

**TRUST**

**Expanded Analysis Decision Factors**

*This section evaluates the significance of deficiencies or other specific concerns identified in the Core and Expanded Analyses. Click on the hyperlinks found within each of the Expanded Analysis Decision Factors to reference the applicable Expanded Analysis Procedures. If needed, proceed to the accompanying [Impact Analysis](#).*

**Do Expanded Analysis and Decision Factors indicate that risks are appropriately identified, measured, monitored, and controlled?**

**E.1. Are deficiencies immaterial to the supervision of the trust department? Refer to Expanded Analysis [Procedures #1-41](#).**

**E.2. Are deficiencies immaterial to the bank's condition? Refer to Expanded Analysis [Procedures #1-41](#).**

<b>TRUST</b>
<b>Expanded Analysis Procedures</b>

*Generally, procedures used in the Expanded Analysis should target concerns identified in the Core Analysis and Decision Factors. The flexible guidelines specified for the Core Analysis also apply to the Expanded Analysis.*

<b>Policies and Procedures</b>
<p><b>1. Investigate why trust policy or procedure deficiencies identified in the Core Analysis exist. Discuss with management its response to examiner recommendations. Possible reasons for policy deficiencies may include the following:</b></p> <ul style="list-style-type: none"> <li>• <b>Management overlooked these issues.</b></li> <li>• <b>Management is unfamiliar with prudent trust guidelines and procedures.</b></li> <li>• <b>Management is unwilling to create or enhance policies and procedures.</b></li> </ul>
<p><b>2. If poor compliance with policies and procedures exists, determine the reasons. Consider the following:</b></p> <ul style="list-style-type: none"> <li>• <b>Poor internal communication of policy and procedures or subsequent revisions.</b></li> <li>• <b>Lack of awareness of policy existence.</b></li> <li>• <b>Disregard for established policies.</b></li> <li>• <b>Misunderstanding of policy and procedures.</b></li> </ul>
<b>Internal Controls</b>
<p><b>3. Determine if management commits to and supports proper controls and monitors to ensure policy and procedures are followed in the future. Determine whether proposed controls, if any, are reasonable.</b></p>
<p><b>4. Determine whether all potential losses resulting from internal control or operational deficiencies have been identified and appropriately recognized.</b></p>
<b>PROTECTING AND CONTROLLING ASSETS</b>
<p><b>5. Perform a full or partial verification of assets held in the vault.</b></p>
<p><b>6. Perform a full or partial verification of assets held by third party custodians.</b></p>

<b>7. Determine that securities held by brokers are properly titled in the name of the institution as fiduciary or its nominee name.</b>
<b>8. Determine that unissued trust checks are in sequential order and properly controlled.</b>
<b>9. Review a sample of issued trust checks for signature controls.</b>
<b>10. Review a sample of daylight overdrafts for evidence of customer free-riding activity.</b>
<b>11. Review a sample of worthless assets for appropriate documentation.</b>
<b>CONTROL ENVIRONMENT</b>
<b>12. Trace a sample of transactions from origination through posting.</b>
<b>13. Observe the in-house securities trading process to ensure that appropriate controls are in place.</b>
<b>14. Verify the accuracy of Consolidated Reports of Condition and Income Schedule RC-T.</b>
<b>15. Review proxy-voting records to determine if procedures are consistently applied.</b>
<b>RECONCILIATION</b>
<b>16. Reconcile subsidiary control and suspense accounts that are out of balance or have not been reconciled on a timely basis.</b>

<p><b>17. Reconcile bank, securities depository or brokerage accounts that are out of balance or have not been reconciled on a timely basis.</b></p>
<p><b>18. Research significant outstanding suspense items and evaluate the institution's follow-up procedures.</b></p>
<p><b>19. Review significant outstanding trust checks and evaluate the institution's follow-up procedures.</b></p>
<p><b>Audit or Independent Review</b></p>
<p><b>20. Determine why examination deficiencies have not been identified through the institution's audit program.</b></p>
<p><b>21. Determine why management has failed to take action to address audit deficiencies.</b></p>
<p><b>22. Contact the external auditor and determine if external audit work papers should be reviewed.</b></p>
<p><b>Information and Communication Systems</b></p>
<p><b>23. Determine whether lack of information, inaccurate information, or faulty communication processes compromise risk management activities or the effective implementation of strategic initiatives.</b></p>
<p><b>Earnings</b></p>
<p><b>24. Evaluate the effect of operating losses on the bank's earnings, capital, and liquidity.</b></p>
<p><b>25. Evaluate the viability of any plans to improve earnings.</b></p>

<b>26. Estimate the department's earnings if trust income and expenses are not adequately measured.</b>
<b>27. Evaluate methods for allocating indirect income and expenses or management's reasons for electing not to allocate such items.</b>
<b>28. Evaluate the effect of fee schedules and any discounts, fee waivers or uncollected fees on earnings.</b>
<b>29. Evaluate the reasonableness of salaries and other operating expenses.</b>
<b>Compliance</b>
<b>30. Assign and evaluate the materiality of any contingent liabilities, potential losses or estimated losses identified during the examination.</b>
<b>31. Expand the sample of accounts reviewed or transaction testing to evaluate the extent and severity of identified deficiencies or areas where additional analysis is necessary.</b>
<b>32. Determine the extent and severity of actual and potential conflicts of interest and self dealing.</b>
<b>33. Determine whether self-dealing issues in employee benefit plans and charitable foundations are subject to excise taxes under the Internal Revenue Code.</b>
<b>34. Sample written directives for holding own bank or parent holding company stock.</b>
<b>35. Obtain information regarding officers and directors and their outside interests and compare against a list of fiduciary assets.</b>

<b>36. Review soft dollar contracts and documentation to determine compliance with the safe harbor provisions of Securities and Exchange Commission Section 28(e).</b>
<b>37. Review reports of personal securities transactions (FDIC: Part 344; FRB: 12CFR 208.34) for noncompliance with the institution's ethics policies or other insider abuse.</b>
<b>Asset Management</b>
<b>38. Assess the reasonableness of assumptions used in securities evaluation models.</b>
<b>39. Determine if management uses consistent and reasonable methods for reporting investment performance.</b>
<b>40. Review trading account records for churning or excessive trading.</b>
<b>Board and Senior Management Oversight</b>
<b>41. Review incentive-based compensation programs to determine that they do not promote the assumption of excessive risk.</b>
<b>End of Expanded Analysis. If needed, Continue to <a href="#">Impact Analysis</a>.</b>

<b>TRUST</b>
<b>Impact Analysis Procedures</b>

*Impact Analysis reviews the impact that deficiencies identified in the Core and Expanded Analysis and Decision Factors have on the bank's overall condition, and directs the examiner to consider possible supervisory options.*

<b>Impact Analysis Procedures</b>
<p><b>1. Determine if management has the ability and willingness to correct deficiencies.</b></p>
<p><b>2. Assess the impact of contingent liabilities, potential losses, and estimated losses on the institution's capital and earnings.</b></p>
<p><b>3. Determine the effect that reputation, operational, strategic, compliance, legal, financial and other risk exposures have on the institution's safety and soundness.</b></p>
<p><b>4. Determine whether any significant violations of the Employee Retirement Income Security Act should be referred to the Department of Labor. The interagency referral agreement states that the following violations will be considered significant:</b></p> <ul style="list-style-type: none"> <li>• Violations of Sections 404 and 405 involving \$100,000 or more;</li> <li>• Violations of Sections 406 or Section 407 involving prohibited transactions, except where the harm to the beneficiaries is minimal;</li> <li>• Violations of Section 411, relating to prohibition against certain persons holding certain positions;</li> <li>• Violations of Section 412, relating to bonding requirements for the institution itself.</li> </ul>
<p><b>5. Consider whether informal or formal enforcement action regarding fiduciary activities is warranted, such as a board resolution, a Memorandum of Understanding, a Cease and Desist Order, or a removal action. Advise the appropriate supervisory officials.</b></p>
<p><b>6. Consider recommendations for Civil Money Penalties and prepare formal recommendations, as appropriate. (Refer to the guidance in the Management and Internal Control Evaluation module.)</b></p>
<p><b>7. Notify the appropriate bank regulatory officials of suspected activities and actions taken relating to Suspicious Activity Reports. (Refer to the guidance in the Management and Internal Control</b></p>

Impact Analysis

<b>Evaluation module.)</b>
<b>End of Impact Analysis.</b>