White Paper

Are You Ready to Become a $1 Billion Financial Institution?

Prepare for Growth With Effective and Compliant Internal Controls

Financial institutions are held to strict operating standards to prevent financial misstatements, mitigate fraud and safeguard against failure. Regulatory agencies require internal controls, which include the policies and procedures financial institutions establish to reduce risks and ensure they meet operating, reporting and compliance objectives. In addition, when a financial institution reaches $1 billion in assets, it's held to an even higher standard. Noncompliance can result in penalties and other administrative actions. So how do large financial institutions maintain appropriate internal controls with the same staffing and increasing responsibilities?

Defining Internal Controls

Internal controls have been part of accounting practices since at least the early 1900s. But it wasn't until a framework was established in 1992 that businesses had a widely accepted model to follow in developing and implementing those controls. Here are three major events around internal controls:

- The Federal Deposit Insurance Corp. (FDIC), created in 1933, requires all financial institutions have controls, systems and programs appropriate for their size and the nature, scope and risk of their activities
- The Committee of Sponsoring Organizations of the Treadway Commission (COSO) develops an internal controls framework in 1992 for designing, implementing and assessing the controls
- The Sarbanes-Oxley Act of 2002 mandates that publicly traded companies establish, maintain, assess and report on internal controls and procedures for financial reporting

Meeting Internal Control Standards

So how does a financial institution ensure it can meet the internal control requirements for its size while also accommodating growth? A crucial area is the accuracy and depth of the account reconciliation process. Internal control regulations require the management team and auditors understand and document every aspect of the financial process.

According to the FDIC's Internal Routine and Controls (3/15) manual, "Every bank is unique, and one set of internal procedures cannot be prescribed for all institutions. However, all internal control programs should include effective control environments, risk assessments, control activities, information systems, and monitoring programs."

The manual also states: "Recordkeeping systems should be designed to enable the tracing of any transaction as it passes through accounts."

Under FDIC rules, management reports at institutions with $1 billion or more in consolidated assets must provide an assessment of the effectiveness of the internal control system, including identifying the framework, indicating what controls are used and whether they are effective, and disclosing any material weaknesses. The CEO, CAO and CFO may need to sign off on the financial statements.

It's important the board of directors and management fully understand the regulation before surpassing the $1 billion asset mark. That may require contacting third parties, such as law firms, public accounting firms and potential audit committee members. Without significant planning, it would be difficult for institutions to immediately implement proper internal controls over financial reporting.

Automating Reconciliation and Certification

Reconciliation and certification are key components of an effective internal control structure, meant to ensure the accuracy of information feeding into the financial close process. However, it can be difficult for institutions with $1 billion in assets to meet internal control requirements using a manual reconciliation process.

To ensure the internal control structure is effective, data integrity and visibility are essential. Manual reconciliation processes can be error-prone and provide no visibility into how the balance sheet was derived. That means executives, who are held personally responsible for any financial misstatements, must certify financial statements without necessarily seeing the underlying transactional detail or exception-handling process. A corporate officer who does not comply or submits an inaccurate certification (even if done mistakenly) is subject to a fine up to $1 million and 10 years in prison.

Misstatements could also result from manipulation of data during manual processes. Companies often write off unresolved exceptions because they cannot trace an error

Internal Control Requirements for Financial Institutions

Under FDIC regulations, the internal control reporting requirements grow as the institution grows.

Financial institutions with between $500 million and $1 billion in assets must:

- Have an external audit program that conforms to the audit and reporting requirements of Part 363 of the FDIC rules and regulations, including:
  - Prepare annual financial statements
  - Produce annual reports detailing management's responsibilities and assessing compliance with laws and regulations
  - Provide appropriate report signatures
- Allow annual financial statements to be prepared in accordance with GAAP and audited by an independent public accountant

In addition to the requirements above, those with $1 billion or more in assets must:

- Provide an assessment of the effectiveness of the institution's internal control system and include statements that:
  - Identify the internal control framework used to evaluate the effectiveness of controls
  - Indicate what controls were considered during the assessment
  - Express management's conclusion as to whether internal control over financial reporting is effective as of the fiscal year-end
  - Disclose any material weaknesses in internal controls that were not remediated prior to the fiscal year-end
- Obtain sign-off from the CEO, CAO and CFO, depending on the type of financial statements used to meet the regulatory requirements

If the institution has $500 million in assets or more, an automated reconciliation and certification solution can help meet regulatory internal control requirements.

back to the source, raising the question of possible fraud.

A comprehensive, end-to-end reconciliation and certification solution can serve as an integral part of an internal control framework because it forms a complete account reconciliation picture that provides transaction-level detail, makes exceptions instantly visible and eliminates manual interventions. Workflows fully automate labor-intensive processes, and automated checks ensure compliance with corporate and regulatory controls. The right automated solution minimizes the risk of financial misstatement and errors and provides a full audit trail. Executives can feel confident in their internal controls because they know the details behind the numbers.

Key Benefits of Automated Reconciliation and Certification

- Provides accurate data for use in financial close process
- Offers greater data visibility and exception detection with transaction-level matching
- Minimizes manual intervention so no manipulation of data occurs that could result in misstatements or fraud
- Provides full audit trail
- Achieves major efficiency improvements and lower operational costs
- Helps meet regulatory requirements
- Enforces process consistency through documented match rules
- Stores policy procedures documents in one place
- Improves/strengthens internal controls

Connect With Us

For more information about meeting internal control requirements with Frontier™ Reconciliation from Fiserv, call 800-872-7882, email getsolutions@fiserv.com or visit www.fiserv.com.

fiserv.

Fiserv, Inc.
255 Fiserv Drive
Brookfield, WI 53045

800-872-7882
262-879-5322
getsolutions@fiserv.com
www.fiserv.com

44666-COL 09/18