

# Common Issues in Trust Audits

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# Introductions

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# Agenda

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1. Typical Areas of a Trust Audit Scope
2. Average Sample Sizes for Administrative File Reviews
3. Common Audit Findings
  - ☐ Account Administration
  - ☐ Investments
  - ☐ Trust Operations
4. Challenges Implementing Audit Recommendations



# Typical Areas of a Trust Audit Scope

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## Trust Account Administration

- ☐ Personal Trust Administration
- ☐ Employee Benefit Trust Administration
- ☐ New Accounts
- ☐ Closed Accounts
- ☐ Administration Review Process



# Typical Areas of a Trust Audit Scope

## Unique Asset Administration

- ☐ Real Estate
- ☐ Closely Held Business
- ☐ Notes
- ☐ Mortgages
- ☐ Natural Resources
- ☐ Life Insurance



# Typical Areas of a Trust Audit Scope

## Trust Investments

- ☐ Investment Methodology and Philosophy
- ☐ Approved Holding Listing
- ☐ Asset Allocation Monitoring
- ☐ Investment Review Process
- ☐ Trust Investment Committee Oversight and Monitoring
- ☐ Oversight of Third Party Investment Managers



# Typical Areas of a Trust Audit Scope

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## Trust Operations

- ☐ Control of Assets
- ☐ Account Balancing and Other Related Controls
- ☐ Income on Investments
- ☐ Trust Account Disbursements
- ☐ Trust Fees
- ☐ Overdrafts
- ☐ Computer Operating System
- ☐ Uninvested Cash





# Typical Areas of a Trust Audit Scope

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## Trust Operations (cont.)

- ☐ Statement Rendering
- ☐ Board Reporting/Committee Reporting
- ☐ Complaints Process – Litigation
- ☐ Error Resolution
- ☐ Regulation R Compliance
- ☐ Trade Operations / Settlement
- ☐ Investment Purchase and Sales
- ☐ Conflicts of Interest

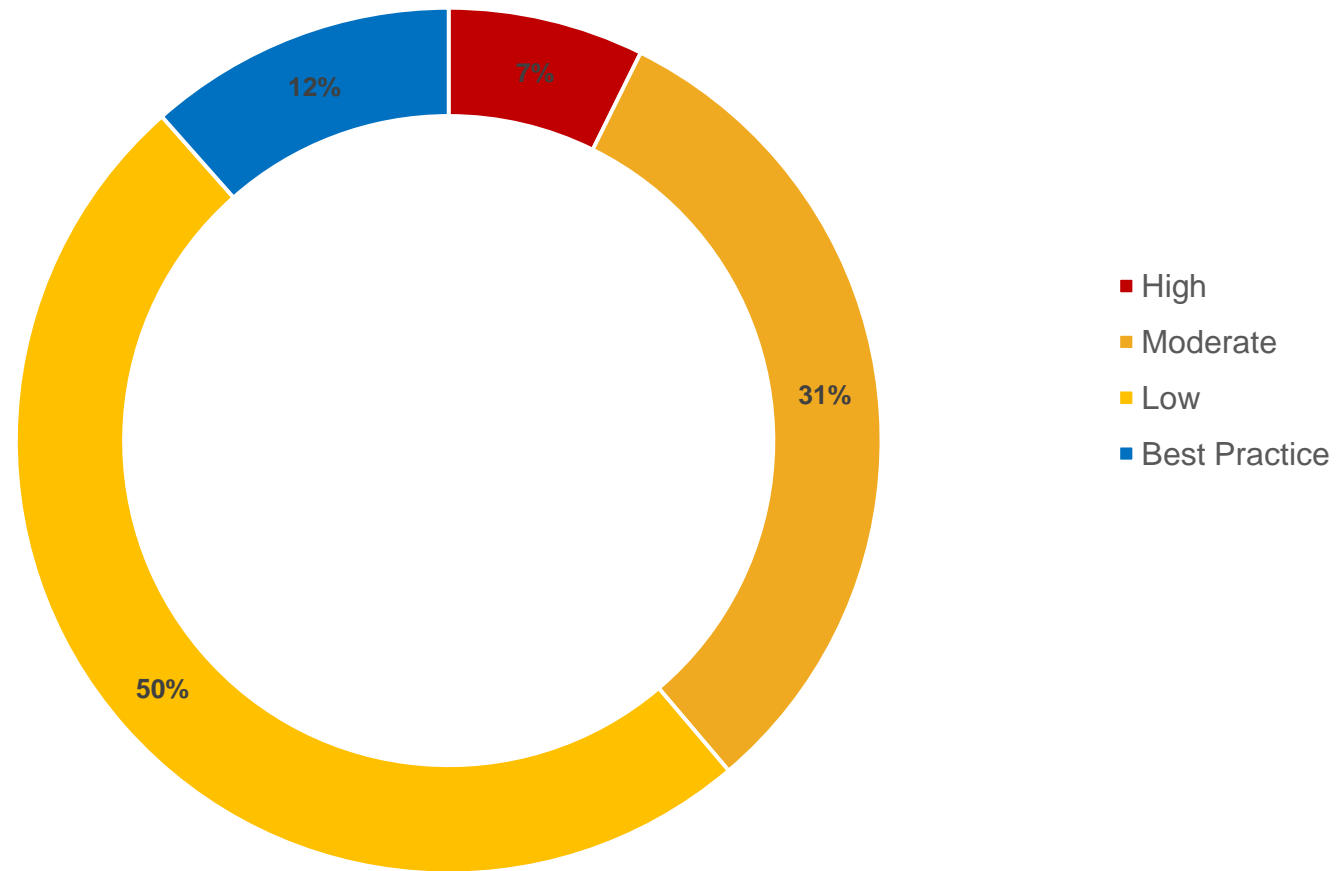


# Average Sample Sizes for Administrative File Reviews

Assets Under Management	Average Sample Sizes
Less than \$1 billion	10 - 15
Between \$1 billion and \$4 billion	25
Between \$5 billion and \$6 billion	30+
Over \$6 billion	50

# Common Audit Issues

Wealth Management Issues by Risk Rating



# Common Audit Issues

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## Issue Rating Definitions

- **High** Requires immediate remediation and, if left uncorrected, exposes the Bank to significant or immediate risk of loss, asset misappropriation, data compromise or interruption, fines and penalties or increased regulatory scrutiny.
- **Moderate** Requires prompt and timely remediation and, if left uncorrected, may expose the Bank to risk of loss or misappropriation of Bank assets, compromise of data, fines and penalties or increased regulatory scrutiny. These issues should be resolved in a timely manner, but after any high priority issues.



# Common Audit Issues

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## Issue Rating Definitions (cont.)

- **Low** Should be addressed during the ordinary course of business, as time and resources permit. While not considered to represent significant or immediate risk, repeated oversights without corrective action or compensating controls could lead to increased exposure or scrutiny.
- **Best Practice** Represents operational efficiencies or improvements for consideration by management based on industry best practices.

# Common Audit Issues

Wealth Management Issues by Detailed Root Cause



# Common Audit Issues

Issue Causes	Definition
Accountability	Ownership is unclear leading to failures in oversight, alignment and/or performance
Business Objective Implementation	Management's objectives are not adequately formalized into detailed activities, responsibilities and processes
Communication	Communication did not occur between appropriate parties; requirements not communicated to employees
Documentation	Required information is incomplete, missing or inadequately recorded
Fraud	Intentional misrepresentation of fact, or theft of assets
Human Error	Intended activities are not executed or performed properly
Inefficiency	Formal steps not taken to define and routinely adjust processes to maintain efficiency
Misaligned Operations	People, processes and technology are not effectively aligned to efficiently and effectively achieve objective
Monitoring	Activities necessary to accomplish objectives are not monitored adequately; milestones to be monitored not defined



# Common Audit Issues (cont.)

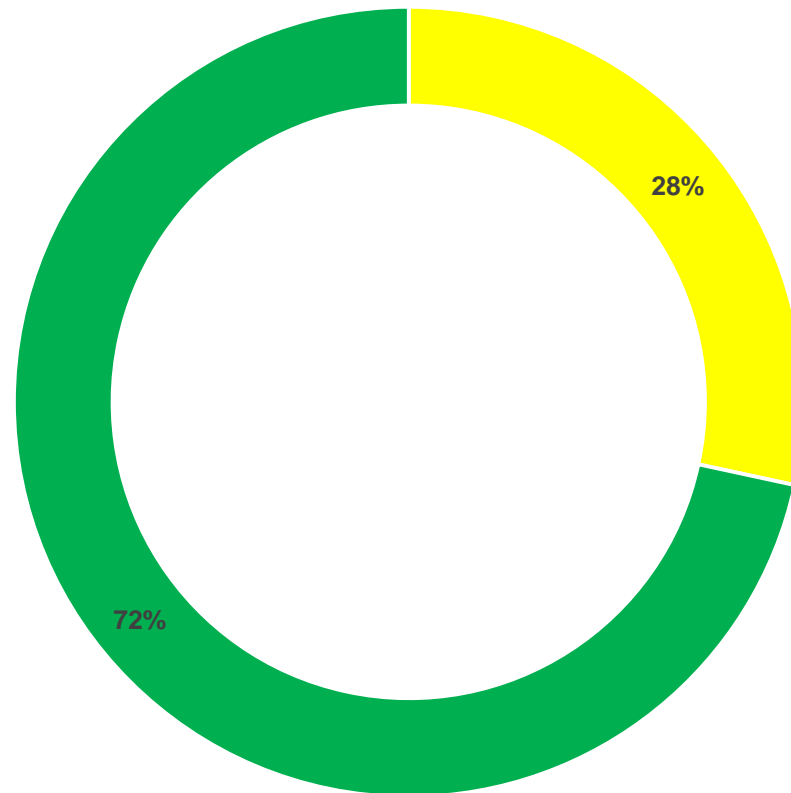
Issue Causes	Definition
Oversight	Leadership's processes to capture and respond to objective progress with appropriate action are inadequate
Personnel Capabilities	People assigned do not have skills or training that match expectations of their role
Physical Safeguards	Lack of physical safeguards over assets (including cash, inventory, controlled substances)
Policies and Procedures	Written, formal direction to enforce organizational behavior aligned with objectives is missing, outdated or inadequate
Reconciliations	Controls that verify data accuracy or transfer via reconciliation are not designed appropriately, or lack timely preparation
Reporting	Reports with erroneous data, or lack of appropriate reporting
Review/Approval	Lack of supervisory review and approval
Segregation of Duties	Responsibilities are not split appropriately creating a lack of checks and balances
Strategic Miscalculation	Unanticipated event; miscalculation of environment or other factors

## Common Audit Issues (cont.)

Issue Causes	Definition
System Access/Security	Access not aligned with role, through inadequacies in set up, removal, or ongoing monitoring of users
Technology Alignment	Systems implemented do not improve processes efficiency and/or are difficult for untrained users to operate
Technology Design / Configuration	Systems are not set up to accurately and efficiently accomplish objectives or configured to provide for appropriate checks and balances
Training	Education and training received by personnel is not complete/adequate
Transition	Organizational change resulted in diminished controls

# Common Audit Issues

Wealth Management Issues by Type of Control

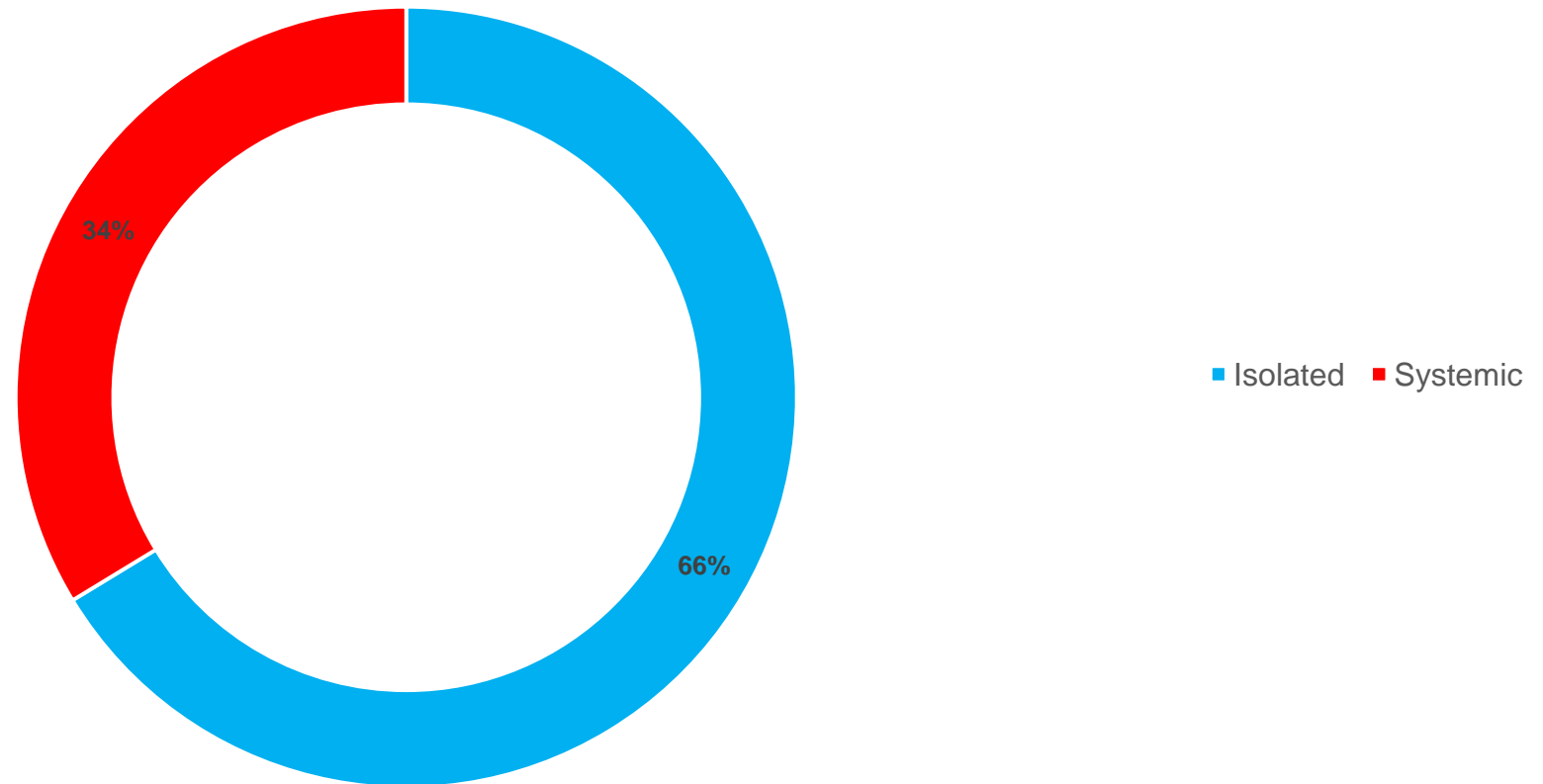


- Design of the Control
- Operation of the Control



# Common Audit Issues

Wealth Management Issues by Prevalence



# Common Audit Findings

## **Trust Administration**

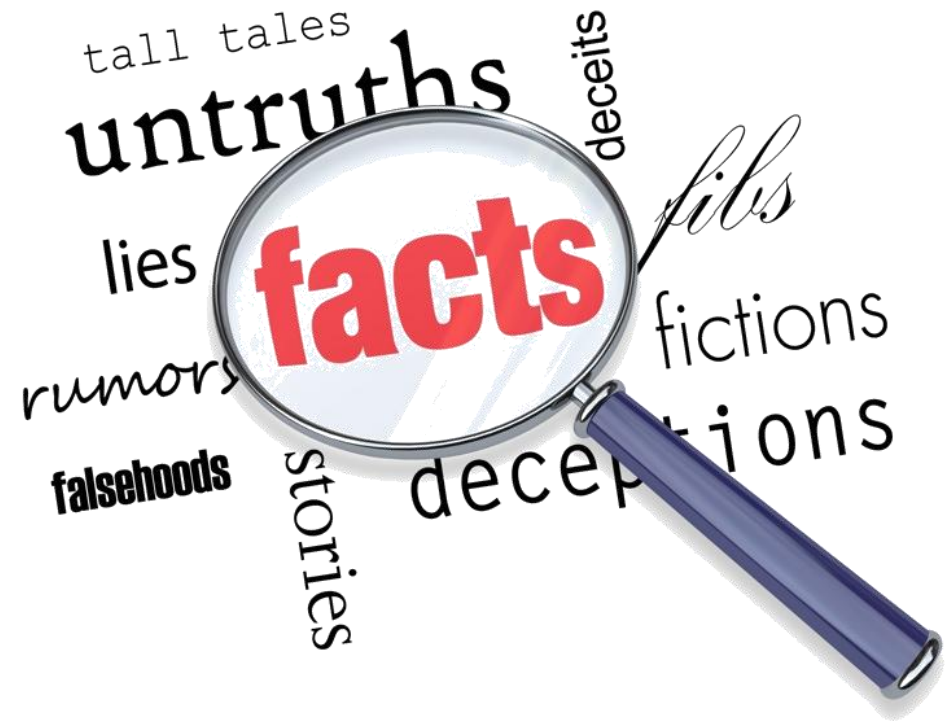
- ☐ Discretionary Disbursements
- ☐ Unique Asset Valuation and Market Value Reporting
- ☐ Statement Recipients
- ☐ Account Synoptic Accuracy
- ☐ Fee Concession Approvals

## **Trust Investments**

- ☐ Account Not in Line with Investment Objective
- ☐ Timeliness of Initial Investment Reviews
- ☐ Documentation of Investment Plans
- ☐ Exception Reporting and Tracking

## **Trust Operations**

- ☐ Lack of Segregation of Duties
- ☐ Trust Disbursement Authorization



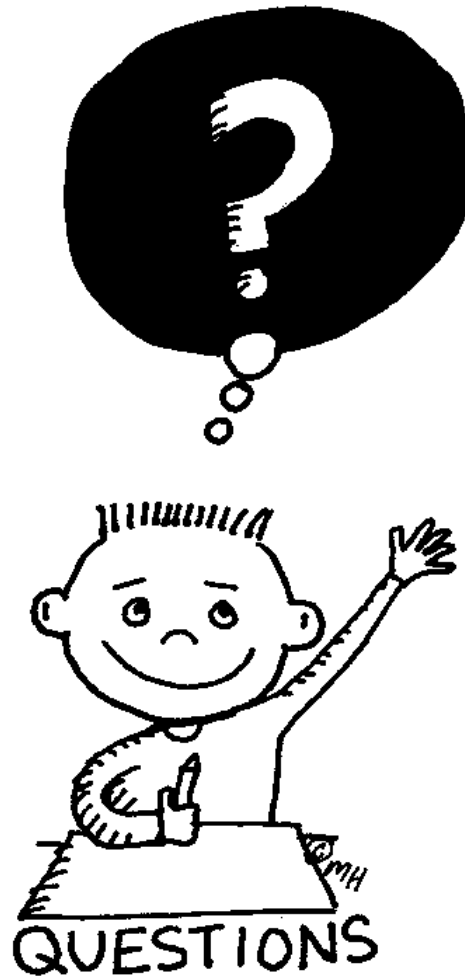
# Common Challenges Implementing Recommendations

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- Training
- Staffing
- Available Hours in a Day
- New Leadership/Management
- Others?

# Questions / Comments

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# Thank You

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