

Internal Audit Report

April 30, 20X2

To the Audit Committee of the Board of Directors

Sea Cliff Bank (Bank),

We completed an audit of the Bank's Branch Operations. The audit was conducted in the month of March 20X2 and covered the time period of March 1, 20X1 to February 28, 20X2. Our draft report for discussion was provided to management on March 15, 20X2, and our final report was issued on March 31, 20X2. The response to our recommendations was received on April 15, 20X2.

This report is intended solely for the information and use of management, the Audit Committee of the Board of Directors and the Board of Directors and is not intended and should not be used by anyone other than the specified parties. The Bank's external auditors and regulators may be provided with a copy of this report in connection with fulfilling their respective responsibilities.

Respectfully Reported,

Jose Guerra

Head of Internal Audit

Scope of the Internal Audit

The scope of this internal audit focused on branch compliance with the Bank's procedures for the following:

- 1.) new accounts,
- 2.) teller cash controls,
- 3.) vault access controls,
- 4.) vault cash controls,
- 5.) wire transactions,
- 6.) safe deposit boxes,
- 7.) file maintenance,
- 8.) dormant accounts, and
- 9.) general ledger review.

The Internal Audit Department provides management with an overall assessment of the business processes related to the Bank's compliance with Branch Operations as it relates to the items defined within our scope, the associated risks, and the control components relied upon by bank management to mitigate those risks.

Rating

We have included our findings and recommendations in the next section. Based on the risk ratings of the findings, the overall control environment of Branch Operations is rated **Needs Improvement**.

Findings

1. Branch cash controls need improvement (Moderate Risk).
 - Surprise cash accounts were always performed on the last business day of the month.

2. Vault access controls need improvement (Moderate Risk)
 - Supervisors at Branch B had access to the vault keys of all employees.
3. Monitoring of dormant accounts needs improvement (Moderate Risk).
 - Dormant account activity is not reviewed by management.
 - Dormant account reviews are being completed by employees who have ability to conduct transactions on those accounts.

Recommendations

- Cash counts should be more randomly scheduled.
- Vault key access should be better segregated.
- Dual controls over dormant accounts should be practiced consistent with bank policy.

Management's Response

Management is committed to improving the enforcement of dual controls, will be more diligent in the monitoring of dormant accounts, and will re-visit cash count procedures.