

Fixed Assets Program

EXAMINATION OBJECTIVES

To determine whether the savings association has adequate policies, procedures, and controls for the acquisition, maintenance, and disposition of fixed assets.

To determine whether the current and planned levels of fixed assets are consistent with the savings association's business plan.

To determine whether the current and planned levels of fixed assets are detrimental to the savings association.

To evaluate the scope and adequacy of accounting procedures and auditing functions for fixed assets.

To summarize findings and to initiate corrective action when deficiencies exist that could adversely affect safety and soundness or when you note violations of laws or regulations.

EXAMINATION PROCEDURES

LEVEL I

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1. Review examination scoping material related to fixed assets.

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2. Review the preceding report of examination and fixed asset-related exceptions noted and determine whether management has taken corrective action.

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3. Analyze the savings association's policies and procedures regarding the acquisition and disposition of, and total investment in, fixed assets and the related annual expenditures. Determine the reasonableness relative to the following items:

- Business plan
- Capital structure
- Earnings

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- Nature and volume of operations
 - Future goals and objectives
 - Future earnings
 - Conflicts of interest
 - Affiliate or insider transactions.
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4. Determine if the board of directors approved material acquisitions and dispositions.

5. Discuss major planned capital expenditures with management.

6. Review Level II procedures and perform those necessary to test, support, and present conclusions derived from performance of Level I procedures.

LEVEL II

1. Obtain a schedule of fixed assets and their accumulated depreciation. Balance the schedule to the general ledger. Determine if association properly reported fixed assets on the Thrift Financial Report.

2. For major purchases, determine if the association obtained independent appraisals, or competitive bids, and whether the transactions meet regulatory requirements.

3. Determine whether accounting treatment and reporting of fixed assets are correct.

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4. Determine the adequacy of feasibility and cost analysis studies supporting the association's:
 - Investment in large new projects where the savings association will expect rental income to reduce substantially its cost of occupancy.
 - Branch operation expansions.

5. Review leases pertaining to fixed assets. (Update the Continuing Examination File (CEF), if applicable.)
 - Determine if lease terms are having an adverse effect on the savings association's profitability and operations.
 - Determine if the association granted affiliates or insiders favorable lease terms to the detriment of the institution.

6. Determine whether association personnel are improperly using the association's fixed assets for their own benefit.

7. For sales, determine if the association financed the sale consistent with the conditions and terms offered the general public; and if the association received market value for the property.

8. Review documentation and determine whether the savings association made prudent decisions regarding assets sold and subsequently leased back; use present value techniques to determine cost to the savings association. (Refer to Examination Regulatory Handbook [Section 440](#) for a review of present value.) Ascertain the effectiveness of sale/leaseback agreements and whether the association accounts for them according to GAAP and OTS guidelines.

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9. Obtain an explanation for the extended holding period of the site(s) if the association acquired real estate for use as an office or related facility more than three years ago but has not developed it. Document the explanation in the examination report.

10. Determine if the association accounts for any real estate they no longer intend to develop for their own use as REO.

11. For savings associations that share facilities with other financial institutions, determine whether the association has adequate guidelines to avoid conflicts of interest and usurpation of corporate opportunity. This should include a plan that addresses the following items:

- Specific areas where conflicts and abuses can occur.
 - Policies and actions that avoid potential conflicts and abuse.
 - Procedures to deal with individuals who violate such policies.
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12. Ensure that your review meets the 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. For sales judged to be below fair market value, determine need for reappraisals.
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2. Determine whether the association carries property and equipment being held for sale, or no longer in use, at the lower of adjusted cost or market value. If there is evidence the association does not expect to recover the adjusted cost of major facilities still in service (that is, items that the savings association uses and not held for sale) determine if the savings association has written down or classified such items.
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3. Relate any funding commitments under lease agreements and fixed asset expenditures, if significant, to the review of liquidity.
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4. Determine that the association makes adequate provision for the following items:
 - Maintenance of adequate hazard insurance, public liability insurance, non-owner automobile protection insurance, and automobile property damage insurance, as applicable.
 - Arrangements for sharing equipment or facilities (for example, electronic data processing) with others.
 - Periodic physical inventories of other fixed assets and reconciliations to fixed asset records.
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EXAMINER'S SUMMARY, RECOMMENDATIONS, AND COMMENTS

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