and the Equity Investments Questionnaire (230Q).

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 [Handbook Section 250](#), Other Assets/Liabilities, [Section 252](#), Fixed Assets, and the Fixed Assets Questionnaire (252Q).

Demand Accounts

Associations must limit checks drawn on uncollected funds 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 nonsufficient 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.

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 on the report are not involved in check kiting, but the report 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.

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 [Handbook Section 560](#), Deposits/ Borrowed Funds, and the accompanying questionnaire (560Q).

Deferred Income

Generally accepted accounting principles require recognition of net loan origination fees/costs as income over the life of the loan in accordance with SFAS No. 91. The association should maintain records supporting loan fees/ costs deferred and earned/ expensed.

Other Liabilities

Management should maintain a detailed inventory or other subsidiary records for the various other liability accounts. They should also periodically review miscellaneous accounts to deter misuse.

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 [Handbook Section 110](#), Capital Stock and Ownership.

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 whether:

- Fund transfers pose risk to capital.
- Management implemented effective controls.
- Management confirms or tests the controls periodically.

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

Transfers may originate internally or externally and can involve one customer or many customers. Internal transfers are between the institution and its customers, such as loan fundings and deposit transfers among customers' accounts. External transfers are payments involving more than one depository institution.

Essentially, all transfers are instructions by an authorizer to debit an account at an institution for credit to another account at either the same or another institution. All associations engage in transfers and many are involved in large transfers relative to their equity capital and blanket bond coverage. Associations without correspondent banking departments and major corporate deposit accounts may not have a large volume or dollar amount 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 conducts related to capital.
- Insurance coverage and deductibles.
- The size and diversity of the association's staff.

Due to the detail involved, you should review the internal controls on funds transfers by interview and observation. Any procedures allowing one person to remove unlimited funds from an account without immediate detection deserves 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.

Association management should encrypt all data transmissions using algorithms. This protects information from improper disclosure or alteration. You can find additional guidance on electronic funds transfer systems in the Wholesale Payment Systems and Retail Payment Systems booklets of the Federal Financial Institutions Examination Counsel (FFIEC) Information Technology (IT) Examination Handbook.

Internal Transfers

Associations execute ***internal transfers*** through the accounting system and may initiate a transfer on paper, by direct key entry, or through the Internet.

An example of a typical internal 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 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. General authorization controls may require initiator and sender identification codes, unique passwords, cipher codes, set procedures, and limited channels of communication.

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.

Two-party Transfers

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 authori-

zation. 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 either approve or confirm the 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.

External Transfers

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.

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
- Internet
- Paper
- Electronically transmitted-image facsimile (FAX)
- Voice.

These mediums may use various technologies such as wires, radiophone, cellular radio telephone, microwave, or fiber optic lines, each with different security and vulnerability. Wire transfer service providers include:

- Fedwire Funds Service
- 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.

Daylight overdrafts are overdrafts existing between the daily closing of accounting records. Associations usually do not prevent overdrafting as this could inhibit legitimate business transactions. Rather, associations establish limits that prevent additional overdrafting beyond the approved threshold. If inadequately controlled, daylight overdrafts may be a serious financial risk because funds available for transfer may be virtually unlimited and unrecoverable. Even when daylight overdrafts are properly controlled, they pose a credit risk. For these reasons, internal controls on external transfers must be rigid and subject to frequent testing and review to discourage and prevent loss.

Refer to [Handbook Section 580](#), Payments Systems Risk, for discussion of the setting of limits for daylight overdrafts.

In a low-volume voice transmission operation, a customer submits a wire transfer request and an association employee initiates the funds transfer through a correspondent. This type of 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.

External funds transfers typically require a four-party callback or confirmation process. 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.

Other common control safeguards include the following procedures:

- Limited signing authorities.
- Dual controls over forms.
- Unique passwords for 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 correspondent 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.

Daily independent reconciliation 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 mis-sent funds diminish quickly. You should check whether the association 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.

The association should keep a complete log of wire transfer activity and audit it periodically.

**INTERNAL CONTROL QUESTIONNAIRE
Preliminary Examination Response Kit
Office of Thrift Supervision**

Docket #:
Institution Name:
Examination As Of Date:

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|--|----------------------|--|------------|-----------|-----------|
| | Verified by Examiner | | <u>Yes</u> | <u>No</u> | <u>NA</u> |
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**INTERNAL CONTROL QUESTIONNAIRE
Preliminary Examination Response Kit
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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 the responses and enter their initials 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.

Please provide the requested information by [Click Here](#) and Type

| | | | | | |
|--|----------------------|--|------------|-----------|-----------|
| | Verified by Examiner | | <u>Yes</u> | <u>No</u> | <u>NA</u> |
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Internal Audit

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|---|---------------|-----|---|--------------------------|--------------------------|--------------------------|
|  | <u> </u> | 4.1 | Does the association have an internal audit program? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | <u> </u> | 4.2 | Does the board of directors or the audit committee review internal audit reports? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | <u> </u> | 4.3 | Does the audit committee consist only of outside directors? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | <u> </u> | 4.4 | Do internal audit reports suggest actions to correct internal control or procedural deficiencies? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | <u> </u> | 4.5 | Is there a subsequent review to ascertain that the associa- | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

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Docket #:
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| | | | | | |
|--|----------------------|--|------------|-----------|-----------|
| | Verified by Examiner | | <u>Yes</u> | <u>No</u> | <u>NA</u> |
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| | Verified by Examiner | | <u>Yes</u> | <u>No</u> | <u>NA</u> |
|--|----------------------|--|------------|-----------|-----------|

tion implemented suggestions for corrective actions?

- _____ 4.6 Does the internal auditor report to or receive salary reviews by the audit committee or board of directors?
- _____ 4.7 Did the external auditor communicate any internal control deficiencies, either orally or in writing, to the association?

[Type Management Response Here]

General Items

- _____ 4.8 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
- _____ 4.9 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
- _____ 4.10 Does a person not involved in general ledger entries perform

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the reconciliations?

| | | | | | |
|---|------|--|--------------------------|--------------------------|--------------------------|
| _____ | 4.11 | Does a person not involved in the transactions periodically review and investigate activity on exception and/or large items report(s)? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.12 | Does the association perform a regular review of insider activity for unusual activity and compliance with Regulation O? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.13 | Does the association periodically review deferred expense/ income accounts? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|  _____ | 4.14 | Does the association clearly show the nature and purpose of each entry to the deferred expense/ income accounts? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|  _____ | 4.15 | Is there one person authorized to make entries to the deferred expense/ income accounts? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|  _____ | 4.16 | Does the association balance and reconcile to third-party reports monthly any association assets that others service or hold in safekeeping? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

[Type Management Response Here]

Cash and Cash Items

| | | | | | |
|---|------|--|--------------------------|--------------------------|--------------------------|
|  _____ | 4.17 | Are all personnel who have cash approval and disbursement authority required to take annual vacations according to association policy? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.18 | 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? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.19 | Are general ledger entries related to cash items reviewed by supervisory personnel who do not also prepare the general ledger entries related to cash items? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.20 | Are cash items recommended for charge off reviewed and | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

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approved by an officer with no operational responsibilities?

 _____ 4.21 Does the association review teller and accounting system override reports and file maintenance summaries for unusual activity on a regular basis?

 Indicate the frequency, for example, daily, weekly, etc.

 _____ 4.22 Are loan accounting systems included in the override reports?

 _____ 4.23 Are personnel who have control over cash barred from performing overrides?

 _____ 4.24 Do only designated personnel who have no control over cash approve and review overrides?

 _____ 4.25 Does the association, at both home and branch offices, perform daily cash reconciliations?

 _____ 4.26 Does a person without teller responsibilities perform the daily cash counts?

 _____ 4.27 Are overages and shortages properly recorded in a cash over and short account?

 _____ 4.28 Does the association maintain records showing the person involved in the cash over or short situation?

 _____ 4.29 Does the association investigate and act upon all cash over and short amounts?

 _____ 4.30 Does the association have appropriate controls over unissued deposit certificates, travelers' checks, savings bonds, food stamps, and other consigned items?

 _____ 4.31 Does the association periodically reconcile consigned items?

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|-------|----------------------|--|--------------------------|--------------------------|--------------------------|
| _____ | | 4.32 Is daily access to the automated teller machine (ATM) made under dual control? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.33 When maintenance is being performed on a machine, with or without cash in it, is a representative of the institution required to be in attendance? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.34 Are combinations and keys to the machines controlled?  What are the controls? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.35 Are personal identification numbers (PINs) mailed separately from cards? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.36 Are association personnel who have custody of cards prohibited from also having custody of PINs at any stage (issuance, verification, or reissuance)? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.37 Are captured cards under dual control of persons not associated with association operation card issuance or PIN issuance? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.38 Are blank plastics and magnetic stripe readers under dual control? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

[Type Management Response Here]

Association (Official) Checks

| | | | | | |
|---|-------|--|--------------------------|--------------------------|--------------------------|
|  | _____ | 4.39 For checks signed by hand: Are two signatures (signer and approver) required on association (official) checks? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|  | _____ | 4.40 Are unsigned blank checks in the possession of an officer or employee who does not have singular signature authority? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

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|---|-------------------------|--|--------------------------|--------------------------|--------------------------|
|  | _____ | 4.41 Is the inventory of unsigned blank checks available verified daily and compared to the work of other positions that issue checks during the day? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|  | _____ | 4.42 Is there an approval process for checks in excess of a certain dollar amount?  If so, what is the amount? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | _____ | 4.43 Is the association's copy of the check voucher initialed by the person preparing the check? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | _____ | 4.44 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? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | _____ | 4.45 Is the supply of unused checks periodically reconciled to the shipping invoice by persons without signature authority?  How often? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|  | _____ | 4.46 Does a person independent of the check writing function review the paid (canceled) checks for proper signatures and reconcile the checks to vouchers?  How often? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|  | _____ | 4.47 Does the association periodically reconcile outstanding checks to vouchers and liability accounts? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|  | _____ | 4.48 Does the association periodically transfer all outstanding six-month old association checks to a liability account? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|  | _____ | 4.49 Does the association keep the facsimile check writing machine under proper control? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

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|--|-------------------------|--|------------|-----------|-----------|

_____ 4.50 For checks laser printed from a computer system: Does the association have appropriate preventive controls in place, such as auto encryption and dual login?

[Type Management Response Here]

Due From Banks

_____ 4.51 The association receives bank statements:
 Daily Monthly Quarterly

_____ 4.52 Does the association reconcile bank accounts on a regular and timely basis?
 How often?

_____ 4.53 Are there any unreconciled bank accounts?
 If so, which accounts?

_____ 4.54 Are there are any out of balance accounts?
 If so, which accounts?

_____ 4.55 Is the person who reconciles the bank statements independent of the deposit and check writing process?

_____ 4.56 Do checks drawn on bank accounts need more than one signature?

_____ If so, is this required only for checks above a pre-determined amount?

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-  _____ 4.57 Does a person who does not have signature authority periodically reconcile unsigned checks to the shipping invoice?
-  How often?

[Type Management Response Here]

Investments and Securities

-  _____ 4.58 Are supporting documents, such as brokers' confirmations and account statements for recorded purchases and sales, checked or reviewed subsequently by persons who do not also have sole custody of securities or authorization to execute trades?
-  _____ 4.59 Is the preparation and posting of security and open contractual commitments, purchase, sale, and redemption records performed or reviewed by persons who do not also have sole custody of securities or authorization to execute trades?
-  _____ 4.60 Does the association maintain an investment security ledger or worksheet that details all securities held and all security transactions?
-  _____ 4.61 Are the security ledger totals for principal and accrued interest balanced to the general ledger at least monthly by a person who does not have sole custody of securities?
-  _____ 4.62 Does the association have procedures to ensure that they collect all income due on the investment security portfolio promptly?
- _____ 4.63 Does the association have procedures that will indicate any relationship between brokers who purchase securities for the association and association officers, directors, or employees?

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|---|-------------------------|---|--------------------------|--------------------------|--------------------------|
| _____ | | 4.64 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: | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.65 Does the association prohibit broker/dealers from having discretionary trading authority? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.66 Does the association place all orders only with broker/dealers not affiliated with investment advisors retained by the association? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.67 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? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.68 Does the association hold securities in safekeeping under delivery versus payment procedures? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.69 Does the association prohibit "free" deliveries in written contracts with depositories and safekeeping agents unless approved by two senior officers? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.70 Does the association hold securities on the premises under dual control? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|  _____ | | 4.71 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: | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

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 How often:

 Date of last test:

 Period analyzed:

- _____ 4.72 Does staff follow established procedures to periodically review and document for appropriateness "other than temporary impairment" (OTTI) and "permanent impairment" in investment securities?
-  Does management have established procedures and documentation standards in accordance with FASB Staff Position No. 115-2 showing how they determined the amounts of credit risk OTTI and non-credit risk OTTI and that they properly reported these amounts?

[Type Management Response Here]

General Lending

- _____ 4.73 Does the association have and adhere to a written schedule of fees and rates charged on new loans?
- _____ 4.74 Does the association maintain a loans to one borrower (LTOB) schedule?
- _____ 4.75 Is there a procedure of internal review to ensure the accuracy of the LTOB schedule?

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|-------|-------------------------|--|--------------------------|--------------------------|--------------------------|
| _____ | | 4.76 Are there procedures, and does staff follow the procedures, to periodically review and document the appropriateness of the ALLL? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.77 Are the persons that periodically review and document the adequacy of the ALLL independent of the loan approval function? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.78 Are lending officers prohibited from authorizing loan disbursements? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.79 Do persons independent of the loan officer obtain or verify credit information? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.80 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? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.81 Is there a record system that lists the total of outstanding credits and commitments (direct and indirect) for each borrower? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.82 Are appraisals in writing, dated, and signed? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.83 Do appraisals meet the minimum standards of OTS' regulation and USPAP, including the appraisal's purpose, market value, effective date, and marketing period and the sales history of the subject property? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.84 Are appraisals received before the association makes its final credit decision? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

[Type Management Response Here]

Construction Lending

_____ 4.85 Are inspectors rotated at least every third inspection and for

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|--|-------------------------|--|------------|-----------|-----------|

final draws?

- | | | | | | |
|-------|------|--|--------------------------|--------------------------|--------------------------|
| _____ | 4.86 | If the association does not rotate inspectors, does the inspector's supervisor perform review inspections? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.87 | Is there segregation of duties between inspection and disbursement functions? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.88 | Does the association prohibit disbursing loans in cash or to third parties? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.89 | Does the association support construction advances by written evidence or re-inspection of property? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.90 | Does the association compare paid bills and lien waivers with items listed for disbursement? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.91 | Does the association have safeguards to ensure that sufficient funds always remain available to complete construction? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

[Type Management Response Here]

Loan Servicing and Recordkeeping Functions

- | | | | | | |
|-------|------|---|--------------------------|--------------------------|--------------------------|
| _____ | 4.92 | Are all notes and other loan documents kept in a vault or fire-resistant cabinet and under a sign-out control system? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.93 | If the association holds additional collateral, do they safeguard it? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.94 | Does the association maintain a record of such collateral? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.95 | Does the association obtain written acknowledgment from the borrower for the pledging of savings accounts or the assignment of life insurance policies? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.96 | Does the association adequately control advance loan payments if they do not immediately credit the advance to the | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

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loan account?

- | | | | | | |
|-------|-------|---|--------------------------|--------------------------|--------------------------|
| _____ | 4.97 | Does the association test periodic adjustments to adjustable-rate mortgage loans for compliance with the terms of the note? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.98 | Does the association have written collection policies and procedures that the board of directors approves? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.99 | Do collectors document the contact with delinquent borrowers and indicate promised action? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.100 | Are there procedures that ensure the maintenance of necessary hazard, flood, and other insurance coverages throughout the life of the loan? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

[Type Management Response Here]

Accrued Interest Receivable

- | | | | | | |
|---|-------|---|--------------------------|--------------------------|--------------------------|
| _____ | 4.101 | Does the association perform tests to determine that it is receiving the appropriate interest? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.102 | 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? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|  _____ | 4.103 | 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? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

[Type Management Response Here]

Advance Payments by Borrowers for Taxes and Insurance

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| _____ | | 4.104 Is each escrow (impound) account analyzed at least once a year to ensure that the payments will cover the disbursement(s)? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.105 If this analysis results in a revision of monthly payments, is the revision made promptly and the borrower notified? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.106 Does the association inform borrowers at least annually of the balance in their account and the most recent year's transactions in that account? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.107 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? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

[Type Management Response Here]

Loans in Process

| | | | | |
|-------|--|--------------------------|--------------------------|--------------------------|
| _____ | 4.108 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? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.109 Do personnel not responsible for the loans in process accounts conduct periodic tests to determine propriety of disbursements? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

[Type Management Response Here]

Commercial Lending

| | | | | |
|-------|--|--------------------------|--------------------------|--------------------------|
| _____ | 4.110 Does the association update borrower's and guarantor's financial statements at least annually? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.111 Do qualified individuals evaluate the collateral? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.112 Does the association inspect collateral periodically to ensure | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

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maintenance of sufficient value?

- _____ 4.113 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?
- _____ 4.114 If the association releases collateral upon payment of the loan, do they release the collateral only upon receipt of collected funds?

[Type Management Response Here]

Letters of Credit

- _____ 4.115 Does the association have any outstanding unexpired letters of credit?
 ➤ If so, please list names and amounts:
- _____ 4.116 Does the association maintain a daily transaction journal that summarizes all outstanding letters of credit?
- _____ 4.117 Is there a person responsible for the preparation and posting of subsidiary records and accounting for fee income?
- _____ 4.118 Does the association track commitments made on letters of credit that they have not issued?
- _____ 4.119 Has the association issued any letters of credit on behalf of directors, officers, employees, and their interests?
 ➤ If so, please list names and amounts:
- _____ 4.120 Has the association issued or confirmed letters of credit to officers or directors of other financial institutions?

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➤ If so, please list names, amounts, and financial institutions:

_____ 4.121 Does the association's internal loan review process review letters of credit for adequacy of underwriting, documentation, and credit quality?

_____ 4.122 Are letters of credit of questionable quality listed on the association's problem asset list?

_____ 4.123 Does the association have procedures in place to ensure that they do not pay a draft without receiving payment from a customer?

_____ 4.124 Has the association extended any loans because of letters of credit?

➤ If so, list all loans extended because of letters of credit:

_____ 4.125 Are there any outstanding lawsuits related to letters of credit?

➤ If so, list all lawsuits related to letters of credit:

[Type Management Response Here]

Other Loans (unsecured, mobile homes, etc.)

_____ 4.126 Are the association's procedures adequate to ensure compliance with the requirements of any government agency insuring or guaranteeing the loan?

_____ 4.127 Does the association maintain an adequate loan register?

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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.

- | | | | | | |
|-------|-------|---|--------------------------|--------------------------|--------------------------|
| _____ | 4.128 | Do personnel who do not handle cash process loan applications and initial the notes? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.129 | Do employees not connected with the granting or acquisition of loans collect and process receipts, and prepare delinquency lists? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.130 | Are liens and other documents, including titles, promptly recorded? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.131 | Are there procedures that provide for board of directors approval of charge-offs and subsequent recoveries? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.132 | 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? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.133 | Does the association reference the FHA publication that lists companies and individuals who have not properly performed under FHA programs? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.134 | Floor planning loans: | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | | Does the association make unannounced inventory inspections on a rotating basis at least every 30 days? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | | 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? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | | Does the association maintain records of floor plan inspections? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | | Does the association actually inspect demos at a sub- | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

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| | Verified by Examiner | | <u>Yes</u> | <u>No</u> | <u>NA</u> |
|--|----------------------|--|------------|-----------|-----------|

sequent date, if necessary?

-  Does the association rotate inspectors or have a supervisor or auditor accompany them?
 Yes No NA
-  Does the association inspect and appraise trade-ins for wholesale value?
 Yes No NA
-  Does the dealer submit financial and operating statements monthly?
 Yes No NA
-  Does the association retain title or lien control?
 Yes No NA
-  Do floor plan agreements provide for periodic reductions (curtailments) in outstanding unit loan balances?
 Yes No NA

_____ 4.135 For dealer financing, does the dealer application include the following:

-  Business address and location of all sales and storage lots?
 Yes No NA
-  Names of all manufacturers represented and general description of units stocked?
 Yes No NA
-  A statement as to whether each manufacturer subscribes to the Truth in Invoicing Practices Statement adopted by the Manufactured Housing Institute?
 Yes No NA
-  A statement as to the willingness of the dealer to sign recourse or repurchase agreements?
 Yes No NA
-  Name and percentage of ownership of all persons with interests in the dealership?
 Yes No NA

[Type Management Response Here]

Credit Quality Review

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| | Verified by Examiner | | <u>Yes</u> | <u>No</u> | <u>NA</u> |
|-------|-------------------------|--|--------------------------|--------------------------|--------------------------|
| _____ | | 4.136 Does the association have a credit quality review program? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.137 Does credit quality review include testing for compliance with regulation, association policy, officer lending limits, and association underwriting standards? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.138 Does credit quality review include classification or grading of assets? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.139 Are the findings of the persons responsible for credit quality review reported directly to the board of directors? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

[Type Management Response Here]

Deposit Account Loans

| | | | | | |
|---|--|--|--------------------------|--------------------------|--------------------------|
| _____ | | 4.140 Are sufficient controls in effect to prevent a loan approver from disbursing loan proceeds? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|  _____ | | 4.141 Does the association flag pledged deposit accounts to prevent collateral from withdrawal? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|  _____ | | 4.142 Does withdrawal of pledged funds require a supervisory override? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.143 Are procedures in effect to ensure that the total loan and accrued interest does not exceed the balance amount of the deposit account? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.144 Are procedures in effect for initial and periodic positive mail confirmations with deposit loan customers? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.145 Are periodic monitoring reports adequate for the review of savings deposit loan activity? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

[Type Management Response Here]

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| | Verified by Examiner | | <u>Yes</u> | <u>No</u> | <u>NA</u> |
|--|-------------------------|--|------------|-----------|-----------|

Real Estate Owned and Other Repossessed Assets

- | | | | | | |
|-------|-------|---|--------------------------|--------------------------|--------------------------|
| _____ | 4.146 | Does the association follow routine legal procedures that will result in a valid title to the property and evidence of such title? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.147 | Does the association promptly value (fair value less cost to sell) real estate that it acquires? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.148 | Does the association use a current valuation to establish the sales price of a property? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.149 | Does the association physically inspect properties at periodic intervals? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.150 | Do such inspections indicate the condition of the property and occupancy status? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.151 | Are there maintenance procedures in effect to ensure that properties will retain their market value? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.152 | Does the association maintain separate subsidiary records for each parcel showing items capitalized, expenses, rentals, etc.? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.153 | Does the association maintain records supporting the recognition of profits or losses resulting from the sale of real estate owned? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.154 | Does the association balance subsidiary ledgers for the individual properties to the general ledger at least monthly? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.155 | Does the association maintain separate files for each parcel of real estate owned and are such files complete? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.156 | Does the association maintain controls over the receipt of rental income? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.157 | Does the association's advertising for the sale or rental of real estate owned comply with the provisions contained in | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

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|--|-------------------------|--|------------|-----------|-----------|

the Department of Housing and Urban Development's advertising guidelines?

- | | | | | | |
|-------|-------|---|--------------------------|--------------------------|--------------------------|
| _____ | 4.158 | Are agents who collect rents and manage properties bonded? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.159 | Are security deposits properly controlled? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.160 | Does the association have procedures to ensure maintenance of hazard insurance? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

[Type Management Response Here]

Real Estate Held for Investment

- | | | | | | |
|-------|-------|---|--------------------------|--------------------------|--------------------------|
| _____ | 4.161 | Does the association maintain separate subsidiary records for each parcel showing items capitalized, expenses, rentals, etc.? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.162 | Does the association balance subsidiary ledgers for the individual properties to the general ledger at least monthly? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.163 | Does the association physically inspect properties at periodic intervals? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.164 | Do such inspections indicate the condition of the property and occupancy status? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.165 | Does the association maintain complete, separate files for each parcel of real estate owned? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.166 | Does the association maintain adequate control over rental income? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.167 | Are agents who collect rents and manage properties bonded? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.168 | Are security deposits properly controlled? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

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|-------|-------------------------|--|--------------------------|--------------------------|--------------------------|
| _____ | | 4.169 Does the association maintain adequate controls over all disbursements? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.170 Does a senior officer compare disbursements to determine whether they are for budgeted purposes and in line with the overall budget? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | — If not, is the board of directors notified promptly of budget overruns? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

[Type Management Response Here]

Fixed and Other Assets

| | | | | | |
|---|-------|--|--------------------------|--------------------------|--------------------------|
| _____ | | 4.171 Does the association retain invoices in support of all additions to fixed asset accounts? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.172 Does the association ensure that the accounting department knows about any major retirement of fixed assets? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|  | _____ | 4.173 Does the association keep a detailed record of fixed assets? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|  | _____ | 4.174 Does the association retain depreciation schedules supporting each asset or class of assets? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.175 Does the association charge depreciation and amortization expenses at least quarterly? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.176 Does the association retain evidence of valid titles for all properties owned? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.177 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? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.178 Are there recordkeeping procedures to ensure that the association maintains adequate supporting documentation for other assets acquired? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

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|-------|-------------------------|--|--------------------------|--------------------------|--------------------------|
| _____ | | 4.179 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? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.180 Does the association have effective control procedures for all large disbursements to ensure their propriety? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.181 Does the association maintain subsidiary records for the various other asset accounts? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 4.182 Does the association follow its written documentation of its depreciation and capitalization policies? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

[Type Management Response Here]

Demand Accounts

| | | | | | |
|---|-------|--|--------------------------|--------------------------|--------------------------|
|  | _____ | 4.183 Does the association generate a demand deposit overdraft report? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|  | _____ | 4.184 Does the demand deposit overdraft report identify the name, position, and approval limits of the person(s) responsible for approving the overdrafts? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|  | _____ | 4.185 Does the demand deposit overdraft report identify large borrowers and insiders? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | _____ | 4.186 Does an independent officer review all overdraft activity? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | _____ | 4.187 Does the association reject checks when the collected balance of the customer's demand deposit account is not sufficient to cover the item? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|  | _____ | 4.188 Are controls in effect to prevent withdrawals of uncollected funds? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | _____ | 4.189 Does the association promptly record on the books returned items previously deposited? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

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|--|-------------------------|---|--------------------------|--------------------------|--------------------------|
|  | _____ | 4.190 Are procedures adequate to ensure that the association monitors and clears uncollected items? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | _____ | 4.191 Does the association generate a check-kiting report? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|  | _____ | 4.192 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? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|  | _____ | 4.193 Does the check-kiting report identify insiders and major borrowers? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|  | _____ | 4.194 Is the person responsible for reviewing check-kiting reports independent of the preparation of the reports? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

[Type Management Response Here]

Deposits and Borrowed Funds

| | | | | | |
|---|-------|--|--------------------------|--------------------------|--------------------------|
| | _____ | 4.195 Is there any limitation on the amount of withdrawal that employees may pay without officer approval? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | |  If so, what is the amount? | | | |
|  | _____ | 4.196 Does the association have a written "know-your-customer" policy? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | |  Do new-account applications require sufficient information to clearly identify the customer? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | |  Are "starter" checks issued only after the verification of data on new transaction-account applications? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | |  Are checkbooks and statements mailed only to the address of record? If not, is a satisfactory explanation and description obtained for any other mailing address (post of- | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

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|--|-------------------------|--|------------|-----------|-----------|
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_____ fice boxes, a friend or relative, etc.)?

 _____ Are the employees responsible for opening new accounts trained to screen depositors for signs of check kiting?

_____ 4.197 Are procedures in effect to ensure the timely and accurate completion of the appropriate signature cards upon the opening of deposit accounts?

_____ 4.198 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?

 _____ 4.199 Does the association balance the deposit accounts before and after posting of interest to ascertain correctness of total amount posted?

_____ 4.200 Does the association maintain general ledger subsidiary accounts for each class of accounts?

 _____ 4.201 Is an analysis made periodically to determine the adequacy of accrued interest earned and unpaid?

 _____ 4.202 Does the person who performs the analysis have an account at the association?

 _____  If so, does a person independent of the analysis review the account of the person who performs the analysis?

_____ 4.203 Does the association investigate and adjust differences between the accrual balance and the interest paid?

_____ 4.204 Does the association reasonably estimate accruals for reporting purposes?

_____ 4.205 Are policies in effect to maintain compliance with state escheat laws?

 _____ 4.206 Does the association flag dormant accounts so they can

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monitor activity?

| | | | | | |
|---|-------|--|--------------------------|--------------------------|--------------------------|
| _____ | 4.207 | Does the association waive significant amounts of account fees? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|  | 4.208 | Does the association maintain subsidiary records for each type of borrowing, including proper identification of the obligee? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.209 | Is the preparation, addition and posting of the subsidiary borrowed funds records performed or adequately reviewed by persons who do not also: | | | |
| | |  Handle cash? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | |  Issue official checks and drafts? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | |  Prepare all supporting documents required for payment of debt? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

[Type Management Response Here]

Deferred Income

| | | | | | |
|---|-------|--|--------------------------|--------------------------|--------------------------|
| _____ | 4.210 | Does the association defer net loan fees/ costs in accordance with generally accepted accounting principals (GAAP) and not recognize fees/ costs as current-period income/ expense? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|  | 4.211 | Does the association maintain records supporting loan acquisition credits deferred and earned, by semiannual periods? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | 4.212 | Does the association recognize loan origination fees in accordance with FASB 91? FASB 91 requires that when the loan is held for investment, commitment fees and loan origination fees net of direct loan costs should be deferred and recognized as an adjustment to interest income over the life of the loan using the interest method. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

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[Type Management Response Here]

Other Liabilities

- 🚩 _____ 4.213 Does the association maintain a detailed inventory or subsidiary records for the various other liability accounts?
- 🚩 _____ 4.214 Does a designated officer make periodic reviews of the activity in other liability accounts?

[Type Management Response Here]

Capital (Common Stock, Additional Paid-in-Capital, Retained Earnings, Accumulated Other Comprehensive Income

- _____ 4.215 Does management review and the board of directors approve all transfers to and from the capital accounts?
- _____ 4.216 Does the association clearly explain and adequately document all transactions involving the capital accounts?
- _____ 4.217 Does the corporate officer designated in the bylaws or by the board of directors control stockholder records?
- _____ 4.218 Does the association promptly cancel surrendered stock certificates to prevent their reuse?
- _____ 4.219 Does an officer designated in the bylaws or by the board of directors sign stock certificates?

[Type Management Response Here]

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**FUNDS TRANSFER QUESTIONNAIRE
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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.

Please provide the requested information by [Click Here](#) and Type

| | Verified by Examiner | | Yes | No | NA |
|--|----------------------|--|-----|----|----|
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Funds Transfer and Wire Controls

_____ 1. Indicate the method that the association uses to wire funds:
 Elec- _____ Man- _____
 tronic: _____ ual: _____

_____ 23.2 Average dollar volume and number of transfers:

 Specify per day, week, month, or other:

_____ 23.3 Average daily amount available for transfer, if limited:

_____ 23.4 Peak amount available for transfer, if limited:

_____ 23.5 Does the association have written wire transfer procedures?

_____ 23.6 Who is responsible for supervising the wire transfer activity to ensure compliance with the written procedures?

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|---|----------------------|--|--------------------------|--------------------------|--------------------------|
| _____ | | 23.7 Is an internal or independent audit performed of the wire transfer procedures? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 23.8 Does the audit department test wire transfers to ensure timely verifications and reconciliations? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 23.9 Are dual authorizations (maker, approver) required before the sending department acts upon internal wire transfer requests? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 23.10 Do procedures require that the association actually transfer collected funds out of the customer account before the wire transfer department makes outgoing transfer orders? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 23.11 Does the association keep a complete log of wire transfer activity for audit? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | | Is the wire transfer activity log audited periodically? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 23.12 Are interim daily reconcilements and end-of-day reconcilements performed with all reconciling items cleared? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|  _____ | | 23.13 Does the association prohibit the person who performs end-of-day balancing from executing wire transfers? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 23.14 Is the person who reconciles the association's deposit account affected by wire transfer activity prohibited from executing wire transfers? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| _____ | | 23.15 Does the association keep a record of all customer wire transfers listing the date, amount of the transfer, person authorizing the transfer, test code or PIN, and detailed | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

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instructions?

_____ 23.16 If the association uses code words, do they change them periodically?

 ➡ How often?

_____ 23.17 Does the association strictly forbid the transfer of uncollected funds?

_____ 23.18 Does the association require dual officer approval for large-dollar transfers?

 ➡ Who is authorized and what are the limits?

_____ 23.19 Does the association require customer and/or bank verification callbacks for voice wire transfers above an established dollar threshold?

 ➡ _____ Who is responsible for verification?

_____ 23.20 Does a person independent of the transaction approval or processing balance wire transfers at least daily?

_____ 23.21 For associations that call in wire instructions to a correspondent institution that performs the wire transfer, after an authorized person originates the call, does the correspondent institution make a callback to a second authorized person to verify the authenticity of the wire instructions?

_____ 23.22 Does the association require that customer wire-transfer requests be in writing and signed by the customer wiring

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the funds?

- _____ 23.23 Does the association maintain adequate records as required by the Bank Secrecy Act?
- _____ 23.24 Does a person not involved in the wire transfer process perform a timely reconciliation of the wire transfer activity statements from a service provider with the internal wire transfer activity records?
- _____ 23.25 Do the reports, which the association obtains from its funds transfer vendor accurately reflect those individuals currently granted access to the vendor's systems and their functions?
- _____ 23.26 If any association employees or third-party vendors have remote access via dial-up line or virtual private network (VPN) to the funds transfer system, does the association have appropriate mitigating controls in place?

Branch Procedures (Customer-Requested Wire Transfers)

- _____ 23.27 Does a branch procedures manual contain a clear and concise description of branch wire transfer procedures?
- _____ 23.28 Are telephone requests from the branch office to the main office for two-party wire transfers accepted?
- _____  Briefly, describe the procedures the association uses to ensure that such requests are authentic.
- _____ 23.29 What documentation is required as a source document and proof of authorization for customer-requested wire transfers?

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_____ 23.30 Does the documentation indicate the date, time of day, wire-from- and wire-to-account instructions, and association personnel who processed the request?

Internally Generated Wire Transfers (Department Requests for Wire Transfers)

_____ 23.31 How does the association document departmental wire transfer requests?

_____ 23.32 Does the documentation contain all necessary from-account and to-account information?

_____ 23.33 Does the documentation for departmental requests indicate the initiator and approver who authorized the wire transfer?

_____ 23.34 Do separate persons originate, approve, and send internally generated wire transfers?

_____ 23.35 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?

_____ 23.36 Does the association have controls in place that require action by two people to complete a transfer, one to receive or initiate the request and another to confirm authenticity?

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Prepared By:
(Name of Management Official)

Verified By:
(Name of Examiner)