SOUTH DAKOTA
Division of Banking

1601 N. Harrison Ave, Suite 1
Pierre, SD 57501
Phone (605) 773-3421
Fax (866) 326-7504

Internal Audit Guidance

South Dakota Codified Laws (SDCL) 51A-6A-15 requires the governing board or an auditor selected by them to make a thorough examination of the books, records, funds, and securities held by the trust company at each of the mandatory quarterly meetings. In lieu of the required four quarterly examinations, the governing board may accept one annual audit by a certified public accountant or an independent auditor approved by the director. Although a documented quarterly review of trust company financial statements combined with a quarterly review of trust assets technically complies with SDCL 51A-6A-15 internal audit requirements, it does not comply with the Statement of Principles of Trust Management (Statement) that each trust company is required to adopt at its first organizational meeting.

The Statement requires management to provide for an adequate audit (by internal or external auditors or a combination thereof) of all fiduciary activities annually. As identified in the Statement presented during each trust company's initial application meeting, if a trust company adopts an internal audit process in lieu of performing annual external audits, management must report a thorough internal review of trust company operations and administration to the board on a quarterly basis. The scope of the quarterly internal review should expand beyond a review of the trust company's financial condition and assets held in trust. Internal controls, account administration, and trust company operations must also be periodically assessed if the trust company adopts an internal audit process in lieu of annual external audit engagements. Written policies and procedures should provide trust company-specific internal audit guidance including review frequency, responsible personnel, reporting channels, tracking systems, and any other pertinent details. Internal audits may be performed, on an activity-by-activity basis, at intervals commensurate with the level of risk associated with that activity. Audit intervals must be supported and reassessed regularly to ensure appropriateness given the current risk and volume of the activity.

Examples of various internal audit review criteria include:

- Assess the organizational structure ensuring the establishment of clear lines of authority and responsibility.
- Verify that accounts are being administered and invested in conformance with governing instruments, laws, rules, and sound fiduciary principles.
- Assess the level of account and trust company oversight as documented in board and/or committee meeting minutes.
- Review procedures to create synoptic records, verifying that the records are reliable, comprehensive, and periodically updated.
- Review operating system user profile reports to ensure users are properly classified.
- Assess management response to and compliance with Division examination findings and recommendations.
- Assess management response to and compliance with external audit findings and recommendations.
- Verify the accuracy of accounts and assets as reported on the Form RC-T and/or the Fiduciary and Related Services Report.
- Assess written policies and procedures to ensure adequate direction is given for account administration and trust company operational duties and functions.
- Assess adequacy of strategic planning.

- Assess adequacy of succession planning.
- Review and assess the adequacy of tickler systems, identifying any dated items or negative trends.
- Assess compliance with Bank Secrecy Act and Regulation R reporting requirements.
- Assess controls over unissued check stocks.
- Ensure callback procedures are in place for any nonverbal distribution requests.
- Ensure the timely reconciliation of any suspense accounts. Review the appropriateness of all outstanding items in the reconcilements and determine whether outstanding items are properly cleared in a timely manner.
- Review trust company bylaws/operating agreements to ensure compliance with written objectives.
- Assess the adequacy and timeliness of service provider due diligence reviews.
- Confirm adequate insurance coverage as required by SDCL 51A-6A-19. Asses the adequacy of policy limits in relation to the trust company's overall risk profile.
- Review litigation/complaint log(s) to identify any negative trends and to ensure timely resolution.
- Conduct a vault/safekeeping audit.
- Assess accuracy and timely completion of account-level distributions.
- Conduct testing to ensure accurate mapping of account-level income and expenses.
- Assess internal controls ensuring proper segregation of duties (one individual should not be capable of approving, executing, and subsequently reconciling transactions for appropriateness).
- Assess a sample of account liabilities to ensure that the trustee has power to incur the liability and that the proceeds were used for the intended purpose.
- For loans to and from discretionary trust accounts, ensure proper underwriting documentation is executed.
- Review non-ordinary transactions for appropriateness.
- Confirm passwords are changed on a regular basis.
- Assess the overdraft and large cash balance oversight programs ensuring both are well monitored and addressed timely.
- Assess adequacy of cybersecurity protocol.
- Assess accuracy and effectiveness of the budget process.
- Assess the adequacy of the pledge for trust powers in relation to the trust company's overall risk profile and Division mandate.
- Assess adequacy of capital in relation to the trust company's overall risk profile and Division mandate.
- Review a sample of accounts to ensure the original or certified copies of governing instruments/amendments are on file, synoptic records of each account are accurate and up-to-date, and tax returns are prepared and filed timely.
- For directed accounts, review documentation to ensure adequate direction is given regarding investing/holding of account assets.
- Assess the adequacy of the account-level administrative and investment review process ensuring timely documentation and proper reporting channels.
- Assess the adequacy of account-level insurance coverage for real estate, antiques, paintings, and any other unique assets.
- Assess the adequacy of the valuation program for illiquid assets. For discretionary real property holdings, ensure that inspections and appraisals are completed timely with appropriate documentation.
- Sample testing of discretionary accounts to ensure account assets are invested within authorized parameters.
- Review any trading errors to ensure timely correction and appropriate reallocation.

- Sample testing to ensure the timely execution of trades and ultimate reconciliations.
- Review the reconcilement of the sweep account statement to determine the reconcilement was timely, accurate, complete, and reviewed by supervisory personnel.
- Verify that transactions between fiduciary accounts and trust company directors, officers, employees, or affiliated entities are in compliance with self-dealing restrictions.
- Assess escheatment policies and procedures. Review account listings to determine whether any escheatable assets exceed the time limits established by local escheatment laws.