



State of New Jersey
DEPARTMENT OF BANKING AND INSURANCE
PO Box 325
TRENTON, NJ 08625-0325
Tel (609) 292-5360

JAMES E. MCGREEVEY
Governor

HOLLY C. BAKKE
Commissioner

BULLETIN NO.: 02-24

TO: ALL STATE-CHARTERED BANKS AND SAVINGS BANKS

FROM: HOLLY C. BAKKE, COMMISSIONER

RE: CORPORATE GOVERNANCE AND BOARD EXAMINATIONS OF DEPOSITORY INSTITUTIONS

Recent bankruptcies of several large corporations re-emphasize the importance of corporate governance to the proper management of depository institutions. Proper governance includes the Board of Directors' (or Board of Managers') annual audits of the condition of their institutions. The purpose of this Bulletin is to remind state-chartered depository institutions of their general responsibilities regarding corporate governance and the internal audit.

CORPORATE GOVERNANCE

Approximately every two years, the Department's Office of Depositories reviews the corporate governance of state-chartered banks and savings banks during the safety and soundness examinations it conducts pursuant to N.J.S.A. 17:9A-260. Evaluating the corporate governance of a depository institution is an important element of these periodic examinations and includes an evaluation of management as a part of the CAMELS analysis.

The examination evaluates the role that the Board of Directors (or Managers) and senior management plays in running the institution, focusing primarily on the following elements:

- The independence of the Board;
- The skill, experience and integrity of the Board and senior management;

- The success of the Board and senior management in establishing, maintaining and enforcing sound policies, practices and procedures for internal controls and risk management;
- The success of the Board in actively overseeing the financial affairs of the institution, including arranging for a public accountant to perform the examination as required by N.J.S.A. 17:9A-253 et seq., and acting on the report as required by N.J.S.A. 17:9A-254.
- The success of the institution in meeting community credit needs.
- Successful compliance with statutes and regulations.
- Avoidance of conflicts of interest and preferential transactions involving insiders.

The Department periodically offers seminars for Directors and Managers of state-chartered depository institutions that present a wide array of information regarding the responsibilities of Boards and their liability exposure under current law. For those Board members who wish guidance regarding these matters, this seminar may prove helpful.

BOARD EXAMINATIONS OF DEPOSITORY INSTITUTIONS

State law requires that each Board of Directors or Board of Managers cause an examination to be made of the affairs of the institution annually. N.J.S.A. 17:9A-253. The examination is to be commenced not less than six months and not more than 15 months following the commencement of the next preceding examination by the Board. These Board audits shall not be commenced during an examination conducted by the Department pursuant to N.J.S.A. 17:9A-260.

The examination shall be conducted by a public accountant or other person whose qualifications have been approved by the Commissioner. The person may not be a director, officer or employee of the institution and must not have had any such relationship with the institution for at least 13 months. The minimum scope for the Board examination is set forth in detail at N.J.A.C. 3:7-3.1 et seq.

Depository institutions with an internal audit program may be excused from the requirement to confirm with depositors and debtors the correctness of the deposits due them and debts owed the institution provided that the institution furnishes the Commissioner with sufficient proof that its internal auditors have the capacity to perform the confirmation requirements.

Institutions utilizing this provision shall file a recapitulation of the results of the confirmation program with the Commissioner annually. N.J.A.C. 3:7-3.5.

10/29/02
Date

/s/ Holly C. Bakke
Holly C. Bakke
Commissioner