

For: State and County Offices

Supervised Bank Account National Target Review

Approved by: Associate Administrator for Operations and Management



1 Overview

A Background

To identify best practices and improve the overall procedures, processing, and internal controls for handling supervised bank accounts, a targeted review will be conducted consistent with this notice.

A supervised bank account is an account with a financial institution established through a deposit agreement between an FLP borrower, FSA, and a financial institution.

1-FLP, Part 4 provides the policies and procedures applicable to supervised bank accounts.

B Purpose

This notice provides an overview of the procedure for conducting supervised bank account reviews.

2 Scope of Review

A Universe

As of April 19, 2013, FSA had 4,514 open supervised bank accounts.

B Sample Size

The sample size for this review will be:

- 450 supervised bank accounts
- a random sampling of supervised bank accounts in the counties selected by ORAS.

Note: ORAS selected the counties judgmentally. The selection was proportionally based on the number of supervised bank accounts the county had when compared to the total number in the universe. Sixty percent of the counties with supervised bank accounts are included in the review.

| Disposal Date | Distribution |
|-----------------|--|
| October 1, 2013 | State Offices; State Offices relay to County Offices, CORP Coordinators, and COR's |

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2 Scope of Review (Continued)

C Extent of Review

The review of selected supervised bank accounts will cover the entire period the account has been open and include the review of all transactions associated with the account. The reconciliation of the bank statements to FSA-2142 will be limited to the previous 12 months.

D Verification Items

See Exhibit 1 for a detailed list of verification items.

E Reportable Findings

See Exhibit 2 for a list of possible reportable findings.

3 COR Assignments

A State Office Shall Make Assignments

ORAS will provide the CORP coordinator with a list of County Offices for review, including the number of supervised bank accounts to be sampled in each county.

SED or CORP coordinator shall assign selected counties to COR's within their state. ORAS will make COR assignments in States without a current COR.

Note: If the State determines that reviews cannot be completed by the due date in subparagraph 7 A, notify ORAS and a COR from outside the State will be assigned.

B Priority

Supervised bank account reviews shall be scheduled in a manner that will allow all reviews to be completed by the due date in subparagraph 7 A.

C Travel Requirement

No travel will be required for these reviews. Reviews are designed to be conducted off site.

Note: SED's have the option to authorize COR's to travel to the applicable county and make copies of required documentation.

D Scheduling Reviews

COR's shall work with CORP coordinators to schedule reviews. COR's assigned to conduct reviews outside their normal assigned States will be provided the contact information of the applicable CORP coordinator or SED by ORAS.

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4 Conducting Review

A Basic Policy

This review is designed to be conducted at the COR's headquarter location.

Note: SED's have the option to authorize COR's to travel to the applicable county and make copies of required documentation; however, the actual review of the documentation shall be conducted at the COR's headquarter location.

B Integrity of the Review

County Offices will be asked to send documentation directly to COR. In these situations, it is important the documentation is not sanitized before being sent.

If County Offices discover errors with the documentation to be sent to COR, the documentation shall be sent before making any corrections. Once the documentation is sent, the County Office may begin the necessary corrective actions.

C County Offices Sending Documentation to COR

COR shall contact the County Office and request the required documentation be provided using 1 of the following methods:

- FAX
- scanned and e-mailed
- mailed.

Notes: Other ways for providing documents electronically are also acceptable.

Documentation should only be mailed if mailing is determined to be the most cost efficient method.

County Offices shall be given 3 workdays, to provide the requested documentation.

Exceptions: The list of supervised bank accounts described in subparagraph D shall be provided to COR within 1 workday of the request.

County Office will be given up to 10 workdays to provide copies of bank statements and canceled checks if it will be required to obtain copies from the bank.

Any documentation containing PII data shall be protected according to current agency policy.

See paragraph 5 for a list of documentation that may be requested during the review.

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4 Conducting Review (Continued)

D Entrance Conference

An entrance conference shall be held by telephone. COR, in consultation with SED, shall determine who is required to participate in the conference.

Before or during the entrance conference, COR shall request a list of all supervised bank accounts for the selected county. The list shall include each supervised bank account identified by the borrower's name, the last four digits of the account number, and the borrower's telephone number.

Example: Joe Smith; *1234; Phone: 111-222-3333

E Conducting More Than 1 Review at a Time

COR may conduct multiple reviews at the same time.

F Electronic CORP (eCORP)

COR Shall:

- document the review using eCORP

Note: In eCORP, use National Code Designation "7 - 2013 National SBA Review" to identify the review.

- prepare a separate report for each selected county
- use eCORP, Exhibit 30.0, FLP - General Program Administration
- select "SBA" as the record type for each supervised bank account reviewed

Note: The record ID type will be "Borrower" and the record ID will include the:

- borrower's name
- month and year the account was established
- outstanding balance.

Example: Joe Smith; established April 2012; \$12,000

- use the eCORP findings in Exhibit 2 to report findings.

Note: Reportable findings are being limited to only those listed in Exhibit 2.

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4 Conducting Review (Continued)

G Random Sample

COR's, using the list of all open supervised bank accounts, provided by FLM's, shall use the random number generator in eCORP to select the required accounts to be reviewed.

H Draft Report

At least 1 workday **before** the exit conference, COR shall provide FLM a draft copy of the eCORP report with all findings and recommendations included.

Note: The draft report is **not** required to have the analysis completed.

By providing the draft report before the exit conference, FLM will have an opportunity to review the findings and address any issue in advance of the exit conference.

I Exit Conference

An exit conference shall be held by telephone. COR, in consultation with SED, shall determine who is required to participate in the conference.

5 Required Documentation

A Documents to be Requested

COR will be requesting the following documentation for each supervised bank account selected for review:

- FSA-2140 (Deposit Agreement)
- FSA-2142 (Statement of Deposits and Withdrawals)
- FSA-2144 (Designated Financial Institution Pledge of Collateral), if applicable
- bank statements for the previous 12 months
- copies of checks canceled in the previous 12 months
- deposit slips for the previous 12 weeks
- invoices, receipts, or other documentation used to support withdrawals, if available
- copies of specific sections of FBP Credit Presentations and running record, as needed.

Note: Given there is no requirement for the county to maintain copies of bank statements and cancelled checks, County Offices may be required to obtain these documents from the financial institution, if the County Office does not have electronic access. Type 60 funds shall be used for any costs the financial institution charges to obtain the documents

6 Informational Findings

A Information Only Findings

With this review, management is attempting to evaluate how internal controls over supervised bank accounts are being implemented in the field. While there is limited procedure in 1-FLP that covers supervised bank accounts, there are additional questions that management is attempting to answer. To accomplish this, there is a possibility that some reportable findings will not be supported by current procedure and are only being reported for information purposes. In these cases a corrective action may not be required; however, because eCORP is designed to require recommended corrective action be associated with each reportable finding, a recommendation must be included in the report.

B eCORP Report

For a finding that is being reported for information purposes only, the COR will include a general recommendation for the finding that reads, “No corrective action required”.

C Corrective Action Plan (CAP)

When approving CAP in eCORP for the recommendation described in subparagraph B, select “Approved Without Changes” as the “Corrective Action Status.”

D Closing Report

County Offices shall enter, “No Action Taken” in the eCORP closing report for the recommendation described in subparagraph B.

7 Timeframes

A When Reviews Will Be Conducted

Reviews may begin immediately after receipt of this notice.

All reviews shall be **completed and reports issued** no later than **September 20, 2013**.

B Corrective Action Plan (CAP) Approval

CAP’s are required to be approved within 10 workdays of the report date. Request for an extension may be submitted to ORAS by SED or CORP coordinator.

C Closing Reports

Closing reports are required to be submitted to SED within 30 workdays of the report date. Requests for extensions may be submitted to ORAS by SED or CORP coordinator.

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8 Policy and Procedure Questions

A Questions About the Scope of Review of the Review

Contact ORAS with any questions about policies and procedures for conducting reviews.

B Questions About Specific FLP Procedures

COR's shall contact the applicable State Office program specialist, for the applicable State, with any questions about specific program policies and procedures for a specific review.

COR's may contact ORAS if the State Office specialist **cannot** provide an adequate answer or is **not** available. When this occurs, ORAS will consult the applicable National Office program division for guidance.

Verification Items

A Overview

Verification items in this exhibit are thought provoking statements and questions to be considered when reviewing supervised bank account operations.

Some of the verification items will require COR contacting the borrower directly. See Exhibit 3 for suggested script when contacting borrowers.

1-FLP, Part 4 provides the policies and procedures for supervised bank accounts.

B Verification Items

- FSA-2140 (Deposit Agreement) is properly completed and signed.
 - Borrower has only 1 supervised bank account.
 - If the funds deposited into the account caused the balance to exceed the maximum amount insurable by the Federal Government, the financial institution agreed to pledge acceptable collateral with the Federal Reserve Bank or a correspondent bank that is a member of the Federal Reserve System for the excess over the insured amount, before the deposit is made.
 - Checks or money orders deposited into the account were not made payable:
 - solely to the Federal Government or any agency thereof
 - to the Treasury of the U.S. as a joint payee.
 - Copies of the deposit slip are distributed to the borrower and case file.
- Note:** COR will be required to contact the borrower to verify.
- EFT is used to deposit loan funds to a supervised bank account.
 - Which employee in the County Office has the primary responsibility to maintain FSA-2142?
 - Which employees in the County Office have authorization to countersign withdrawals from the supervised bank account?
 - Checks are signed by the borrower with countersignature of FSA.
 - Funds are only withdrawn from a supervised bank account, without borrower signature, for authorized purposes.
 - Copies of invoices, receipts and other documentation to support withdrawals from the account are being retained in the office.

Verification Items (Continued)**B Verification Items (Continued)**

- There is separation of duties in the County Office when maintaining and reconciling the supervised bank account.
- There is separation of duties in the County Office with employees countersigning withdrawals and the reconciliation of the supervised bank account.
- Which employee in the County Office has the primary responsibility to reconcile the supervised bank account statement?
- Supervised bank accounts are reconciled monthly, when required.
- Deposits and withdrawals verified during reconciliation are initialed and dated by the employee performing the reconciliation.
- Discrepancies noted during reconciliation were promptly documented, addressed and resolved.
- Supervised bank account statement and canceled checks were returned to the borrower after the reconciliation had been completed.

Notes: COR will be required to contact borrower to verify.

The verification of the reconciliation of FSA-2142 to the bank statements is limited to the previous 12 months. All other requirements for maintaining FSA-2142 shall be verified based on the entire period the account has been opened.

Reportable Findings

A Supervised Bank Account Procedures

The following eCORP findings are to be used to report findings related to general supervised bank account policies and procedures in 1-FLP.

| Finding | eCORP Code |
|--|------------|
| Handbook 1-FLP, Rev. 1, Par. 102, A Borrower has more than one established supervised bank account. | 8 |
| Handbook 1-FLP, Rev. 1, Par. 102, B "Deposit Agreement" (FSA-2140) for an established supervised bank account is not on file. | 9 |
| Handbook 1-FLP, Rev. 1, Par. 102, D When the supervised bank account balance exceeded \$250,000, FSA did not complete the "Designated Financial Institutions Pledge of Collateral (FSA-2144). | 10 |
| Handbook 1-FLP, Rev. 1, Par. 103, A Check or money order deposited into the account was payable solely to the Federal Government. | 135 |
| Handbook 1-FLP, Rev. 1, 103, A Check or money order deposited into the account was payable solely to the Treasury of the United States as a joint payee. | 136 |
| Handbook 1-FLP, Rev. 1, Par. 103, A Copy of deposit slip is not distributed to borrower. | 137 |
| Handbook 1-FLP, Rev. 1, Par. 103, A Copy of deposit slip is not filed in case file. | 138 |
| Handbook 1-FLP, Rev. 1, Par. 103, B EFT is not used to deposit loan funds to a supervised bank account when required. | 139 |
| Handbook 1-FLP, Rev. 1, Par. 103, C Check was not signed by the borrower with countersignature of the Agency. | 142 |
| Handbook 1-FLP, Rev. 1, Par. 103, C Checks used for Supervised Banking Account does not bear the legend "countersigned, not as co-maker or endorser." | 93 |
| Handbook 1-FLP, Rev. 1, Par. 103, D Funds were withdrawn from a supervised bank account without the borrower's signature on the check, when not authorized. | 141 |

Reportable Findings (Continued)

A Supervised Bank Account Procedures (Continued)

| Finding | eCORP Code |
|--|------------|
| Handbook 1-FLP, Rev. 1, Par. 103, G Supervised bank account is not reconciled, when required | 12 |
| Handbook 1-FLP, Rev. 1, Par. 103, G "Statement of Deposits and Withdrawals" (FSA-2142) is not initialed and dated by the employee who reconciled the supervised bank account. | 11 |
| Handbook 1-FLP, Rev. 1, Par. 103, G Discrepancy identified during reconciliation of account is not resolved. | 92 |
| Handbook 1-FLP, Rev. 1, Par. 103, G Bank Statements and canceled checks for supervised bank account are not returned to borrower after reconciliation. | 13 |

B Completing FSA-2140

The following eCORP findings are to be used when completing FSA-2140.

| Finding | eCORP Code |
|--|------------|
| Form FSA-2140, Part A, Item 1 Depositor's name is not entered on the "Deposit Agreement." | 111 |
| Form FSA-2140, Part C, Item 8, A The name of financial institutions' representative is not entered on the "Deposit Agreement." | 116 |
| Form FSA-2140, Part B, Item 8, B The title of financial institution's representative is not entered on the "Deposit Agreement." | 117 |
| Form FSA-2140, Part B, Item 8, C The "Deposit Agreement" is not signed by financial institution's representative. | 49 |
| Form FSA-2140, Part C, Item 9, A The name of FSA's representative is not entered on the "Deposit Agreement." | 118 |
| Form FSA-2140, Part C, Item 9, C The title of FSA's representative is not entered on the "Deposit Agreement." | 119 |
| Form FSA-2140, Part B, Item 9, C The "Deposit Agreement" is not signed by FSA Representative. | 50 |
| Form FSA-2140, Part B, Item 10, A The "Deposit Agreement" is not signed by the Depositor. | 51 |

Reportable Findings (Continued)

C Completing FSA-2142

The following eCORP findings are to be used when completing FSA-2142.

| Finding | eCORP Code |
|--|-------------------|
| Form FSA-2142, Item (1) Date of deposit or withdrawal is not entered or is incorrect on the "Statement of Deposits and Withdrawals". | 53 |
| Form FSA-2142, Item (2) Purpose for each withdrawal is not entered on the "Statement of Deposits and Withdrawals". | 55 |
| Form FSA-2142, Item (2) Source of funds for each deposit is not entered on the "Statement of Deposits and Withdrawals". | 56 |
| Form FSA-2142, Item (2) Name of payee is not entered on the "Statement of Deposits and Withdrawals". | 57 |
| Form FSA-2142, Item (3) Check number for deposit and/or withdrawal is not entered on the "Statement of Deposits and Withdrawals". | 58 |
| Form FSA-2142, Item (4) Balance of funds after initial deposit is not entered on the "Statement of Deposits and Withdrawals". | 59 |
| Form FSA-2142, Item (5-12) Purpose headings are not entered or are incorrect in the columns on the "Statement of Deposits and Withdrawals". | 78 |
| Form FSA-2142, Item (5-12) Dollar Amount allotted/withdrawn is not entered or is incorrect on the "Statement of Deposits and Withdrawals". | 101 |
| Form FSA-2142, Item A Date the "Deposit Agreement" (FSA-2140) is executed is not entered on the "Statement of Deposits and Withdrawals." | 60 |

Reportable Findings (Continued)

C Completing FSA-2142 (Continued)

| Finding | eCORP Code |
|---|------------|
| Form FSA-2142, Item B Type of loan from which funds are derived is not entered on the "Statement of Deposits and Withdrawals". | 61 |
| Form FSA-2142, Item B Separate "Statement of Deposits and Withdrawals" are not maintained for each type of loan. | 62 |
| Form FSA-2142, Item C Account number is not entered on the "Statement of Deposits and Withdrawals". | 63 |
| Form FSA-2142, Item D Name of borrower is not entered on the "Statement of Deposits and Withdrawals". | 64 |
| FSA-2142, Item E Address of borrower is not entered on "Statement of Deposits and Withdrawals." | 110 |
| Form FSA-2142, Item F Name of bank is not entered on the "Statement of Deposits and Withdrawals". | 65 |
| FSA-2142, Item G [66] Address of Bank is not entered on the "Statement of Deposits and Withdrawals". | 66 |
| Form FSA-2142, Item H Sheet number is not entered on the "Statement of Deposits and Withdrawals". | 67 |

Reportable Findings (Continued)**D Informational Only Findings**

The following eCORP findings are to be used to report findings that are being used for information purposes only. This finding will have the general recommendation, “No corrective action required.”

| Finding | eCORP Code |
|--|-------------------|
| Information Purposes Only FSA-2142 (Statement of Deposits and Withdrawals) is primarily maintained by FLM. | 123 |
| Information Purposes Only FSA-2142 (Statement of Deposits and Withdrawals) is primarily maintained by FLO. | 124 |
| Information Purposes Only FSA-2142 (Statement of Deposits and Withdrawals) is primarily maintained by PT. | 125 |
| Information Purposes Only FLM is authorized to countersign withdrawals from supervised bank account. | 127 |
| Information Purposes Only FLO is authorized to countersign withdrawals from supervised bank account. | 128 |
| Information Purposes Only PT is authorized to countersign withdrawals from supervised bank account. | 129 |
| Information Purposes Only 1-FLP, Subparagraph 103 E Copies of invoices, receipts, or other documentation to support withdrawals from the supervised bank account are not retained in the case file. | 130 |
| Information Purposes Only The employee that maintains FSA-2142 (Statement of Deposits and withdrawals) also reconciles the supervised bank account. | 131 |
| Information Purposes Only Employee authorized to countersign withdrawals from the supervised bank account also reconciles the supervised bank account. | 140 |
| Information Purposes Only FLM reconciles the supervised bank account. | 132 |
| Information Purposes Only FLO reconciles the supervised bank account. | 133 |
| Information Purposes Only PT reconciles the supervised bank account. | 134 |
| Information Purposes Only Unable to contact borrower or borrower did not answer questions. | 143 |

Contacting Borrower – Suggested Script

A Overview

It is important when contacting borrowers that only the information needed to conduct the review is obtained and that no personal information is being requested. This Exhibit provides language that COR's shall use when contacting borrowers.

B Suggested Introduction Script

While it is understood that some variation can occur to any canned script depending on who answers the phone or questions asked by the borrower, it is important to follow the following script as close as possible.

“Hello, my name is (COR's Name) and I am an employee of the Farm Service Agency conducting a review of joint bank accounts held by the (County Name) Farm Service Agency Office located in (City Name). The joint bank account the Farm Service Agency has with you at the (Name of Financial Institution) was selected at random for review and I have a few questions that I need to ask you about the bank account. I will not ask any questions that will identify your specific account or any personal information related to your loan or financial status.

Notes: If the borrower is not comfortable answering the questions, COR may use the following suggested language:

“If you would like to verify with the (County Name) Farm Service Agency Office that I am who I say I am before answering any questions, you are free to do so. I can call you back (provide a date and time) if that would be convenient.”

If the borrower refuses to answer the questions, COR shall thank the borrower for their time and use eCORP code 143 in the report.

C Questions to Ask

COR shall ask only the following questions about the supervised bank account.

- **“Do you receive the bank account statement and canceled checks?”**
- **“Do you receive copies of the deposit slips?”**

Note: COR shall thank the borrower for their time after asking the questions and offer their contact information if the producer wants it.