

TOOLKIT

Management quality is the most forward-looking indicator of condition. It is a key determinant of whether an institution can diagnose and respond to financial stress. Management evaluation should include a review of salaried managers, officers, committees, and members of the board of directors—grouped here as *officials*. The assessment should evaluate their ability to manage and operate the savings institution safely, adhering to the institution's core values.

The management review assists in documenting specific strengths and weaknesses in management practices and emphasizes accountability for setting goals, measuring results, defining policies and procedures, and evaluating employee performance. As institutions become larger, add new staff, and implement new programs, the need for professional management increases. Material weaknesses in management should be of major concern and actions should be taken immediately to address them.

Management is responsible for current operations and future planning. A management review should determine that:

- Officials fully understand their duties and responsibilities;
- Officials are carrying out their responsibilities appropriately and in compliance with laws and regulations;
- Officials have developed adequate objectives and policies for all financial and operational areas;
- Officials are planning, directing, and controlling the institution, evidenced by the achievements or positive trends on the goals and objectives established;
- Conflicts of interest or self-dealing practices do not exist;

- Service to clients as reflected in market penetration and rate structures is appropriate;
- Officials keep abreast of new developments in the microfinance industry and adapt to change; and
- Management decisions are sound.

The following checklists are intended to assist institutions and supervisors to evaluate the management of a savings institution. The first checklist can be utilized to assess the management structure of the institution. The second, "Red Flag Checklist," can be used to evaluate the effectiveness of management; by its very design, it enables evaluators to identify trouble spots immediately.

MANAGEMENT STRUCTURE CHECKLIST

Financial Management ✓

1. Have short- and long-term business plans, which set out goals and objectives, been defined and documented in writing?	
2. Is an income/expense budget prepared that is compatible with the size and complexity of the institution?	
3. Are variances between budgeted and actual income and expenses periodically reviewed and explained in writing?	
4. Does the budget coincide with the goals and objectives of the institution?	
5. Are capital growth/maintenance plans consistent with the institution's capital needs, risk exposure, and net income projections?	
6. Are progress reports on financial and operational goals analyzed periodically?	
7. Are cost/benefit relationships of services analyzed periodically?	
8. Is there an asset-liability management policy in place to address liquidity and profitability needs?	
9. Has management determined an acceptable method for monitoring the balance sheet's interest rate risk exposure in relation to profitability?	
10. Are adequate procedures in place for monitoring the current and future liquidity needs of the institution?	
11. Are material risks adequately insured?	

MANAGEMENT STRUCTURE CHECKLIST continued

Personnel Management



1. Are accurate position descriptions in place for all employees?	
2. Are all employees, including top management, provided a written evaluation of their performance at least annually?	
3. Do management contracts provide for the following:	
a. Measurable performance indicators?	
b. Conditions for discontinuance of contracts?	
c. Compensation increases which do not create unaffordable contingent liabilities?	
4. Does management have an adequate succession plan in place?	
5. Are all officials of the institution meeting the duties of their positions?	
6. a. If the institution issues loans to its officials or senior employees, are procedures in place to monitor payment on these loans?	
b. Does the internal auditor review these accounts?	
Operational Management	
1. Are all operational procedures well defined and well documented?	
2. Are internal controls reviewed periodically?	
3. Are the books and records of the institution current and in balance, according to accepted practices?	

MANAGEMENT STRUCTURE CHECKLIST continued**Board of Directors**

1. Are board and committee policies well defined and well documented for all relevant areas of operation?	
2. Are written policies reviewed by the board regularly and updated or amended as necessary?	
3. Do the board minutes indicate that monthly meetings are held?	
4. Are charter and bylaw amendments approved by the appropriate regulatory agency?	
5. Does the board receive detailed financial information at least monthly?	
6. Has the board assured itself that all officials, employees, and their immediate families are not involved in any dealings with the institution that could be construed as insider dealings or preferential treatment?	
a. Is the board involved in the decision making process?	
b. Is this involvement documented in the board minutes?	
Other	
1. Does management strive to protect the core values, capabilities, and mission of the institution?	
2. Does management keep informed of new developments in the microfinance industry and adjust operations accordingly?	
3. Does management maintain a records preservation program?	
4. Does management have a written security program?	
5. Are external examination reports reviewed and formally acted upon with appropriate corrective action?	
6. Are supervisory committee and/or CPA audit reports reviewed and formally acted upon with appropriate corrective action?	
7. a. Are all contingent liabilities, such as accrued employee leave and pensions, salary continuances, and pending lawsuits, recognized by the institution?	
b. If yes, has the board evaluated the impact that the contingent liability could have on the financial condition of the institution?	
8. Have all outstanding bond claims been properly closed?	

RED FLAG CHECKLIST

Accounting – Reconciliation



1. Ongoing record keeping problems	
2. Cash and bank reconciliations not complete, in arrears, or with (fluctuating) out of balance amounts	
3. Excessive teller overages or shortages, either in number or amount	
4. IOU's in teller or vault cash	
5. Numerous erasures, corrections, whiteouts, or lineouts	
6. Numerous voided or third party checks	
7. Numerous stale-dated outstanding checks	
8. Numerous stale-dated reconciling items	
9. Lump sum postings not conducive to good audit trail	
10. Checks or transaction receipts missing or out of sequence	
11. Timeliness of deposits not in accordance with bylaw requirements	
12. Bank account activity and/or bank account balances (or share draft clearings/total share draft balances) exceed realistic limits	
13. Excessive number of depository accounts providing potential for kiting	
14. Excessive cash/assets ratio (indicates poor cash management or possibly fraud)	

RED FLAG CHECKLIST continued**Management**

1. Regular vacations not taken, always working late hours	
2. Nepotism	
3. Limited personnel not conducive to segregation of duties	
4. Lack of adequate segregation of duties where the institution is adequately staffed	
5. Failure to provide, or delays in providing, standard reports, records, or documents	
6. Records maintained at home, or not in formal record storage	
7. Management or staff provide copies of documents, rather than the originals	
8. Lack of, unacceptable, or non-independent audit or verification	
9. Inadequate internal controls and/or information system controls	
10. No internal review of override/non-financial reports	
11. Bank account frequently overdrawn	
12. High volume of excessive transactions	
13. Use of borrowed funds in spite of large cash balances	
14. Lack of a fraud policy	

RED FLAG CHECKLIST continued**Cash**

1. Observe staff count all cash in the presence of a manager and determine that the count balances with the general ledger	
2. Spot-check several months of bank and corporate account reconciliations	
3. Verify all outstanding items on the bank\corporate reconciliations, especially deposits in transit	
4. Determine that adjusting entries are cleared in a timely manner	
5. Review several months' bank statements for reasonableness of total deposits and withdrawals	
6. Perform gross receipts and disbursements testing for two months	
7. Determine that deposits are made in a timely manner in accordance with applicable bylaws or policies	
8. Randomly review cancelled and voided checks for unusual payees	
9. Determine whether dual control exists over mail receipts, night depositories, and vault cash	
10. Verify that proper controls are in place over wire transfers (If applicable)	
Internal Controls	
1. Review the following reports on a random basis:	
a. Supervisory override reports	
b. File maintenance reports	
c. Dormant account activity reports	
d. Overdraft reports	
2. Determine if computer access codes are in place	
3. Complete internal control checklist	

RED FLAG CHECKLIST continued

Lending



1. Review loan reports as follows:	
a. Paid-ahead loan report	
b. Non-amortizing/single payment loan report	
c. Loan concentration report	
d. Loans with no activity report	
e. First payment default report	
f. Loans with large payments reports	
g. Zero interest loan reports	
2. Trace written off loans to approval in the board minutes	
3. Determine proper loan/credit committee controls are in place	
4. Scan/review the savings and loan trial balance for any unusual balances, interest rates, payment amounts, loan dates, or account numbers	