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**Custodial Inventory Program**

**FEDERAL RESERVE BANK  
CUSTODIAL INVENTORY  
MANUAL OF PROCEDURES**

November 3, 2008

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### I. GENERAL STATEMENT

The Institution must adhere to this Manual of Procedures (MOP) to ensure that all of its Custodial Inventory (CI) operations are conducted and carried out in accordance with prescribed procedures and under specific and sufficient security control conditions providing for the integrity of all operations. An Institution shall maintain and operate the

CI operation in strict accordance with these procedures, which include the following requirements, each of which is discussed in more detail in subsequent sections of this document:

- Maintaining CI currency in the designated secure vault or secure area within a vault;
- Conducting all CI activities in a controlled environment;
- Using the Federal Reserve Bank-provided FedCash application and EXHIBITS 1-11 of this MOP to record all CI-related activities;
- Conducting all CI activities under recorded Closed Circuit Television CCTV;
- Conducting regular management audits for compliance with these procedures; and
- Maintaining all CI Vault and related records, and making such available for inspection and audit by Reserve Bank personnel or other authorized entities as defined in Appendix 1 of Operating Circular 2 at any and all times that such personnel present themselves and provide appropriate credentials in order to conduct announced visits or unannounced Compliance Reviews.

In the event that the institution engages a third party vendor to manage its Custodial Inventory, the Federal Reserve Bank reserves the right to communicate with the third party at the Federal Reserve Bank's discretion.

The MOP contains a Glossary of Terms, which provides definitions of procedural terminology. All capitalized terms in this document are defined; please see the glossary for more information. All terms used and not specifically defined in this Manual of Procedures shall have the meaning set forth in Operating Circular 2, Cash Services, and Appendix 1 (Custodial Inventory Program) to the Circular.

## II. CI VAULT

1. CI currency may be stored only in the Reserve Bank-approved CI Vault. The CI Vault is subject to inspection and approval by the Reserve Bank. A Reserve Bank-approved CI Vault is defined to be either on the premises of an Institution or at the third party location which the Institution designated on the Custodial Inventory contractual agreement. Note that multiple Institutions can maintain a CI Vault at one third party facility as long as each CI vault is operated independently and the CI inventory is segregated by Institution in separate CI Vaults. Material changes in the location, security or physical features of the CI Vault may be made only with the Reserve Bank's prior written consent and inspection.
2. Access to the secure area must be restricted with at least two separately-controlled locking mechanisms.
3. Only currency that is part of the CI may be stored in the CI Vault and must be segregated from other Institution inventories. The denominations should be physically organized in a manner to expedite Verification of inventories.
4. All currency stored in the CI Vault must first be sorted by denomination and prepared in 1,000 note bundles. CI may consist of the following classifications: New, Fit, Verified or Unverified.
5. The CI Vault must be labeled so as to specifically identify "Federal Reserve Bank Inventory".

### III. CI VAULT CONTROL ENVIRONMENT

1. A minimum of two Remote Vault Staff (RVS) members working under recorded CCTV must secure and maintain exclusive control of the secure area. No one individual shall have access to both locking devices.
2. At a minimum, employees must maintain CI Vault Control at all times for CI Vault transactions, and must also maintain their combinations/keys to the CI Vault and the interior secure compartment locks. All CI Vault transactions should be verified by at least two members of the team, working simultaneously or consecutively. Both team members should verify their counts to the appropriate records. Each team member must be positioned to observe all the actions of his/her partner.
3. Access to the CI Vault must be monitored through the written log provided as part of this MOP (see [EXHIBIT 1](#)), which includes the following elements:
  - (a) Date, Time In, Time Out, Type of Transaction, Dollar Amount, and team signatures; and
  - (b) The CI site must maintain an accurate and up-to-date signature list that is uniquely identifiable (see [EXHIBIT 8](#)) on file at the CI site; and be made available for review by the servicing Reserve Bank upon request, such as during an unannounced Compliance Review (records of signature lists must be retained on file for a minimum of one year).

#### IV. INVENTORY MANAGEMENT SYSTEM

1. CI Operators must use the FedCash application to manage their CI. Entries into FedCash will be transferred by the Reserve Bank to its accounting system, and the Institution's Federal Reserve account will be credited or debited in accordance with the Reserve Bank's Daylight Overdraft Transaction Posting Rules. These entries cover:
  - (a) Opening and closing on a Business Day;
  - (b) Deposits and withdrawals during CI Operating Hours;
  - (c) Transfers in from and out for processing occur after CI Operating Hours (after 4:01 pm) and before 6:59 a.m. the next Business Day (Local FRB Time);
  - (d) Required data to calculate the Institution's CI Cap and Minimum Holding Requirement (i.e., payments to its customers in the Covered Denominations and including data input for ALL denominations (\$1, \$2, \$5, \$50, and \$100s) and
  - (e) Required data to assess compliance with Minimum Holding Requirement (i.e., Institution Vault Holdings by reporting Verified Currency own holdings in the Covered Denominations and including data input for \$1, \$2, \$5, \$50, and \$100 denominations and the total Unverified Currency amount).
  - (f) Required data to assess compliance with the monthly Unannounced Management Inventory Requirement.
2. Accounting entries for settlement of CI transactions may occur only on Federal Reserve Business Days during CI Operating Hours and not on the weekends and/or Federal Reserve Bank holidays.
3. During CI Operating Hours on a Business Day, only deposit and withdrawal transactions to and from the CI Vault are allowed. After CI Operating Hours, only transfers in from and out for processing are allowed.
4. All deposit, withdrawal, and transfer activity to and from the CI Vault must be reflected in the Institution's FedCash entries within 15 minutes of the physical transaction. One of the RVS conducting the transaction must be the one to enter the information into FedCash.
5. All CI transaction entries reported via FedCash must be made in accordance with the procedures developed for that system's operation and in accordance with the Separation of Duties and responsibilities. Transactions reporting in FedCash by RVMs should be rare and infrequent.

6. The Institution shall maintain supporting documentation for any data input to FedCash.
7. The Institution shall also maintain supporting documentation on all CI related activities not captured in FedCash, including access to the CI Vault, and teller transactions related to in from and out for processing as part of its record keeping and audit trail management.
8. On a quarterly basis, the Remote Vault Manager must print and verify the FedCash users list to ensure that all listed employees still should be allowed to have access to FedCash. The Remote Vault Manager must sign the List. If changes are required due to turnover, the Remote Vault Manager must take steps to add or remove user access immediately and retain documentation for Compliance Reviews.

### **Separation of Duties**

Separation of Duties delineates responsibility for handling valuables and maintaining the records of valuables within the FedCash application.

1. The FedCash application delineates three levels of responsibility: (1) the Remote Vault Staff, (2) Remote Vault Manager, and (3) Executive Manager. No individual shall have access in FedCash to more than one level of responsibility at any time.
  - (a) The Remote Vault Staff is responsible for physical handling and control of the currency. They can perform deposits and withdrawals, and can input payments and Vault Holdings data and transfer transactions in FedCash. They can also view reports, queries, and broadcast messages for their CI Site
  - (b) The Remote Vault Manager can perform all functions performed by Remote Vault staff and other functions unique to the Remote Vault Manager role to include: opening and closing the CI Vault, inputting payments and vault holding data, making corrections, and viewing reports, queries, and broadcast messages for their CI Site. A Remote Vault Manager may be a management representative of the third party service provider in the event a DI has outsourced its CI operation.
  - (c) The Executive Manager can view reports, queries, and broadcast messages for their CI Site or other CI Sites for their Institution.
2. The Remote Vault Manager will not be allowed to complete the monthly Unannounced Management Inventory when he/she participated as a member of

the Remote Vault Staff the last time the CI was accessed prior to the Management Inventory. In such cases, and on an exception basis only, a Management Designee can be assigned to complete the Management Inventory. This information must be documented as an exception on the Daily CI Vault Balance Report ([EXHIBIT 2](#)).

3. Any and all Exceptions to the above requirement must be documented in writing, kept on file at the CI Site for a minimum of one year; and made available for review by the servicing Reserve Bank upon request, such as during an unannounced Compliance Review.

### **CI Transactions: First Time CI Vault Opening**

1. When first opening a new CI Vault on the go-live day, FedCash CI requires the input of daily Vault Holdings and daily payments to customers beginning with 2 full weeks prior to the go-live date through the go-live date. The Prior On-Site DI Vault Holdings and Payments Template ([EXHIBIT 11](#)) can be used to facilitate the gathering of this information. This data is required in order to determine the minimum vault holdings requirement and Cap amount. Also, FedCash will allow a one-hour time period for keying this initial data before timing out. If FedCash times out, all previously entered data must be re-keyed.

### **CI Transactions: CI Vault Opening**

1. All CI Operators must log onto the FedCash application each Business Day to retrieve broadcast messages and open the CI Vault. The CI Vault may be opened from any internet accessible PC.
2. Each Business Day, during CI Operating Hours, a Remote Vault Manager shall:
  - (a) Log onto FedCash and open the CI Vault application;
  - (b) Confirm that the beginning CI Vault balance displayed within FedCash is the same as the ending inventory from the previous Business Day; and
  - (c) Verify in FedCash that the employees eligible to participate on the Remote Vault Staff are listed in FedCash and update as appropriate. This step will ensure that any changes required are made timely and occur between the required quarterly verification of the FedCash user list.
3. At the beginning of each Business Day, during CI Operating Hours, the Remote Vault Staff shall:
  - (a) Confirm that the beginning CI Vault balance displayed within FedCash is the same as the ending inventory from the previous Business Day;
4. At the beginning of the week, the Inventory Cap may have changed.

- (a) If the inventory in the CI Vault now exceeds the Cap, FedCash will prompt and require a withdrawal from the CI Vault. The Remote Vault Manager is required to complete a withdrawal in FedCash to bring the CI Vault inventory at or below the new Cap limit before any additional transactions can be entered. The Remote Vault Staff must then physically remove the amount withdrawn from the CI Vault within 15 minutes of the FedCash withdrawal by the Remote Vault Manager.

### **CI Transactions: Deposits to and Withdrawals from the CI Vault**

1. Deposits to and withdrawals from the CI Vault may take place only during CI Operating Hours and only after the CI Vault has been opened for the Business Day in the FedCash application.
2. Deposit and withdrawal transactions result in a credit and debit, respectively, to the Institution's reserve account.
3. Transactions entered into FedCash will be transferred by the Reserve Bank to its accounting system, and the Institution's reserve account will be credited or debited in accordance with the Reserve Bank's Daylight Overdraft Transaction Posting Rules. Reserve Bank Daylight Overdraft Transaction Posting Rules can be found at <http://www.federalreserve.gov/PaymentSystems/PSR/appendixd.pdf>.
4. All deposit and withdrawal transactions shall be conducted using CI Vault Control, with at least two members of the Remote Vault Staff participating in the transactions.
5. Deposit and withdrawal transactions must be:
  - (a) Conducted under recorded Closed Circuit Television (CCTV) coverage
  - (b) In full Bundle increments
6. Both Remote Vault Staff members must perform a Bundle Count prior to placement in CI Vault or designated secure area.
  - (a) In the event of a difference, both team members must re-verify the CI currency, and if the difference condition still exists, they shall notify the Remote Vault Manager immediately and before they take any further action.
  - (b) To facilitate operations, Unverified Currency may be secured in containers after the Bundle Count has been completed. These containers must be stored in the CI Vault and to the extent possible should be isolated from the rest of the CI currency

- (c) The Remote Vault Staff must make the appropriate entries in FedCash within 15 minutes of the completion of the physical movement of the CI currency.

### **CI Transactions: Required Daily Data Entry**

1. Each Business Day, during the CI Operating Hours of the servicing Reserve Bank, a member of the Remote Vault Staff or Remote Vault Manager must input into the FedCash application both the Institution's payments to customers for all denominations and the Institution's end of day own Vault Holdings for all denominations for the prior Business Day.
2. The source documentation for customer payments and vault balances must be verifiable to the Institution's supporting documentation.
3. The daily payments data input shall include the Institution's total payments to its customers by denomination. Total payments include payments to merchant accounts, ATMs, branches, and correspondent banks, but exclude shipments to the Reserve Bank. If there is weekend payments activity that occurs by the Institution, the weekend payments data must be added to the next Business Day's payments data and reported accordingly.
4. Any time payments data are entered incorrectly it must be corrected. Corrections can be made directly in FedCash by local CI staff (for both corrections that impact future CAP calculations as well as those that may impact prior CAP calculations for records dating back six months). The Remote Vault Manager must approve all corrections keyed into FedCash and all source documents supporting the corrections must be maintained for review by Reserve Bank staff during on-site compliance reviews. Please note that based on the significance of the change, data corrections may generate retroactive minimum holdings violations. Should a CI site encounter violations related to data corrections, they will be subject to formal counseling by the servicing Reserve Bank and should take the necessary steps to ensure violations are not repeated.
5. The daily own Vault Holdings data input shall include:
  - (a) The date that the Institution's Vault Holdings were reported;
  - (b) The Institution's total Verified Currency own Vault Holdings, as well as the total for each denomination, excluding CI Vault Holdings; and
  - (c) The Institution's total Unverified Currency own Vault Holdings.
  - (d) The source documentation for customer payments and own Vault Holdings must be verifiable to the Institution's supporting documentation

and kept on file at the CI Site for a minimum of one year; and be made available for review by the servicing Reserve Bank upon request, such as during an unannounced Compliance Review.

6. There may be instances when a CI Site's facility is not open on a Business Day due to the CI Site honoring a holiday which is not a Federal holiday. Another example may be due to inclement weather causing the CI Site to be closed. When the Remote Vault Manager logs in to FedCash he/she will be prompted to enter payments and own holdings data for the day(s) the CI Site was closed. The Remote Vault Manager must enter zeros for payments data for each day the CI Site was closed and had no activity. Since own holdings would not have changed, the same own holdings data last reported can be reported for each day the CI Site was closed and had no activity.

### **CI Transactions: CI Vault Closing**

All CI Operators must have a Remote Vault Manager close the FedCash application each Business Day by 4:00 p.m. local FRB time. This activity can be performed from any internet accessible PC. Prior to closing the FedCash application, the following steps must be performed:

- At least two Remote Vault Staff team members shall physically verify the amount of currency in the CI Vault through a Bundle Count.
- Two Remote Vault Staff members shall verify that the CI Vault balance agrees with the balance in the FedCash application.
- The two Remote Vault Staff members shall print and sign a vault balance report ([EXHIBIT 2](#)), verifying that the physical balance matches the CI Vault balance in FedCash. This documentation is required to be kept on file for a minimum of one year.
- The Remote Vault Manager or another management member of the CI Operator shall review and sign the vault balance report. Management's signature confirms that the team's documentation reflecting the total CI Vault balances matches the FedCash application's CI balance for that day.
- No later than 4:00 pm local time of the servicing Reserve Bank, the Remote Vault Manager shall log onto FedCash to close the CI Vault application. Please contact your local Federal Reserve Bank to report any potential delays or problems encountered.

### **CI Transactions: Transfers In From and Out For Processing**

1. Transfers in from or out for processing only occur after CI Operating Hours, between 4:01pm to 6:59am local time of the servicing Reserve Bank. The

transfer-out-for-processing option can be used by CI sites after normal CI business hours during the standard business week (Monday through Friday) and on weekends and Reserve Bank holidays.

2. Transfers in from or out for processing affect the CI Vault balance, but do not affect the Institution's reserve account balance.
3. Transfers out for processing occur when Unverified Currency is removed from the CI Vault to be verified, piece counted, and fitness sorted. Transfers in from processing occur when Verified Currency is transferred back into the CI Vault.
4. Two Remote Vault Staff team members must perform a Dual Count. In the event of a difference, both team members should re-verify the valuables, and if the difference condition still exists, they shall notify management immediately before taking any further action.
5. The Remote Vault Staff team members must make the appropriate entries in FedCash within 15 minutes of the completion of the physical movement of the CI currency.
6. Transfers in must match transfers out. Should transfers out exceed transfers in at 7:00 am local time, the beginning of the Business Day, FedCash will function a withdrawal in the amount of the difference and prompt the Remote Vault Staff team member to acknowledge the transaction. No new CI transactions can take place until the transaction is accepted.

## V. CCTV MONITORING AND RECORDING

1. All CI Operations activities are to be conducted under CCTV with both live monitoring and recording, including:
  - (a) Deposits to and withdrawals from the CI Vault;
  - (b) Transfers in from and out for processing;
  - (c) Storage in CI Vault; and
  - (d) Access to CI Vault.
2. All activity must be conducted in the open and in full view of the cameras. The fields of view must be unobstructed and sufficient to permit the viewer to review both the CI currency and actions of the Institution's staff.
3. The CCTV surveillance system must, at a minimum:
  - (a) Record on a VCR tape if an analog surveillance system is used, or data storage cartridge or disk if digital surveillance equipment is used, and play back clear images;
  - (b) Capture at least two frames per second;
  - (c) Record the time and date of the recording;
  - (d) Be able to record quality images in the event of a power outage; and
  - (e) Be connected (cameras, switches and recording equipment) to an uninterrupted Power Supply (UPS) system. If a UPS system is not installed, the CI Operator must have adequate compensating controls in place. For instance,
    1. Adequate compensating controls include: In an emergency situation, contacting the servicing Reserve Bank and ensuring that Reserve Bank inventory is completely secured and all access to the inventory must be restricted until power is restored. In addition, the Reserve Bank may provide the CI Operator with further instructions depending on the duration of the outage.
4. Lighting must sufficiently illuminate the area to ensure the recording of clear images to facilitate detection and identification of personnel in valuables areas.
5. Access to the video surveillance system equipment must be restricted and controlled.

6. Daily, the CI Operator shall ensure that all the required CCTV cameras, VCRs, or digital recording equipment is functioning properly. A written log is required ([EXHIBIT 3](#)) to document the daily review, which includes the following elements:
  - (a) Date, time, equipment reviewed, comments to include findings or Exceptions noted; and
  - (b) Signature of person conducting the review.
7. Weekly, and at random intervals, the CI Operator shall conduct reviews of the recordings ([EXHIBIT 4](#)) to ensure the quality of the recording, that the field of view continues to present the proper views and that all of the activities are being conducted openly.
8. All CCTV recordings shall be controlled and maintained for a minimum period of 45 calendar days.
9. All CCTV recordings and documentation of reviews are to be available for review by Reserve Bank personnel or those external entities acting upon authorization of the Reserve Bank.

## VI. MONTHLY UNANNOUNCED MANAGEMENT INVENTORY

1. A Remote Vault Manager, in the presence of at least two Remote Vault Staff members, shall conduct an Unannounced Management Inventory on at least a monthly basis, and no later than the last Business Day of each month. The dates of the Unannounced Management Inventory should be random.
2. The Unannounced Management Inventory must include a full Bundle Count of the CI currency and a confirmation that the physical inventory in the CI Vault matches the FedCash record. The Remote Vault Manager must verify that he/she completed the inventory by transacting, via FedCash, a monthly Unannounced Management Inventory form.
3. A daily reminder is displayed in FedCash to the Remote Vault Manager starting five (5) Business Days before the due date. The online management inventory function includes the following requirements:
  - (a) The online form shall be available only to a Remote Vault Manager.
  - (b) FedCash will require the Remote Vault Manager to complete the monthly Unannounced Management Inventory before allowing the Remote Vault Manager to open the vault if the monthly inventory has expired.
  - (c) The Remote Vault Manager is required to enter the inventory inspection date, Bundle Counts by denomination, dollar amounts by denomination and total dollar amount.
  - (d) The Remote Vault Manager will be presented with a printer friendly form upon completing the process ([EXHIBIT 5](#)). Remote Vault Manager's Logon ID and name will be system-printed on the report.
4. A Management Designee must certify the monthly Unannounced Management Inventory by signing his/her name on the printer friendly form when the Remote Vault Manager participated as a member of the Remote Vault Staff the last time the CI was accessed prior to the monthly Unannounced Management Inventory. This must only occur as a result of operational and personnel constraints, and on an Exception basis. To complete the Unannounced Management Inventory with a Management Designee, the Remote Vault Manager must check the "Management Designee" checkbox on the screen in FedCash.
  - (a) The Remote Vault Manager will be presented with a printer friendly form upon completing the process. The form will include a signature line for the Management Designee to sign if the "Management Designee" box is checked during online Unannounced Management Inventory ([EXHIBIT 6](#)).

5. In no event shall the person performing the monthly Unannounced Management Inventory have been a member of the Remote Vault Staff on the day of or the day before the monthly Unannounced Management Inventory.
6. The Remote Vault Manager must retain all the printed inventory forms for Reserve Bank audit purposes and make the forms available upon request of the Reserve Bank.

## VII. ANNUAL COMPLIANCE CERTIFICATION

1. The Institution shall complete a certification ([EXHIBIT 7](#)) on at least an annual basis, but no later than December 31 each calendar year, or when requested at any time by the Reserve Bank.
2. The certification must be signed by the Institution's Senior Officer with responsibility over the Institution's cash vault(s) and certify that the Institution is in compliance with all requirements of the Manual of Procedures and Appendix 1(Custodial Inventory Program) to Operating Circular 2, Cash Services.
3. The Institution must fax the signed copy of the certification to the servicing Reserve Bank no later than December 31 each calendar year.
4. In addition, pursuant to Section 5.3 in Appendix 1 of the Operating Circular 2, the Institution shall provide to the Reserve Bank its internal and external audit schedule and a summary of the results thereof as they pertain to the CI Program. Each of these aforementioned items should be included with the completed Annual Compliance Certification form. If they are not available at the time of certification, the Institution shall indicate when they will be submitted to the Reserve Bank. In the event that the Institution has outsourced its CI operation to a third party vendor, the Annual Compliance Certification cannot be completed by their service provider and must be completed by the Institution to ensure compliance with all program requirements.

## VIII. NOTIFICATIONS

In the event of an emergency that has or could compromise Custodial Inventory, Institution management must immediately notify one of the individuals listed on the contact list supplied by the servicing Reserve Bank. This includes, but is not limited to, the following situations:

1. FedCash is unavailable at the time the CI Vault needs to be accessed.
  - The Remote Vault Manager must notify its servicing Reserve Bank. The Remote Vault Manager must fax the proper form entitled "CI Site Contingency Form" for Recording CI Inventory Transactions (Refer to [EXHIBIT 9](#)) which must be completed and faxed to the servicing Reserve Bank. Any and every time the CI Vault is accessed (all CI transactions), the Remote Vault Manager must fax a copy of the completed form to the Reserve Bank within 15 minutes of making the physical CI Vault transaction(s).
2. There is a power failure, regardless of whether or not the CI Vault needs to be accessed.
3. There is a video surveillance outage at the CI location for any period of time.
  - If a CI transaction needs to be completed, the CI Site must seek approval from the local servicing Reserve Bank. It is at the discretion of the local Reserve Bank to allow this. If approval is granted, the transaction should be completed through FedCash as usual.
4. There are material changes to the security of the facility, the CI Vault or the Institution's vault.
5. If any mistake is made in entering information into FedCash, the local servicing Reserve Bank must be notified.
6. If the Institution needs to change the contact or site information that is stated on the CI contractual agreement, the institution must fill out and submit the Change Request to the Custodial Inventory Application Form and Agreement ([EXHIBIT 10](#)).
7. The alarm system experiences an outage for any period of time.
8. If anything out of the ordinary occurs in the daily administration of the CI, the local servicing Reserve Bank must be notified.

## IX. SUMMARY OF CI ACTIVITIES

### Daily

- Open CI vault & review broadcast messages
- Confirm beginning balance In FedCash is the same as the ending inventory from previous business day
- Verify in FedCash employees eligible to participate on RV staff are listed in FedCash and update as appropriate in FedCash and EXHIBIT
- Perform inspection of CCTV
- 2 RV staff members print and sign vault balance report verifying physical balance matches CI Vault balance in Fed Cash.
- Perform deposits/withdrawals (as needed)
- Enter prior day's payments and inventory balances by denomination
- RV Manager or another management member review and sign the vault balance report to confirm team documentation reflecting total CI Vault balance matches FedCash application CI balance for the day
- Settle CI Vault in the FedCash application by 4:00 p.m. local FRB time
- Ensure all required CCTV cameras, VCRs or digital recording equipment is functioning properly and recorded in [EXHIBIT 3](#)
- Perform "transfers out"/"transfers in" for processing (as necessary)
- Document and provide a description of out of the ordinary events.

### Weekly

- CAP for CI & DI's minimum holdings is recalculated (by FedCash)
- Perform review of sample CCTV recordings and document using [EXHIBIT 4](#)

### Monthly

- Perform random, unannounced management inventory of CI holdings

### Quarterly

- Perform FedCash user security review

### Annually

- Complete compliance certification

## GLOSSARY

### AVERAGE DAILY PAYMENTS

The total dollar amount of notes in the Covered Denominations that the Institution paid to its customers during an appropriate previous Business Week in the applicable zone or sub-zone, divided by five. The FedCash application will perform this calculation each Monday using payments data two weeks prior. If a Federal holiday falls within the period, the other four Business Days will constitute the period and the total dollar amount in the Covered Denominations that the Institution paid to its customers in a zone or sub-zone during that period will be divided by four.

### BUNDLE

A unit of currency equivalent to 1,000 notes of the same denomination. CI currency may be strapped in 100-note units within the Bundle, but strapping is not required.

### BUNDLE COUNT

A Verification count of the number of Bundles that are involved in a CI transaction.

A bundle count may be performed visually using the “height and depth” counting method without physically removing the bundles from the cage or container as long as the following are applied:

- All CI activities, including bundle counting, must be performed under CCTV coverage.
- If storing loose bundles in a cage or container, the individuals performing the bundle count need to open the cage or container and physically push around on the bundles to ensure there are no empty spaces or voids (i.e., honeycombing) effecting an accurate bundle count.

### BUNDLE STORAGE

Bundles of CI currency may be stored in clear plastic bags as long as the following are applied:

- The CI currency bundles must be stored in cold or heat sealed clear plastic bags by denomination. Mixed denominations cannot be stored in the same plastic bag.
- Plastic bags must store bundles in standard increments of 1, 4, 8 or 16 bundles per bag.
- When performing a bundle count, the count may be completed through the plastic bag without opening the bag, but the bundles must be able to be denominated through the bags.
- If trays are used, they must have a clear lid to ensure the contents of the tray are fully visible.

## **BUSINESS DAY**

Any day that we are open for conducting all or substantially all our banking functions, but excludes Saturdays, Sundays and holidays. The Federal Reserve Bank's holiday schedule is posted at <http://www.frb services.org/HomePage/Holidays.html>.

## **BUSINESS WEEK**

"Business Week" means Monday through Friday.

## **CI OPERATOR**

An Institution that is operating and maintaining the CI Operation at the CI Site in accordance with Appendix 1 (Custodial Inventory Program) of Operating Circular 2, Cash Services, including this CI Manual of Procedures.

## **CI OPERATING HOURS**

"CI Operating Hours" means 7:00 AM to 4:00 PM local time of the servicing Reserve Bank on a Business Day.

## **CI SITE**

The CI facility located at the Institution address specified in the CI Application and Agreement.

## **CI VAULT**

A separate vault or segregated secured area within an Institution or at the Institution's third party service provider, designated on the Institution's CI contractual agreement. The CI Vault can be a cage or a Federal Reserve approved container within a vault. If containers are used as a CI Vault, they must be stationary, and not be moved, since material changes in their location may be made only with the Reserve Bank's prior written consent and inspection. If trays are used within a CI Vault, they must have a clear top or no top, and be only one bundle deep. It would be preferable if the notes were face up in the tray, but this is not required. The CI Vault must be used exclusively for CI Currency. In the case of third party managed sites, separate CI Vaults must be maintained for different Institutions if the inventory of multiple Institutions is located at the same third party service provider. The separate vault or segregated secure area is required to have a label affixed to it which clearly states; "Federal Reserve Bank Inventory."

## **CI VAULT CONTROL**

CI Vault transaction verified by at least two members of the Remote Vault Staff team sharing responsibility for Federal Reserve owned currency, working simultaneously or consecutively and being positioned to observe all the actions of his/her partner. CI Vault Control requires a minimum of two Remote Vault Staff members, working under recorded CCTV, who must secure and maintain exclusive control of the secure area. CI Vault Control means that no one individual shall have access to both locking devices. Both team members must verify their counts to the appropriate records. At a minimum, both team members must maintain CI Vault Control at all times for CI Vault

transactions, and must also maintain their combinations/keys to the CI Vault and the interior secure compartment locks. .

### **COMPLIANCE REVIEW**

Reserve Bank audit of a CI Site to ensure all CI operations are being conducted in accordance with prescribed program procedures, and under specific and sufficient security control conditions.

### **COVERED DENOMINATIONS**

\$10 and \$20 denomination notes.

### **CURRENCY CLASSIFICATIONS**

**New:** Currency in the original BEP wrapping

**Fit:** A note that is suitable for continued circulation and is sufficiently clean to allow its genuineness and denomination to be readily ascertained

**Unfit:** A note that is not suitable for further circulation because of its physical condition, such as torn, dirty, limp, worn or defaced

### **CUSTODIAL INVENTORY or "CI"**

Currency owned by the Reserve Bank but located within a CI Vault.

### **CUSTODIAL INVENTORY PROGRAM**

The Custodial Inventory (CI) Program is a component of the Recirculation Policy under which a depository institution can hold currency inventory in Covered Denominations in their vault but on the books of the Federal Reserve.

### **DUAL COUNT**

A method of determining accountability whereby two RVS members each determine, independently, the quantity and value of the pieces/units associated with the transaction.

### **EXCEPTION**

Failure to adhere to a procedure that does not present a direct risk to the CI currency but may have a negative impact on transactional and reporting processes.

### **EXECUTIVE MANAGER**

An employee who is a member of CI management who can view reports, queries, and broadcast messages.

### **FEDCASH**

The Federal Reserve's Web-based inventory control system used to track and record all CI inventory and to monitor the value of the CI currency.

## FEDERAL RESERVE BANK OR RESERVE BANK

Federal Reserve Bank or "Reserve Bank" refers to the servicing Federal Reserve Bank, which is making the CI Program available to the Institution.

## INSTITUTION

Depository Institution.

## INVENTORY CAP (CAP)

The maximum amount that an Institution may deposit into the CI Vault equal to four days of Average Daily Payments in the Covered Denominations.

## MANAGEMENT DESIGNEE

An employee who is designated by Institution management due to operational and personnel constraints, and on an Exception basis only, who is not part of management to assume certain limited responsibilities. An example would be to conduct an Unannounced Management Inventory as a Management Designee. The Institution must always maintain documentation reflecting the use of a Management Designee. This documentation must be kept in a file and be made available for review by the servicing Reserve Bank, or its agents, upon request, such as during an unannounced Compliance Review.

## MINIMUM HOLDINGS REQUIREMENT

The amount of one day of Average Daily Payments in the Covered Denominations that an Institution is required to hold on its own books before it can deposit currency into the CI Vault. The FedCash application calculates the Minimum Holdings Requirement. The Minimum Holding Requirement is monitored when inventory is held on the Federal Reserve's books by utilizing the CI Vault. If there is a zero balance in the CI Vault, the Minimum Holdings Requirement does not apply. The Minimum Holdings Requirement equals one times the daily average of \$10s and \$20s paid to customers by a CI Site in a previous full Business Week. DI holdings which count towards the Minimum Holding Requirement include the sum of verified \$10s and \$20s; and an estimate of the portion of unverified holdings that are \$10s and \$20s. This estimate is based upon the percentage that \$10s and \$20s comprise in verified holdings, and it is calculated by the following formula: (the sum of verified \$10s and \$20s divided by total verified holdings) multiplied times unverified Vault Holdings.

To illustrate: Based on the following holdings data

	DI end of processing day Vault Holdings and Payments (excluding CI holdings)							
	\$1	\$2	\$5	\$10	\$20	\$50	\$100	Total \$
07/10/2006								
Verified Balances	100,000	200,000	500,000	1,000,000	2,000,000	1,000,000	1,000,000	5,800,000
Unverified Balances								2,500,000
Total								8,300,000

DI holdings which count towards the Minimum Holding Requirement are determined as follows:

- Step 1 (verified): \$1,000,000 + \$2,000,000 = \$3,000,000

- Step 2 (unverified):
- Step 2a:  $(\$1,000,000 + \$2,000,000) / \$5,800,000 = .51724$
- Step 2b:  $.51724 \times \$2,500,000 = \$1,293,103$
- Step 3 (minimum holdings):  $\$3,000,000 + \$1,293,103 = \$4,293,103$

### **MINIMUM RECIRCULATION REQUIREMENT**

The minimum number of bundles in Covered Denominations per Business Week that an Institution must recirculate to qualify for the CI program. An Institution must demonstrate at the time of application that each vault in which it seeks to operate or is operating as a CI has the ability to recirculate a minimum of 200 Bundles in Covered Denominations per Business Week in a Federal Reserve Bank zone or sub-zone. This minimum requirement can be met in one of the following three ways:

- (1) By cross-shipping at least 200 Bundles in Covered Denominations per Business Week at the CI Site in the applicable zone or sub-zone;
- (2) By providing payment records for the CI Site demonstrating payments to its customers, ATMs, and branches totaling at least 200 Bundles in Covered Denominations per Business Week in the applicable zone or sub-zone; or
- (3) By demonstrating a combination of cross-shipping activity and recirculation among its customers totaling at least 200 Bundles in Covered Denominations in the applicable zone or sub-zone.

Once the CI is in operation, the Institution must demonstrate that the vault actually recirculates (as opposed to having the ability to recirculate) a minimum of 200 Bundles in Covered Denominations per Business Week.

### **MINIMUM HOLDINGS VIOLATIONS**

Minimum Holdings Violations can also result when a CI site corrects previous vault holdings data in FedCash. Due to the six-month correction period, it is possible for violations to occur that are retroactive to a prior minimum holding period (i.e. not resulting from the current minimum holdings requirement).

FRB management will receive a broadcast message in the event of such a violation and should follow the steps outlined above to pull the Vault Holdings Violations Query.

### **REMOTE VAULT MANAGER**

An employee who is part of the CI Vault's management and who can perform all functions performed by Remote Vault staff and other functions unique to the Remote Vault Manager role to include: opening and closing the CI Vault, inputting payment and vault holding data, making corrections, and viewing reports, queries, and broadcast messages.

### **REMOTE VAULT STAFF**

A team of at least two but no more than eight employees who share equal responsibility for the custody of CI currency and who can perform deposit, withdrawal, input payment and Vault Holdings data and transfer transactions in FedCash. They can also view reports, queries, and broadcast messages in FedCash.

### **SEPARATION OF DUTIES**

A control concept that delineates responsibility for handling CI currency and maintaining the records of CI currency. FedCash delineates specific capabilities to each of three levels of Institution employees: Remote Vault Staff, Remote Vault Manager and Executive Manager. No individual shall ever have responsibility at more than one level.

### **SITE INSPECTION**

A review of CI facilities conducted by Reserve Bank or internal audit staff to ensure the CI Site complies with all procedures for the program as defined within the Appendix 1 (Custodial Inventory Program) to Operating Circular 2, Cash Services and the Manual of Procedures.

### **UNANNOUNCED MANAGEMENT INVENTORY**

Inventory Verifications conducted by an employee with Remote Vault Manager access in the presence of at least two members of the responsible Remote Vault Staff, on an unannounced basis. A complete Bundle Count of the CI Vault Holdings is to be made with the count compared to the entries in FedCash.

### **UNVERIFIED CURRENCY**

Currency that has been denomination-sorted and Bundle-counted, but not piece-counted.

### **VAULT HOLDINGS**

The total dollar amount of verified and Unverified Currency held by a DI in their own vaults on a given Business Day.

### **VERIFICATION**

The process of determining whether the actual value of a package/container of deposited currency is equal to its stated value. Verification takes place at two levels: Bundle Count, as defined above, and piece count, which involves counting each note in each Bundle.

### **VERIFIED CURRENCY**

Currency that has been denomination-sorted, piece-counted, and Bundle-Counted.

### **VIOLATION**

A failure to adhere to controls or procedures which could result in the loss of control of valuables, continuous repeat findings/Exceptions, or failure to take immediate corrective action on a serious issue.