

## Fraud Risk Evaluation Form

\_\_\_\_\_  
Institution

\_\_\_\_\_  
Docket No.

\_\_\_\_\_  
Prepared by

\_\_\_\_\_  
Date

\_\_\_\_\_  
Reviewed by

\_\_\_\_\_  
Date

**Instructions**

This form documents your overall assessment of the level of fraud risk within the institution. Rate each risk factor from 1 to 5 with 1 indicating the lowest level of concern and 5 indicating the highest level of concern.

An individual factor rated 4 or 5 indicates that the institution is vulnerable to fraud. If fraud conditions or circumstances other than the factors listed below indicate a higher risk than normal, describe them on a separate sheet and attach it to this form. After you consider all relevant factors you should make an overall assessment of fraud risk and indicate its effect, if any, on the scope of the examination.

General Factors	Indicator		Comment or Description <sup>1</sup>	Risk Factor
	Lower	Higher		
Top management operating style	Effective board oversight	Domination of decisions by a single person		
Financial reporting	Conservative; accurate	Liberal; questionable; inaccurate		
Management turnover, including senior accounting personnel	Nominal	High		
Emphasis on meeting earnings projections	Little	Very high		
Profitability relative to industry	Adequate and consistent	Inadequate or inconsistent		
Growth within last three years	Stable	Rapid		
Financial condition	Healthy	Distressed		
Oversight of branches and subsidiaries	Centralized; strong oversight	Decentralized; weak oversight		
Indicators of going-concern problems	No serious indications of failure	Failure a distinct possibility		
Disagreements with auditors or examiners	None	Many		
Difficult-to-audit transactions or balances	Few	Many		
Misstatements detected in prior audits or examinations	Few and immaterial	Significant or material misstatements		
Examiner relationship with management	Cordial and constructive	Confrontations		
Response to supervision	Very responsive	Unresponsive		
Disclosures of director's and officer's outside interests	Fully disclosed	Not disclosed		
Background checks made on new directors, officers, and employees	Checked and verified	Not checked		
Internal auditor restrictions	None; auditor performs full scope reviews	Auditor works with restrictions, or on limited projects		
Internal auditor reporting	Reports to board or audit committee	Reports to management		
Internal audit department turnover	None or minimal	High		

General Factors	Indicator		Comment or Description	Risk Factor
	Lower	Higher		
Liquid assets	Adequate (many primary and secondary sources)	Inadequate (few primary and secondary sources of liquidity)		
Policy exceptions to Board approved guidelines	No policy exceptions	Many policy exceptions		
Policies and procedures	Well developed for all areas of operations	None or poorly developed		
	Applied equally to employees and management	Not followed or circumvented by management or key employees		
Unusual or lavish fixed assets	None	Boats, aircraft, artwork, condos, etc.		
Internal controls	Sound system of controls	Material control deficiencies; or controls do not apply to top management		
Response of management in providing documents to examiners	Documents provided quickly	Long delays in getting documents		
Transactions with other financial institutions	Appropriate for business activities	Large transactions with small out of state banks		
Board reports	Accurate and complete	Inaccurate; inadequate; incomplete		
Organizational structure	Simple	Overly-complex		
Aggressive accounting practices/tax-motivated behavior	Few	Many		
Regulatory violations	Few	Many		
Criminal Referrals	Few	Many		
Consumer Complaints	Few	Many		
Falsified bank records	None	Many		

**Lending Factors**

Loan documentation	Well-documented loans and credit quality	Poorly documented loans		
Loan Concentrations	None	Many loan concentrations		
Loan performance tracking	Close review of problem credits by management and the board	No (or erroneous) past due or watch list reports		
Borrower financial statements	Borrowers' financial position well documented	No (or unsigned) financial statements		
Loan disbursements	Well documented; approved by an independent officer	Questionable; approved by loan officer		
Corporate loans	Proper endorsements and guarantees	No (or inadequate) endorsements and guarantees		
Resolution of problem loans	Well documented and reasonable	Questionable pay-downs prior to examination or audit		
Overdrafts	Properly approved; reasonable amounts	Large questionable overdrafts		
Refinancing	Well documented; properly approved	Poorly documented; refinanced by a different department		
Nominee loans	No nominee loans	Nominee loans made		
Loan terms	Loan size, rates and maturities appropriate	Loans of unusual size, rates, and maturities		
Evergreen/non-amortizing loans	No evergreen/nonamortizing loans	Several large evergreen/nonamortizing loans		
Real property sales history	Well-documented history of sales and ownership	No history of sales or ownership		
Out of territory loans	No out of territory loans	Many out of territory loans		
Brokered loans	No brokered loans	Loans from brokers		

Lending Factors	Indicator		Comment or Description	Risk Factor
	Lower	Higher		
<b>Adequacy of collateral</b>	Loans adequately collateralized when appropriate	Large loans with unusual, questionable, or no collateral		
<b>Collateral sales history</b>	Collateral sales history is reasonable	Frequent sales; flipped collateral		
<b>Loans to directors, officers, and employees</b>	Properly underwritten and reported to the board of directors	Loans to uncreditworthy directors, officers, or employees		
<b>Lending authority</b>	Large approval limits are vested in the board or its committee	Large approval limits given to individuals or to inexperienced or inappropriate employees		
<b>Third-party disbursements</b>	Disbursements made to borrowers	Disbursements made to third parties		
<b>Construction disbursements</b>	Property inspected by independent institution officer prior to disbursement	No or poorly documented inspections; no rotation of inspectors		
<b>Asset performance</b>	Very low percentage of delinquent/nonperforming/classified assets	High percentage of delinquent/nonperforming/classified assets		
<b>Independent loan review function</b>	Effective; independent loan review function	No (or ineffective) loan review		
<b>Speculative, high-risk lending activities</b>	Institution has conservative lending practices	Institution engages in high-risk lending activities		
<b>Predatory lending practices</b>	None	Institution engages in predatory lending practices		

**Deposit Factors**

<b>Concentrations of deposits</b>	No concentrations of deposits	High concentration of deposits by individuals, firms, or public entities		
<b>Brokered deposits</b>	No brokered deposits	High level of brokered deposits		
<b>Growth in account types or account balances</b>	No or low steady growth	Excessive volatile growth		
<b>Training for all personnel on check fraud prevention</b>	Comprehensive training program for all personnel on check fraud prevention	No training on check fraud prevention		
<b>Training for all personnel on Identity Theft</b>	Comprehensive training on Identity Theft	No training on Identity Theft		
<b>Check cashing guidelines</b>	Comprehensive check cashing guidelines	No check cashing guidelines		
<b>New accounts</b>	Comprehensive guidelines for opening new accounts	No guidelines for opening new accounts		
<b>Signature cards</b>	Signature cards secure, permanent, and updated	No control over signature cards		
<b>Account changes</b>	Account changes require identification and written requests	No controls over account changes		
<b>Dormant accounts</b>	Dormant account activity requires extra approvals or mandatory holds	No controls on dormant accounts		

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<sup>1</sup> Required if factor is rated 4 or 5.

**We modified the examination scope in the following areas in consideration of the risk factors identified above:**

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