

## ELECTRONIC FUNDS TRANSFER RISK ASSESSMENT

### 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 management's supervision of electronic funds transfers? Refer to Expanded Analysis [Procedures #1-28](#).**

**E.2. Are deficiencies immaterial to the bank's overall condition? Refer to Expanded Analysis [Procedures #1-28](#).**

**ELECTRONIC FUNDS TRANSFER RISK ASSESSMENT**

**Expanded Analysis Procedures**

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

**Policies and Procedures**

**1. Investigate why the policy and procedure deficiencies identified in the Core Analysis exist. Possible reasons for policy deficiencies may include the following circumstances:**

- **Management overlooked these issues.**
- **Management is unfamiliar with prudent electronic funds transfer guidelines and procedures.**
- **Management is unwilling to create or enhance policies and procedures.**

**2. If poor compliance with the bank’s policies and procedures exists, determine the reasons. Possible reasons are detailed below:**

- **Lack of awareness of policies’ existence;**
- **Disregard for established policies;**
- **Misunderstanding the intent of policy guidelines; and**
- **Poor internal communication of subsequent revisions in policy and procedures.**

**3. Determine whether management commits to and supports proper controls and monitoring to ensure policy guidelines are followed in the future. Determine whether proposed controls, if any, are reasonable.**

**Internal Controls**

**FUNDS TRANSFER REQUESTS**

**4. Determine whether the funds transfer function maintains a current list of bank personnel authorized to initiate transfer requests.**

- **Ascertain if the bank limits the number of employees who initiate or authorize transfer requests.**
- **Determine whether authorized employee signature records are kept in a secure environment.**

**5. Review a sample of funds transfer requests. Determine whether management uses standard, sequentially numbered forms or some other authentication system. Determine whether funds transfer requests include the following items:**

- **The account title and number.**
- **A sequence number.**
- **The amount to be transferred.**
- **The person or other source initiating the request.**
- **The time and date.**
- **Authentication (callbacks, fax, personal identification numbers).**
- **Paying instructions.**
- **The name of the bank personnel authorizing the transfer and the dollar amount.**

**6. Review the bank's procedures for recording all incoming and outgoing transfer requests. If calls are recorded, determine whether the bank advises its customers in written contracts, by audible signals, or by informing the caller that telephone calls are being recorded.**

**7. Determine whether transfer requests are recorded in a log, or another bank record, before execution.**

- **Determine whether the funds transfer function maintains sequential control for requests it processes.**
- **If requests are not sequentially accounted for, determine whether there is an unbroken copy of all messages received via telex or other terminal printers kept throughout the business day.**
- **Determine whether someone not connected with equipment operations reviews sequence records and unbroken copies of messages.**

**8. Determine whether incoming and outgoing messages are time stamped or sequentially numbered.**

**PAYMENT PROCESSING AND ACCOUNTING**

**9. Determine whether the funds transfer department verifies that work sent to and received from other bank departments agree with its totals.**

**10. Determine whether key fields are re-verified before transmission and messages are released by someone other than the individual originally entering the message.**

**11. Ascertain if transfer requests accepted after the close of business, or transfer requests with a future value date, are properly controlled and processed.**

<p><b>12. Determine whether open-statement items, suspense accounts, receivables or payables, and inter-office accounts related to funds transfer activity are controlled outside of the funds transfer operations. Determine whether the following controls exist:</b></p> <ul style="list-style-type: none"> <li>• Management prepares periodic reports on open-statement items, suspense items, and inter-office accounts.</li> <li>• Reports include agings of open items, the status of significant items, and the resolution of prior significant items.</li> <li>• Corrections, overrides, open items, reversals, and other adjustments are reviewed and approved by an officer.</li> </ul>
<p><b>13. Determine whether all general ledger tickets, or other supporting documents, are initialed by the originator and supervisory personnel.</b></p>
<p><b>PERSONNEL</b></p>
<p><b>14. Determine whether screening procedures are applied to personnel hired for sensitive positions in the funds transfer area. Management should be implementing the following controls:</b></p> <ul style="list-style-type: none"> <li>• New employees working in sensitive areas are closely supervised, and</li> <li>• Temporary employees are either prohibited from working in sensitive areas or closely supervised. <i>(Note: Limiting the number of temporary employees allowed in sensitive areas is a useful control)</i></li> </ul>
<p><b>15. Determine whether the bank requires statements of indebtedness for employees working in sensitive areas.</b></p>
<p><b>16. Review procedures governing personnel-related issues. Determine whether the following control activities exist:</b></p> <ul style="list-style-type: none"> <li>• Employees are subject to unannounced rotation of duties;</li> <li>• Relatives of employees are precluded from working in the bank’s bookkeeping, audit, data processing, or funds transfer requests departments;</li> <li>• Employees are required to take a minimum number of consecutive days as part of their annual vacation; and</li> <li>• Employees who have given notice of resignation or have been notified of pending termination are re-assigned from sensitive areas.</li> </ul>

<b>CREDIT EVALUATION AND APPROVAL</b>	
<b>17.</b>	<p><b>Determine whether management establishes customer limits for daylight and overnight overdrafts. Consider whether management completes the following tasks:</b></p> <ul style="list-style-type: none"> <li>• Ensures limits include groups of affiliated customers;</li> <li>• Monitors funds transfer requests during the business day to ensure that proper approval is granted before making payments that exceed limits; and</li> <li>• Reviews and periodically updates customer limits.</li> </ul>
<b>18.</b>	<p><b>Determine whether management makes payments in anticipation of receiving funds that day to cover the daylight overdraft. Determine whether the following controls over daylight overdrafts exist:</b></p> <ul style="list-style-type: none"> <li>• Payments are approved by officers with appropriate credit authority;</li> <li>• Daylight exposures are limited to amounts expected to be received that same day;</li> <li>• Daylight overdraft limits are established after considering other types of credit facilities for the customer; and</li> <li>• A daylight record is kept for each customer showing the following information:                             <ul style="list-style-type: none"> <li>○ Opening collected and uncollected balances,</li> <li>○ Transfers in and out of the account, and</li> <li>○ Collected balance at the time payments are released.</li> </ul> </li> </ul>
<b>19.</b>	<p><b>Determine whether any overnight overdrafts exceed established limits:</b></p> <ul style="list-style-type: none"> <li>• Assess why the overdraft exceeded limits.</li> <li>• If a control failure caused the overdraft, determine whether:                             <ul style="list-style-type: none"> <li>○ The cause was properly documented, and</li> <li>○ There was adequate follow-up to obtain the covering funds in a timely manner.</li> </ul> </li> </ul>
<b>20.</b>	<p><b>Determine whether a person with appropriate credit authority approves payments that exceed established daylight and overnight limits.</b></p>
<b>21.</b>	<p><b>If the bank is a participant of a net settlement system, determine whether bilateral-lateral credit limits are set based on a formal credit analysis. The limits should be reviewed by an appropriate level of management.</b></p>
<b>PAYMENT SYSTEM RISK</b>	
<b>22.</b>	<p><b>If the bank incurs overdrafts in its Federal Reserve account, determine whether it completed the payment system risk program (selected an appropriate net debit cap).</b></p>

<p><b>23. If the bank has selected a self-assessment net debit cap, evaluate the adequacy of records supporting the bank's program and accuracy of the self-assessment rating.</b></p>
<p><b>INFORMATION TECHNOLOGY STANDARDS</b></p>
<p><b>24. Determine whether standards exist for the following activities:</b></p> <ul style="list-style-type: none"> <li>• <b>Software and hardware acquisitions, including the following information:</b> <ul style="list-style-type: none"> <li>○ <b>Cost/benefit analysis;</b></li> <li>○ <b>Programming standards;</b></li> <li>○ <b>Documentation standards;</b></li> <li>○ <b>Ownership of programs, spreadsheets, etc., developed on the bank's time and equipment; and</b></li> <li>○ <b>Escrow of source code of critical, tailor-made funds transfer software to ensure the bank can continue to maintain software in the event the vendor fails.</b></li> </ul> </li> <li>• <b>Computer use, including the following controls:</b> <ul style="list-style-type: none"> <li>○ <b>Use of the output or data;</b></li> <li>○ <b>Restrictions on personal and non-job related use;</b></li> <li>○ <b>Use of personal equipment and software;</b></li> <li>○ <b>Use of unauthorized software;</b></li> <li>○ <b>Modification of the hardware and software;</b></li> <li>○ <b>Copying or piracy of the software; and</b></li> <li>○ <b>Requirements for file backup.</b></li> </ul> </li> </ul>
<p><b>OTHER</b></p>
<p><b>25. Review agreements that are in effect concerning funds transfer operations between the bank and its customers, correspondent banks, systems provider, servicers, and hardware and software vendors. Determine whether the agreements contain the following information:</b></p> <ul style="list-style-type: none"> <li>• <b>Responsibilities of and accountability between all parties;</b></li> <li>• <b>Security procedures as defined by UCC Article 4A;</b></li> <li>• <b>Requirement that the bank obtain written waivers from customers who chose security procedures that differ from what the bank offers; and</b></li> <li>• <b>Cut-off times for receiving, processing, and canceling or amending payment orders.</b></li> </ul>
<p><b>Managerial Effectiveness</b></p>
<p><b>26. Determine why previously identified deficiencies remain uncorrected.</b></p>

Expanded Analysis

**27. Determine the reasons for noncompliance with bank policy guidelines, accounting standards, or applicable regulations.**

**28. Assess the adequacy and viability of management's corrective commitments.**

**End of Expanded Analysis. If needed, Continue to [Impact Analysis](#).**

**ELECTRONIC FUNDS TRANSFER RISK ASSESSMENT**

**Impact Analysis Procedures**

*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.*

**Impact Analysis Procedures**

**1. Determine whether credit risk resulting from funds transfers will adversely affect overall asset quality and if the risk is included in determining the adequacy of the loan loss reserve.**

**2. Decide if the weaknesses identified in this area will negatively affect liquidity, earnings, or capital.**

**3. Determine the need for administrative and enforcement actions, formulate specific recommendations, and advise appropriate supervisory officials on the nature of the concern.**

**4. Discuss the possibility of administrative and enforcement actions with senior management and the board of directors.**

**End of Impact Analysis.**