

Compliance Oversight Examination Program

EXAMINATION OBJECTIVES

To determine whether the board of directors has adopted, and allocates sufficient resources for the implementation of, a formal written compliance program suitable to the savings association's size and operational complexity that:

- Emphasizes the importance of regulatory compliance as an inherent part of business operations.
- Establishes standards of accountability for all personnel charged with compliance-related responsibilities.
- Includes the means for senior management and the board to gauge compliance performance.

To determine whether the compliance program provides for and results in:

- Comprehensive policies and procedures, and the systems to implement them.
- Internal controls that afford ongoing monitoring to ensure transactions are executed in accordance with program standards.
- The periodic review of systems records and operations to identify transactional violations and program deficiencies.
- The prompt correction of compliance violations or deficiencies identified during ongoing monitoring, the internal review process, or in response to consumer complaints or from exam findings.
- An ongoing comprehensive training program that ensures the clear communication of relevant legal and regulatory compliance requirements, and the association's procedural guidelines to all affected officers and staff personnel.

To determine whether the association conducts compliance self-assessments in a manner that enables you to confidently rely on them to evaluate and rate the compliance record of the association.

To assess and rate the quality of the association's compliance management performance.

Exam Date:	
Prepared By:	
Reviewed By:	
Docket #:	

Compliance Oversight Examination Program

WKP. REF.

To generate and provide input on compliance performance for consideration in the evaluation of the association's overall management and M component rating.

REFINE THE SCOPE

1. Starting from the exam scoping decisions made in connection with [Section 060](#), review the PERK, the association's compliance program, including compliance reviews, audits, or self-assessment reports, and other materials to familiarize yourself with the background for such scoping judgements. Consistent with the instructions of the EIC, conduct such additional inquiries or interviews with appropriate management personnel to accomplish the following:

- Confirm, modify or supplement the initial scoping judgment.
- Understand the risk profile.
- Determine the extent to which you should examine certain operations, or particular laws or regulations.

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2. Preliminary Evaluation of the Compliance Program: Consider the compliance risk ramifications of the association's business operations and external circumstances. Emphasize risk ramifications resulting from changes in operations or external circumstances since the last exam.

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3. Evaluate the track record of the compliance program in responding to compliance risk and correcting past deficiencies. Balance risk sources and risk management responses to identify the risk profile of the association.
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Exam Date:	
Prepared By:	
Reviewed By:	
Docket #:	

Compliance Oversight Examination Program

WKP. REF.

4. **Select Areas to Conduct Level I Reviews:** Select from the Compliance Core those operations, products, or regulatory areas that warrant further examination. When you can determine the cause of, and appropriate corrective actions for, the compliance program deficiencies identified at this stage without further system or transaction analysis, you should include them on the appropriate examination record.
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EXAMINATION PROCEDURES

LEVEL I

1. Obtain management's compliance reviews, self-assessments, compliance audits and records of correcting compliance deficiencies in connection with the operations, products, or regulatory areas selected for focused review. Evaluate the adequacy and effectiveness of the compliance program covering the selected operations, products, or regulatory areas using these materials. Begin by examining the thoroughness and reliability of the association's periodic compliance reviews, audits, or self-assessments by determining whether:
 - The frequency of self-assessments is appropriate given the level of risk and complexity presented by the selected operations, products, or regulatory areas.
 - The association conducts periodic reviews for the selected operations, products and regulatory areas that comprehensively cover all pertinent regulatory requirements.
 - The association conducts periodic reviews to evaluate the adequacy of the procedures, systems, controls, monitoring, self correcting processes, and training curriculum applicable to the operations, products, or regulatory areas selected for examination.
 - The association's periodic self-assessment includes transactional analysis of representative files or accounts.
 - The association prepares and retains detailed work papers of transaction analyses that support the conclusions of the periodic review.

Exam Date:	
Prepared By:	
Reviewed By:	
Docket #:	

Compliance Oversight Examination Program

WKP. REF.

- The association documents violations, deficiencies, or potential weaknesses identified in compliance performance or controls.
 - Written reports detailing findings, conclusions, and recommendations for corrective action are presented to and acted upon by senior management and the board of directors.
 - Association management tracks recommended corrective actions, and verifies and confirms to the board the assimilation of corrective actions in systems, controls, and training.
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2. Record the basis for your conclusion in the work papers when you arrive at the following conclusions:

- The self-assessments or periodic internal reviews demonstrate that the association conducts a comprehensive, reliable, self-correcting compliance program for the operation, product, or regulatory area(s) selected covering the SMAART components of a customized program.
 - The compliance program is appropriate to the association's size, resources, business strategy, operational complexity, market demands, and risk profile.
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3. Where the self-assessment or periodic internal review proves sufficiently reliable, but displays weakness in scope or lacks an adequate response to identified deficiencies, evaluate the significance of the shortcomings and the ability of management to readily implement necessary improvements to attain the degree of thoroughness expected.

When management commits to implement the requisite improvements and report to OTS supervision on the results of any re-assessment in a manner and time frame satisfactory to OTS, then you may consider this commitment in evaluating compliance management performance. Document your conclusions.

Exam Date:	
Prepared By:	
Reviewed By:	
Docket #:	

Compliance Oversight Examination Program

WKP. REF.

4. When there is no self-assessment or periodic internal review for the operation, product, or regulatory area selected for the focused examination, then proceed to Level II procedures.
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LEVEL II

1. You must independently evaluate whether the association's compliance management adequately fulfills the other SMAART components of a comprehensive program when the association:
 - Does not conduct a self-assessment or periodic internal review of an examiner risk-selected operation, program, or regulatory area; or
 - Conducts a self-assessment that does not provide a reliable basis for favorably rating compliance management performance.

For each operation, product, or regulatory area to be evaluated under this procedure, determine the following:

Systems – How does the association conduct transactions correctly?

- Adequacy of the association's formal compliance program given its size, structure and complexity of operations.
- Applicable procedures, and the systems or instructions used to implement them, cover all pertinent regulatory requirements. The association develops compliance standards as part of new product design and rollout.
- Requisite compliance recordkeeping systems are in place.
- Transaction forms are properly designed and have the requisite content.
- Controls are included in the delivery process to assure that transactions are executed in accordance within established time frames and standards.

Exam Date:	
Prepared By:	
Reviewed By:	
Docket #:	

Compliance Oversight Examination Program

WKP. REF.

Monitoring – How does the association supervise people and processes to deliver consist program standards?

- Line supervisors are engaged in the active oversight of staff adherence to applicable procedures and systems, and evaluate staff performance for how well they execute transactions in accordance with association policies and all pertinent regulatory requirements.
- Managers track exceptions to procedures, systems, or controls and actively correct for improper deviations.
- The association monitors the transaction work by third-party service providers for compliance on a real-time basis.
- Management monitors the impact of external factors including legislative, regulatory, industry, and market conditions on the compliance program.

Accountability – How does the association apportion and assure responsibility to achieve compliance performance?

- Records indicate the board of directors:
 - Adopted and/or updated the association’s written compliance program.
 - Allocated sufficient resources for implementation of the program after due consideration for the association’s size, business strategies, regulatory obligations, and operational complexity.
- Responsibilities and authorities across staff and management levels for compliance performance are clearly articulated and followed.
- Appropriate reporting of compliance performance is made to the board or its designated committee. The compliance officer has appropriate access to the board or its audit committee.
- The board uses informed judgment when evaluating senior management on compliance performance.

Exam Date:	
Prepared By:	
Reviewed By:	
Docket #:	

Compliance Oversight Examination Program

WKP. REF.

Response – How does the association correct problems?

- Compliance program provides for the initiation of corrective actions to exceptions and weaknesses that are self-identified and/or identified through agency examination.
- Consumer complaints are considered at both an individual and systemic level and corrective action addresses root causes of any compliance weakness or violation.
- Consumer complaints are handled consistent with sound standards of good customer relations.
- Staff suggestions for improved compliance performance are evaluated on their merits and implemented as warranted.

Training – How does the association communicate information and maintain staff and Board expertise?

- Training curriculum covers all pertinent regulatory requirements.
- Applicable procedures and performance standards are effectively communicated to, and understood by, staff responsible for the selected operations, products or regulatory areas.
- Staff expertise is kept current and proficiency is tested.
- Board is adequately trained to evaluate compliance obligations and relation to association operations and business plans.

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2. Where you conclude from the analysis of the SMAART components that the strength of the association's systems, monitoring, accountability, responsiveness to complaints or internally identified deficiencies, and training efforts ensures that compliance with association standards and regulatory requirements are consistently delivered for the selected operation, product, or regulatory area, record the basis for this conclusion in the work papers.
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Exam Date:	
Prepared By:	
Reviewed By:	
Docket #:	

Compliance Oversight Examination Program

WKP. REF.

3. Where study of actual loan, account or other transaction files or records enables an efficient evaluation of the particular operation, product or regulatory area, then you may conduct such a study. However, extensive transaction or file analysis should not be a routine tool at this Level. Where you conclude from this analysis that compliance with association standards and regulatory requirements are consistently delivered for the selected operation, product, or regulatory area, record the basis for this conclusion in the work papers.

4. When your analysis does not enable you to reach a favorable conclusion, record any deficiencies that management should correct, report any violations found, and proceed to Level III.

LEVEL III

1. When the association's policies, procedures, systems, controls, self-assessment reviews, or other compliance management components are substantially deficient for a particular area, or you cannot make a reliable conclusion about the adequacy of the association's compliance performance for a selected operation, product, or regulatory area, conduct a transaction file or account analysis following the standards established by the FFIEC and/or OTS examination procedures contained in the subsequent sections of the Compliance chapter.

Based on your analysis, evaluate the compliance performance of the association for the selected operation, product, or regulatory area and record your conclusions about that performance, any deficiencies or violations and their causes, and required corrective actions or compliance program improvements.

Exam Date:	
Prepared By:	
Reviewed By:	
Docket #:	

Compliance Oversight Examination Program

WKP. REF.

2. When the region is confident that the association can do so reliably, you may instruct the association to conduct and report on a transactions analysis that meets your specifications and requirements. OTS supervision must closely track suspect deficiencies evaluated in this manner and you must include resulting findings and recommended corrective actions in the examination record.
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PROGRAM CONCLUSIONS

1. Accumulate from the Levels performed all findings and conclusions involving the compliance program's performance, especially your evaluation of the thoroughness and reliability of any self-assessment reviews conducted. Summarize your findings in the ROE.

2. Record association-identified regulatory violations or program deficiencies and identify those corrected, those in the process of being corrected, and those that have not been self-corrected.

3. Record regulatory violations or program deficiencies you identified in the examination, but the association did not find via its self-assessment or audit processes.

4. Identify actions needed to correct outstanding deficiencies or violations, as appropriate, including the possibility of requiring the association to conduct more detailed self-analysis under specific direction of regional supervision.

5. Document violations found or program weaknesses as appropriate.

Exam Date:	
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Compliance Oversight Examination Program

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EXAMINER'S SUMMARY, RECOMMENDATIONS, AND COMMENTS

Exam Date:	
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