

RESCINDED

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Handbook: **Examination Handbook**

Subject: **Financial Records**

Section: 410

Financial Records and Reports

Summary: This bulletin provides Examination Handbook Section 410, Financial Records and Reports. This section replaces existing Thrift Activities Handbook Section 410.

For Further Information Contact: Your Office of Thrift Supervision (OTS) Regional Office or the Thrift Policy Division of the OTS, Washington, DC. You may access this bulletin and handbook section at our web site: www.ots.treas.gov.

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SUMMARY OF CHANGES

OTS is issuing Examination Handbook Section 410, Financial Records and Reports. We updated Section 410 to reflect the enhanced financial disclosure requirements that public savings institutions are subject to under the Sarbanes Oxley Act of 2002. Change bars in the margins of the handbook section indicate revisions.

A handwritten signature in black ink that reads 'Scott M. Albinson'.

—Scott M. Albinson

Managing Director

Examinations, Supervision and Consumer Protection

Financial Records and Reports

Good decisions begin with good information. Complete and accurate records and reports are essential for a savings association's board of directors and officers to make informed decisions and to clearly understand and support transactions. Also, an association must establish policies, procedures, and controls to ensure that management properly maintains financial reports and records. Inaccurate, incomplete, or unreliable information jeopardizes the safety and soundness of an association because unidentified or undisclosed problems could prevent or delay necessary corrective action and undermine the association's viability.

The Office of Thrift Supervision (OTS), in its role as regulator, must have reliable data to assess and monitor a savings association's financial condition and activities. Your review of an association's books and records, internal reports, and reports to external auditors and regulatory officials should include an assessment of the accuracy and adequacy of that information. Your review allows OTS to rely on the association's records throughout the examination, supervision, and monitoring processes.

LINKS

 [Program](#)

RISK-FOCUSED REVIEW

You should direct the focus of your review to assessing the accuracy and adequacy of a savings association's records and reports. Accuracy is essential to properly evaluate and monitor an association's financial condition. This involves obtaining satisfactory explanations of all material variances, trends, or other items and assessing the reasonableness of financial records. You must also evaluate an association's policies and procedures for relevance and sufficiency. You should not spend an inordinate amount of time verifying a minor account if it has a small balance and does not consist of large, offsetting transactions. If you discover minor errors or omissions, you should report it to management. You should be alert, however, if a minor account problem appears to be systemic.

Regulatory Requirements

Pursuant to 12 CFR Part 562 all savings associations and their affiliates must maintain accurate and complete records of all business transactions. The savings association must keep the records in the United States. Upon request by OTS, these records must be readily accessible for examination and other supervisory purposes within five business days at a location acceptable to OTS.

In addition, 12 CFR § 563.170(c) requires each savings association, affiliate, or service corporation to establish and maintain an accurate and complete record of all business that it transacts. An association must establish and maintain such other records as required by applicable statutes or regulations. The

documents, files, and other material or property comprising these records must be available for examination and audit.

Change in Location of Records

Under Section 563.170(d), savings associations must perform the following actions before they transfer the location of general accounting or control records:

- Obtain a board of directors' resolution authorizing the transfer or maintenance.
- Send a certified copy of the resolution to the regional director.

Incomplete or Inaccurate Records

Regions should immediately take enforcement action if an association's books and records are incomplete to make an examination impossible or if they do not provide complete and accurate details on all business transactions. The caseload manager (or equivalent) should promptly meet with the association's board of directors, discuss the problem, and require prompt corrective action. If the association does not correct the deficiency, the caseload manager should refer the matter to OTS's Regional Counsel for initiation of cease-and-desist proceedings.

You should be particularly alert to violations of Part 562 and § 563.170(c), as the presence of incomplete and inaccurate records historically is evidence of severely deficient operating standards and a resultant deteriorating financial condition.

Any savings association that has a class of securities registered with the Securities and Exchange Commission must comply with the enhanced financial disclosure requirements of the Sarbanes-Oxley Act of 2002.

Sarbanes-Oxley Requirements

Any savings association that has a class of securities registered with the Securities and Exchange Commission must comply with the enhanced financial disclosure requirements of the Sarbanes-Oxley Act of 2002 (SOX). Such public savings associations must include in their annual reports to the SEC the following:

- A report of management on the institution's internal control over financial reporting.
- The registered public accounting firm's attestation report on management's assessment as part of the annual report.

These public reporting requirements are similar to the external audit and reporting requirements for certain large institutions under Part 363 of the Federal Deposit Insurance Act. Because the reporting requirements are similar, savings associations and savings association holding companies may choose to prepare a single management report that satisfies both Part 363 and the SOX requirements.

Records and Reports

You may gather data from savings association records, such as:

- General ledger
- Subsidiary ledgers
- Journals
- Vouchers
- Various schedules and reports.

Various schedules and reports that will be useful to you in your review process include the following:

- Internal reports that staff submits to management and the board of directors.
- The Thrift Financial Report (TFR).
- External and internal audit reports.
- Holding company annual reports.
- Securities and Exchange Commission 10Q and 10K filings.

You may also obtain additional information from regional office monitoring activities and work performed by external and internal auditors who attest to the integrity of an association's books and records.

Savings associations should maintain internal systems and procedures to ensure that reporting reflects appropriate regulatory requirements. Clear, concise, and orderly records should support the compilation of various data. Proper documentation provides not only a logical tie between financial report data and an association's records, but also facilitates accurate reporting and verification.

General and Subsidiary Ledgers

Each savings association should have a chart of accounts describing the nature and general content of each general ledger account. You should encourage associations that do not have such charts to develop one. The chart of accounts will not only aid in your review, but will also provide consistency and continuity in an association's accounting department.

You should obtain the general ledger and appropriate subordinate organization (for example, service corporation, operating subsidiary or lower-tier entity as defined in Part 559) ledgers. You should review the individual asset, liability, capital, and income and expense accounts for their history, recent activity,

balance, and propriety. You should investigate any extraordinary items or items that are not self-explanatory, and you should review and reconcile any catch-all accounts (that is, other assets, other liabilities, miscellaneous, or suspense accounts). If your review discloses any errors or omissions, you should determine whether they resulted from inadequate policies, deficient procedures, or practices not in accordance with an association's policies and procedures.

During your review of the general ledger and subsidiary ledgers, you should determine that the account titles accurately reflect the account contents. A title describing an account may not always represent its content. The determination that an account contains the proper items and has a true balance helps to ensure that all line items are being recorded properly on the TFR. If reclassifications are necessary, you should advise management accordingly and follow up to see that the association has done so correctly.

Thrift Financial Reports

OTS requires each insured savings association to file a TFR with the Financial Reporting Division (FRD) office in Dallas on the 30th day following the end of each calendar quarter. Schedules CMR (Consolidated Maturity/Rate) and HC (Thrift Holding Company) are due 45 days following the end of each calendar quarter. "Clean" data are typically available within 45 days following the filing of the reports. OTS uses the TFR to do the following:

- Collect detailed financial information in a consistent format on all regulated savings associations.
- Collect uniform information on industry activities.
- Facilitate supervision.

The TFR discloses an association's financial condition, the results of its operations, and other supplemental data. OTS uses data from this report as the basis for its Financial Reporting System. This report system in turn produces other reports, such as the Uniform Thrift Performance Report (UTPR), the Risk Monitoring System (RMS), and the Report of Examination (ROE) financial pages. Currently, you may access the Financial Reporting System through the ECEF docket selector on the OTS Intranet.

Thrift Financial Report Requirements

Savings associations must file financial reports that use generally accepted accounting principles (GAAP).

Savings associations must complete the financial sections of the TFR on a consolidated basis. You should review the TFRs to ensure that associations are performing consolidations properly and following TFR instructions in completing their reports.

OTS uses the Consolidated Maturity and Rate Information on Schedule CMR to collect detailed information relating to an institution's interest rate risk. A savings association must file Schedule CMR if it meets one of the following criteria:

- Total assets are in excess of \$300 million.
- The risk-based capital ratio is less than 12 percent.
- The regional director directs the institution to file the schedule.

Many savings associations that OTS does not require to file Schedule CMRs do so voluntarily. These associations must conform to the same filing deadlines and accuracy requirements as associations that OTS requires to file the schedules.

OTS requires savings associations to file TFRs electronically with the Financial Reporting Division using the OTS Electronic Filing System (EFS).

OTS requires savings associations to file TFRs electronically with the FRD using the OTS Electronic Filing System (EFS). The EFS may interface with the general ledger to create an electronic relationship between the general ledger and the TFR line items. This interface automates the preparation and filing of the TFR and shortens the learning curve when there is a change in an association's report preparer. The software also contains an editing function that helps reduce reporting errors. It is important that you

thoroughly review an association's books and records and not rely on the interface reporting capability.

Review of the Thrift Financial Report

You should review the content of the most recent quarterly TFRs for accuracy. You should also reconcile line items shown on the reports to the general ledger, the subsidiary ledgers, and other appropriate sources, such as loan registers. The TFR Instruction Manual provides instructions on the content of TFR line items. The instructions explain, line-by-line and category-by-category, what information is allowable for placement in specific TFR line numbers. OTS revises the instructions quarterly and generally revises the forms annually. Both industry and regulatory personnel must have up-to-date instructions for accurate classifications and reconciliation.

The TFR Instruction Manual is available on the OTS website. Also available are Q & A and News links that are good sources of information when reviewing an institution's TFR.

If you discover any errors or omissions during the TFR review, you should determine whether any association policies, procedures, or deficient or inadequate practices caused them. You should explain and document in the ROE any significant adjustments, including their causal factors. A significant adjustment results in any one of the following:

- Failure of a capital requirement.

- Change in an association's prompt corrective action (PCA) category.
- Change in a component rating.
- A change that is significant for regulatory reporting purposes.

Generally, you should not require that an association amend a prior period TFR unless the adjustment is significant. If the adjustments are not significant, you should direct the association to show the adjustments on its next TFR scheduled filing.

Errors or omissions in one schedule usually have repercussions within other schedules. As a result, when you discover and correct an error in one schedule, you must also amend other schedules affected by the error. For example, if an association classifies a credit in Schedule SC as a mortgage loan, and you subsequently reclassify it as a commercial loan, the association then must make the appropriate changes in Schedule CMR. You must disclose any errors discovered in the TFRs on the proper page(s) in the ROE, including financial report pages.

The accuracy of TFRs is extremely important, because OTS uses information contained in the reports to monitor savings associations between examinations. If associations submit inaccurate data, OTS may not detect changing patterns of behavior or deteriorating trends. When compounded, a distorted picture of the industry condition could result.

Internal Financial Reports to the Board of Directors

Boards of directors have extensive fiduciary responsibilities in guiding the activities of their savings associations. Creditors and depositors have the right to expect that an association's board of directors and officers use safe, sound, and ethical practices.

You should do the following examination procedures:

- Ascertain whether management presents any financial reports to the board besides the required reports, such as the TFR.
- Review the accuracy and adequacy of additional reports.
- Determine whether the submission of inaccurate or inadequate reports is the result of an intentional act by management.

Boards of directors have extensive fiduciary responsibilities in guiding the activities of their savings associations.

At a minimum, financial reports to the board of directors should include the following operational information:

- A summary of significant financial activity.

- Documentation detailing loans granted.
- Delinquencies.
- The status of previously approved ongoing projects (including loan projects).
- The status of any real estate workouts.
- Liquidity reports.
- Profit and loss statements with yearly and year-to-date comparisons.
- Foreclosure status reports.
- Classified asset summaries.
- Any salient trial balance data.

If you discover any material errors or omissions in these reports, you should determine and explain the causal factors in the ROE.

Monitoring Reports

Regional offices monitor savings associations' reports on an ongoing basis. Some regions provide examiners with reports that the regions generate from information gleaned during the surveillance process. If your regional office sends monitoring reports to you, you should review them for any of the following:

- Incipient adverse trends.
- Material deviations from one period to another.
- Extraordinary developments.
- Other matters of concern.

You should follow up on all items deemed worthy of further investigation and obtain satisfactory responses from management that explain specific questionable matters.

REFERENCES

Code of Federal Regulations (12 CFR)

§ 552.11	Books and Records
§ 560.160	Asset Classification
§ 560.172	Re-evaluation of Real Estate Owned
Part 562	Regulatory Reporting Standards
§ 563.170	Examinations and Audits; Appraisals; Establishment and Maintenance of Records

Other References

Office of Thrift Supervision, *Thrift Financial Report Instruction Manual*

Office of Thrift Supervision, *Directors' Guide to Management Reports (October 1999)*

CEO Letter No. 180, SEC's Final Rule Discussing Reports on Internal Control That May Satisfy Both SEC Requirements and the FDIC Part 363 Requirements

U.S. League of Savings Institutions, *Standard Accounting Manual*

Financial Records and Reports Program

EXAMINATION OBJECTIVES

To determine and evaluate the savings association's policies, procedures, and controls for maintaining adequate and accurate reports and records as considered appropriate by standard accounting guidelines and as required by applicable regulations.

To determine the accuracy of the quarterly TFRs filed with OTS and to ascertain if the savings association must file any amended reports.

To determine the accuracy and adequacy of the savings association's internal financial records and reports.

EXAMINATION PROCEDURES

WKP.REF.

LEVEL I

1. Review any off-site monitoring reports, management letter, and Preliminary Examination Response Kit (PERK) information, specifically the internal control questionnaire and the applicable financial data.

2. Review the previous report of examination and all financial records and reports-related exceptions noted and determine if management has taken appropriate corrective action.

2. 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.

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3. Review and discuss with management the savings association's policies, procedures, and controls relating to the maintenance of financial records and reports. Include in your discussion the training and support given to the report preparer(s) of the TFR.

4. Review the most recent quarterly TFRs for accuracy. Ensure that the savings association prepared the reports according to TFR instructions. Explain any material reporting errors identified in the examination work papers and in the ROE and discuss them with management. (Determine, based on the guidance in the general instructions section of the TFR Instructions, whether an amended report is necessary.)

5. Review internal reports provided to management and the board of directors and compare with the TFRs. Identify and explain material variances. Coordinate this review process with the regulator involved in the review of management. If appropriate, determine the frequency and adequacy of the internal reports considering the complexity and level of the savings association's operations.

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

LEVEL II

7. Review and reconcile TFR line items to the general ledger, appropriate subsidiary ledger, and any other financial records of the savings association. Identify unusual or unexplained activity and material variances. Specifically review nondescriptive accounts such as "other assets" or "other expenses."

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8. Ensure that your review meets the Objectives of this Handbook Section. State your findings and conclusions, and appropriate recommendations for any necessary corrective measures on the appropriate work papers and report pages.
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EXAMINER'S SUMMARY, RECOMMENDATIONS, AND COMMENTS

Exam Date:	
Prepared By:	
Reviewed By:	
Docket #:	