

IN THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS
COUNTY DEPARTMENT, CHANCERY DIVISION

IN THE MATTER OF THE POSSESSION }
AND CONTROL OF THE COMMISSIONER }
OF BANKS AND REAL ESTATE OF } Cause No. 00CH05905
INDEPENDENT TRUST CORPORATION } Judge Jones
a/k/a INTRUST, an Illinois Corporate fiduciary }

**REPORT OF PRICEWATERHOUSECOOPERS LLP
AS RECEIVER OF INDEPENDENT TRUST CORPORATION
ON ITS INITIAL INVESTIGATION**

**PRICEWATERHOUSECOOPERS LLP, IN ITS CAPACITY AS RECEIVER FOR
INDEPENDENT TRUST CORPORATION A/K/A INTRUST, IN ACCORDANCE
WITH THE ORDER OF THE COURT, HEREBY FILES THIS REPORT WITH
RESPECT TO ITS INITIAL INVESTIGATION AS FOLLOWS:**

INTRODUCTION

1. This report addresses the Initial Investigation of the cash trust funds and other trust assets as at March 31, and April 30, 2000 at Independent Trust Corporation (“Intrust”).
2. Paragraph 27 of the Order of Administration dated April 14, 2000 sets out the authorities and responsibilities of the Receiver in conducting an initial investigation, as follows:

As soon as possible, the Receiver shall conduct an initial investigation of the existence and any shortage of cash trust funds that existed as of the date of

Closing (“Preclosing CTF”) and other trust assets that existed as of the date of Closing (collectively “Preclosing Trust Assets”). All financial institutions, brokerage houses, and other entities which have or have had in their possession, custody or control any of the funds and investments constituting the Preclosing Trust Assets and corporate funds of Independent shall immediately cooperate with the Receiver and shall immediately provide such information as requested to the Receiver to confirm the existence of Preclosing Trust Assets and corporate funds. In conducting such investigation, the Receiver may rely upon the information provided and statements made by the financial institutions, brokers, and other entities that hold or maintain funds and assets that make up the Preclosing Trust Assets, the books and records of Independent, and its own judgment.

3. While the term “Initial Investigation” is not a defined term, for these purposes the Receiver has performed specific analyses related to the Intrust cash accounts (“Cash Trust Funds”) and non-cash assets (“Other Trust Assets:”) that Intrust purportedly holds as trust accounts for account holders. This investigation did not examine Intrust’s own corporate cash and non-cash assets.
4. It was not appropriate for the Receiver to determine unilaterally the sufficiency of the Initial Investigation. Direction was sought from the OBRE and approval is now being requested from the Court as to the adequacy of the work performed and whether additional work is required. Observations are provided herein regarding Cash Trust Funds and Other Trust Assets.

CASH TRUST FUNDS

Methodology for Analyzing Trust Cash

5. In order to analyze trust cash, the Receiver obtained bank statements from each of the depositories where Intrust maintained trust cash - Cole Taylor Bank, Charles Schwab

and Quick & Reilly.

6. The Receiver compiled information related to the amounts on deposit with these entities as of the following dates:
 - A. March 31, 2000- the immediate month-end prior to the appointment of the Receiver.
 - B. April 14, 2000-the date the Receiver was appointed.
 - C. April 30, 2000-the immediate month-end following the appointment of the Receiver.
7. As it pertains to March 31, April 14 and April 30, the Receiver analyzed trust cash by comparing the bank statements from each depository to the reported cash balance as of each date as shown in the Trust Management and Accounting System software (“TMAS”) utilized by Intrust for the recordkeeping of its account holders. To reconcile these balances, the Receiver attempted to identify all outstanding items and adjusting entries that should have been reflected in either TMAS and/or the depository. The following items were analyzed to identify these adjustments:
 - A. Returned checks, stop payments and outstanding checks that were not adjusted to the bank balance.
 - B. Deposits, wires-in and wires-out that were not posted to TMAS as of each cutoff date.
 - C. Batch level detail to identify transaction activity that was not reflected in TMAS or the depository.

D. Interest and fees earned by Intrust that were posted to TMAS but not reflected in the trust account balance of the depository.

8. Once the reconciling adjustments were identified for each date, an estimated difference was calculated between the total purportedly held by the depositories and the balance of cash trust funds recorded in TMAS. The difference was the cash trust fund shortage (“the Shortage”). This estimated difference cannot readily be determined with precision at any period end because the date of a transaction recorded in TMAS is not always the actual date of the transaction. Given the high volume of transactions and the resultant time and difficulty which would be entailed in an analysis of all transactions, the Receiver did not attempt to identify a precise difference, but rather attempted to ascertain that the estimated difference was reasonably consistent for the three periods for which analysis was undertaken.

Results of Analyses and Associated Risk Factors

9. Based on the results of the analyses regarding cash trust funds, the Receiver believes that the Shortage is approximately \$68.1 million.

10. Intrust maintained only limited controls over its computer accounting system which causes the Receiver concern relative to TMAS postings and the existence of an audit trail. It should be noted that:

A. Management could not demonstrate that all transactions were accurately posted to TMAS. Although it was explained that each day’s activity is balanced on an aggregate dollar balance, no procedures were in place to ensure that individual customer activity was accurately processed to each individual account.

B. Although Management historically attempted to identify the differences between the depositories and book balance each day, the source document for this analysis was not generated directly from a TMAS posting file. Instead, each processor was

required to manually input the details of each transaction to a separate screen prior to posting a transaction. At the end of each day, Management generated a transaction summary report from these entries that was used to balance trust cash.

C. As it pertains to researching posting errors, Intrust does not have a formal tracking system that indicates when customer inquiries are received and how they are resolved.

11. There are limited checks and balances in the processing and balancing of daily cash. The Receiver noted that two employees are responsible for balancing checks and wires, balancing cash activity and creating the necessary backup documentation.

12. The Receiver noted that cash adjustments were made to TMAS without adequate documentation. These adjustments may impact the accuracy of Management's daily cash balancing activities.

OTHER TRUST ASSETS

Background

13. As of March 31, 2000, Intrust administered non-cash trust assets of approximately \$1.74 billion. Non-cash trust assets are considered all assets under management at Intrust which do not reside in the Intrust cash accounts. A listing of the types of non-cash assets recorded in TMAS is set out in Exhibit A, together with the coverage of the Receiver's analyses.

Limited Analyses

14. The basis for the Receiver's application of limited analyses to non-cash assets was premised on the Order of Administration by the Court . Such limited analyses were

performed in order to determine if a non-cash asset shortfall existed beyond the discovery of the cash trust fund shortfall.

15. In order to analyze different types of accounts, the Receiver requested inquiries from the TMAS system in each of the major asset types, as follows:
 - A. Bonds
 - B. Stocks (includes mutual funds and preferred stock)
 - C. Real Estate (property held, mortgages, notes, etc.)
 - D. Bank Accounts (brokerage cash accounts held for account holders, not for Intrust)
 - E. Miscellaneous, including:
 1. Annuities and life insurance
 2. Limited partnerships and limited liability companies
 3. Commodities and futures
 4. Tax lien certificates
 5. Other assets
16. The Receiver performed limited analyses as of March 31, 2000 and April 30, 2000 in order to determine that assets recorded in Intrust's TMAS system were corroborated by independent third party documents and to determine that allocation of specific assets was consistent between the TMAS system and independent third party brokers. (See Exhibit B for a summary of steps followed.)
17. The TMAS inquiries produced reports which indicated total holdings for an asset type. On a judgmental basis, the Receiver formulated samples from which it agreed or reconciled those specific assets to appropriate third party statements. (Each asset type was analyzed within the broad categories listed above or within the entire asset category.) The Receiver applied judgment in selecting samples so as to obtain greater coverage while analyzing fewer accounts. The Receiver's analyses covered over 60% of the indicated value of the assets under management at Intrust. The account statements analyzed included brokerage or mutual fund manager statements as of

March 31, 2000 which were in the possession of Intrust, documents in account holders' files, assets in the Intrust safe counted by the Receiver at the commencement of the receivership or other supporting documents. Further limited analysis has been performed by taking balances shown on third party statements and agreeing them with balances shown in the TMAS system.

18. The Receiver has sorted the TMAS database to provide totals of specific securities held in trust. On a judgmental basis, the Receiver agreed total holdings of specific assets to third party sources in order to test that no over/under allocations of assets were noted.

19. The Receiver also analyzed or reconciled securities recorded in the TMAS system to brokerage or mutual fund statements as of April 30, 2000. The Receiver collected third party statements relating to futures, brokerage and mutual funds as they were received at Intrust and recorded the pertinent data for comparison to the April 30, 2000 TMAS file produced by Intrust. The Receiver's analysis covered over \$1.2 billion of the indicated value of the assets under management at Intrust.

Results of Analyses

20. The results of analyses as of March 31 and April 30, 2000 revealed no accounts or individual securities where there were significant unexplained differences between the securities custodians and the TMAS system.

21. The analyses did reveal a limited number of accounts which continued to be carried in the TMAS system even though the assets had been transferred, because the posting to close out the account had not been made. The Receiver is continuing to work with Intrust employees to provide additional information as to accounts which should reflect a value less than is currently shown.

25. The majority of assets recorded in the TMAS system, as of March 31, 2000, were supported by independent third party statements or were physically held in the Intrust vault. In certain instances third party statements from prior periods were utilized in the absence of contemporaneous support, which may be indicative of stale valuation bases within Intrust's recording system.

Risk Factors

26. It appears that risk of an incorrect quantity or valuation is minimized in instances whereby Intrust receives monthly third party statements. However, where Intrust does not receive timely corroborating documentation it would appear that risk is present for an inaccurate recordation/valuation of certain assets in the Intrust portfolio. (See Exhibit C for a description of general risk factors associated with asset types.)

27. In an effort to complete its analyses in a timely manner, the Receiver has not undertaken to analyze all non-cash assets in the Intrust portfolio. If it had undertaken such an analysis, the Receiver might have discovered additional matters that would have been brought to the attention of the Court.

28. The information utilized for the analyses was obtained from TMAS. Such information is unaudited.

Market pricing of assets

29. At each month end, Intrust downloaded a market pricing file of publicly quoted securities from DTN, an independent pricing service, and applied those market prices to the applicable securities in the Intrust accounts. As this is an independent pricing source, the Receiver has not attempted to substantiate their market prices. The Receiver has, however, as of March 31, 2000 evaluated the application of the pricing file to the TMAS system on a very limited basis.

30. The Receiver has also analyzed the exception report of assets which could not be priced by DTN. Intrust employees research these exceptions and manually post updated values to TMAS. It was explained that all remaining assets that cannot be priced from DTN quotations or other current data are carried at book value or the most recently updated value.

PROCESSING CAPABILITIES OF TMAS

31. Intrust uses TMAS to record all transactions and balances for account holders. The Receiver has relied on TMAS to produce the account holder non-cash securities and cash balances, market values and totals that will be used to calculate and allocate the Shortage. The Receiver has also used certain of its own specialized resources to carry out limited procedures with respect to TMAS. These limited procedures analyzed TMAS's ability to accumulate individual securities and accounts as compared to control totals provided by third party statements.

32. At this time, the Receiver has completed a preliminary analysis of TMAS. It has not undertaken a comprehensive diagnostic examination of TMAS and cannot provide comments pertaining to the integrity of the system. Specific risk factors that were identified in the preliminary analysis are as follows:

- A. The application programmer has access to production programs and data files. This access could enable the programmer to alter standard programs and change account information in TMAS.
- B. Automated edit and validation checks are not in place to ensure that manual adjustments to market values are completed and accurately processed. This increases the possibility that transposition errors affect the accuracy of asset valuation.

- C. Effective transaction dates are not captured within TMAS. Therefore, the Receiver cannot perform automated procedures to recalculate market values that are posted inaccurately due to timing issues (manual reconciliation procedures were utilized to validate market values).

LIMITING CONDITIONS

33. The Receiver is conscious of the desire for the Initial Investigation to be completed on a timely basis in order to report to the Court in support of its Recommendation Regarding Allocation of Cash Trust Fund Shortage filed with the Court on June 23, 2000 and to move toward a possible sale of the business. As a result, the Receiver notes the following:

- A. Because of the length of time and the large numbers of transactions over the period during which the cash Shortfall apparently built up, it was neither possible nor practical to attempt to trace differences or reconciling items to their historical source.
- B. The large volume of accounts, third parties and specific assets held in accounts would make a detailed confirmation of all Intrust accounts extremely expensive and time consuming.
- C. Because of the manner in which many accounts are operated by third party brokers, cut-off of those brokers' accounts as of April 14, 2000, the date of the receivership, are not possible for securities balances; hence, the use of March 31 and April 30, 2000 balances for confirmation with third parties on a test basis.

DISCLAIMER

34. The limited analyses as of March 31, April 14 and April 30, 2000 are intended to substantiate, on a limited basis and only for those items analyzed, the underlying representations of the Intrust records as to the assets which are recorded in TMAS . These limited analyses are designed to identify certain assets that are represented in the Intrust system as corroborated by third party sources. These analyses are not designed to identify all incremental shortfalls which may have occurred prior to the appointment of the Receiver.
35. This Initial Investigation is based upon available financial information and records of Intrust. The Receiver notes that the Order of Administration permits the Receiver to rely on the books and records of Intrust, as well as those of brokers and other third party custodians.
36. The Receiver is not responsible for, nor makes any representations as to, the accuracy of the financial or other information reported in any current or forthcoming reports, correspondence or other submissions to interested parties. The Receiver has made a diligent effort to conduct the Initial Investigation as accurately as possible, given the state of Intrust's records and the exigencies of this proceeding. However, if additional information and documentation become available, it is possible that such data may affect the manner or amount of which an item or items should be reported and/or recorded in the Intrust records.
37. The Initial Investigation was not a detailed examination of all transactions, and cannot be relied upon to disclose all errors, irregularities, or illegal acts, including fraud or defalcations that may exist. The scope of the engagement and the analyses described above do not constitute an attest service as that term is defined by the American Institute of Certified Public Accountants. Accordingly, the Receiver is unable to express an opinion on any of the financial statements or other data discussed herein.

38. The Receiver therefore requests that the Court enter an order to confirm that the Receiver has discharged its obligations under section 27 of the Order of Administration, or, alternatively, to give directions as to additional work which the Receiver should perform in order to fulfill these obligations.

Respectfully submitted

PricewaterhouseCoopers LLP,
As Receiver of Independent Trust Corporation

By _____

Lawrence A. Ward

July 12, 2000