

Internal Audit Report
USA Bank
Deposit Accounts
Examination Date: Sep 30, 2005

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1 Summary

1.1 Objective and Scope

An audit of the USA Bank **Deposit Accounts** (Demand, Savings, Certificates of Deposit, Repurchase Agreements and Public Funds), was performed as of the close of business September 30, 2005. This audit area is considered a high risk audit area due to the movement of money, the receipt and disbursement of cash and the compliance risks associated with the Bank Secrecy Act and Anti-Money Laundering laws. The audit is conducted in accordance with the Internal Audit Plan.

The primary purpose of the audit is to identify the risks and possible lack of controls in the **Deposit Accounts** area.

In order to review and test the internal control procedures and related account balances of USA Bank **Deposit Accounts** (Demand, Savings, Certificates of Deposit, Repurchase Agreements and Public Funds), certain audit procedures were performed as outlined in the audit program. We assessed the Bank's internal control structure over Deposit Accounts (Demand, Savings, Certificates of Deposit, Repurchase Agreements and Public Funds) to ascertain if the related internal control procedures provide reasonable assurance of adherence to established policies and procedures and compliance with applicable laws and regulations.

Federal Reserve Regulations

- *Regulation CC - Availability of Funds and Disclosure of Funds Availability Policies*
- *Regulation D: Reserve Requirements Of Depository Institutions*
- *Regulation DD: Truth in Savings*
- *Regulation E: Electronic Funds Transfer*

FinCEN

- *CTR 104 and 105 on currency transactions*
- *OFAC Sanctions*

Policy Statements

- *Deposit accounts*
- *Dormant accounts*
- *Employee loans*
- *Funds availability*

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- *Know Your Customer*

USA PATRIOT Act

- *Section 326: Record retention requirements for accounts*
- *Section 326: Verification Through documentary and Nondocumentary Methods*

1.2 Conclusion

Through the date of our report, except for the items noted on the Schedule of Recommendations, the Bank's internal control structure over Deposit Accounts (Demand, Savings, Certificates of Deposit, Repurchase Agreements and Public Funds) appears adequate and is functioning as designed to ensure adherence to established policies and procedures and compliance with applicable laws and regulations.

1.3 Principal Audit Findings

This Examination resulted in: 1 Finding with a rating of Urgent; 4 Findings with a rating of High; 5 Findings with a rating of Discussion items; 7 Findings with a rating of Compliance checklist.

Auditee's measures

The auditee has planned or implemented appropriate action as described in the following.

1.4 Audit Follow-up

The follow-up of recommendations will be done through AuditAlert.

2 Audit Findings

2.1 Reconciliation Supervisory Review (Urgent)

During our sample review of **account reconciliations**, it was noted that many account reconciliations *were not being reviewed* by the supervisor in Item Processing and Deposit Operations.

Recommendation

We recommend management review all accounts at least monthly.

Action Plan

The Supervisor of the Item Processing Department was advised of this requirement and has implemented changes as requested.

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The Deposit Operations Manager will sign and review all account reconciliations. A secondary signature by the balancing associate and/or supervisor will also be implemented. This procedure is currently in place.

2.2 *Deposit Rate Changes (High)*

Deposit Rate Codes 8,11,55 – these public fund deposit rates codes are tied to the money market rates and they are not being changed to properly reflect current rates when changes occur. The customer has lost interest due to these errors. Also, due to the layout of the rate change form, it is difficult to readily identify all rates changed.

Recommendation

We recommend the **rate change form** prepared by the *Rate Change Committee* be updated to make it easier to identify the rates that are changing. A system should also be put into place to verify the rates are not changing during weeks when an email or phone call is not received from the rate change committee. The form submitted to **CCC** for deposit rate changes should be updated to ensure rate changes are not missed and someone should verify all deposit rate code changes after **CCC** has done the maintenance.

Action Plan

The Supervisor of the Exceptions Area is currently working on revisions to the rate change form to make it easier to readily identify rates when they change and we will request that the rate change committee send an email even when rates are not changing. Additionally, CCC will begin printing specs for verification purposes with the rate changes effective Tuesday May 31st.

2.3 *Internal Deposit Accounts (High)*

New internal deposit accounts can be opened by sending a new account form to account information. There is not a *list of individuals authorized to approve* new internal accounts.

Recommendation

We recommend developing a list of individuals authorized to **approve new internal accounts**. This list should be limited to no more than two individuals per department.

Action Plan

Internal accounts will only be opened with Senior Officer Approval.

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2.4 *New Account and Maintenance Verification* (High)

New account setup sheets are verified to the **ITI system** through **Navigator**. This does not ensure that all new accounts are verified. The DDA maintenance report is reviewed to ensure only authorized individuals open new accounts and perform maintenance.

Recommendation

We recommend using the maintenance reports generated through **ITI** to verify all new accounts opened and maintenance performed. All new accounts and maintenance appearing on the **ITI** report should be supported by written documentation.

Action Plan

Deposit Operations will edit CIS, SAV, DDA and COD reports to ensure the appropriate associates and documentation is verified. A new program will need to be created to combine the new account and maintenance reports and to also filter unnecessary system changes prior to the edit function. We hope to have the process in place during 4th quarter 2005.

2.5 *New Account Opening Procedures* (High)

During our sample review of forty-five deposit accounts opened in the past year, it was noted that documentation of an **OFAC** review was not indicated on the *set-up form* for six new account relationships. A report is run that shows all accounts opened without **CIP** information. An **OFAC** check is done on these accounts. This process does not identify accounts that were opened with **CIP** information but no **OFAC** review. Thirteen signature cards were not completed properly and five of seven required third party designations were not on file or were incomplete.

Recommendation

We recommend that management ensure that all new account personnel understand the importance of following new account opening procedures. A compensating control would be for "new accounts" to monitor the account setup sheets for **OFAC** compliance. The exceptions department is responsible for quality controlling signature cards. Procedures need to be established to ensure proper third party designations are received when required.

Action Plan

New procedures are currently being prepared and will become effective on June 1st.

These procedures will require that all new accounts have signature cards, corporate resolutions, CIP information, E-funds and OFAC or the accounts will not be opened. The Corporate Compliance

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Officer and the BSA Administrator are in the final stages of completing these procedures and training associates on the new requirements.

On June 1st, Deposit Operations Department will manage CIP and Signature Card reporting. Deposit Operations will no longer open accounts with missing CIP, OFAC, and/or signature cards. Previously, accounts were opened and flagged with missing information. The missing and flagged information was reported by the Exceptions Department and letters mailed.

Deposit Operations will now return all new account applications with missing CIP and OFAC information and/or signature cards to the branch office and the account will not be opened on the ITI system. A new account will remain on non-post for three days to allow the branch to correct the missing information. After three days, the item will move from non-post to the branches cash items report. This report will be monitored by Cindy Crane and Rob Springer to ensure items are being cleared in a timely manner. Items not resolved within two weeks will result in the money being refunded to the customer.

2.6 *Dormant Accounts (Discussion items)*

The **dormant report** that is pulled for DDA accounts is incomplete. It does not include accounts that have a blank last check date field. The system also recognizes internal transfers as a check clearing.

The report specifications should be set to include blank fields and to add logic that the account must have at least six checks cleared per year. This would catch the account that only has an annual transfer to pay lockbox rent or a similar charge. These same specifications should be added to the savings report to ensure that all eligible accounts are being captured.

CCC should also be contacted to investigate the possibility of ITI filtering out customers from the escheatment report that have current active account relationships. Due to the number of man-hours required to work this report, an enhancement request for an upgrade should be submitted to ITI to perform this task if the filter is not available.

2.7 *Navigator (Discussion items)*

Some USA Bank branches have not been upgraded to **Navigator**. This makes it difficult to train and help those branches with questions. We recommend everyone be upgraded to the current Navigator software.

2.8 *Official Check Verification (Discussion items)*

Item processing currently reviews all **official checks** \$50,000 or greater for proper authorization. We recommend reducing this limit to a maximum of \$25,000.

2.9 *Port Maintenance (Discussion items)*

The current process of changing **port information** allows for port information to be inaccurately maintained. We recommend updating the account number section of the blue form and having staff attach a port printout with the accounts needing changed hi-lighted. All port changes should be submitted to a central department for

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maintenance.

We also recommend **requiring the authorized customer's signature** to change port information and reviewing the process of accepting address changes from the post office.

2.10 *Regulation D - Excessive Activity (Discussion items)*

The **regulation D "Reserve Requirements of Depository Institutions" Suspect Activity Report** has not been monitored since February 2005 due to an employee transferring out of the department. All accounts with excessive transactions were not being obtained when it was being monitored in 2004. Per conversation with Jeannie Macy, someone will begin monitoring this report again and all eligible accounts will be monitored.

2.11 *Advertisement requirements (Compliance checklist)*

12 CFR 230.8(c)(2) – Print advertisements sometimes do not state the time the **APY** is offered.

2.12 *Advertisement requirements (2) (Compliance checklist)*

12 CFR 230.8(c)(3) – Print advertisements do not state the minimum balance to obtain the APY.

2.13 *Improper required condition of loan (Compliance checklist)*

12 CFR 205.10(e)(1) – Automatic transfer is a **required condition** of employee computer loans.

2.14 *Interest calculation (Compliance checklist)*

12 CFR 205.11(c)(2) – Interest is not calculated and applied to an account for unauthorized EFTs.

2.15 *Notice of the consumer's right for an EFT error (Compliance checklist)*

12 CFR 205.11(d)(1) – There is no **notice of the consumer's right** to request the documents upon which USA Bank relied in making it's determination that no EFT error occurred.

2.16 *Notification of a debit of a provisional credit (Compliance checklist)*

12 CFR 205.11(d)(2) – USA Bank does not honor checks and drafts to third parties and preauthorized transfers for five business days after **notification of a debit of a provisional credit** to the extent that they would have been paid if the provisionally credited funds had not been debited.

2.17 *NOW Accounts (Compliance checklist)*

12 CFR 204.13 – Ineligible businesses have NOW accounts.