

**APPENDIX A – FFIEC INTERNAL AUDIT OUTSOURCING FACTORS AND
JLCPA COMPLIANCE STRATEGY**

<i>FFIEC INTERNAL AUDIT BOOKLET FACTOR</i>	<i>JLCPA COMPLIANCE STRATEGY</i>
Outsourced internal audit reports and internal audit work papers should be adequately prepared in accordance with the audit program and the outsourcing agreement.	All work will be prepared using relevant standards promulgated by the various auditing professional associations (AICPA, IIA and ISACA).
Work papers should disclose the specific program steps, calculations, or other evidence that supports the procedures and conclusions set forth in the outsourced reports.	Will be performed in accordance with the standards promulgated by AICPA, IIA and ISACA).
The scope of the outsourced internal audit procedures should be adequate regarding the procedures and testing performed, and the internal audit manager should approve the process.	Procedures will be reviewed with “audit liaison” prior to performance and approval obtained. If necessary, procedures will be performed based on a risk-priority basis using guidance from the three professional associations identified above.
The institution should revise the scope of outsourced audit work appropriately when the institution’s environment, activities, risk exposures, or systems change significantly.	Scope of work to be determined by “audit liaison.” JLCPA will recommend changes as appropriate.
The institution should subject the vendor to objective performance criteria such as whether an audit is completed on time and whether overall performance meets the objectives of the audit plan.	Project will be performed on a “fix-fee” basis and key delivery dates will be established and adhered to as appropriate.
Key institution employees and the vendor should clearly understand the lines of communication and how the institution will address internal control or other problems noted by the vendor.	JLCPA will report to the “audit liaison” who is independent of the area under review.
Results of outsourced work should be well documented and reported promptly to the board of directors or its audit committee by the internal auditor, the vendor, or both jointly.	Results of work will be provided to the “audit liaison” who will report on the results of the work using established bank policies.
Establish a process for changing terms of the service contract, especially for expansion of audit work if the auditor finds significant issues.	If needed, JLCPA will prepare a memorandum requesting additional hours. Cost-benefits, ROI, alternative procedures and other standard business justification must be provided in the memorandum. BANK can also request additional effort from JLCPA. JLCPA guarantees same hourly rate as in the existing contract.

<p>State that internal audit reports are the property of the institution, that the vendor will provide copies of related work papers the institution deems necessary, and that authorized employees of the institution will have reasonable and timely access to work papers prepared by the outside vendor.</p>	<p>Reports are the property of the institution and BANK will maintain original work papers in accordance with established BANK audit processes. BANK will provide JLCPA with access to or copies of workpapers, as requested in writing, in order for JLCPA to comply with professional obligations (e.g., Peer Review, Insurance Carrier Review, etc.).</p>
<p>Identify the locations of outsourced internal audit reports and related work papers.</p>	<p>Reports at related work papers, once completed, will be stored at BANK per above.</p>
<p>Internal audit activities are subjected to OCC review and that vendor grants OCC examiners immediate and full access to outsourced internal audit reports and related work papers.</p>	<p>JLCPA will cooperate fully with the OCC.</p>
<p>Prescribe an alternative dispute resolution process for determining who bears the cost of consequential damages arising from errors, omissions, and negligence.</p>	<p>Included in the body of the contract above.</p>
<p>State that outside vendors, if subject to SEC or other independence guidance, such as that issued by the AICPA, will not perform management functions, make management decisions, or act or appear to act in a capacity equivalent to that of an employee of the institution.</p>	<p>For this engagement, JLCPA is not subject to SEC independence guidelines. However, JLCPA is subject to the relevant professional independence standards of the AICPA, IIA, and ISACA. BANK, not JLCPA is responsible for performing management functions and making management decisions.</p>
<p>Review the performance and contractual criteria for the vendors and any internal evaluations of the vendor, and determine if the board or audit committee performed sufficient due diligence to satisfy themselves of the vendor's competence before entering into an outsourcing arrangement.</p>	<p>Joel Lanz's resume is attached. Joel has frequently published in respected professional and industry journals (e.g., The CPA Journal, The RMA Journal, Bank Accounting and Finance) and speaks frequently to similar groups (New York State Society of CPAs, Community Bankers Association of New York State, Institute of Internal Auditors). He is also on the Board of Governors of the LI Chapter of the IIA and a member of the NYSSCPA Technology Assurance Committee. Additionally, Joel Lanz, CPA, P.C., is enrolled in the AICPA Peer Review Program.</p>

<p>Determine if procedures exist to ensure that the vendor maintains sufficient expertise to perform effectively throughout the arrangement.</p>	<p>In addition to fulfilling mandatory continuing professional education requirements to maintain current professional certifications, Joel is currently an Adjunct Professor of Accounting at the C.W. Post campus of Long Island University. For the Fall semester, Joel is scheduled to teach “Advanced Assurance Services and Computer Auditing” for the graduate business school AACSB accredited program. Joel has also been reappointed to the NYSSCPA Technology Assurance Committee where he currently serves as Executive Member Quality Assurance for the Committee. On behalf of the NYSSCPA’s Foundation for Accounting Education, Joel will be developing and instructing a series of courses for CPA’s throughout New York State relating to Security & Privacy and IT Management, throughout the summer and fall.</p>
<p>Determine whether the vendors are independent, and disclose any potential conflicts of interest. If a vendor is an independent public accountant who also performs the institution’s external audit, potential conflicts of interest may exist. The board should be familiar with AICPA Interpretation 102-2 about conflicts of interest under AICPA Rule 102, which discusses integrity and objectivity of independent public accountants performing outsourced internal audit work.</p>	<p>JLCPA is not aware of any potential conflicts of interest under these requirements or any of the emerging requirements of the SEC, PCAOB and other regulatory agencies.</p>