Organizational Structure

An effective system of supervision is essential if the savings association is to properly discharge its duties and responsibilities. A necessary prerequisite to an effective system of supervision is an effective and efficient system of organization. Organization includes both administrative personnel and the executive structure of the trust department. It also includes other board committees relating to trust and asset management and the assigned responsibilities of all pertinent entities through which adequate supervision is achieved.

The organizational structure of the trust department should be clearly spelled out in the savings association's written records (e.g., bylaws, board resolutions and management plans). These records must clearly define organizational relationships and responsibilities. They must delineate not only a system for the orderly functioning of the trust department but also an internal system of accountability. The organizational structure should be designed to accommodate the volume and type of business administered and should be reviewed periodically by the board to ensure that it continues to ensure proper administration of the savings association's trust and asset management business. Any system of organization is acceptable so long as it is tailored to meet the institution's responsibilities, is workable for the institution and the directors are fulfilling their responsibilities. Nonetheless, there are several principles common to an effective organizational structure, including:

- the structure should be designed to promote an orderly flow of daily work;
- committee and individual functions, including lines of authority, duties and responsibilities, should be clearly defined and communicated to all personnel;
- organizational plans should include procedures for personnel recruitment, training, evaluation and salary administration;
- staff should be sufficient in numbers to handle the volume of work, including provision for peak workloads;
- strategic and business planning should be ongoing and continuous; and
- compliance and risk management oversight should be implemented throughout the organization

Management appraisal involves the evaluation of the quality of supervision of the trust and asset management activities by the directors, officers, employees and committees of the savings association. The examiner's purpose in reviewing the supervisory function is to evaluate the adequacy of the existing management system and organization framework as they relate to meeting the savings association's stated responsibilities, as well as generally accepted standards of fiduciary conduct.

The appraisal of management is accomplished through a combination of observation and information, involving both objective and subjective judgments made during the examination. The assessment of management's effectiveness is also measured against the size and complexity of the trust department. In assessing the competence of management, their qualifications and performance should be evaluated relative to duties and responsibilities assigned to them. For example, a department manager may possess limited knowledge of fiduciary matters yet possess effective managerial skills; but if middle-level employees have sufficient fiduciary knowledge, which senior management follows, management can be considered satisfactory. As another example, the knowledge and skills necessary to effectively manage a small department with relatively uncomplicated accounts is different from that required to effectively manage a large and diverse department; management's competence should be measured against its activity and not necessarily compared to that of another person or institution.

The appraisal of management therefore covers the full range of functions and activities related to the operation of the trust department. It includes review and evaluation of the:

- duties and responsibilities of directors;
- organizational structure and its effectiveness;
- extent and effectiveness of director supervision, both directly and through committees;
- competence, leadership and administrative ability of senior management;
- competence and adequacy of supporting staff;
- attention paid to monitoring litigation, charge-offs and other losses, to determine their causes and to initiate a course of action to prevent or minimize their reoccurrence;
- responsiveness to audit and examination reports;
- short and long-range business plans for the trust department;
- financial performance of the trust department;
- availability of and reliance upon competent legal counsel; and
- sufficiency of liability insurance coverage.

In evaluating the competence of senior and supporting personnel the examiner should consider: education (level of academic achievement and its relationship to the position held), training (level of professional training, schools, seminars), experience (nature of fiduciary experience, prior history) and character (personality, reputation, reliability, work ethics).

Trust Committees

The board of directors may authorize the establishment of a fiduciary audit committee. The purpose of the fiduciary audit committee is to direct the conduct of the audit required under OTS regulations at §550.440. The fiduciary audit committee may be a committee made up of members of the board of directors or an audit committee of an affiliate. There are two restrictions in OTS regulation §550.470 on who may serve on the audit committee. The first restriction is that officers of the savings association and officers of an affiliate that participate significantly in administering the fiduciary activities of the savings association may not serve on the audit committee. The second restriction is that a majority of the members of the audit committee may not serve on any committee to which the board of directors has delegated power to manage and control the fiduciary activities of the savings association.

Dual Employees

Many trust departments have determined that, for efficiency purposes, certain officers and employees will be employed as "dual employees," whereby their responsibilities are split between the trust department and other affiliated entities. While this is an allowable practice, management should establish specific guidelines governing the employee's obligation to the savings associations' trust department, as well as his/her duty of loyalty to the department's fiduciary customers.