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[¶10,960] **In the Matter of Citizens State Bank of Milford, Milford, Illinois, Docket No. FDIC-94-20b (3-24-94).**

Bank to cease and desist from such unsafe or unsound practices as operating in violation of applicable laws or regulations; operating with directors, officers and employees with inadequate knowledge of banking law and regulations; operating with deficient policies and internal routines; and operating with a board of directors that provide inadequate supervision. (*This order was terminated by order of the FDIC dated 11-14-95. See ¶16,055.*)

- [\[.1\] Violations of Law—Eliminate/Correct](#)
- [\[.2\] Management—Qualifications—Review](#)
- [\[.3\] Accounting—Independent CPA Examination Required](#)
- [\[.4\] Expenses—Inappropriate—Reimbursement Required](#)
- [\[.5\] Audit—Internal and External—Program Required](#)
- [\[.6\] Expenses—Documentation Required](#)
- [\[.7\] Board of Directors—Audit Committee—Membership and Duties](#)
- [\[.8\] Shareholders—Disclosure—Cease and Desist Order](#)

In the Matter of

**CITIZENS STATE BANK OF
MILFORD
MILFORD, ILLINOIS
(Insured State Nonmember Bank)
ORDER TO CEASE AND DESIST
FDIC-94-20b**

Citizens State Bank of Milford, Milford, Illinois ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices and violations of law and/or regulation alleged to have been committed by the Bank, and of its right to a hearing on the charges under section 8(b) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT") with counsel for the Federal Deposit Insurance Corporation ("FDIC"), dated February 25, 1994, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices and violations of law and/or regulation, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC.

The FDIC considered the matter and determined that it had reason to believe that the Bank had engaged in unsafe or unsound banking practices and had violated laws and/or regulations. The FDIC, therefore, accepted the CONSENT AGREEMENT and issued the following:

ORDER TO CEASE AND DESIST

IT IS HEREBY ORDERED, that the Bank, its institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), and its successors and assigns, cease and desist from the unsafe or unsound banking practices and violations of law and/or regulation listed below.

- A. Violating laws and regulations, including those described on pages 6-1 through 6-4 of the FDIC Report of Examination, dated July 23, 1993 ("Report of Examination");
- B. Operating with directors, officers and [{{1-31-96 p.C-3624}}](#) employees with inadequate knowledge of banking laws and regulations;
- C. Operating with deficient policies and internal routines; and
- D. Operating with a board of directors which has failed to provide adequate supervision over and direction to the management of the Bank and failed to ensure compliance with laws and regulations.

IT IS FURTHER ORDERED, that the Bank, its institution-affiliated parties, and its successors and assigns, take affirmative action as follows:

- [.1] 1. Within 90 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law and regulation described on pages 6-1 through 6-4 of the Report of Examination. In

addition, the Bank shall implement procedures to ensure future compliance with all applicable laws and regulations.

[.2] 2. (a) During the life of this ORDER, the Bank shall have and thereafter maintain qualified management. Each member of management shall have qualifications and experience commensurate with his or her duties and responsibilities at the Bank. The qualifications of management shall be assessed on its ability to:

- (i) Comply with the requirements of this ORDER;
- (ii) Operate the Bank in a safe and sound manner, including asset quality and capital adequacy;
- (iii) Comply with applicable laws and regulations; and
- (iv) Restore all aspects of the Bank to a safe and sound condition, including earnings, management effectiveness, and effective internal controls.

(b) During the life of this ORDER, the Bank shall notify the Regional Director of the Chicago Regional Office of the FDIC ("Regional Director") and the Commissioner of Banks and Trust Companies of the State of Illinois ("Commissioner") in writing of any changes in the Bank's management. For purposes of this ORDER, "management" is defined as members of the board of directors and "senior executive officers," as that term is defined in section 32 of the Act ("section 32"), 12 U.S.C. § 1831(i), and section 303.14 of the FDIC Rules and Regulations ("section 303.14"), 12 C.F.R. § 303.14. Prior to the addition of any individual to the board of directors or the employment of any individual as a senior executive officer, the Bank shall comply with the requirements of section 32 and section 303.14.

[.3] 3. (a) Within 30 days from the effective date of this ORDER, the Bank shall retain an independent certified public accounting firm as that term is defined in paragraph 3(b) of this ORDER to conduct an agreedupon procedures examination ("examination") including, but not limited to, the Bank's balance sheet and income accounts. The Bank shall require, as part of its agreement with the accounting firm retained to perform the examination, that the accounting firm commence such examination no later than March 31, 1994, and complete such examination within 120 days from the commencement date. A copy of the accounting firm's qualifications and the proposed detailed engagement agreement ("agreement") between the Bank and the accounting firm shall be submitted to the Regional Director for review and comment. Within 15 days from the receipt of any comments from the Regional Director, the Bank shall revise the agreement to incorporate the Regional Director's comments. The accounting firm's initial written report, whether in draft or final form, shall be submitted directly to the Regional Director and Commissioner at the same time such report is submitted to the Bank.

(b) For purposes of this ORDER, an independent certified public accounting firm shall be any firm where no partner or employee: (1) is an officer of the Bank or any of its affiliated organizations and owns more than five (5) percent of the outstanding shares of stock of the bank or any of its affiliated organizations; or (2) is related by blood, marriage or common financial interest to an officer of the Bank or any of its affiliated organizations or to any stockholder owning more than five (5) percent of the outstanding shares of the Bank or any of its affiliated organizations; or (3) is indebted to the Bank, directly or indirectly (including the indebtedness of any entity in which any partner or employee has a financial interest), in an amount exceeding five (5) percent of the Bank's total equity capital and allowance for loan and lease losses. Any accounting firm that has previously been engaged by the Bank to perform accounting services shall not be considered to be independent with respect to the Bank.

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(c) Within 30 days of receipt of the final report of such examination, the Bank's board of directors shall review, adopt, and implement the recommendations, if any, resulting from such examination, which review shall be recorded in and made a part of the minutes of the board of directors. A copy of the relevant board of directors' minutes shall be provided to the Regional Director and Commissioner within 15 days of the board of directors' meeting.

(d) If the results of such examination disclose any material error in any account of the Bank, the Bank shall amend its records to correct any such material error and immediately notify the Regional Director and Commissioner in writing of both the material error uncovered and the corrective action taken. "Material error" for the Report of Income is defined as any differences amounting to 1% of total operating income provided the amount is greater than \$5,000. "Material error" for the Report of Condition is defined as any differences amounting to 1% of total assets

provided the amount is greater than \$50,000. If the error resulted in inaccurate filings of the Bank's Reports of Condition and Income, the Bank shall file amended Reports of Condition and Income unless released from the requirement by the Regional Director.

[.4] 4. Within 30 days from the effective date of this ORDER, the Bank shall retain an independent certified public accounting firm as that term is defined in paragraph 3(b) of this ORDER or an independent consultant acceptable to the Regional Director to conduct an agreed-upon procedures examination ("examination") of all Bank expenses paid to or for the benefit of Bank officers, directors, or employees since January 1, 1985. A copy of the accounting firm's or consultant's qualifications and the proposed engagement agreement between the Bank and the accounting firm or the consultant shall be submitted to the Regional Director for review and comment. Within 15 days from the receipt of any comments from the Regional Director, the Bank shall revise the engagement letter to incorporate the Regional Director comments. Such examination shall commence no later than February 28, 1994 and be completed no later than 90 days from the commencement date. The Bank shall obtain reimbursement with interest calculated at the current Federal funds rate provided that rate is not less than 5% for all non-Bank related expenses promptly upon the Bank's receipt of the examination report. The Bank shall submit the results of the examination and the Bank's plan to obtain reimbursement to the Regional Director and Commissioner within 10 days of the Bank's receipt of the examination results, whether in final or draft form.

[.5] 5. (a) Within 60 days from the effective date of this ORDER, the Bank's board of directors shall formulate and submit to the Regional Director for review and comment a comprehensive written audit program to be monitored by the audit committee described in paragraph 7 of this ORDER. Within 30 days from the receipt of any comments from the Regional Director, the Bank shall incorporate the Regional Director's comments into the written audit program. The Bank shall thereafter implement and enforce an effective system of internal and external audits. The audit committee shall make written monthly reports of audit findings directly to the Bank's board of directors. The minutes of the meetings of the board of directors shall reflect consideration of these reports and describe any action taken as a result thereof.

(b) Each calendar quarter after the completion of the initial agreed-upon procedures examination described in paragraph 4 of this ORDER, the Bank or an independent consultant acceptable to the Regional Director shall perform an internal audit of the Bank's expenses. Any audit of the Bank's expenses performed internally shall be performed or supervised by an officer or director of the Bank who has knowledge of this ORDER and the requirements of the laws and regulations regarding insider transactions. The results of the audit and any recommendation by the supervising officer or director, the consultant and/or the board of directors shall be recorded in the minutes of the board of directors.

[.6] 6. Following the effective date of this ORDER, the Bank shall require any Bank expense submitted for reimbursement by a Bank employee, officer or director to include an explanation of how the expenditure relates to actual or potential Bank business. The Bank shall require and maintain all necessary supporting documentation. The audit committee shall approve all Bank expenses submitted by an employee, officer or direc {{1-31-96 p.C-3626}}tor before any reimbursements are made. The audit committee's minutes reflecting approval or disapproval of each expense shall be presented at the monthly board meeting and noted in the board of directors' minutes.

[.7] 7. Within 30 days from the effective date of this ORDER, the Bank shall establish an audit committee comprised of at least three directors. No committee member may be an executive officer or principal shareholder, as those terms are defined in sections 215.2(d) and (j) of Regulation O of the Board of Governors of the Federal Reserve System, 12 C.F.R. §§ 215.2(d) and (j). The committee shall perform their duties required by this ORDER and otherwise monitor compliance with this ORDER. In addition, within 30 days from the effective date of this ORDER, and every 30 days thereafter, it shall submit to the board of directors for consideration at its regular monthly meeting a written report detailing the Bank's compliance with this ORDER, including compliance with its audit program. The monthly compliance report shall be incorporated into the minutes of the corresponding board of directors' meeting. Establishment of this committee does not in any way diminish the responsibility of the entire board of directors for ensuring compliance with the provisions of this ORDER.

8. On the last day of the second month following the date of issuance of this ORDER, and on the last day of every third month thereafter, the Bank shall furnish written progress reports to the Regional Director and Commissioner, signed by each member of the Bank's board of directors, detailing the form and manner of any actions taken to secure compliance with this ORDER. Such reports may be

discontinued when the corrections required by this ORDER have been accomplished and the Regional Director has, in writing, released the Bank from making further reports.

[.8] 9. Following the effective date of this ORDER, the Bank shall send to its shareholders or otherwise furnish a description of this ORDER: (1) in conjunction with the Bank's next shareholder communication; and (2) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. The description shall fully describe the ORDER in all material respects. The description and any accompanying communication, notice, or statement shall be sent to the FDIC in Washington, D.C. for review at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

The effective date of this ORDER shall be 10 days after its issuance by the FDIC.

The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and its successors and assigns.

The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provisions of this ORDER shall have been modified, terminated, suspended, or set aside by the FDIC.

Dated: March 24, 1994.

Pursuant to delegated authority.