

<b>Deposit Operations Audit Program</b>			
<b>W/P REF.</b>		<b>DONE BY</b>	<b>DATE</b>
	<p><b>Section A: Confirmations</b></p> <p><b>Audit Objectives</b></p> <p>To determine that:</p> <ul style="list-style-type: none"> <li>Principal and interest accrual accounts accurately reflect the bank's liability.</li> <li>Customer deposit account balances are accurately recorded.</li> </ul> <p><b>Audit Procedures</b></p> <ol style="list-style-type: none"> <li>Balance the subsidiary system's month-end balance to the general ledger to ensure accuracy.</li> <li>Extract all open deposit accounts and stratify by demand deposit account (DDA), savings, and certificate of deposit (CD).</li> <li>Review the stratifications and determine the intended sample size for confirmation.</li> </ol> <ul style="list-style-type: none"> <li>A confirmation sample should include a random sample to achieve a 95 percent confidence level.</li> <li>To obtain the required number of responses as determined by sampling tables, divide the population by the historical response rate to determine the number of positive confirmations to be mailed.</li> <li>Transaction accounts are to be confirmed using the "balance at last statement."</li> <li>Export the names, addresses, and current balances into the letter template. Verify that all letters were produced before mailing.</li> <li>Maintain a list of all sent confirmations.</li> <li>Produce a summary spreadsheet indicating total population, total confirmations sent, total received as correct, exceptions noted, and response rate.</li> <li>Follow up with second requests on confirmations not received within two weeks.</li> </ul>		
	<p><b>Section B: Reconciliations</b></p> <p><b>Audit Objectives</b></p> <p>To determine that:</p> <ul style="list-style-type: none"> <li>Reconciliations are properly completed on a recurring basis for all balance sheet accounts and internal DDA accounts related to deposit operations and correspondent banks.</li> <li>Liabilities are recorded in the proper period.</li> </ul> <p><b>Audit Procedures</b></p> <ol style="list-style-type: none"> <li>Select account reconciliations for asset accounts over \$XX, all liability accounts, and all internal DDA accounts. Review and test the reconciliations as follows: <ul style="list-style-type: none"> <li>Determine that a proper reconciliation format was used and account reconciliation standards were adhered to.</li> <li>Foot reconcilements on a test basis.</li> <li>Trace totals to the general ledger and subsidiary ledgers as appropriate.</li> </ul> </li> </ol>		

	<ul style="list-style-type: none"> <li>• Verify that adequate supporting documentation exists and each reconciling item is listed with an initial entry date.</li> <li>• Verify that the reconciliation is signed and dated by the preparer and an authorized reviewer.</li> <li>• Determine that unreconciled accounts, unsubstantiated reconciling items, and items more than 90 days old were communicated to management.</li> </ul> <p>2. For the remaining accounts not tested, select all general ledger suspense and in-process accounts:</p> <ul style="list-style-type: none"> <li>• Determine that principal and interest accrual accounts accurately reflect the bank's liability.</li> <li>• Determine that customer deposit account balances are accurately recorded.</li> <li>• Test reconcilements in accordance with attributes described in No. 1 above.</li> <li>• Age all items that make up the account balance and determine the reason for any items more than __ days old.</li> </ul> <p><u>Suspense Account Definition:</u> A balance sheet account used to post transactions that have not cleared due to timing differences or to temporarily post items pending a decision of final treatment.</p> <p>3. Perform additional testing as follows:</p> <p><u>Due from Correspondent Banks:</u></p> <ul style="list-style-type: none"> <li>• Trace all reconciling items over \$XX to subsequent clearing.</li> <li>• Review supporting documentation for any outstanding items more than 90 days old.</li> </ul> <p><u>Official Checks Outstanding:</u></p> <ul style="list-style-type: none"> <li>• Investigate any "checks paid not issued."</li> <li>• Determine that outstanding checks more than five yrs old are escheated to the state timely.</li> </ul> <p>4. Review management's process used for writing off stale items more than five years old. Test large or unusual items.</p> <p>5. Obtain a copy of the most current Federal Deposit Insurance Corporation Improvement Act (FDICIA) document on file and determine whether the document contains the necessary financial accounting controls disclosed to comply with FDICIA requirements.</p> <p>6. Summarize the results of testing; conclude as to whether the audit objectives have been met; and render an opinion of the area.</p>		
	<p><b>Section C: Dormant Accounts</b></p> <p><b>Audit Objective</b></p> <p>To determine that an effective system is in place to monitor and control dormant customer accounts.</p> <p><b>Audit Procedures</b></p> <p>1. Document procedures for reclassifying accounts from an active to dormant status and monitoring activity against inactive and dormant accounts. Include the following:</p>		

	<ul style="list-style-type: none"> <li>• Segregation of duties, including maintenance of signature cards, approval and documentation for reactivation, input of status code changes, and review of control reports showing accounts reactivated.</li> <li>• Review of applicable documents (e.g., checks or other documents where the signature can be verified) to reactivate accounts.</li> <li>• System reports used to monitor reactivated accounts.</li> <li>• Access security to dormant signature cards and account listings.</li> </ul> <p>2. From management's dormant account monitoring reports, select a sample of ____ accounts with status changes from dormant to active and ensure adherence to existing policy and procedures. Determine that:</p> <ul style="list-style-type: none"> <li>• A completed maintenance form exists.</li> <li>• The customer's signature is documented.</li> <li>• The form is signed by an authorized preparer and approver.</li> <li>• The review and approval of the reactivation by deposit operations personnel is documented.</li> <li>• The account status is active.</li> <li>• The reactivated transaction posted to the correct account.</li> </ul> <p>3. Validate that inactive status changes automatically on the 180<sup>th</sup> day of inactivity and dormant status changes automatically on the 730<sup>th</sup> day.</p> <p>4. Summarize results of testing; conclude as to whether the audit objectives have been met; and render an opinion of the area.</p>		
	<p><b>Section D: New Accounts/File Maintenance (DDA, SV, COD)</b></p> <p><b>Audit Objectives</b></p> <ul style="list-style-type: none"> <li>• Evaluate the adequacy of controls regarding initial setup and changes to account records.</li> <li>• Evaluate the account purging procedures and determine effectiveness and adequacy.</li> </ul> <p><b>Audit Procedures</b></p> <p><u>New Accounts</u></p> <p>1. Review account opening procedures, including customer identification procedures (CIP), and select a representative sample of __ accounts without a prior bank relationship opened since the last audit. Determine that account documentation includes the following:</p> <ul style="list-style-type: none"> <li>• Customer's name.</li> <li>• Date of birth, if the customer is an individual.</li> <li>• Residence and mailing address. If the customer is a corporation or partnership, review for principal place of business and mailing address.</li> <li>• For U.S. employees, a taxpayer identification number, such as social security number, individual taxpayer identification number, or employer identification number.</li> <li>• For non-U.S. persons, review one or more of the following: U.S. taxpayer identification number; passport number and country of issuance; alien identification card number; or number and country of issuance of any other</li> </ul>		

government-issued document evidencing nationality or residence bearing a photograph or similar safeguard.

- Verification of the authenticity of identifying information. Individual: Unexpired, government-issued photo I.D. or document specified in the procedures. Corporation: articles of incorporation, government-issued business license, or partnership agreement.
- Verification that the customer names were checked against the Office of Foreign Asset Control (OFAC) list.

NOTE: Identification requirements must be met:

- All joint account holders, including absent account holders.
- Existing customers who open a new account.
- Someone becoming a signatory on another account.

#### File Maintenance

**NOTE:** File maintenance changes typically represent nondollar changes to the master files (e.g., rates, date, addresses). Edits represent a comparison of output documents or reports to authorized input documents.

1. Document the process of performing subsequent account maintenance for checking (CK), savings (SAV), and certificate of deposit (CD) applications. Include the individuals responsible for keying maintenance and for performing an independent, documented edit function within the deposit operations area. Determine the branches role in performing maintenance.
2. From the CK, SV, and CD applications, obtain the file maintenance reports for a sample of days within the audit period and test as follows:
  - Ensure the report contains evidence of a documented review, such as initials and date of reviewer.
  - Select a sample of maintenance performed and trace to approved supporting documentation, focusing on critical maintenance changes, such as rates and account restrictions.

#### Account Purge Procedures

1. Determine and document the process for closing and purging zero balance accounts from the system. Include the time period after which a zero balance account is automatically purged from the system.
  - Obtain the system report that identifies closed accounts and determine whether accounts are purged in accordance with established procedures.
  - Obtain the system report that identifies zero balance accounts and determine whether accounts were closed and purged according to policy.

#### On-Line Entries

1. Review and document the process for making online entries. Include the following information:
  - Systems in which online entries can be made.
  - Employees with online access capability.
  - Procedures for keying entries.

	<ul style="list-style-type: none"> <li>• How control is achieved to ensure authenticity (e.g., edit function, identification of keyer.)</li> </ul> <ol style="list-style-type: none"> <li>2. Review and document procedures for making changes to the CK, SV, and CD product specs. Include the following information: <ul style="list-style-type: none"> <li>• The individuals with authority to request changes and key changes.</li> <li>• The existence of a documented edit function to ensure all changes, including rate changes, are appropriate.</li> <li>• The person responsible for ensuring the system parameters for the calculation and payment of interest corresponds to account disclosures.</li> </ul> </li> <li>3. Document procedures for following up on matured time deposits. Include deposit operations responsibilities, such as contracting the customer, sending notices to the customer, and monitoring responsibilities, such as periodic documented review of the mature deposits report.</li> <li>4. Summarize results of testing; conclude as to whether the audit objectives have been met; and render an opinion of the area.</li> </ol>		
	<p><b>Section E: Rejected and Unposted (NonPost) Items</b></p> <p><b>Audit Objective</b></p> <p>To determine that unposted rejected items are reviewed and cleared on a timely basis.</p> <p><b>Audit Procedures</b></p> <ol style="list-style-type: none"> <li>1. Review written procedures for nonposted transactions.</li> <li>2. Obtain the applicable system nonpost report as of the audit date for all applications (CK, SV, CD).</li> <li>3. Determine if follow-up procedures are performed on all items greater than 30 days outstanding.</li> <li>4. As of the audit date, select a sample of ___ items that were corrected. Review documentation for corrective action taken and determine that the change was accurate.</li> <li>5. Determine that the unposted transaction journal is reviewed, signed, and dated by a supervisor in accordance with established parameters.</li> <li>6. Summarize results of testing; conclude as to whether the audit objectives have been met; and render an opinion of the area.</li> </ol>		
	<p><b>Section F: Individual Retirement Accounts (IRAs)</b></p> <p><b>Audit Objectives</b></p> <p>To determine that:</p> <ul style="list-style-type: none"> <li>• The required IRA customer plan agreement disclosures are provided to the customer at time of account opening.</li> <li>• The bank is providing the required year-end disclosures to the IRS and the customer.</li> <li>• The bank has adequate procedures for processing distribution payments.</li> </ul> <p><b>Audit Procedures</b></p>		

	<p>1. Review controls to ensure new accounts are properly established including:</p> <ul style="list-style-type: none"> <li>• Appropriate disclosures are provided at time of account opening. Include examples of the disclosures provided to the customer and the forms completed at time of account opening.</li> <li>• IRA accounts are not commingled.</li> <li>• Accounts are not opened for persons reaching age 70-1/2 during the year of account opening.</li> </ul> <p>2. Obtain a listing of new accounts opened within the past month, select a sample, and test for the following:</p> <ul style="list-style-type: none"> <li>• Determine that an effective system has been established to aid in monitoring and controlling customer dormant accounts.</li> <li>• Evidence that appropriate disclosures were provided and forms were properly completed. A signed copy of the agreement should be retained in the file.</li> <li>• Ensure the taxpayer identification number (TIN) was obtained.</li> <li>• Ensure date of birth (DOB) was obtained and the customer would not have turned 70-1/2 or older during the year of account opening (rollover accounts can be opened for persons 70-1/2 or older).</li> <li>• For all rollover accounts — IRA funds are paid directly to the participant and redeposited into an IRA within 60 calendar days of receipt of the funds — ensure the appropriate documentation is received, such as the copy of rollover form or transaction ticket.</li> <li>• For transfer requests — funds moved from one financial institution to another without the participant having direct control or custody of the funds — ensure the appropriate documentation is received.</li> </ul> <p><u>Distributions</u></p> <p>1. Review and document controls to ensure distributions are made accurately, including:</p> <ul style="list-style-type: none"> <li>• IRA election of payment forms are properly completed if the participant wishes to receive regular distributions from their IRA.</li> <li>• Customer has completed an IRA withdrawal statement and Form W-4P — used when a participant makes a withdrawal from their IRA — to indicate the tax they want withheld.</li> <li>• The bank is using the appropriate wage withholding tables for the type of withdrawal made.</li> <li>• Tax liability is deducted from the distribution amount and placed into an income tax payable account for remittance to the IRS.</li> <li>• Tax liability is remitted according to IRS guidelines.</li> </ul> <p>2. Select a sample of distributions and review as follows:</p> <ul style="list-style-type: none"> <li>• Ensure the appropriate payment election form and form W-4P are on file.</li> <li>• Recalculate the distribution amount to ensure the amount of tax withheld, distribution amount, and distribution method agrees to the distribution request form.</li> <li>• Ensure the total income tax withheld for all distributions was transferred to an accounts payable account and subsequently remitted to the IRS within the required timeframes.</li> </ul>		
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	<p><u>Regulatory Reporting</u></p> <ol style="list-style-type: none"> <li>1. If regulatory reporting is processed by deposit operations, review and document procedures to ensure the required reports are provided to the customer and the IRS, including a review of the process of preparing, sending, and tracking the annual reports.</li> <li>2. Review and determine adequacy of procedures to ensure annual customer reports, IRS form 5498s and Form 1099-Rs are mailed. Obtain applicable reports and determine if any 5498s and 1099rs have not been mailed to customers.</li> </ol> <p><u>IRA System Maintenance</u></p> <ol style="list-style-type: none"> <li>1. Obtain the system IRA maintenance reports. Review to determine if exceptions appear on subsequent days until corrected. Ensure these reports are reviewed and items cleared on daily.</li> <li>2. Summarize results of testing; conclude as to whether the audit objectives have been met; and render an opinion of the area.</li> </ol>		
	<p><b>Section G: Unissued Checks</b></p> <p><b>Audit Objective</b></p> <p>To determine that assets and records are adequately protected from theft, misuse, destruction, and misappropriation.</p> <p><b>Audit Procedures</b></p> <ol style="list-style-type: none"> <li>1. Examine unissued checks and verify that checks are: <ul style="list-style-type: none"> <li>• Maintained in sequential order.</li> <li>• Not presigned</li> <li>• Safeguarded adequately.</li> </ul> </li> <li>2. Review written procedures and controls governing official checks.</li> <li>3. Determine that official checks are signed only by authorized signers.</li> <li>4. Obtain the latest official check reconciliation verifying the current inventory of official checks and determine that the inventory of checks is reconciled quarterly.</li> <li>5. Summarize results of testing; conclude as to whether the audit objectives have been met; and render an opinion of the area.</li> </ol>		
	<p><b>Section H: System Access</b></p> <p><b>Audit Objective</b></p> <p>To determine if system access procedures are adhered to.</p> <p><b>Audit Procedures</b></p> <ol style="list-style-type: none"> <li>1. Determine if system access levels within the department have been reviewed annually in accordance with security procedures.</li> <li>2. Select a sample of employees within the department and determine if access</li> </ol>		

	<p>levels granted appear reasonable.</p> <p>3. Summarize results of testing; conclude as to whether the audit objectives have been met; and render an opinion of the area.</p>		
	<p><b>Section I: Interest Accruals</b></p> <p><b>Audit Objective</b></p> <p>To ensure accrued interest is computed and recorded properly, and interest is paid or credited to depositors in accordance with the terms of agreements.</p> <p><b>Audit Program</b></p> <ol style="list-style-type: none"> <li>1. Document the process management uses to ensure interest accruals are accurate. Determine if management periodically performs recalculations to ensure the operating system is functioning as intended.</li> <li>2. Foot accrued interest payable for all deposit account types as of the audit date and compare to the system report.</li> <li>3. Select a representative sample of 25 interest transactions for detail testing. Obtain the deposit account agreements and approved deposit rate sheets to: <ul style="list-style-type: none"> <li>• Recalculate the interest accrued for an entire interest cycle. NOTE: Many account types accrue interest daily, therefore the balance used in the accrual calculation may change frequently.</li> <li>• Ensure the interest rate is in accordance to the bank's approved rate sheets.</li> <li>• Verify the accrual is in accordance to the deposit account agreement disclosures.</li> <li>• Verify the interest was posted properly and accurately to the customer's account.</li> </ul> </li> <li>3. Reconcile YTD interest paid, based on the deposit system reports, to the general ledger. Investigate variances greater than 1 percent.</li> <li>4. Summarize results of testing and conclude as to whether the audit objectives have been met.</li> </ol>		
	<p><b>Section J: Escheat</b></p> <p><b>Audit Objective</b></p> <p>To determine that the bank's escheat process is in compliance with state law.</p> <p><b>Audit Procedures</b></p> <ol style="list-style-type: none"> <li>1. Review current state regulations regarding the escheatment of unclaimed funds and chattel (e.g., safe deposit box contents).</li> <li>2. Review the bank's process for ensuring compliance with the law, including required methods of attempting contact with customers. Determine that all potential sources of escheatable items within the bank are identified and appropriate managers are contacted on an annual basis.</li> <li>3. Determine that the bank is using appropriate events to update the "date of last contact" with the customer.</li> <li>4. Perform a cursory review of the last state report and review evidence of transmittal.</li> </ol>		



**Section K: Savings Transaction Limits**

**Audit Objective**

To determine that transaction limits are monitored for savings and money market accounts.

**Audit Procedures**

1. Review and document procedures for monitoring transaction limits for savings and money market accounts.
2. Review parameters for reports used to monitor transaction limits to ensure all savings and money market account types are monitored.
3. Test reports to ensure appropriate customer contact or account closing/transfer has been taken for customers exceeding the transaction limits.
4. Summarize findings and determine if the audit objectives were met.