OTHER ASSETS AND LIABILITIES
Core Analysis Decision Factors

Examiners should evaluate the Core Analysis in this section to determine whether an Expanded Analysis is necessary. Click on the hyperlinks found within each of the Core Analysis Decision Factors to reference the applicable Core Analysis Procedures.

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

C.1. **Are operating policies, procedures, and risk limits adequate?** ***Refer to Core Analysis Procedures #9-10, Procedure #14, Procedure #18, Procedure #20, Procedure #22, Procedure #27, & Procedures #34.***

C.2. **Are internal controls adequate?** ***Refer to Core Analysis Procedure #11, Procedure #15, Procedure #23, Procedure #28, & Procedure #35.***

C.3. **Are audit or independent review functions adequate?** ***Refer to Core Analysis Procedures #5-8.***

C.4. **Are information and communication systems adequate and accurate?** ***Refer to Core Analysis Procedure #12, Procedure #16, Procedure #21, Procedure #25, Procedure #29, Procedure #33, & Procedure #36.***

C.5. **Is there adequate information to justify carrying values, and are adjustments made on a timely basis?** ***Refer to Core Analysis Procedure #13, Procedures #17, Procedure #24, & Procedures #37-38.***

C.6. **Do the board and senior management provide effective supervision?** ***Refer to Core Analysis Procedure #6, Procedure #19, Procedure #26, & Procedures #30-32.***

OTHER ASSETS AND LIABILITIES

Core Analysis Procedures

Examiners are to consider the following procedures but are not expected to perform every procedure at every bank. Examiners should complete only the procedures relevant for the bank's activities, business model, risk profile, and complexity. If needed, based on other identified risks, examiners can complete additional procedures. References to laws, regulations, supervisory guidance, and other resources are not all-inclusive.

Preliminary Review

1. **Identify previous concerns by reviewing prior examination reports, file correspondence, and audits.**

2. **Develop a preliminary view of financial trends. Review Uniform Bank Performance Reports (UBPRs), financial statements, and other applicable data to identify material factors (levels, changes, or trends) that may require analysis or help in scoping this review.**

3. **Determine the primary responsibilities of the board of directors, board committees,[1] and executive management relating to other assets and other liabilities.**

4. **Determine whether any material changes (e.g., strategic, operational, economic) occurred or are expected that may affect this area. Discuss the changes and implications with management.**

Audit or Independent Review

5. **Evaluate the scope of audits and independent reviews. Consider whether audits and reviews are sufficient to identify internal control, reporting, and policy-compliance deficiencies.**

6. **Determine whether findings from audits and independent reviews are reported to the board or an appropriate board committee.**

7. **Determine whether audits and independent reviews assess policy-exception practices. Issues to consider include, but are not limited to exception approval, documentation, reporting, and tracking practices.**

[1] **Through discussions with management or by reviewing applicable policies.**

8. Determine whether responses to audit and independent review findings are reasonable, timely, and tracked to completion.

Cash Accounts

9. Evaluate policies and procedures for controlling cash. Satisfactory guidelines generally address items such as:

- **Separation of duties and joint-custody controls for items such as vault access, night depository, and ATMs;**
- **Separate cash drawers for each teller, dollar limits for cash drawers, and surprise cash counts;**
- **Depth of review of overages and shortages;**
- **Compliance with applicable laws and regulations; and**
- **Compliance with limits stated on bonding applications.**

10. Evaluate written policies for controlling cash items by reviewing whether policies address items such as:

- **Maximum holding periods (i.e., items cleared or charged-off timely),**
- **Acceptable reasons why items can be held, and**
- **Frequency of management reviews and level of oversight.**

11. Assess the accuracy and timeliness of cash and cash-item reconciliations by:

- **Reviewing reconciling items for reasonableness,**
- **Evaluating the use of suspense accounts,**
- **Determining whether items in suspense accounts are stale, and**
- **Determining whether employees who prepare reconcilements are independent from control of cash and preparation of entries to the accounting system.**

12. Determine whether management receives and appropriately reviews cash item reports.

13. Evaluate the documentation maintained to support the carrying values of cash items.

- **Consider the reason(s) an item is held, the date originated, and collectability. Classify accordingly.**
- **Determine whether items not in process of collection are reported appropriately in the Call Report.**

Correspondent Bank Accounts and Interest Bearing Balances

14. Evaluate policies and procedures for monitoring correspondent bank accounts and interest-bearing balances. Satisfactory guidelines generally address items such as:

- **Individuals responsible for reconcilements and for maintaining records;** ***(Note: If the institution's size precludes full separation of duties, mitigating procedures often ensure one individual does not have exclusive control over reconcilements while also preparing or entering data to the general ledger or subsidiary ledger.)***
- **Supervisors responsible for reviewing reconciliations and reconciling items;**
- **Arrangements regarding compensating balances for loans to the parent, an affiliate, or insiders; (*FRB 12 CFR Part 223 Regulation W)***
- **Approval procedures for entries to the accounts;**
- **Timeframes for charge-off of stale items; and**
- **Procedures to prevent excessive exposure, including all credit exposure, to individual correspondents.** ***(Note: Refer to Section 308 of the FDIC Improvement Act of 1991 and FRB 12 CFR Part 206 Regulation F, Limitations on Interbank Liabilities.)***

15. Examine a sample of reconcilements to evaluate internal controls. Consider whether:

- **Statements for each account are reconciled promptly upon receipt;**
- **Starting balances agree with general ledger accounts and correspondent bank statements;**
- **Individuals who prepare reconcilements are different than those who prepare or approve general ledger entries, effect funds transfers, issue drafts or official checks, or prepare or approve entries to due from bank accounts;**
- **Reconcilements include the preparer's name, preparation date, and document a review by an officer or supervisor;**
- **Records of open-item investigations are maintained even after an item cleared; and**
- **Credit and debit items clear timely. Generally, clearing time frames are as follows:**
  - **Cash letters - the next day;**
  - **ACH transactions - the same or next day;**
  - **ACH returns - generally within two days;** ***(Note: ACH rules allow for three returns rather than the paper-presentation rule of two times. However, only two of the returns can be by the same method, i.e., 1 physical and 2 ACH, or 2 physical and 1 ACH.)***
  - **Non-ACH returns - generally within one week;**
  - **E bonds - depends on how transmitted, but generally within two to three days;**
  - **Cash shipments - the next day;**
  - **Bond transactions - the same or next day; and**
  - **Interest payment or charges - the next day.**

16. Determine whether management reviews suspense account and aging (stale item) reports. Satisfactory aging reports generally reflect the number and amount of open items for each due-from account and

the status of large items and long-term open items. Consider whether the frequency of reviews coincides with the volume of accounts and stale items (i.e., level of risk).

17. Determine whether documentation supports general ledger carrying values.

- **Investigate unusual items or items outstanding for an undue period.**
- **Determine whether a charge-off or other classification is necessary.**

Permissible Activities and Equity Investments

NOTE: A listing of permissible national bank activities and equity investments is available on the FDIC website on the Bank Application Resources - Part 362 Activities and Investments web page or on the OCC website in the Activities Permissible for National Banks and Federal Savings Associations, Cumulative document.

18. Determine whether the bank obtained appropriate approvals for activities or equity investments that are not permissible for national banks. Consider the following:

- **Banks that engage, directly or indirectly, in activities or equity investments that are not permissible for national banks must meet applicable capital standards. *(FDIC: Part 362 of the FDIC Rules and Regulations, FRB: 12 CFR Part 208.)***
- **Banks must meet applicable capital standards when subsidiaries engage, directly or indirectly, in activities that are not permissible for national banks.**
- **Ensure management monitors compliance with regulatory conditions and restrictions imposed by approval orders.**
- **Make certain the investments and activities adhere to the strategies and business plans presented with the bank's application.**

19. Determine whether the board has approved all equity investments and activities.

20. Evaluate business plans and strategies regarding permissible and approved activities and equity investments.

21. Determine whether management and the board receive appropriate financial and operating information regarding each activity and equity investment.

Premises and Fixed Assets
22. Evaluate policies and procedures regarding premises and fixed assets. Satisfactory guidance generally discusses items such as: • **Specifying that the directorate approve all major purchases;** • **Discouraging conflicts of interest or self-dealing with vendors, servicers, and insurers; and** • **Maintaining the level and nature of premises and fixed asset investments in compliance with applicable laws and regulations (e.g., state laws and Section 24A of the Federal Reserve Act).**
23. Evaluate internal controls. Consider whether: • **Individuals who post purchase and sale records are responsible for the property custody or inventory;** • **Subsidiary ledgers of depreciation are balanced to the general ledger by persons who have sole custody;** • **Periodic physical inventories confirm asset values;** • **Adequate fire and extended insurance coverage is in force for bank premises, furniture, and equipment;** • **Asset sales, including the recognition of gains and losses, are appropriately recognized; and** • **Disclosures, including the existence of liens, are appropriate.**
24. Determine whether investment in premises and equipment is reasonable and complies with state laws.
25. Determine whether information and reporting regarding fixed assets to senior management and the board is adequate.
26. Determine whether real estate held for future expansion still qualifies as bank premises.
Deposit Activities
27. Evaluate policies and procedures for deposit account activity. Satisfactory policies generally include guidelines for the following: • **Opening and closing accounts,** • **Dormant and inactive accounts,** • **Held and returned mail,** • **Overdrafts,** • **Uncollected funds,**

- **Deposit sweep activities,**
- **Account maintenance, and**
- **Escrow accounts.**

28. Evaluate internal controls. Consider the following:

- **Reconciliation frequency;**
- **Segregation of duties exist so individuals who reconcile deposit accounts do not post items or handle cash or official checks;**
- **Suspense account items clear timely;**
- **New account opening (ensure appropriate segregation of duties);**
- **Transactions that affect customer accounts and other internal entries are properly and promptly processed with appropriate approval;**
- **Dormant and inactive account controls; and**
- **Overdrafts, large uncollected funds, and kiting suspect reports are reviewed regularly.**

29. Determine whether management receives appropriate periodic reports on open items in suspense, in process, and other deposit accounts and whether the reports include the aging and status of significant items.

30. Review and evaluate overdraft, large item, uncollected funds, and check kiting reports, periodically throughout the examination for irregular activity. Pay particular attention to activities of bank insiders.

31. Evaluate how management handles outstanding adjustments or differences (i.e., un-reconciled or stale items).

32. Determine whether the bank uses retail repurchase agreements (a.k.a. sweep accounts.) If so, confirm the following:

- **Advertising discloses that the instrument into which deposit funds are swept is not insured by the FDIC and is not an obligation of or guaranteed by the bank;**
- **Proceeds of deposit sweep arrangements are invested only in short-term bank obligations, short-term U.S. government securities, or other highly liquid, readily marketable investment grade assets that can be disposed with minimal loss of principal; and**
- **Confirmations comply with the requirements of the Government Securities Act.**

33. Determine whether management information systems are sufficient to track performance metrics (e.g., volumes, rates paid, maturities, originators, and concentrations) of brokered funds and other alternative deposits, and whether these funds are reported correctly in the Call Report.

Official Checks

34. Evaluate policies and procedures regarding official checks (e.g., expense checks, cashier's checks, loan disbursement checks, certified checks). Effective guidelines generally address items such as:

- **Accounts maintained for each type of official check.**
- **Board-approved individuals with signing authorities.**
- **Procedures and authorities for issuing and approving official checks, including enhanced procedures for handling certified checks.**

35. Evaluate internal controls. Consider whether management:

- **Maintains records that track official checks by serial number;**
- **Maintains reserve supplies of unissued checks under dual control;**
- **Periodically and independently reconciles reserve check supplies using the vendor's invoice;**
- **Periodically traces certified checks for appropriate charges to customers' accounts to determine whether the accounts had sufficient balances when certified; and**
- **Ensures that outstanding checks are regularly reconciled by an individual who does not have signing authority.**

36. Ascertain whether management maintains an appropriate reporting mechanism for reconcilements, inventories, and check signing.

Other Items

NOTE: Examiners are responsible for evaluating all significant risks relating to assets and liabilities. Consider whether the bank has comprehensive policies and procedures, strong internal controls, appropriate audit programs, and effective management information systems. Overstatements in asset accounts result in losses that, if material, should be detailed in the examination report.

37. Evaluate other asset categories on the general ledger. Common problem areas include the following:

- **Book values exceed cash surrender values for life insurance policies insuring the lives of key officers.** ***(Note: Substantial cash values in excess of carrying values may be shown in the report as Sound Banking Values Not Shown on Books. Overstatements should be classified loss. Refer to ASC 835-30, ASC 325-30, and Section 24 of the FDI Act for additional information.)***

- **The bank does not control non-booked assets (e.g., software and fine art).** ***(Note: Insurance riders might show assets insured but no longer in the bank.)***
- **Capitalized bonding company claims, which are rarely justified unless realization is assured beyond any reasonable doubt.**
- **Unrealizable deferred tax assets - deferred tax assets can be recognized for operating loss and tax credit carry-forwards just as they are for deductible temporary differences. A bank can recognize the benefit of a net operating loss for tax purposes or a tax credit carry-forward to the extent management determines that a valuation allowance is not necessary (i.e., if the realization of the benefit is more likely than not).**
- **Prepaid services costs (surety bonds, insurance policies, advance rental payments) are not charged to current expenses over the life of the purchased goods or services.**

38. Evaluate other liability categories on the general ledger. Determine whether:

- **Any liabilities are not reflected on the bank's books.** ***(Note: This information may be obtained through discussions with bank personnel, auditors, or through findings resulting from examiner review of other functional areas.)***
- **Reports that provide an aging of applicable liability accounts are prepared and reviewed by management periodically.**
- **Detailed records or calculations are maintained to support recorded liabilities.**

End of Core Analysis. If needed, Continue to the Expanded and Impact Analyses.