

For all audits regardless of our strategy (Controls Strategy or Substantive Strategy), we perform walkthroughs to achieve the following objectives:

- Confirm our understanding, as identified in our process documentation, of the flow of significant classes of transactions within significant processes or sources and preparation of information resulting in significant disclosures, including how these transactions are initiated, authorized, recorded, processed and reported: and
- Verify that we have identified the appropriate “what could go wrong” (WCGWs) that have the potential to materially affect relevant financial statement assertions related to significant accounts and disclosures within each significant class of transactions.

Additionally, when we plan to assess control risk below maximum (Controls Strategy), or for significant risks or risks for which substantive procedures alone do not provide sufficient evidence, we perform walkthroughs to achieve each of the objectives noted above, as well as the following objective with respect to the design and implementation of controls:

- Confirm our understanding of:
 - The accuracy of information we have obtained about identified controls over the flow of significant classes of transactions,
 - Whether the controls are effectively designed to prevent, or detect and correct material misstatements on a timely basis, and
 - Whether the controls have been placed into operation.

When performing our walkthrough procedures we focus on the critical path in the process where transactions are initiated, authorized, recorded, processed and ultimately reported in the general ledger (or serve as the basis for disclosures). In particular, we focus attention on the points where data is, or should be captured, transferred, or modified as these are the points where misstatements might be most likely to occur. Our walkthrough includes both the manual and automated steps of the process and we use the same source documents and information technology that client personnel typically would use. When the client’s IT environment is complex, we work with TSRS (IT professionals) to the extent necessary to walk through the automated aspects of the flow of transactions or sources and preparation of information and if applicable, related controls.

This template assists in our documentation of walkthroughs and its use is highly encouraged. It is divided into three sections.

Section 1: Walkthrough Procedures

Section 2: Other Matters—Segregation of Incompatible Duties and Management Override of Controls

Section 3: Conclusion

Section 1: Walkthrough Procedures

Performance Guidance

S04_Perform Walkthroughs of *EY GAM* provides detailed guidance on performing walkthroughs. Teams may find S04_Exhibit 1 Perform Walkthroughs of *EY GAM* particularly helpful when executing our walkthrough procedures.

When we have decided to use the Substantive Strategy (i.e., assess control risk at the maximum), we limit our walkthrough to the relevant processing procedures needed to confirm our understanding of the flow of transactions or the sources and preparation of information resulting in significant disclosures.

For each walkthrough, we are required to document the following items:

- The transaction selected for walkthrough (Substantive and Controls Strategy);
- Individual(s) with whom we confirmed our understanding (Substantive and Controls Strategy);
- Description of the walkthrough procedures performed (Substantive and Controls Strategy); and
- Description of the walkthrough procedures performed to confirm our understanding of the design of the manual, IT-dependent manual and application controls on which we plan to test and rely upon and that such controls have been placed into operation (Controls Strategy only).

Documentation of Walkthrough Procedures Performed

Transaction selected for walkthrough (Substantive and Controls Strategy):	Opening of Account #: 066637457 Closing of Account #: 780263877 GSSR vs. S/L Reconciliation: XX/XX/08 GSSR vs. NWMD Reconciliation: XX/XX/08 GSSR Open Item Cash Report: XX/XX/08
Individual(s) we talked with to confirm our understanding (Substantive and Controls Strategy):	Kieran Curley, VP, Lehman Brothers Operations Control Group Bill Hope, AVP, Lehman Brothers Operations Control Group Don Logan, AVP, Lehman Brothers Operations Control Group Janet Birney, SVP, Lehman Brothers Network and Project Management (Treasury) Jaclyn Leung, AVP, Lehman Brothers Network and Project Management (Treasury)

Confirming our Understanding of the Flows of Significant Transactions (Substantive and Controls Strategy)

Describe the walkthrough procedures performed, addressing the points at which the transactions are initiated, authorized, recorded, processed, and ultimately reported in the general ledger (or serve as the basis for disclosures), including both the manual and automated steps of the process. For sources and preparation of information resulting in significant disclosures, describe the procedures performed to confirm our understanding of the process and sources of information management uses to generate significant disclosures. We document whether processing procedures are performed as originally understood and in a timely manner.

While performing the walkthrough, we ask probing questions about the client's processes and procedures and related controls to gain a sufficient understanding to be able to identify important points at which a necessary control is missing or not designed effectively. For example, our follow-up inquiries might include asking personnel what they do when they encounter errors, the types of errors they have encountered, what happened as a result of finding errors, and how the errors were resolved. We might also question client personnel as to whether they have ever been asked to override the process or controls, and if so, to describe the situation, why it occurred, and what happened. Our inquiries also should include follow-up questions that could help identify the abuse or override of controls, or indicators of fraud.

Overview

Ernst & Young (“EY”) auditors met with Janet Birney (SVP) and Jacklyn Leung-David (AVP) of Lehman Brothers (“Lehman”) Network and Project Management Group to discuss the process surrounding the account opening and closing procedures and related controls in place to monitor accounts once they are opened (including the Network Management reconciliation process). [EY Tokyo: Network Management group in India has been responsible for opening/closing Asian bank accounts since the beginning of this year. Network Management group in Tokyo is still involved from a senior management approval and overall control perspective.]

EY auditors also met with Bill Hope (AVP), Don Logan (AVP), and Kieran Curley (VP) of Lehman Brothers Operations Control Group to discuss the reconciliation of cash. The Operations Control group performs both automated and manual reconciliations of Lehman’s general ledger (sub ledger accounts) to external bank balances and activity. [EY Tokyo: In Asia, Operation Control Asia Reconciliation (“OCA Reconciliation”) is responsible for the reconciliation tasks. EY Tokyo auditors Koichi Denda, Yasushi Omatsu, Paul Lord, and Mayu Kimura met with Masae Sugawara and Jeong-Hee Joo of OCA Reconciliation to make sure the global narrative for the process discussed below is consistent in Asia. If not, procedure differences are highlighted in blue letter in [bracket.]. As of 5.30.08, of the 1798 total US bank accounts, 1642 accounts (91%) were reconciled in GSSR, 142 accounts (8%) were reconciled via other methods, and 14 accounts (<1%) were awaiting set-up in GSSR. EY notes that the 1798 total US bank account statistic does not include the 550 Aurora accounts or the 151 money market fund accounts (as these would not be part of this reconciliation process).

Account Opening Process

All account opening requests are submitted online via the Lehman Live intranet Network Management Database (“NWMD”). The account opening process is initiated when an account requester (Lehman employee) submits an application (via the NWMD) to open a new cash account with an external bank. Once received, NWM will process the request through the NWMD, which includes obtaining approval from the relevant authorized personnel. In addition, NWM will work closely with Cash Management to ensure that a new account is warranted and that the activity cannot be transacted through an existing account. NWM will also communicate with the requestor to ensure all the business needs are met. The account requester is notified via email once their account has been approved and will be notified again once the external account opening has been completed.

An employee in the Network and Project Management group contacts the external bank to open the account. The banks must receive a signed approval from two authorized approvers prior to opening the account. Additionally, Lehman’s legal department is aware that only the Network and Project Management (“NWM”) group is permitted to open external bank accounts, and works closely with NWM to ensure that notarized corporate resolutions and the secretary’s seal are only sent for accounts approved by NWM.

Once the account is opened at the bank, the NWM group sets up the account in the Network Management Database and a broadcast message is sent to various groups including Operations Control, the appropriate subledger setup group and Cash Management. Depending on the subledger system the account is to be set up on (i.e. MTS or ITS, etc.), the appropriate group will set up the ledger account. When the sub-ledger set-up has been completed, Operations Control will then set up the account in GSSR. This group ensures that the ledger feed and the external bank feed (SWIFT Statement) are both feeding properly into GSSR, and the GSSR reconciliation process for the account is ready to begin. The internal set up process is not instantaneous. There may be lags anywhere from a few days to a few weeks depending on the account (e.g. more information is needed internally to set up sub ledger or GSSR account, etc.). Once the internal set up has been completed, NWM will be notified of the internal ledger number and the account requester is then notified via email that the account is open and ready for use.

Completeness of GSSR

The following reconciliations are performed to verify that GSSR is complete and contains all bank accounts that need to be reconciled:

- Sub ledger (ADP, MTS, RISC, LoanIQ, TWS) vs. GSSR Reconciliation
- NWMD vs. GSSR Reconciliation

Sub ledger vs. GSSR Reconciliation

As a check for completeness, the Operations Control Group performs a quarterly account scrub of all firm operating cash accounts by performing the Sub ledger (ADP/MTS/Risk/TWS/LoanIQ) vs. GSSR Reconciliation. [EY Tokyo: ADP vs. GSSR Reconciliation is not performed in Asia, since ADP is not applicable system in Asia. As a check for completeness of all firm operating accounts, OCA Reconciliation communicates with the Network Management group in India. OCA Bank Account Master is reconciled to MIS report sent automatically in a weekly basis from the Network Management Database.] The objective of this reconciliation is to identify operations-related cash accounts (on a subledger) that are not in GSSR.

A query is run from each S/L identifying all accounts in GSSR, regardless of whether it is a suspense, intercompany or trading account. The listing of accounts is then sorted, and only firm operating cash accounts are investigated further; all other accounts are excluded.

If an account is not in GSSR, it is identified as an exception. Accounts previously identified as known exceptions are excluded from the reconciliation (since the method of reconciliation has already been identified). Once identified as a new exception, the account is investigated further to identify the account owner and the manner in which it is reconciled.

The report is divided into three sections.

- The first section is the exceptions tab which includes items requiring investigation; this is where all items not identified in GSSR flow to. These accounts receive a write-up, including who is responsible for identifying why the exception exists, whether the accounts flow to the daily operations report,

attestation, or CORE. The CORE is a rules based database that generates a report if an account violates a rule.

- The second tab is the resolved accounts report. This tab identifies accounts that have been identified as being reconciled, whether via GSSR, another system, or manually.
- The final tab is a listing of accounts that still require follow up to identify where the reconciliation of that account is being performed. This is a continuous process in verifying that all accounts that are booked to a mainframe system are reconciled by GSSR or through some type of manual reconciliation. Some accounts (DTC only as of 6/10/08) are being moved over to TLM, which is a reconciliation system similar to GSSR. (Follow up on how it works and how many accounts near year end?).

Network Management Database vs. GSSR Reconciliation

On a weekly basis, a reconciliation between the accounts on the Network Management Database and GSSR is performed by the Network and Project Management group via the Cash At Banks Database (C@B), which is accessible via LehmanLive and reconciles account information (account numbers and currency) between the Network Management Database (“NWMD”) and GSSR to ensure all real world accounts are set up internally on GSSR for reconciliation purposes. At the end of every week, the C@B Break report is run which contains accounts that are opened on the NWMD but not yet set up on GSSR. The report is sent to the NWM Americas team so that they can review and update both the NWMD and the report with any changes or the status on the steps being taken to have the accounts set up in GSSR. On a quarterly basis, the C@B Break report is run with the formal reconciliation presented to Internal Audit. This process is the same as the weekly but comments/classifications on the tabs are provided.

[EY Tokyo: In Asia, Network Management Database vs. GSSR reconciliation is not performed. Network Management group in India receives OCA Bank Account Master, which is manually updated whenever a new account has been set up or any account has been closed, from OCA Reconciliation in a weekly basis. As a check of completeness of accounts in GSSR, Network Management group in India reconciles Network Management Database with the OCA Bank Account Master, which we believe the reconciliation is not reliable as performed directly with GSSR. The reconciliation results are reported to OCA Reconciliation, who investigates and resolves the breaks.]

The quarterly C@B reconciliation report is downloaded into an excel file with the following tabs:

1. **Summary** - Shows statistics on Total Accounts, Matched Accounts, Excluded Accounts, Breaks, and Duplicates.
2. **Matched** - Identifies accounts set up in the NWMD that are correctly set up in GSSR. An account is considered a “Match” if it finds an account in the GSSR database with a matching Account Number, Class, Currency, Reconciliation System, and Reconciliation System ID.
 - a. Class: Cash or Security
 - b. Currency: The three letter currency code by which the bank transmits the

- account's balance on the Swift messages into GSSR
- c. Reconciliation System: Where/how the account is reconciled or if they are excluded from the reconciliation process
 - d. Reconciliation System ID: Real world account number that the bank transmits to GSSR via Swift messages
3. **NWM Breaks (Cash)** - An account that does not match in all of the required fields to another account in the other database. These accounts require further investigation (the same accounts listed on the "Worksheet" tab).
 4. **Worksheet** - Identifies accounts that require additional investigation to determine where the account (which is set up in the NWMD) is reconciled. This tab also contains a "Status" column which is updated constantly as the breaks are resolved. As of 5.30.08, there were 14 accounts set up in the NWMD that were not found in GSSR.
 5. **NWM Manual Breaks (Cash)** - NWMD accounts where the Reconciliation System is not "GSSR" but rather "Manual."
 - a. These accounts are either Aurora Loan Services or Money Market Fund accounts
 - b. The processes surrounding these two categories have been agreed upon with Internal Audit ("IAD").
 - c. Any new accounts that fall into either of these categories will be classified as "Manual" so long as the criteria is the same as it was presented to IAD.
 6. **NWM Duplicated (Cash)** - Account(s) in the same database that can not be uniquely identified within the reconciliation programming (i.e. multiple accounts with the same Reconciliation System ID and CCY). We use this field to track reconciliation exceptions that have been submitted and approved by Internal Audit as well as Virtual accounts. (Note: the title "Duplicate" is a slight misnomer as it does not necessarily mean that there are duplicate real world account numbers).
 - a. Reconciliation System ID = "Audit" – Internal Audit approved accounts which include:
 - i. Accounts for which Lehman is not the beneficial owner of the funds.
 - ii. Accounts that are manually reconciled by a third party due to the specific nature of those accounts or activity.
 - iii. Accounts for which SWIFT statements are not available due to the nature of the account but some other reconciliation is being performed.
 - iv. All IAD approved accounts and the reasons should be sent to the Network Manager maintaining the "Reconciliation Audit Tracking.xls" file.
 - v. Note there are currently 2 IAD approved currency accounts that are unique because of their combination of Reconciliation System ID + Currency and thus fall onto the "Breaks" tab.
 - b. Reconciliation System ID = "Virtual"
 - i. A Virtual account is an implicit (sub) account that is linked to a Parent account.
 - ii. Transactions directed to the Virtual account are automatically directed to the designated Parent account and will reference the Virtual account in the SWIFT message type.

- iii. Virtual accounts are not treated as "real world" bank accounts themselves (they cannot have a balance and by default they are set up for no debit and credit postings).
 - iv. While Virtual accounts have an implicit account number, Lehman Brothers' clients are unaware of the Virtual account structure.
7. **NWM Accounts Excluded** - These accounts are the same as the accounts on the "NWM Manual Breaks (Cash)" tab.

GSSR Reconciliation Process (Automated Daily Reconciliation Process)

Approximately 91% of bank reconciliations are reconciled automatically via GSSR. SWIFT statements MT950/MT940 are received daily from external banks and are fed into GSSR. These statements contain beginning and ending balances and transaction details. GSSR also receives daily files from Lehman's mainframe and sub-ledger systems. These feeds also contain beginning and ending balances and transaction details. Per Kieran Curly, of the Operations Control group, the five sub-ledgers reconciled in GSSR (MTS, ADP, LoanIQ, TWS, and RISC) are the only sub ledgers that have the ability to post cash entries to the G/L. ***GSSR (GEAC Smart Stream Reconciliation), is an automatic reconciliation system that compares the firm's general ledger to the external data provided by the bank and then produces an exception report. These exceptions are investigated, resolved and reviewed within 30 days.*** GSSR automatically reconciles the G/L and SWIFT statement items (amount, trade ID, and CUSIP). GSSR will auto-match book and ledger entries that match on trade ID and CUSIP if amounts are within \$25 (i.e. if the trade ID and CUSIP agree but the amounts vary by less than \$25, GSSR will auto-match the items). A report will be generated once the auto-match is complete. For any differences greater than \$25, Operations Control must post a journal to the applicable ledger for the amount of the difference. After the auto-matching process runs, an analyst in Reconciliation Control (India) attempts in an online real time view to manually match book and ledger entries that the auto-match process could not.

Once the match process is complete, the GSSR Open Items Cash Reports (GSSR Reconciliation – bank vs. sub ledger) are generated using Business Objects. These reports capture items that could not be resolved by analysts in the online view.

The GSSR Open Item Cash Reports are structured as follows:

The left side of the report shows the sub ledger balance (Lehman's books and records balance). The right side of the report shows the bank's balance. Reconciling items are then listed below with the net item amount representing the total of all items. After the net item amount, any net missing balances are listed. A net missing balance may be present when the opening balance plus daily activity does not equal closing balance. If Lehman is missing the activity to support the balance the discrepancy must be resolved and the amount cannot be written off. The amount differences represent the net amount of matching differences.

Firm Balancing reviews these reconciliations to:

1. Investigate discrepancies between dates on the ledger vs. the bank.

2. Investigate large variances, typically focusing on breaks over \$10mm.
3. Investigate “Net Missing Balances” which occur when the opening balance plus daily activity does not equal the closing balance.

Any outstanding items (remaining after the auto-balancing and first manual reconciliations are complete) are sent to the specific business unit that the reconciling item pertains to for them to review and clear. While the staff in India performs the majority of the reconciliations, the Operations Control group in the US is responsible for following up with the respective business units. The Break reports, which have the GSSR Reconciliation ID numbers mapped to the group to which breaks belong, are emailed via Business Objects to the appropriate business unit. Once a break is reconciled, it must be approved by Bill Hope.

Monthly Manual Reconciliation Process

The remaining 1% of bank reconciliations are prepared manually on a monthly basis. These manual reconciliations are typically performed for accounts with low activity that receive monthly statements only. Upon receipt of the bank statement at month end, the Operations Control group will manually input the ending bank balance and all transactions contained on the bank statement into GSSR. Lehman sub ledger book side data is directly fed from ADP, MTS, RISC, LoanIQ, and TWS into GSSR. [EY Tokyo: ADP is not applicable system in Asia, and ITS is used instead of ADP.] Once this is complete, an automated match process is run in GSSR. Similar to the daily reconciliation process, additional manual matches are input by an analyst in Reconciliation Control (in India) and a reconciliation report (GSSR Open Item Cash Report) is generated. Any matched differences are created as open items on the reconciliation. There are specific accounts where auto-matching differences are allowed with a tolerance of \$50 or less. [EY Tokyo: In Asia, auto-matching differences are allowed with a tolerance of \$25.] All differences under \$50 are aggregated and shown as “Amount Differences” on the GSSR Open Item Cash Reports. Firm Balancing attaches the monthly bank statements to the reconciliations. All reconciling items are reviewed, investigated, and resolved with information about the resolution documented on the reconciliation. Once this process is complete, the reconciliation is sent to Melissa Pang or Bill Hope for review, approval, and sign-off.

Unapplied Funds

The Operations Control group also uses Business Objects to query the data in GSSR to produce an aging schedule of unapplied funds in each reconciled account. Unapplied funds received by Lehman are automatically placed in suspense upon receipt. For MTS, the suspense accounts are: 29001100 (Chase) and 29001200 (Citibank). There are three active unapplied accounts on ADP: 090-01232 (Unidentified Wires Received), 090-01234 (Unapplied Customer Wires), and 090-01235 (Unapplied Firm Wire Receipts). We are waiting for the suspense account listing for the other sub ledgers. [EY Tokyo: In Asia, ITS is used instead of MTS and ADP.]

Operations Control continuously monitors suspense accounts and if the owner of the funds is not identified within 30 days, the funds are remitted to the sender, except for those items where an active investigation is still ongoing. It is the Operations Control group’s responsibility to monitor that each business unit is staying current on their reconciling items and resolving them in

a timely manner. All reconciling items are to be resolved as soon as possible, with information concerning the resolution documented on the reconciliation. Bank reconciliations are reviewed online, real-time, by Operations Control on a daily basis. [EY Tokyo: All interactions via email in which OCA Reconciliation in India performs reviewing and following up on outstanding items are cc forwarded to OCA Reconciliation in Tokyo and supervised by OCA Reconciliation in Tokyo. There is no online real-time monitoring designed in Asia.]

Daily Monitoring (MIS Summary Report)

The Operations Control group also uses the Business Objects query tool to create the MIS Summary, an overall exception report that is viewed on-line on a real-time basis (daily). While every employee in the Operations Control group can view the MIS Summary, the main users are Operations Control supervisors, who each monitor reconciling items throughout the day. For each amount listed the report includes the number of days outstanding and the total number of reconciling items per aged category. This cumulative report details:

1. Cash trades/entries booked to the ledger but not booked by the bank.
2. Cash recorded by the bank and not recorded in the ledger.
3. Credits recorded in the ledger but not recorded by the bank.
4. Debits recorded by the bank but not recorded in the ledger.

The MIS Summary Report ultimately contains the same information as the America's Daily Operations Report, prepared by the Metrics Group, which Operations Control supervisors receive via email daily. This email contains two separate reports, one for "LBI" and one for "All Entities," and contains categories such as Aging Summary, Cash and Trade Reconciliations, and Suspense, among others. [EY Tokyo: In Asia, only one MIS Summary Report is prepared for all Asia entity.] The reports are created using Microsoft Excel in conjunction with Visual Basic programming language. The reports summarize the data extracted using Business Objects, which mines the Global Operation Business Intelligence (GOBI) database. GOBI is fed from GSSR Production, a live database that is part of the GSSR reconciliation system. GOBI refreshes data three times a day: 7 am, 12 pm, and 2:30 pm, in order to stay up to date on most current information. The Operations Control group queries GOBI at 3:30 pm, feeding the extracted data to its Excel/Visual Basic report tool and sending out the reports around 4:30 pm each day. [EY Tokyo: OCA Reconciliation directly accesses to GSSR to extract data on real time on a daily basis instead of accessing GOBI database.] The Operations Control group reviews the reports for trend analysis and aged items, however the information is the same as is viewed real-time through the MIS report. These America's Daily Operations Reconciliations are provided to senior management in Firm Balancing and Regulatory at Lehman Brothers for review.

Aged ITS reconciling items are put into a suspense account (account range 084). In the case of ITS, suspense accounts are allocated to each individual department which is responsible for the cause of the suspense item. That individual department is responsible for the research and resolution of the suspense account. Both the head of suspense accounts and general supervisor in Firm Balancing monitor the suspense accounts on a daily basis. A daily GSSR Suspense report is generated which identifies aged differences and is reviewed the same day. Please see **B15** ITS

Clearance and Settlement walkthrough for further details. [EY Tokyo: In Asia, control accounts are alternatives of a suspense account. OCA Reconciliation makes sure that control accounts balances in ITS and I-Star as of end of a day are flat, which means all cash payments are connected to trading accounts in sub-ledgers, if not, any discrepancies are followed up by the originating business unit.]

General Procedures Applicable to the Reconciliation Process

- Any checks that are outstanding over 360 days are moved into an abandoned property account (ADP account# 026-01075). If the customer's account is active, their account is credited for the amount of the outstanding check. If the customer's account is inactive, the outstanding check remains in the abandoned property account for a period of time corresponding with state regulations. The Dormancy Tracker System tracks outstanding checks in the abandoned property account and determines when they move into escheatment based on state regulations that are updated quarterly. Usually outstanding checks move to escheatment after 2 years. [EY Tokyo: In Asia, this paragraph is not applicable since there is no abandoned property account set up.]
- The Operations Control group sends the Regulatory Department a summary of all bank accounts, bank balances and ledger balances on a monthly basis so that Regulatory has up to date balances as well as information on aged positions.

GCCM Cash Reconciliation Process

Lehman also uses an in-house platform called GCCM. This platform helps to reduce the number of external bank accounts being used since multiple GCCM accounts are mapped to one external bank account. GCCM is used for less than 10% of the reconciliations performed. [EY Tokyo: GCCM is being used for five Asian accounts (200130SCTMY4, 200130SCT1DL, 200019SCTSGG, 200019HKTHKR, 200019M1TTHG), whose funding desk is located in London, booked in Lehman Brothers Asia Holdings Ltd and Lehman Brothers Securities Asia Ltd.] The GCCM system takes multiple ledger accounts, maps them to 1 GCCM account and then reconciles the 1 GCCM account with an external bank account in GSSR.

The EY Corporate team is responsible for the walkthrough of the GCCM Cash Reconciliation Process. Please see the Corporate team's walkthrough narrative **B22** Cash Management Process in the EY Corporate GAMx engagement for further detail.

Account Closing Process

An account is closed in a similar manner to which an account is opened. The account owner contacts the Network and Project Management group to request an account closure. The Network and Project Management Group is also continually monitoring account activity. If an account is inactive for at least 6 months (some account openings require extensive documentation and legal review in addition to higher opening costs so Lehman wants to ensure extended or permanent inactivity before a close), the account owner will be contacted to determine if the account needs to be closed. Due to the extensive documentation or legal issues associated with opening some of these accounts in addition to costs, the account owner is then

required to enter the Network Management Database on Lehman Live to formally initiate the account closure. A member of the Network Management Database group must then also log into the Network Management Database and formally approve the account closure. In order to do so, the Network and Project Management Group must confirm with the external bank that the account has a zero balance. If the account balance is not zero, Network and Project Management will resolve the issue, usually by having Cash Management move any credit balances out of the account, or working with the bank to write off any immaterial debit balances. They must also contact Operations Control and confirm that the account has a ledger balance of zero. Once the account balances have been verified and the account closure has been approved, NWM sends a letter signed by 2 authorized signers to the external bank authorizing the close of the account. Once the account closure has been confirmed by the bank, NWM will process the closure in the NWMD and a broadcast message will be sent out to the appropriate groups. The appropriate sub ledger group will close the account on the sub ledger and Operations Control will close (or deactivate) the account in GSSR. If an account is not properly closed in either the sub ledger or in GSSR, the account will break on the aforementioned Sub ledger vs. GSSR Reconciliation.

As an additional safeguard, at the beginning of each week, the Network Management Group composes an email with a link to the NWMD (on the Lehman Live webpage) which details all accounts that were closed (or opened) during the prior week. Using the email, the Operations Control group closes the ledger account in GSSR so that no further entries can be made to the account. Specific account fields are changed in GSSR in order to close the account and stop the automatic reconciliation, but the account is not removed from the GSSR system. Evidence of the existence of the account must be retained; hence the account is not removed from GSSR.

Confirming our Understanding of Controls (Controls Strategy)

Describe the walkthrough procedures to confirm our understanding of the design of the controls and that they have been placed into operation. As we walkthrough the prescribed procedures and controls, we should ask personnel to describe their understanding of the control activities and demonstrate how they are performed. We keep in mind that controls may be manual, automated, or a combination of both. Application controls are fully automated controls that apply to the processing of individual transactions. IT-dependent manual controls are dependent upon complete and accurate IT processing to be fully effective.

EY Procedures

For purposes of the 2008 LBHI/LBI walkthrough of the Bank Reconciliation process, EY auditors met with Bill Hope, Don Logan and Kieran Curley of Lehman Brothers Operations Control to discuss the reconciliation of proprietary cash and Janet Birney and Jaclyn Leung of Lehman Brothers Network and Project Management to discuss the process surrounding the account opening and closing procedures.

Account Opening

EY auditors walked through the account opening for the following:

Account #: 780263877

Account Name: LBI/DCI Long-Short Credit Fund

Bank: JP Morgan Chase

Account Closing

EY auditors walked through the account closing for the following:

Account #: 066637457

Account Name: LBI/Citi Canyon Ltd.

Bank: JP Morgan Chase

GSSR Completeness Reconciliation Process

EY auditors walked through and obtained the following reports:

Network Management Database vs. GSSR Reconciliation XXXXX

ADP vs. GSSR Reconciliation XXXXX

GSSR Daily and Monthly Reconciliation Process

GSSR Reconciliation (GSSR Open Item Cash Reports) XXXXX

As a result of the walkthrough procedures performed and documents obtained and reviewed for the current year, as described above, we noted no significant changes to the process and key controls and as such we have carried forward all documentation from 2007.

EY's procedures included the following:

Account Opening

EY haphazardly selected one new account to walkthrough and obtained a screenshot of the Online Account Application (**B13.1.1**) on the NWMD. EY also obtained the NWMD Account Approval email (**B13.1.2**) which notifies the account applicant that the account request has been approved.

EY obtained the Corporate Resolution (**B13.1.3**) which contains the list of authorized signors. EY noted that the signors on the New Account Form (**B13.1.3a**) were listed on the list of authorized signors. EY also agreed the bank name from the account application

EY obtained the Email Notification Account Opened (**B13.1.4**) which notified the applicant that the account has been opened. EY agreed relevant information from the application and the NWMD email.

EY obtained a screenshot of GSSR (**B13.1.5**) showing the account correctly set up in GSSR, performed by Operations & Control.

Account Closing

EY haphazardly selected one closed account and obtained email request to close the account (**B13.1a.1**) sent from the Network Management Group. EY also obtained a NWMD Screenshot (**B13.1a.2**) of the account to be closed. Once the owner receives the email, they must log into NWMD to initiate account closure.

EY obtained an external bank statement (**B13.1a.3**) and an ADP Screenshot (**B13.1a.4**) showing an account balance of zero, since only accounts with zero balances can be closed.

EY obtained a copy of the Letter to the External Bank (**B13.1a.5**) that is the formal request that the account be closed, and noted that it was signed by 2 authorized signors.

EY obtained the NWMD Generated Email (**B13.1a.6**) which notifies both the account owner of closure and the Bank Reconciliation Group to disable the GSSR Reconciliation of that account.

EY obtained the Account Openings/Closures Email (**B13.1a.7**) which shows all accounts opened and closed in the previous week, and noted the account selected for this walkthrough was listed.

GSSR Daily Reconciliation

EY obtained the daily GSSR Rec (**B13.2.1**) for 5/31/07 for 1 bank account with JP Morgan Chase, external account number 066641209. This account resides in the MTS sub ledger and this Rec automatically compares sub ledger data to external bank data. EY obtained the Chase Swift statement (**B13.2.2**) which is fed into GSSR for the Reconciliation mentioned above and agreed the closing balance to the rec. EY also obtained the MTS Sub ledger balance and agreed the current balance to the Reconciliation.

GSSR, or GEAC Smart Stream Reconciliations, is an automatic reconciliation system that compares the firm's general ledger to the external data provided by the bank and then

produces an exception report. These exceptions are investigated, resolved and reviewed within 30 days.

EY obtained the GCCM Reconciliation (**B13.2.4**) which reconciles multiple ledger bank accounts to one internal GCCM account (which is mapped to the external account). This Rec was obtained for informational purposes only.

EY obtained the Americas Daily Operations (all entities) Report (**B13.2.5b**) and Daily Report for LBI (**B13.2.5a**) which are generated by the Metrics group and reviewed by OCUS-Reconciliation for completeness and variance monitoring. Both reports were obtained for informational purposes only.

EY obtained the Unapplied Funds Suspense Account Reconciliation from 9/13/2007 (**B13.2.6**) and haphazardly selected one reconciling item: Inc Wire #001418 8529993070 in the amount of \$43,312.34 on 8/23/2007. EY then obtained the same Reconciliation from 9/26/2007 (**B13.2.6a**) to verify that the selected item was no longer listed. EY also obtained the Remitted Funds Support (**B13.2.6b**) and noted that after the selected item was open for 30 days, it was returned to the remitter on the next business day, per company policy.

GSSR Monthly Reconciliation

EY obtained the GSSR Monthly Reconciliation for the month ended 5/31/2007 (**B13.3.1**). This is a manual reconciliation since bank information must be entered by hand by the Operations Control group. EY obtained the Banco Popular Monthly Bank Statement for May 2007 (**B13.2.2**) and agreed the ending balance to the Reconciliation. EY also obtained the TMS Sub ledger screenshot (**B13.2.3**) and agreed the balance to the Reconciliation.

ADP vs. GSSR Reconciliation

EY obtained the quarterly ADP vs. GSSR Reconciliation for the quarter ended May 31, 2007 (**B13.4.1**) and tied the information from each tab to the summary tab.

A quarterly reconciliation between the Network Management Database and GSSR is performed which identifies accounts not currently set up for reconciliation in GSSR.

EY obtained the NWMD vs. GSSR Scrub (**B13.4.2**) and tied the information from each tab to the summary tab. EY notes that our walkthrough sample selected for the automatic reconciliation process was fed appropriately to GSSR.

As a check for completeness, the Operations Control Group performs a quarterly account scrub of all firm operating accounts by performing the ADP vs. GSSR Reconciliation.

Section 2: Other Matters—Segregation of Incompatible Duties and Management Override of Controls

Segregation of Incompatible Duties

S03 Understand Flows of Transactions and WCGWs of *EY GAM* requires that we assess the extent to which significant weaknesses in the proper segregation of incompatible duties could increase the likelihood of material misstatements in account balances. Inadequate segregation of incompatible duties also may reduce or eliminate the design effectiveness of a control.

Accordingly, we consider whether those individuals performing the procedures and controls observed as part of our walkthrough procedures have any conflicting duties and whether any potential conflicting duties have been addressed in the design of the procedures and controls.

Our considerations related to segregation of duties as part of our walkthrough procedures are documented below:

Was anything noted in our walkthrough procedures that would indicate there are incompatible duties?	Yes/No No	
If we answered “Yes” to the above: <ul style="list-style-type: none"> Do the incompatible duties represent a deficiency in the design of controls that is not sufficiently mitigated by other management actions or controls that have been identified (Substantive and Controls Strategy) and tested (Controls Strategy)? 	Yes/No	Additional Observations
	N/A	N/A
If we answered “Yes” to both of the above questions, provide further documentation and the related effect on our audit strategy.	N/A	

Management Override of Controls

S04_Perform Walkthroughs of *EY GAM* requires that we consider whether the results of our inquiries or other evidence obtained during our walkthroughs provides information regarding the possibility of management override of controls or indicators of fraud. The potential for management override of controls is one of the factors that can influence our evaluation of controls, including the effectiveness of internal control at the entity level.

Our considerations related to management override of controls as part of our walkthrough procedures are documented below:

Was anything noted in our walkthrough of controls that indicate the potential for management override of controls or that such override may have occurred?	Yes/No No	
If we answered “Yes” to the above: <ul style="list-style-type: none"> Does the potential for management override of controls represent a deficiency in the design of controls that is not sufficiently mitigated by management actions or controls that have been identified (Substantive and Controls Strategy) and tested (Controls Strategy)? 	Yes/No	Additional Observations
	N/A	N/A
If we answered “Yes” to both of the above questions, provide further documentation and the related effect on our audit strategy.	N/A	

Section 3: Conclusion

At the completion of our walkthrough procedures, we reach a conclusion on whether our results confirmed our understanding of the flow of transactions or sources and preparation of information. Additionally, if we planned to assess control risk at less than the maximum, we are performing an integrated audit, or the class of transactions contains a significant risk, we reach a conclusion on whether our results confirmed our understanding of whether the controls have been implemented and whether the controls have been designed effectively to prevent or detect and correct material misstatements on a timely basis.

If we are unable to conclude that controls are effectively designed and have been implemented, we may need to reassess our strategy decision (i.e., Controls Strategy v. Substantive Strategy) at the significant class of transactions level and reassess our evaluation of controls. For integrated audits, we determine whether the missing or ineffective control(s) represent one or more control deficiencies that we include on the Summary of Control Deficiencies (EY Form U220).

Our conclusions are documented below or in GAMx (Perform Walkthroughs screen):¹

	Yes/No	Additional Observations
Did our walkthrough procedures confirm our understanding of the flow of significant classes of transactions within significant processes or sources and preparation of information resulting in significant disclosures (Substantive and Controls Strategy)?	Yes	
Did our walkthrough procedures confirm that the identified WCGWs represent the points within the flow of significant classes of transactions, or sources and preparation of information in significant disclosures, where material misstatements could occur (Substantive and Controls Strategy)?	Yes	
Did our walkthrough procedures confirm that the controls have been effectively designed and placed into operation (Controls Strategy)?	Yes	

¹ If any of the situations are noted, we further describe the issues that were noted, and update our process documentation and GAMx file accordingly.