

Other Assets and Liabilities Program

EXAMINATION OBJECTIVES

To determine and evaluate the institution's policies and procedures applicable to the recordkeeping and management of other assets and other liabilities.

To determine whether expenditures for other assets are appropriate to the needs of the association and consistent with its business plan.

To determine the extent of compliance with the savings association's stated policies, procedures, and controls, and with applicable state and federal regulations and restrictions.

To determine if the association has exposure to contingent liabilities and to evaluate its plans for addressing them.

To summarize findings and to initiate corrective action when deficiencies exist that could affect safety and soundness, or when you note violations of laws or regulations.

EXAMINATION PROCEDURES

LEVEL I

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1. Review scoping materials applicable to this program. If another examiner(s) reviewed scoping materials, obtain a written or oral summary of the review(s) of items concerning this program. Scoping materials might include: the prior examination report, prior exception sheets and work papers, review of internal and external audit reports, review of OTS financial analysis reports, supervisory analysis, correspondence, etc.

2. Review the preceding report of examination and all other asset and other liabilities-related exceptions and determine if management has taken appropriate corrective action.

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3. Review the Matters Requiring Board Attention and Corrective Actions from the three or four previous ROEs to ensure that the board and management have taken appropriate corrective action where necessary and persistent problems have not recurred.

4. Determine the association's policies and procedures on other assets. Review policy statements, the internal asset review program, procedures manuals, the association's business plan, board and committee minutes, and external audit reports.

5. Ascertain through observation and interviews with management whether the savings association periodically reviews policies and procedures and communicates changes to the appropriate association personnel. Determine whether they are generally comparable in nature and scope with management's policies and practices on other balance sheet items. Review all asset-related suspense accounts.

6. Review correspondence with legal counsel handling litigation to determine if the savings association records contingent liabilities and that they appear reasonable.

7. Determine whether the savings association has policies and procedures for managing other liabilities and whether they are compatible with the findings of prior independent audits and examinations, and state and federal regulations. Determine if the savings association's policies and procedures prevent imprudent practices as discussed in this Handbook Section.

8. Review Level II procedures and perform those necessary to test, support, and present conclusions derived from performance of Level I procedures.

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LEVEL II

9. Obtain (or prepare) a complete list of other assets. Obtain a reconciliation of the balancing of the association's subsidiary records to the general ledger. Ascertain whether the savings association reports other asset balances correctly on the Thrift Financial Reports. Correct as necessary.
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10. Compare total investments between examinations and determine the reason for significant variances or unusual changes. Determine and evaluate management's justification for material overinvestment in other assets.
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11. Review a selected sample of subsidiary ledgers and documentation supporting other assets. Determine whether the savings association appropriately writes down other assets the savings association deems uncollectible. The savings association should charge off or classify as Loss such assets in accordance with 12 CFR § 560.160.
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12. Compare accounts receivable for the current reporting period with receivables 90 days prior. Scrutinize material accounts with unchanged balances over this period for possible write-off or classification.
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13. Be alert to the existence of any unrecorded assets; for example, deficiency judgments obtained as a result of foreclosure, or assets charged off that still have substantial value. The savings association should record these items as other assets at nominal book value. Verify a selected sample of claims pending for FHA or VA guaranteed loans to determine that the claims are legitimate and that the savings association promptly submits them.
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14. Determine if the other assets accounts include a significant investment in cash value life insurance. If so, determine the following:

- Is the insurance amount reasonable?
- Does the savings association account for the cash value life insurance correctly?
- Is such insurance a permissible investment, in accordance with OTS policy? (See Appendix A.)

15. Review the adequacy of the Board's documentation justifying the amount of cash value life insurance.

16. Review whether the insurance arrangement complies with Federal Reserve Regulation O, as applicable.

17. Determine whether the insurance policy adequately protects the savings association's interests.

18. Determine if the savings association recorded improper payments between the savings association and affiliated companies under 12 CFR §§ 563.41 and 563.43 or if the payments present a conflict of interest under 12 CFR § 563.200.

19. Review subsidiary records and invoices supporting a selected sample of other liability account transactions. Determine if the savings association recorded all liabilities promptly. Determine and evaluate justifications for not doing so.

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20. For each obligation or circumstance identified that could result in direct or contingent liabilities, determine if management is aware of the problem and has developed plans for disposing of potential liabilities.
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21. Obtain a listing of all accounts included in the other liabilities category. For major accounts included in this listing, determine if and why there were significant changes in these accounts since the previous examination and evaluate management's justification for these changes.
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22. On a selected sample basis, determine the composition of large other liability accounts. Review the documentation supporting other liabilities. Determine and evaluate the justification for items that appear unusual.
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23. Determine if the savings association has not paid any liabilities for an unreasonable length of time. If so, why? Evaluate management's justification for nonpayment and determine when the association expects to make payment. Determine if the savings association has adequate controls to ensure the proper disposition of liabilities remaining unpaid for extended periods of time.
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24. If applicable, determine that the tax payments to a parent holding company are in accordance with OTS policy. (Refer to the OTS Holding Company Regulatory Handbook.)
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25. Ensure that your review meets the Objectives of this Handbook Section. State your findings and conclusions, as well as appropriate recommendations for any necessary corrective measures, on the appropriate work papers and report pages.
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LEVEL III

26. Review all evidence supporting significant income tax refund claims the savings association records as a receivable. Such evidence includes the actual claim document, a request for technical advice, protest, or any other material that provides additional support to the claim. You should take particular care when you look at tax refund claims where the amounts are significant relative to either net income or capital.
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EXAMINER'S SUMMARY, RECOMMENDATIONS, AND COMMENTS

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