
Management Examination Program

Examination Objectives

To assess the level and quality of oversight of trust and asset management activities by the board of directors and management. Consider whether the oversight:

- ensures compliance with applicable law and sound fiduciary principles;
- assures the accuracy, timeliness and effectiveness of management information and risk monitoring systems that are appropriate for the savings association's size, complexity and trust and asset management risk profile;
- is responsive to recommendations from auditors and regulatory authorities;
- assures sound strategic planning for trust and asset management products and services;
- addresses issues relating to turnover and succession planning;
- maintains adequate insurance coverage and the availability of competent legal counsel; and
- addresses pending litigation associated with trust and asset management activities in regards to the potential impact on earnings, capital and the savings association's reputation.

Examination Procedures

Level I

Wkp. Ref.

Level I procedures first focus on a review of the examination scoping materials. The next step consists of interviews with trust department personnel to confirm their qualifications and levels of expertise; to determine if the trust department's practices conform to written guidelines; to establish whether any significant changes in personnel, operations or business practices have occurred; or whether new products and/or services have been introduced. If items of concern are uncovered during Level I procedures or if problems are identified during the preexamination monitoring and scoping; the examiner may need to perform particular Level II procedures.

1. Review examination scoping materials related to the management of the trust department.
Scoping material should include:
 - Risk profile

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- Relevant PERK documents
- Approval letter
- ECEF reports
- Previous trust and asset management examination report
- Work papers from the previous examination
- Board and committee minutes, by-laws and organization chart
- ADV report and any amendments
- Previous safety and soundness examination report
- Examination reports of subordinate functionally regulated entities

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2. Review and evaluate minutes of the board of directors, trust, audit and any other committee overseeing trust and asset management activities to determine:
- the powers, duties and responsibilities of the various committees and officers within the savings association;
 - the decision-making process for overall policies, procedures and controls;
 - management responsiveness to internal audit and examination review findings;
 - risk monitoring information systems;
 - the quality of the risk management process; and
 - authorization levels for account acceptance and distributions
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3. Evaluate the trust department's policies and procedures. Determine whether significant revisions were made to keep pace with changes in trust and asset management activities or for other reasons. Consider the process for monitoring adherence to these policies and procedures.

4. Assess the compliance program. Review and assess compliance reports submitted to management. Determine whether the compliance program is adequate for the size and complexity of the savings association.

5. Review the periodic reports submitted to executive management and the board. Determine their usefulness in monitoring the condition and operations of the trust department.

6. Determine whether management has complied with conditions of approval, orders or directives from regulatory authorities.

7. Obtain or update biographical information on key personnel. Determine any significant personnel and/or organizational changes and evaluate whether management has the expertise necessary to carry out trust and asset management activities. Review management succession and any replacement of personnel.

8. Note whether the trust department uses dual employees.

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9. Review and evaluate current and long-range strategic and/or business plans. Consider:
- management's willingness and ability to adjust strategies based on regulatory changes, market disruptions, product changes or legal losses;
 - management information systems for new or expanded products;
 - the adequacy and independence of controls used to monitor business plan implementation;
 - whether the plan is consistent with stated risk tolerance, management expertise and technological capabilities;
 - reports on plan implementation for its financial performance, adherence (or variance) to the savings association's risk profile and capital adequacy; and
 - how the risk management program is integrated into the business planning process.

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10. Consider whether the following risks contributors (if applicable) have been addressed:
- Board's knowledge and understanding of its duties and responsibilities
 - Extent and effectiveness of director supervision, both directly and through committees
 - Competence, leadership and administrative ability of senior management
 - Monitoring litigation, consumer complaints, charge-offs and other losses to determine their causes and to initiate a course of action to prevent or minimize their reoccurrence
 - Compliance with applicable law and fiduciary principles
 - Scope and reasonableness of short and long-range business plans for the trust department

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- Availability of and reliance upon competent legal counsel
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The completion of the Level I procedures may provide sufficient information to make a determination that no further examination procedures are necessary. If no determination can be made, proceed to Level II.

Level II

Level II procedures focus on an analysis of trust department documents such as reports and outsourcing contracts. The examiner should complete the appropriate Level II procedures when the completion of Level I procedures does not reveal adequate information on which to base a conclusion that the trust department meets the examination objectives. Neither the Level I nor the Level II procedures include any significant verification procedures.

1. Review the savings association's overall insurance coverage. Determine if management reviews the liability insurance annually and considers the current coverage adequate based on the trust department activities.

2. Ascertain if senior management is aware of their responsibilities relating to any regulatory reporting, registration and/or compliance requirements.

3. Determine whether the savings association has established a referral fee or other business incentive plans. If so, determine if the fees being paid could lead to adverse profitability and/or other consequences to the trust department.

4. Evaluate the promptness with which management recognizes and addresses customer account problems. Assure that customer complaints are resolved in an equitable and expeditious manner.

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5. Evaluate the board and management's oversight of the activities of dual employees when they are performing services for the trust department.
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6. Review records and reports that summarize employee turnover. Interview management and other personnel to determine the reasons for any excessive turnover, if applicable.
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7. Determine whether management uses legal counsel appropriately and effectively. Consider:
- the level and status of current and pending litigation;
 - if counsel is used when the language in the governing instruments is unclear or ambiguous or presents complex points of law;
 - if counsel is used to review transactions involving conflicts of interest; and
 - if counsel is utilized to review the offering of new products and services for compliance with applicable law.
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If the examiner cannot rely on the trust and asset management Level I or Level II procedures, or data contained in department records or internal or external audit reports; proceed to Level III.

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Level III

Level III procedures include verification procedures that auditors usually perform. Although certain situations may require that Level III procedures be completed, it is not the standard practice of Office of Thrift Supervision (OTS) examination staff to duplicate or substitute for the testing performed by auditors.

1. Assess the workload of key personnel in the trust and asset management business lines. Consider the degree of turnover of critical staff given the business volume, complexity and risk profile. Also consider the impact of cost cutting programs on workload assignments.

2. Evaluate internal training and employee development programs.

3. Consider whether problems and significant risks identified in the trust department threaten the continued viability of the savings association and pose a threat to the trust and asset management accounts.

4. Consider whether replacing or strengthening management or the board of directors is necessary.

Examiner's UITRS Rating, Summary, Conclusions and Recommendations:

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Reference - 210P

Laws

Code of Federal Regulations

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12 CFR 550	Trust Powers of Federal Associations (General)
12 CFR 550.140	Policies and Procedures
12 CFR 550.150	Responsibility for Fiduciary Powers
12 CFR 563.42(b)	Standards Applicable to Transactions with Affiliates and Subsidiaries

Office of Thrift Supervision Publications

Section 300	Thrift Activities Handbook Director Information Guide
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Other

TB 76-1	Paying Finders or Referral Fees for Trust Business
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Workpaper Attachments - 210P

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