Documenting the Examination

Introduction

Examination documentation should demonstrate a clear trail of decisions and supporting logic within a given area. Documentation should provide a written record of the examiner's decisions and analysis, and provide support for assertions of fact or opinion in the Report of Examination. A well-constructed examination documentation file will provide sufficient data to reconstruct the examiner's decision process for each step of the examination. This includes support for the examiner's decision to include or exclude a regulation or area of review from the scope of the examination, as well as providing documentation of significant findings, including Level 3 and Level 2 violations.

It is vitally important that appropriate, relevant workpapers are maintained within the applicable storage medium to support:

- Review of the report of examination;
- Expanded explanations of Level 3 and Level 2 violations in the event of subsequent enforcement action or appeals of supervisory determinations;
- Development of a supervisory plan;
- A current risk profile; and
- Developing the scope of future examinations and limiting future information and document requests of the institution.

Documenting Findings

1. The Assessment of Risk of Consumer Harm (ARCH) is used to identify and documents inherent risk. Some areas of risk will be eliminated from further review during pre-examination planning based on their low level of inherent and/or residual risk. Sections 1 and 2 and the Decision Point section of the ARCH should explain why areas are eliminated from on-site review. Comments should be concise but specific enough to indicate why consumer harm risk is low and how CMS factors mitigate the inherent risk.
2. The ARCH also is also used to identify and documents the areas with moderate or high level of potential consumer harm risk that are not mitigated by the strength of the CMS. .Section 3 of the ARCH documents the examination scope and establishes specific products, services, or markets (PSMs) for on-site review or transaction testing. As mentioned previously, PSMs are based on residual consumer harm risk and only PSMs exhibiting such residual risk would be presented here

   There may be certain situations in which transaction testing or other review procedures will be necessary but is not predicated upon residual consumer harm risk. Training and development needs are one example. These areas should also be addressed in Section 3 of the ARCH but in the "Other Areas for Review" section rather than as a PSM.

   An Examiner Summary workpaper should be prepared for each area selected for transaction testing or other review procedures. The Examiner Summary should support examination findings, conclusions, and recommendations and discuss applicable strengths and weaknesses relevant to inherent risk and how effectively the bank is identifying, addressing, and preventing consumer harm. The Examiner Summary, in conjunction with the ARCH and the ROE, will allow subsequent readers to clearly identify the scope of work performed and the basis for the examiner's conclusion.

   Include:

   - A statement indicating the scope of the review and describing the examination procedures used. Copies of the procedures, marked to indicate the portions used, may be substituted for the description.
   - Examiner Summaries should include (1) significant findings and their impact on the CMS rating, (2) brief commentary regarding the contents of all documents reviewed, and (3) any deficiencies or violations noted during the examination that are not contained in the ROE.
   - Generally, the examiner should maintain all discussion notes and all copies of bank documentation obtained during the examination. Exceptions can be made for irrelevant material or bulky items that have limited audit trail value. A copy of any document which is being directly criticized, or which supports a criticism made during the examination, must be maintained in the workpapers.

NOTE: At the EIC's discretion, multiple areas may be aggregated. For instance, it may be appropriate to combine all mortgage loan-related areas in one Examiner Summary.

Again, Examiner Summaries are only necessary for areas selected for transaction testing or other review procedures. The ARCH will be used to provide a summary of the other areas not reviewed.

3. When a violation of a specific regulation has been identified, then:
   - Ensure that appropriate workpapers are fully completed, and that supporting documentation is attached. The use of standardized workpapers is required. The examiner is required to download the

most current version of the standardized workpaper prior to the start of the current examination. The workpaper and documentation should be sufficient to enable an examiner having no previous connection with the examination to ascertain the evidence supporting the significant conclusions, judgments, cited violations, and compliance with any outstanding enforcement action.

- Assign a violation code to each violation identified during the examination. All violation codes, regardless of whether or not they were detailed in the ROE, should be uploaded through SOURCE at the completion of the examination.

4. Ensure that the workpapers include clear and legible notes from discussions with management. All responses to examiner questions should be readily attributable to specific members of management. Specific comments made by management that are relevant to a significant finding should be marked or highlighted accordingly.
5. Attach to the relevant workpapers the documents supporting each finding noted in the Report of Examination.

For example:

- A copy of the relevant portion of the bank's compliance policy which stipulates procedures that are in contradiction to the procedures actually performed.
- Copies of notes and related disclosure statements for violations of Regulation Z, Truth in Lending.
- Copies of adverse action notifications for violations of Fair Credit Reporting Act and/or Regulation B, Equal Credit Opportunity.
- Copies of completed hold notices where the financial institution failed to make $200 available at the start of the next business day in violation of Regulation CC, Expedited Funds Availability.

NOTE: For any violations cited as systemic or a pattern or practice, the examiner need only attach enough copied documents to support this conclusion. Additionally, any violations cited in the ROE that contain examples of specific transactions should have corresponding evidence in the examination file. Furthermore, any violation that results in the imposition of a civil money penalty should be supported with all applicable documentation.

General Procedures

1. The EIC, or designee, should upload workpapers into the electronic storage database:
   - Check to make sure that you are not overwriting a more current version of the document;
   - Do a quality control check to ensure that the documents are legible and that all pages have been included (front and back).
2. Workpapers are generally not changed after the conclusion of an examination. However, if revising a workpaper in any manner after the completion of an examination is necessary, such revisions should be clearly documented on the workpaper.
3. Some checklists in this manual have been incorporated into the national standardized workpapers and are required to be completed in conjunction with the review of an area. In situations where the national standardized workpapers have not incorporated the checklists within the manual, or if a checklist is obtained elsewhere, the completion of these checklists is optional. The examiner has the option of completing relevant portions of the checklists or using them merely as a guide. If used, they should be maintained in the workpapers, as they help document the procedures performed during the examination.
4. Documents added into the electronic storage database are only those not required to be uploaded to SOURCE.

Filing Workpapers

1. The EIC is responsible for ensuring that all appropriate documents are uploaded according to National Standardized Workpapers filing schema for the areas reviewed during the examination and ensuring the documents are complete and legible. The EIC can assign this responsibility to team members, as appropriate (e.g. the examiner reviewing an area could be assigned responsibility to upload the appropriate documents in that specific review).
2. The EIC (or designee) should:
   - Review workpapers to ensure that they are accurate, legible, and complete.
   - Determine that appropriate bank documentation, where applicable, has been attached and retained in the workpapers.
   - Confirm that mandatory workpapers are appropriately organized and uploaded to electronic storage.
   - Close the examination in the electronic storage database after the EIC has been informed that the RE review process is complete.

Retention

Retain workpapers for a period of at least two years or until the next examination, whichever is later. Retain workpapers for longer periods in the following instances, until corrective action or other resolution is complete:

- Truth in Lending violations requiring reimbursement;

- Fair lending violations resulting in referrals to the Department of Justice or Department of Housing and Urban Development;
- Any type of enforcement action that has been placed on or remains outstanding against the financial institution;
- A criminal referral has been made regarding the institution or any of its directors, trustees, management, or employees; and
- Other reasons, at the discretion of the Regional Director or Field Supervisor, for which the retention of documents and workpapers is required.

Consult the FDIC Records Schedule directives for further information.

SOURCE

SOURCE is the system of record for the compliance and CRA examination program and is extensively used by compliance field supervisors, examiners, review examiners, and Washington Office policy staff. SOURCE is used to support reporting requirements, provides substantial task support for staff, and is a management support and decision tool. Among other functions, SOURCE:

- Generates examination schedules that are used to support workload projections by incorporating quarter planning and benchmark hours;
- Provides information to facilitate the pre-exam process;
- Captures examination summary information;
- Attaches examination documents for divisional sharing and historical reference;
- Tracks information through the consultation process; and
- Facilitates the reporting of examination data for legislatively mandated reporting.

Information in SOURCE should be complete, accurate, and timely.

- Examiners and reviewers should ensure that the most current versions of documents are attached and labeled correctly. For example:
    - Transmittal Letter;
    - Cover Page;
    - The ROE, including Level 1, Level 2, and Level 3 Violations Pages (if any);
    - CRA Performance Evaluation;
    - Supervisory Comments (if applicable);
    - Level 1, Level 2, and Level 3 Violations Pages (if any);
    - Final examination scoping documents for compliance and fair lending.
- Examiners and reviewers should ensure that all required information fields are completed at the conclusion of the examination;
- Supervisors should plan examinations and visitations in advance and indicate the quarter for which the activity is planned; and
- Examiners-in-charge, or their designees, should update required dates, such as the examination On-Site Date, as soon as possible.