

Fraud Risk Evaluation Form

Institution	Docket No.
Prepared by	Date
Reviewed by	Date

Instructions

This form documents your overall assessment of the level of fraud risk within the institution. Rate each risk factor from 1 to 5 with 1 indicating the lowest level of concern and 5 indicating the highest level of concern.

An individual factor rated 4 or 5 indicates that the institution is vulnerable to fraud. If fraud conditions or circumstances other than the factors listed below indicate a higher risk than normal, describe them on a separate sheet and attach it to this form. After you consider all relevant factors you should make an overall assessment of fraud risk and indicate its effect, if any, on the scope of the examination.

General Factors	Indicator		Comment or Description ¹	Risk Factor
	Lower	Higher		
Top management operating style	Effective board oversight	Domination of decisions by a single person		
Financial reporting	Conservative; accurate	Liberal; questionable; inaccurate		
Management turnover, including senior accounting personnel	Nominal	High		
Emphasis on meeting earnings projections	Little	Very high		
Profitability relative to industry	Adequate and consistent	Inadequate or inconsistent		
Growth within last three years	Stable	Rapid		
Financial condition	Healthy	Distressed		
Oversight of branches and subsidiaries	Centralized; strong oversight	Decentralized; weak oversight		
Indicators of going-concern problems	No serious indications of failure	Failure a distinct possibility		
Disagreements with auditors or examiners	None	Many		
Difficult-to-audit transactions or balances	Few	Many		
Misstatements detected in prior audits or examinations	Few and immaterial	Significant or material misstatements		
Examiner relationship with management	Cordial and constructive	Confrontations		
Response to supervision	Very responsive	Unresponsive		
Disclosures of director's and officer's outside interests	Fully disclosed	Not disclosed		
Background checks made on new directors, officers, and employees	Checked and verified	Not checked		
Internal auditor restrictions	None; auditor performs full scope reviews	Auditor works with restrictions, or on limited projects		
Internal auditor reporting	Reports to board or audit committee	Reports to management		
Internal audit department turnover	None or minimal	High		

General Factors	Indicator		Comment or Description	Risk Factor
	Lower	Higher		
Policies and procedures	Well developed for all areas of operations	None or poorly developed		
	Applied equally to employees and management	Not followed or circumvented by management or key employees		
Unusual or lavish fixed assets	None	Boats, aircraft, artwork, condos, etc.		
Internal controls	Sound system of controls	Material control deficiencies; or controls do not apply to top management		
Response of management in providing documents to examiners	Documents provided quickly	Long delays in getting documents		
Transactions with other financial institutions	Appropriate for business activities	Large transactions with small out of state banks		
Board reports	Accurate and complete	Inaccurate; inadequate; incomplete		
Organizational structure	Simple	Overly-complex		
Aggressive accounting practices/tax-motivated behavior	Few	Many		
Regulatory violations	Few	Many		
Criminal Referrals	Few	Many		
Falsified bank records	None	Many		

Lending Factors

Loan documentation	Well-documented loans and credit quality	Poorly documented loans		
Loan performance tracking	Close review of problem credits by management and the board	No (or erroneous) past due or watch list reports		
Borrower financial statements	Borrowers' financial position well documented	No (or unsigned) financial statements		
Loan disbursements	Well documented; approved by an independent officer	Questionable; approved by loan officer		
Corporate loans	Proper endorsements and guarantees	No (or inadequate) endorsements and guarantees		
Resolution of problem loans	Well documented and reasonable	Questionable pay-downs prior to examination or audit		
Overdrafts	Properly approved; reasonable amounts	Large questionable overdrafts		
Refinancing	Well documented; properly approved	Poorly documented; refinanced by a different department		
Nominee loans	No nominee loans	Nominee loans made		
Loan terms	Loan size, rates and maturities appropriate	Loans of unusual size, rates, and maturities		
Evergreen/non-amortizing loans	No evergreen/nonamortizing loans	Several large evergreen/nonamortizing loans		
Real property sales history	Well-documented history of sales and ownership	No history of sales or ownership		
Out of territory loans	No out of territory loans	Many out of territory loans		
Brokered loans	No brokered loans	Loans from brokers		
Adequacy of collateral	Loans adequately collateralized when appropriate	Large loans with unusual, questionable, or no collateral		
Collateral sales history	Collateral sales history is reasonable	Frequent sales; flipped collateral		
Loans to directors, officers, and employees	Properly underwritten and reported to the board of directors	Loans to uncreditworthy directors, officers, or employees		

Lending Factors	Indicator		Comment or Description	Risk Factor
	Lower	Higher		
Lending authority	Large approval limits are vested in the board or its committee	Large approval limits given to individuals or to inexperienced or inappropriate employees		
Third-party disbursements	Disbursements made to borrowers	Disbursements made to third parties		
Construction disbursements	Property inspected by independent institution officer prior to disbursement	No or poorly documented inspections; no rotation of inspectors		
Asset performance	Very low percentage of delinquent/nonperforming/classified assets	High percentage of delinquent/nonperforming/classified assets		
Independent loan review function	Effective; independent loan review function	No (or ineffective) loan review		
Speculative, high-risk lending activities	Institution has conservative lending practices	Institution engages in high-risk lending activities		
Predatory lending practices	None	Institution engages in predatory lending practices		

Deposit Factors

Concentrations of deposits	No concentrations of deposits	High concentration of deposits by individuals, firms, or public entities		
Brokered deposits	No brokered deposits	High level of brokered deposits		
Training for all personnel on effective check fraud prevention	Comprehensive training program for all personnel on check fraud prevention	No training on check fraud prevention		
Check cashing guidelines	Comprehensive check cashing guidelines	No check cashing guidelines		
New accounts	Comprehensive guidelines for opening new accounts	No guidelines for opening new accounts		
Signature cards	Signature cards secure, permanent, and updated	No control over signature cards		
Account changes	Account changes require identification and written requests	No controls over account changes		
Dormant accounts	Dormant account activity requires extra approvals or mandatory holds	No controls on dormant accounts		

¹ Required if factor is rated 4 or 5.

We modified the examination scope in the following areas in consideration of the risk factors identified above:
