

TITLE 45 - DEPARTMENT OF BANKING AND FINANCE

Chapter 13 - STANDARDS FOR ACCEPTABILITY AND SCOPE OF EXAMINATIONS FOR DIRECTORS' EXAMINATIONS

001 GENERAL.

001.01 A copy of the Interagency Policy Statement referenced in this Rule is available as an appendix to this Rule at [Title-45 chapter-13 APPENDIX](#).

002 BOARD OF DIRECTORS' RESPONSIBILITY.

002.01 Neb. Rev. Stat. § 8-124 provides that the Board of Directors of a bank may accept one annual audit by an accountant or accounting firm approved by the Department in lieu of the required annual examination by the Board of Directors.

002.02 The Board of Directors may adopt minimum Standards for Acceptability and Scope of Examination as outlined in this Rule or adopt external auditing programs identified in the "Interagency Policy Statement on External Auditing Programs of Banks and Savings Associations [Oct. 15, 1999]."

003 STANDARDS FOR ACCEPTABILITY.

003.01 An annual examination of a bank, to be acceptable, must be made in accordance with:

003.01A the minimum examination procedures outlined in this Rule, or

003.01B the standards for acceptability of audits of financial statements in accordance with generally accepted auditing standards; and

003.01C 45 NAC 12.

003.02 The Director of the Department has the responsibility to determine whether an examination or an audit is acceptable and the authority to reject any examination or audit which does not conform in all respects with prescribed requirements. If, at any time, it is found that the individual(s) conducting the examination has not followed recognized rules of ethics or conduct or has not met the minimum standards of the Department, the examination will be rejected. Any misstatement of facts or circumstances or any misrepresentation of any kind knowingly made will not only cause an examination to be rejected but will also form a basis for the temporary or permanent disqualification of the individual or firm from conducting similar examinations.

004 SCOPE OF EXAMINATION.

004.01 General

004.01A The examination procedures listed below are minimum procedures to be performed under Section 8-124. They should not be construed as restrictive. Circumstances relating to individual engagements or situations encountered may make it necessary or desirable to expand certain procedures, apply alternate procedures, or extend examination procedures to other areas.

004.01B At each annual audit, the auditor may prescribe a risk-focused review of accounts identified in this Rule; however, all examination procedures described herein shall be performed at least once within a 24-month period.

004.01C The scope of the examination should begin as of the date of the prior examination to avoid gaps.

004.01D The examination should be coordinated with the Department to avoid conflicts with the Department's examination timing.

004.02 Minimum Examination Procedures

004.02A Control:

004.02A1 Commence examination on a surprise basis. Assume control over all irregular items and records to be examined until procedures have been completed.

004.02B Cash, Cash Items, Foreign Currency, Clearings, and Exchange:

004.02B1 Conduct a count of a portion of teller and vault cash on an unannounced basis; timing and scope should avoid recognizable patterns. Reconcile cash counts to general ledger. Examine cash items on a test basis, verifying legitimacy and collectability. Investigate any unusual or stale items and request confirmation of totals of clearings and exchanges. Determine disposition of larger return items.

004.02C Due From Banks:

004.02C1 Examine bank reconciliations with correspondent banks by obtaining statements for several days beginning with the audit date, and on a test basis, compare checks and drafts with the records of instruments issued. Investigate any unusual or stale items. Confirm the balance directly with the related banks.

004.02D Investments:

004.02D1 Reconcile the subsidiary ledger with carrying values and accrued interest recorded in the general ledger accounts. Confirm securities with safekeeping agents. Examine securities on hand and verify safeguarding procedures. Review investment portfolio to determine if all securities were purchased and/or being held in

conformity with applicable statutes and regulations.

004.02E Loans:

004.02E1 Reconcile subsidiary loan ledger and accrued interest with applicable general ledger accounts. See Section 006 of this Rule for confirmation requirements.

004.02F Allowance for Losses:

004.02F1 Ensure management's process for calculating adequacy of the reserve(s). The process is to be based on comprehensive, adequately documented, and consistently applied analysis of the underlying assets. Reconcile subsidiary records for charged-off loans to control records and apply transaction testing to a sample of reconciling items. Test large charged-off items to ensure appropriate prior Board of Directors' approval.

004.02G Federal Funds Sold:

004.02G1 Confirm all Federal funds sold with the borrowing bank, ascertain that the aggregate of the detail agrees with the general ledger and examine evidence of subsequent settlement.

004.02H Buildings - Furniture and Fixtures:

004.02H1 From the date of the prior examination, review transactions in the accounts, trace approval of major expenditures to the minutes of the Board of Directors' meetings, and test the computation of depreciation.

004.02H2 Review lease accounting for appropriate recognition.

004.02I Demand Deposits:

004.02I1 Total individual ledgers or obtain a trial balance and prove totals on a test basis for the account balance and accrued interest, and reconcile totals with general ledger accounts.

004.02I2 Review overdrafts, trace disposition of selected unposted items.

004.02I3 Review the latest reconciliation for official checks and bank money orders. See Section 006 of this Rule for confirmation requirements.

004.02J Time Deposits:

004.02J1 Reconcile subsidiary ledger totals and accrued interest totals with general ledger accounts. Trace disposition of selected unposted items. See Section 006 of this Rule for confirmation requirements.

004.02K Income and Expense:

004.02K1 Test selected "debits" to both income and expense accounts for possible overstatement. Examine proper documentation for selected items.

004.02K2 Ascertain on a test basis by independent means that all "credits" to the income and expense accounts have been recorded and have not been understated.

004.02K3 Review the related accounts of accrued income, accrued expenses, unearned discounts, and deferred income by testing "debits" and "credits" as above, and ascertain that balances in these accounts are fairly stated.

004.02L U.S. Savings Bond, Travelers Checks, and Other Consigned Items:

004.02L1 Examine bank's most recent reconciliation of items on hand with memo controls and related confirmation from issuing agents, or, if such records are not available, count items on hand.

004.02L2 Reconcile with total on consignment and obtain confirmation from issuers.

004.02M Safekeeping and Custodial Departments:

004.02LM1 Review accounting procedures for recording items held in safekeeping or custody for customers.

004.02M2 Physically or virtually inspect selected items on hand or controlled.

004.02M3 Confirm selected items held in custody by other banks.

004.02M4 Confirm selected safekeeping and control accounts by direct communication with customers.

004.02M5 Inquire of bank if it holds, controls, or brokers digital assets. If yes, the bank may be subject to additional risk-focused examination procedures.

004.02N Trust Department:

004.02N1 Total account activity ledgers for the various trust accounts and reconcile totals with the trust general ledger control accounts where practicable.

004.02N2 Total asset detail cards and reconcile to the amounts shown on the trial of selected trusts as noted on the detailed asset ledgers.

004.02N3 Verify trust assets on a test basis by reference to the bank records or by direct communication with the bank.

004.02O Other Activities:

004.02O1 The auditor, using professional judgment, should review for other financial reporting risks such as digital assets, mortgage lending, insurance activities, loan servicing, or other activities. When prudent, the auditor should expand the scope of the agreed upon procedures to test areas deemed to have a higher degree of risk.

004.02P Internal Controls:

004.02P1 The system of internal controls and operating procedures must be reviewed, and the audit report must include specific comments and recommendations from this review that are directed to the Board of Directors or audit committee.

004.02Q Capital Accounts:

004.02Q1 Capital Notes and Debentures.

004.02Q1a Reconcile subsidiary records to the general ledger.

004.02Q1b Review for compliance with terms of the agreement(s).

004.02Q1c On a sample basis, test to ensure accuracy of interest paid and accrued, as applicable.

004.02Q2 Surplus.

004.02Q2a Review all entries during the audit period for proper authorization from the Board of Directors.

004.02Q3 Undivided Profits.

004.02Q3a Review all entries during the audit period to ensure accuracy.

004.02Q3b Review for proper authorization from the Board of Directors for transfers or dividends.

005 REVIEWS.

005.01 Review accounting procedures for handling nonledger assets, such as charged-off loans and recoveries. Charged-off loans not deemed worthless by the Board of Directors should be formally tracked for inclusion in lending limit considerations.

005.02 Review minutes of Board of Directors' meetings and the most recent regulatory examination report.

006 DIRECT CONFIRMATION WITH BORROWERS AND DEPOSITORS.

006.01 Prepare (or have prepared, under the auditor's supervision) and mail positive and/or negative confirmation requests on a test basis for all loans and deposit categories, including participation loans purchased and sold.

006.02 For participation loans purchased, confirm balances with the selling bank only.

006.03 For participation loans sold, confirm balances sold with the purchasing bank and the total balances with the borrower on a test basis.

006.04 Mail confirmation requests to a selected number of customers whose loans were charged off since the most recent regulatory examination.

006.05 Mail confirmation requests for a selected number of accounts that are dormant and accounts that have zero balances and have been closed since the most recent regulatory examination.

006.06 Any positive confirmation request not acknowledged by a loan customer after two weeks from the date of the original mailing must be followed by a second confirmation request. A list of positive confirmation requests not acknowledged after the mailing of both a first and second request must be included in the report.

007 REPORTING.

007.01 A report shall be prepared and submitted to the Board of Directors or audit committee describing the scope of examination and setting forth the findings and recommendations as a result of the auditing procedures performed and review of operating procedures and system of internal controls. Any open or unreconciled item at the time the report is submitted to the Board of Directors or audit committee must be disclosed and commented upon in the report.

007.02 The report must include the commencement and completion dates of the audit, a statement affirming independence, and a statement that the minimum requirements outlined in this Rule or in another applicable rule or guidance were met.

007.03 For purposes of review by the Department, reports should follow the order of Section 004 of this Rule and include the balance of the general ledger asset and liability accounts examined as of the examination date under the specific account headings. A description of procedures followed is to be a part of this report.

007.04 Verification of accounts may be made on a basis of sampling to achieve a certain percent of reliability. For most examinations, a 95% reliability factor is considered adequate; in lieu thereof, the accountant may verify 10% of the number of accounts determined for confirmation. These two methods will give the accountant some flexibility when examining larger

banks. If a shortage is determined to exist, a 100% verification of accounts must be made.

007.05 With respect to the confirmation of loan and deposit accounts, submit a confirmation statistics summary showing the extent and results by type of confirmation and type of account rather than report the extent and results of such procedures under each specific account heading in the body of the report. Any accounts selected for confirmation which have not been or cannot be mailed or delivered to the customer are to be so listed in the final report.

007.06 The Board of Directors must file an electronic copy or two paper copies of the report with the Department within 120 days after the completion of the directors' examination, or, for a periodic audit, within 120 days after the end of the calendar year. The Board of Directors may authorize the individual or firm performing the directors' examination or periodic audit to do the same.

007.07 Any defalcation discovered during the examination or periodic audit shall be reported to the Department by the Board of Directors. If the Board of Directors does not report the defalcation immediately, the accountant or firm has the obligation to do so. The accountant or firm should obtain the bank's advance authorization to notify the Department of discovered defalcations.

