

AVOID SLIPPING AS YOU PREPARE TO BE AUDITED

by [Steve Brown](#)

The TV show MythBusters did some work around the banana peel fall and found that while this pratfall is used frequently in old style comedy, it isn't guaranteed to work. While the underside of a banana skin is slick, it does have some friction-reducing properties, so a single peel isn't guaranteed to cause someone to fall down. To do that, MythBusters found the best way was to layer a whole bunch of banana peels to reduce friction and to use older ones because they are more slippery. Like slipping on a banana peel, having a bad audit can also lead to a fall. That doesn't mean auditing can be avoided in banking, as it is a fact of life, particularly given ongoing regulatory changes. Before your next audit, it is important to prepare and train employees, as you update policies and procedures. One way to do this is to have a designated employee assigned to perform the role of a audit preparation manager. This person is usually the CFO, head of internal audit, chief risk or compliance officer. No matter who it is for your bank, they should be well organized and fully capable of the task of creating, developing and maintaining policies and procedures for daily operational guidance. They should be well read on regulatory and accounting matters and have a focus on limiting the risk of the bank by managing internal control policies. Having strong internal controls helps the bank minimize losses and keep you current with the industry standards. Creating either a daily or monthly checklist and having a robust filing system will aid in organizing documents. A retention schedule is also important to record and maintain specific files. If documents are stored at a third party location, it is critical to have a log that itemizes the inventory and boxes should be well labeled so that they are easily identified when you need them. Be prepared for auditors by having all documents requested ready and set aside in a conference room they will use, in order to eliminate last minute running around. When it comes to moving money around, controls should be especially tight. Approval limits and dual control procedures for monetary transactions and check processing are commonplace and banks over the years have used these techniques to reduce losses and catch fraud. A system of verification or "call back" should also be in place and performed daily on various tasks to limit losses. It can also be used as a guide to determine how well staff is following procedures in their daily routine. Consistency is important, so do not wait until a week before an audit to implement new procedures or try to incorporate best practices. Staff will be confused and issues can arise that can make things worse. Another good idea is to establish training programs to stay abreast of industry changes and adapt to ever-changing regulation. Training sessions on new policies and regulations helps reinforce and clarify what staff should do and help them become more confident in their job. Training board members is also important, as they are sometimes asked to provide answers related to a given audit. Passing an audit not only shows how capable the staff is, but how well policies and procedures are being followed. Since rules and regulations are constantly changing, policies and procedures follow, so testing things now and again for compliance and consistency just makes sense. Preparing for an audit the right way will not only help ease worries, but also set a standard to drive future success, as you control risk.

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BANK NEWS

Closures (3 YTD)

Regulators closed Covenant Bank (\$58mm, IL) and sold it to Liberty Bank & Trust (\$545mm, LA). Liberty gets one branch, all deposits and entered into a purchase and assumption agreement for essentially all of the assets. Covenant was run by Reverend Bill Winston of Living Word Christian Center and was originally set up to revitalize low income neighborhoods.

Changing Behavior

Research from AlixPartners finds 53% of customers now access their bank online, 14% use branches and 8% use mobile banking (the rest use ATMs and other access points). Meanwhile, 50% of smartphone users who switched banks said mobile banking was an important factor in their decision, up from only 7% 2Ys ago.

Competition

Fifth Third has been hit with the 2nd lawsuit in 6 months (this time for \$5mm) for its paycheck advance loans (Early Access Program). The bank charges a 10% transaction fee (borrowers pay \$10 for every \$100 loaned up to \$1,000), emphasizing it is a fee and not interest (the suit claims unlawful interest rates are being charged).

Competition

PayPal is working with Gilbarco Veeder Root, the company whose technology powers 19 of the top 20 convenience store operators in the country, to allow people to use PayPal to pay for gas and other services.

Tax Risk

The Treasury Dept. reports the number of cases of tax identity theft detected by authorities nationwide jumped to 1.2mm in 2012 vs. only 48,000 in 2008.

Competition

M&T Bank has launched an a-la-carte program for checking customers. The program allows customers to select the services they want and pay only for add-ons they want. Customers are charged a flat amount for all add-ons selected, but can change them every month through online banking. Add-ons include monthly credit scores (\$2.95), refunds on ATM fees (\$4.95), overdraft protection transfers (\$4.95), discounts on checks and safe deposit boxes (\$4.95).

Mobility

USAA announced it now has more than 5.2mm customers using its mobile banking services vs. 3.3mm at year end 2011.

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