

Management Assessment Program

EXAMINATION OBJECTIVES

To determine whether management policies, procedures, and strategic plans adequately address safety and soundness, profitability, and compliance with laws and regulations.

To determine whether association officers are operating in conformance with established guidelines, objectives, policies, and procedures.

To determine whether management maintains a comprehensive and effective compliance management program.

To ascertain whether management personnel periodically re-evaluate procedures and practices and implement appropriate modifications, either directly or through recommendations to the board of directors.

To determine whether management plans adequately for future conditions and developments.

To determine whether the association has established policies to ensure an adequate management staff, and has adequate plans for management continuity.

To determine the adequacy of the staff size and expertise for safe operations.

To determine if management adequately controls and supervises the outsourcing of functions and the use of consultants.

EXAMINATION PROCEDURES

LEVEL I

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1. Review previous examination reports, internal and external audit reports, management letters, supervisory correspondence, and any approval conditions. Perform any necessary follow-up procedures to ensure the association took effective corrective action.

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2. Review the following records:
 - Organization chart. Identify key decision-making personnel (include copy in the continuing examination file).
 - Resumes and new employment contracts and executive incentive plans for executive officers and department or division heads. The review should also cover any changes since the last examination.
 - Conflict of interest policy. Determine if the policy ensures regulatory compliance and whether management distributes the policy to directors, officers, and employees.
 - Management's responses to the PERK Management Questionnaire.
 - Details regarding outsourcing arrangements and the use of consultants.

3. Determine the extent and effectiveness of management's efforts toward maintaining a comprehensive and reliable internal compliance management program that satisfactorily addresses OTS's SMAART components.

4. Determine whether there are any changes in the association's management or directorate and, if applicable, whether the association is in compliance with the notification requirements of 12 CFR §§ 563.550 through 563.590. Notify the regional director if the association is not in compliance.

5. Analyze the following types of periodic reports submitted to executive management to determine their usefulness in monitoring the condition and operation of the association:
 - Financial condition reports.
 - Business and strategic plans, budgets, and comparison of performance with budget reports.

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- Internal audit and loan review reports.
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6. Through the review of gathered information, including observations and discussions with management and other personnel, determine the adequacy of the following operational concerns:

- The association's established policies, procedures, and strategic plans that address safety and soundness (including internal controls), profitability, and compliance with laws and regulations.
 - Management's expertise and ability to carry out duties and responsibilities, including corrective actions, in a manner that provides for an acceptable level of safety and soundness, profitability, and compliance with laws and regulations.
 - Management reports and information systems. The reports and systems must provide management and the directors with accurate decision-making information and the ability to monitor compliance with established guidelines.
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7. In conjunction with the examiners assigned to the Earnings and Liquidity areas, determine if the association's strategic planning is adequate. Consider the following questions:

- Does the board of directors provide adequate direction?
 - Is the strategic plan realistic based on the association's strengths and weaknesses, and operating environment?
 - Are the assumptions of the plan realistic?
 - Are there sufficient performance measures designed to monitor progress toward specified objectives? Review progress against plan goals.
 - Does the strategic plan include a clear mission statement?
 - Does management effectively communicate the plan throughout the organization?
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8. Review the fidelity bond and directors' and officers' insurance policies and determine if coverage is adequate.
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9. Determine whether management is committed to comply with conditions of approval, orders, supervisory agreements, and directives, if applicable to the association or holding company.
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10. Review Level II procedures and perform those necessary to test, support, and present conclusions derived from performance of Level I procedures.
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LEVEL II

1. Complete [General Questionnaire 330, Management Assessment](#).
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2. Review and evaluate management compensation to assure that it is adequate and not excessive.
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3. Determine whether the association has established any executive incentive plans. If so, determine if such plans could lead to the deterioration of the association's condition or allow beneficiaries of the plan to understate noncash expenses or overstate noncash income. Incentive plans include commissions, referral fees, finder fees, bonus plans, deferred compensation packages, stock option plans, and extravagant fringe benefits.
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4. Review the association's activities with regard to developing personnel for senior management succession. At a minimum, this review should include the following considerations:
 - An assessment of the quality of middle and lower levels of management and the potential for advancement.
 - An assessment of the need for and access to developmental training.
 - An assessment of the association's employee screening policies to determine that they are appropriate to protect the safety and soundness of the association.

5. When appropriate, interview the personnel manager to determine answers to the following concerns:
 - What personnel policies are currently in effect, and is their application equitable and uniform to all deserving employees?
 - How does the association communicate policies to employees?
 - Are procedures in place to eliminate terminated employees access to assets and records?

6. Determine the structure of the association's communication system, both formal and informal, and the extent to which the association adequately informs personnel of strategic goals, policies, and procedures.

7. Review records and reports that summarize employee turnover, and interview management personnel and employees. Determine reasons for excessive turnover, if applicable.

8. Ask the managing officer or personnel officer if any employees or former employees have brought any discrimination complaints, lawsuits, workers compensation claims,

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unemployment claims, or wrongful discharge suits against the association during the review period. Compare the responses with the answer in the Management Questionnaire.

9. If appropriate, further evaluate management based on your above Level I and II findings and work performed throughout the examination. Consider the following factors:
- The workload of key personnel.
 - The adequacy of the compliance management program and self assessment process.
 - Succession of management and replacement of key personnel.
 - Technical proficiency of officers in their areas.
 - Serious or widespread lack of proper implementation of policies.
 - Deficiencies in the planning process, the strategic plan or its implementation.
 - Promptness with which management recognizes and addresses problems.
 - The extent to which management delegates and demands accountability.
 - Whether management pays more attention to the operations of a functional area rather than with the overall supervision of the association.
 - The degree to which the association is self-regulating, for example, the sufficiency of its systems, such as internal audit and loan review.
 - The appearance of any conflict of interest situations.
 - The overall effectiveness of management based on the association's performance.
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10. Ensure that your review meets the Examination Objectives of this Handbook section. State your findings and conclusions, as well as appropriate recommendations for any necessary corrective measures, on the appropriate work papers and report pages.
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LEVEL III

1. Review written personnel manuals, job descriptions, new employee orientation manuals, and training manuals for employees and supervisors. Determine if manuals and related information are reasonable and in compliance with the provisions of current law and regulations concerning discrimination. Determine whether they include logical and adequate detail with respect to work flows, lines of authority, and areas of job responsibility. Look for any disparate treatment in hiring practices, test requirements, or screening opportunities.

 2. Determine whether the institution periodically reviews employee performance, analyzes weaknesses, takes corrective action when appropriate, and has specific policies and procedures for handling employees who have demonstrated incompetence or nonperformance.

 3. Review a selected sample of personnel files. Determine whether the association's procedures provide for the systematic updating of personnel files and whether the staff updates in accordance with the schedule. Determine whether the files contain the following information:
 - Payroll deduction authorizations in compliance with state and federal laws.
 - Records of accumulated withholdings.
 - Notations of length of service, salary history, and retirement and other accrued benefits.
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EXAMINER'S SUMMARY, RECOMMENDATIONS, AND COMMENTS

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