

Auditing for Effective Training



Auditing for Effective Training

I. INTRODUCTION

*“Banking organizations must develop, implement, and maintain effective AML programs that address the ever-changing strategies of money launderers and terrorists who attempt to gain access to the U.S. financial system.”
(FFIEC BSA/AML Examination Manual-Introduction)*

Anti-money laundering (AML) statutes were first introduced in the United States in the 1970s in the form of the Bank Secrecy Act. This established basic record keeping and reporting requirements and has since expanded in complexity to also require banks to establish procedures to ensure compliance with the Bank Secrecy Act (BSA).

The regulations dictated that financial institutions must establish and maintain a BSA/AML compliance program that includes the following four pillars:

- (1) A system of internal controls to ensure ongoing compliance
- (2) Independent testing of BSA compliance
- (3) A specifically designated person or persons responsible for managing BSA compliance
- (4) Training for appropriate personnel**

Then in order to maintain uniformity in the BSA exam process, the Financial Crimes Enforcement Network (FinCEN), in cooperation with all the federal banking regulatory agencies and the Office of Foreign Asset Control (OFAC), published the Federal Financial institutions Examination Council’s (FFIEC) Bank Secrecy Act/Anti-Money Laundering Examination manual ¹ in June 2005.

This manual, which has since been updated, provides guidance to federal agency examiners and auditors when conducting a BSA/AML exam or audit. This manual walks the examiner or auditor through the steps necessary to thoroughly review an institution’s compliance with the four pillars listed above.

It also stresses that the BSA/AML examination is supposed to assess the effectiveness of an institution’s BSA/AML compliance program and how well the institution incorporates the basic pillars into its BSA compliance program.

How Critical is Training?

BSA has been part of the audit/examination process for three decades, but what role does training play? How critical is training? How do you audit that training is effective?

2013 Audit Training Survey

In May of 2013, a market research survey³ was distributed to more than 3,000 financial institutions nationwide to capture their practices on BSA/AML training and their audit/exam experiences on training effectiveness. From that, 335 financial institutions responded and this data will also be presented in various graphs and charts throughout this paper to provide the reader with information on what is occurring in the industry.

Weaknesses in the Pillars

Violations may be cited when a failure occurs in the overall BSA/AML program and violations must be supported by at least one pillar violation. Violations of individual pillars do not always lead to the conclusion that the institution has suffered an overall BSA/AML program violation; however a weakness in any pillar could expose the institution to money laundering or other illegal financial activity.

So the first potential warning that the BSA program maybe failing is an absence or default in one or more of the required pillars. For example, a bank might have designated a BSA compliance officer with no background or experience in BSA/AML, or may have failed to provide necessary training to its staff.

Ineffective Training

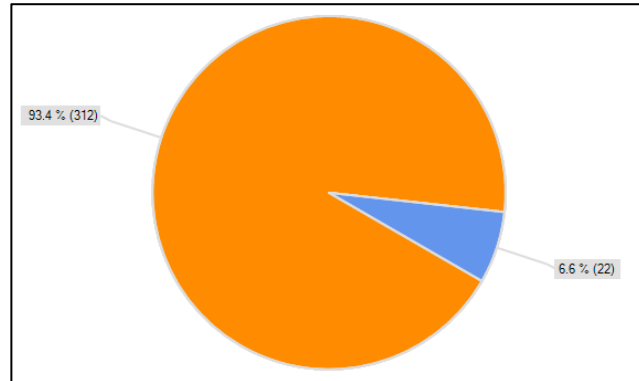
Many of these violations could theoretically tie back to a lack of training. Often, when a weakness in a BSA program is identified, no matter which pillar is referenced it can relate back to a lack of training in that area. We will go into more detail about this in the second part of the paper. In most major enforcement actions, training is included as an area needing improvement.

In the 2011 action against Zion's Bank of Salt Lake City, Utah⁵, when discussing the deficiencies in the institution's remote deposit capture monitoring program regulators? stated, "The absence of effective internal controls and properly trained designated personnel resulted in numerous violations of the requirement to report suspicious transactions in a timely manner."

In the 2010 consent order against TCG National Bank of Sioux Falls, South Dakota⁶, one of the consent provisions addressing customer due diligence stated that their risk-based processes to obtain and analyze information also needed to include; "periodic evaluations of employee knowledge of, and adherence to, Bank policies and procedures for identifying customers and for gathering, analyzing, and documenting due diligence in order to determine whether additional or enhanced training should be conducted."

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In the above mentioned survey, 22 financial institutions out of the 335 respondents replied that they had received a formal action from an examiner that mentioned the lack of or weakness in BSA/AML training.



Reactive versus Proactive

Often when an institution's BSA compliance program has been criticized, training is most often used reactively as a solution to the criticism. And frequently when budgets get tight, outside training is the first item trimmed.

The best defense is a good offense. However, often the independent review of an institution's training program is more cursory without any real depth and is more caught up with checklists and not enough time spent on the quality and content of the training.

Goal of this Paper

If more time was spent auditing content and frequency of training or testing the effectiveness of the institution's training perhaps the violations to the other pillars may be reduced or avoided as well.

In this paper we will address areas or best practices to enhance the process of Auditing for Effective Training so that the training deficit can be caught in a timelier manner during the independent audit.

II. SCOPING AND PLANNING PROCESS

Request Letter

As part of the scoping and planning process, an examiner/auditor always requests information up front. Relevant to training, they will ask for:

- BSA/AML training schedule with dates, attendees, and topics. A list of persons in positions for which the bank typically requires BSA/AML training but who did not participate in the training.

Survey results show 98.8% save proof of completion documentation

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- Training documentation (e.g., materials used for training since the previous BSA/AML examination).

Survey results show 7.4% do not save the training materials

Results show most financial institutions save their training schedules and attendance records, as well as the training materials. This is most likely because they know it will be asked for in the request letter of all exams and audits. The problem is that this is often as far as training is reviewed in a majority of audits.

- Was training done? Check!
- Is documentation saved? Check!

Audit Best Practice #1

Ensure that an institution has maintained not only copies of training schedules and attendance records, but copies of actual training and testing materials as well. If any errors or violations are discovered as part of the audit process, you should refer back to the training materials to see if this was covered and who was in attendance. This will show you how effective the training was in that area.

Not all errors or violations may turn out to be training issues which is why training records need to be detailed.

Case Example: (Bank asked to be anonymous)

ABC Bank had an issue where it was discovered that the conductor that was listed on multiple CTRs over the last couple of years was not the actual conductor of the cash transactions.

Upon further investigation, it was determined that the customer asked the teller supervisor to list his brother (who lives out of the country) as the conductor.

When the BSA Officer reported the Teller Supervisor to the HR Department for disciplinary action (termination), the HR Director's comment was "that course of action is a little excessive, this seems more like a training issue to me."

Luckily, the BSA Officer was able to show that this was covered every year in the annual training attended by the Teller Supervisor and in subsequent interviews with the employee; it was determined she knew that it was wrong.

Risk Assessment

As you continue in drafting audit scope, you will also review the risk assessment.

Documenting Training in Risk Assessment- Survey Results:

- **83% of respondents reference training in risk assessment**

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- 75% of respondents reference the details of training in risk assessment

Financial Institution Best Practice

Include a section in your risk assessment about training. Don't just document that training is completed so therefore risk is low. List what you do, for whom, what is covered, how this helps to mitigate your risk, is it computer based, face to face, ongoing, what is covered, and detail how are new employees, directors, and BSA department employees trained.

List outside training the BSA department attended in the past year. By detailing it here, the examiner and auditor can customize their review and can then make recommendations for improvement if issues are discovered during the audit.

Audit Best Practice #2

- If training was conducted in response to a criticism or violation, make sure it is detailed in the risk assessment.
- If risk assessment shows the bank has a high turnover in frontline or BSA staff ensure that there is adequate training in all appropriate areas to mitigate the risk of this turnover.

FFIEC Manual says that independent testing (audit) should review the bank's risk assessment for reasonableness. Additionally, management should consider the staffing resources and the level of training necessary to promote adherence with these policies, procedures, and processes. For institutions that assume a higher-risk profile, management should provide a more robust BSA/AML compliance program that specifically monitors and controls the higher risks.

Simply translated, the higher the risk, the more training that is needed.

III. TYING PILLARS BACK TO TRAINING

Training is one of the pillars, but in the FFIEC Exam manual training is also addressed in the sections on the other pillars.

➤ Internal Controls

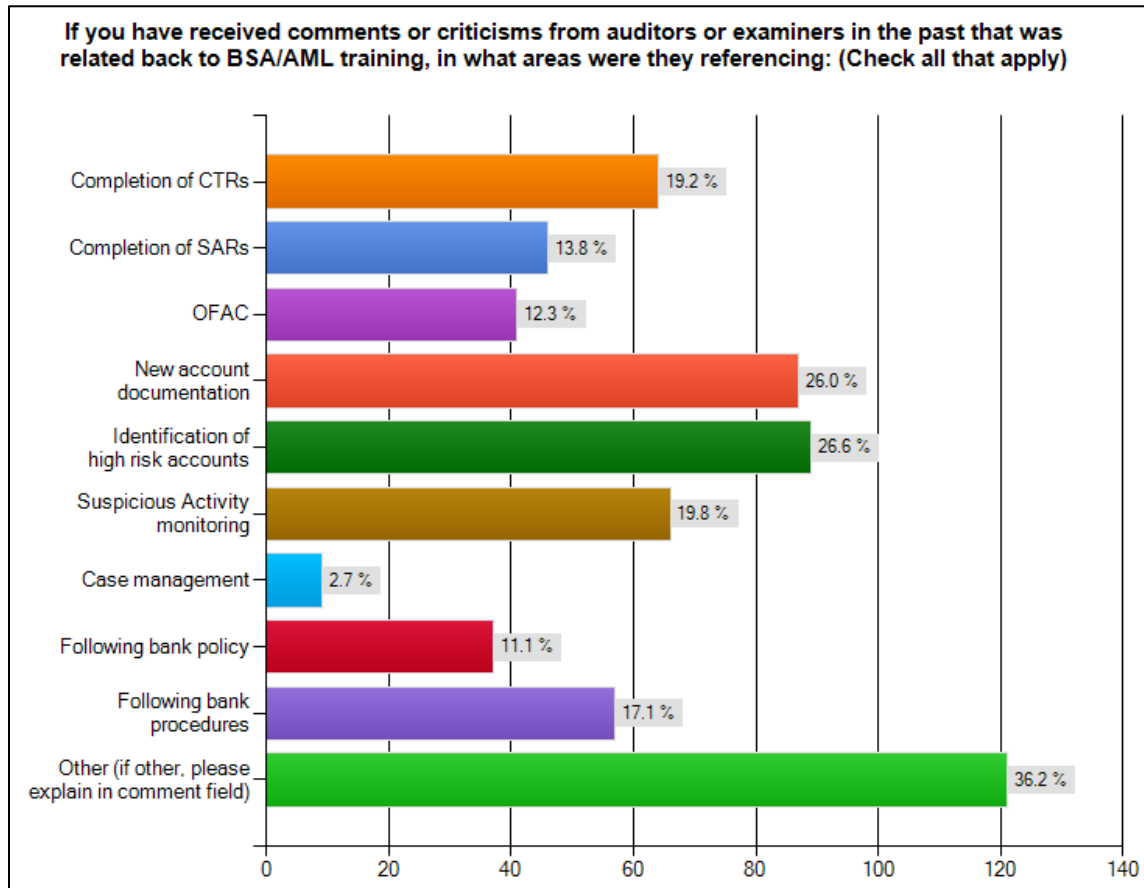
In order for internal controls to be effective, training must be upfront and ongoing on the institution's policies and procedures to ensure that the controls are adequate and followed. Every employee needs to know their part in the production.

Ongoing and frequent training of BSA responsible staff is important in order for an institution to meet all regulatory requirements, meet recommendations for

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BSA/AML compliance, and provide for timely updates to implement changes in regulations. These employees can then train other employees to be aware of their responsibilities under the BSA regulations and internal policy guidelines.

Common areas from our survey where training was found lacking include:



Audit Best Practice #3

Insure that employees receive comprehensive training that goes beyond basic training videos. In order to maintain internal controls employees need to be trained not only on BSA and how to identify suspicious activity, but also include the bank's internal policies, procedures, and systems. Don't forget they should also cover how to escalate suspicious activity to the appropriate department.

➤ Independent Testing

Before the examiners even walk in the door, they will review and evaluate the supporting documents from the independent testing (the BSA/AML audit). If the auditor's scope and work papers are detailed, it will help the examiners understand and identify any areas that require more (or less) attention.

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Examiners will review past exams, including criticisms, comments or recommendations, as well as the institution's responses. If in the past exams, the response to a criticism or recommendation was "more training", that will also be added to the scope of your exam, to see what training was completed and whether or not it was effective.

SURVEY RESULTS

- 19.5% of respondents said Auditor found training program to be weak, inadequate or needing improvement
- 27.8% of respondents said Examiner found training program to be weak, inadequate or needing improvement
- In the institutions surveyed examiners found weaknesses and inadequacies not identified by auditor.

Audit Best Practice #4

Review past audits and exams (last two years). Make a list of past criticisms. Compare to training materials to see if this was covered where appropriate. Then review this area to see if past problem is still an issue to judge the effectiveness of the training.

For example: Problems with accuracy on CTRs or no suspicious activity being reported from the loan department may be indicative of a need for more specific training to the frontline staff in these departments.

Audit Best Practice #5

Review areas identified as higher risk in the institution's risk assessment then review the training in this area if appropriate to see if it is adequately covered.

Financial Institution Best Practice:

The independent audit at your institution can be used for you to identify where to concentrate future training.

➤ BSA Officer (and BSA Staff)

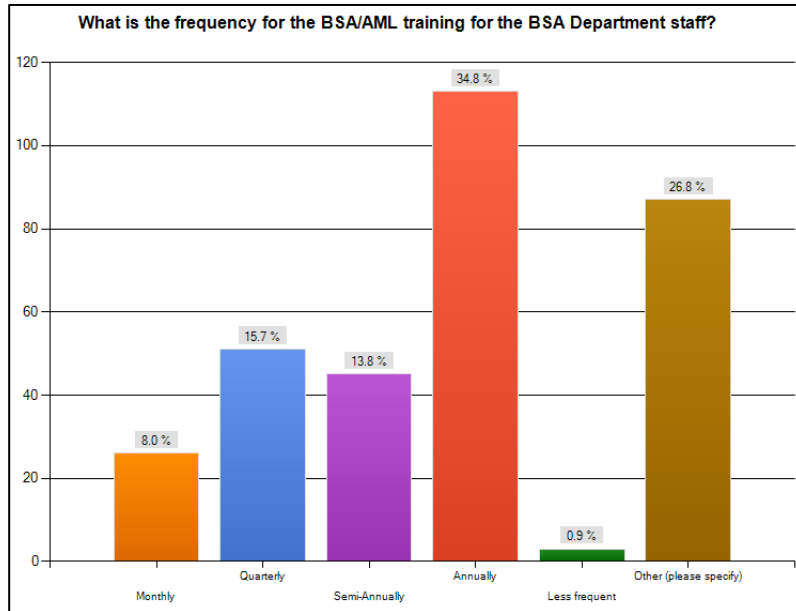
The section on BSA Officer in FFIEC manual does not specifically address "training"; however it emphasizes the importance of the expertise and knowledge level of the BSA Officer with BSA, all related regulations along with an understanding of the Bank's products, services, customers and risks which does imply the need for upfront and ongoing training. Also in the "Suspicious Activity Monitoring" section, under Managing Alerts it emphasizes training.

Financial Institution Best Practice:

A BSA Officer has to have the experience and constant training to keep up with all the changes to the industry. This includes ongoing training on new trends, as well as changes in the regulation.

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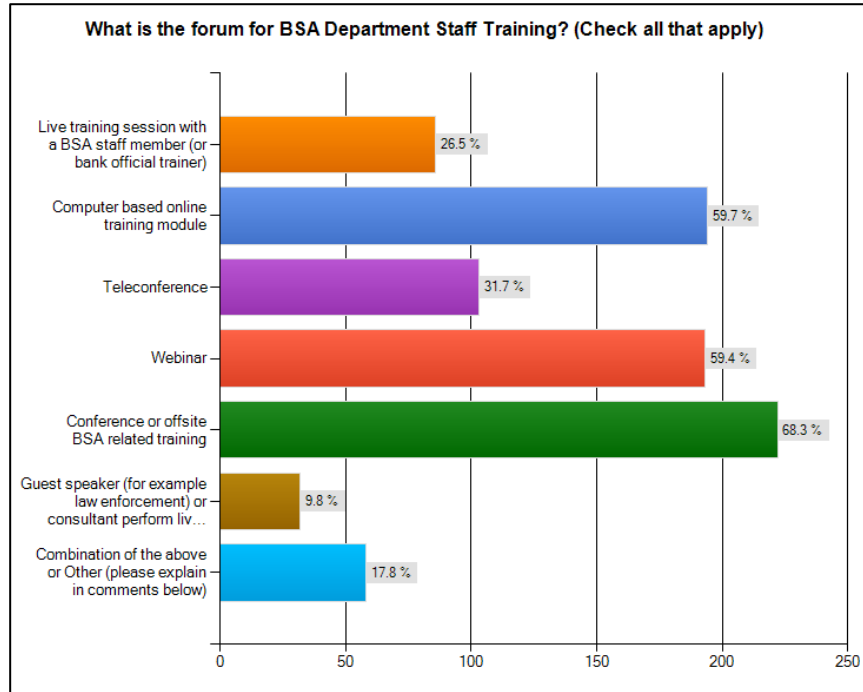
Bank needs to assign adequate staff to the identification, evaluation, and reporting of potentially suspicious activities and ensure that the assigned staff have the necessary experience levels and make sure they have ongoing training to maintain their expertise.



Audit Best Practice #6

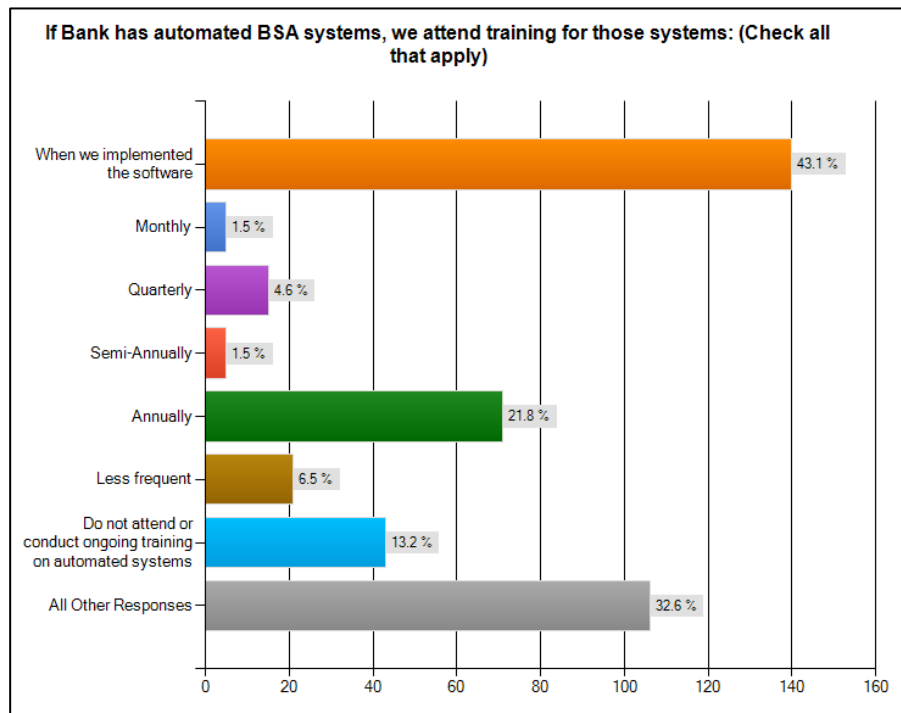
Verify that staffing levels are sufficient to review reports and alerts and investigate items, and that staff possess the necessary experience level and ongoing training needed to detect suspicious activity and manage their investigations.

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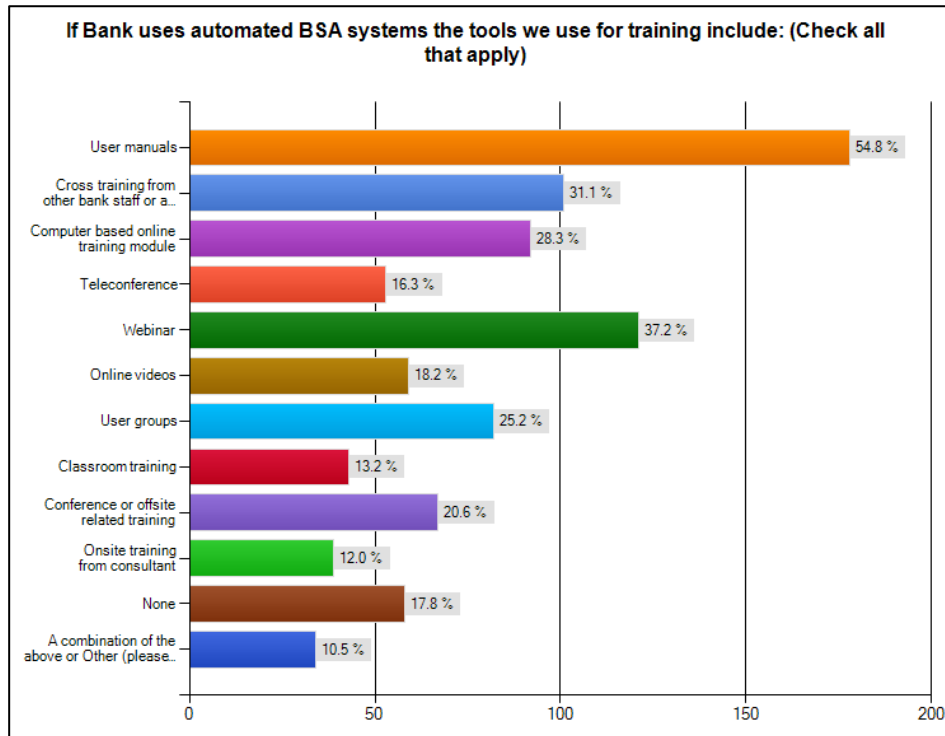


Audit Best Practice #7

If the bank utilizes automated systems, ensure that the appropriate staff receives ongoing training to maintain their expertise on those systems.



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➤ Training

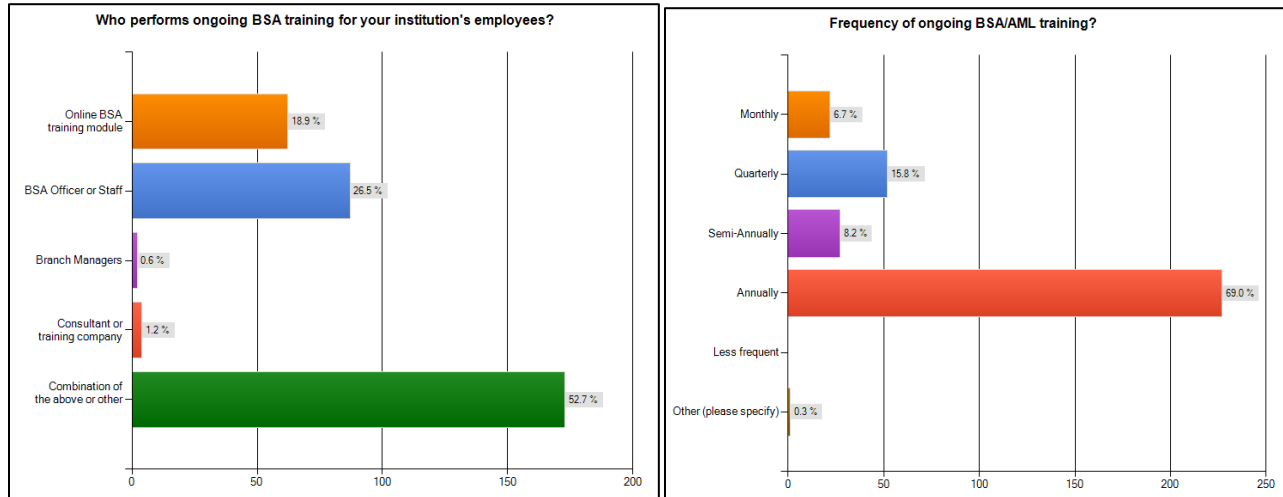
Obviously this section within the FFIEC BSA/AML Examination manual concentrates on the training. There are instructions in the training section that assist not only the examiner but are good guidelines for auditors when completing their independent review.

General Training Practices

Financial Institution Best Practices:

- Ensure that employees are trained up-front and ongoing on all the aspects of the BSA that pertain to their job.
- Training should include not only the regulatory requirements but also all internal BSA/AML policies, procedures, and processes.

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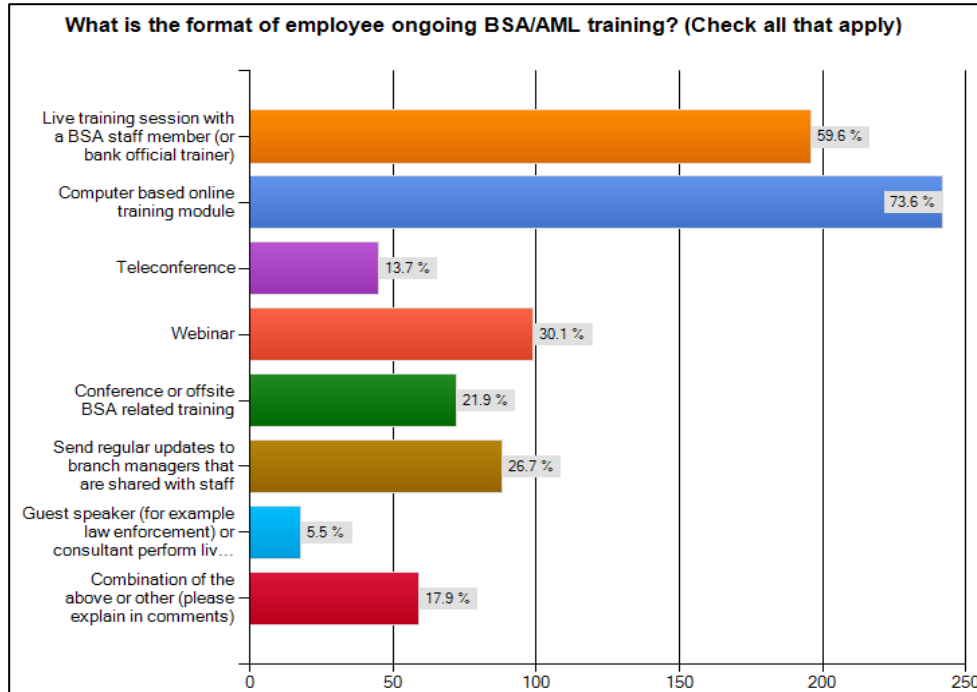


Audit Best Practice #8

Address the following in the training program and materials:

- Ensure Board of Directors and Senior Management provide enough resources on ongoing education that mitigates the risk.
- Ensure the BSA staff receives sufficient ongoing training on systems, new criminal trends and regulations.
- Ensure Bank staff receives training on risks associated with new products, services or new clientele.
- Ensure the training is ongoing and incorporates current developments and changes to the BSA and any related regulations. Changes to internal policies, procedures, processes, and monitoring systems should also be covered during training.
- Ensure the frequency of training is sufficient for risk level and turnover at institution.
- Review documentation of attendance records and training materials.
- Ensure that it covers bank policies, procedures and new rules and regulations.
- And includes the penalties for noncompliance with internal policies and regulatory requirements.

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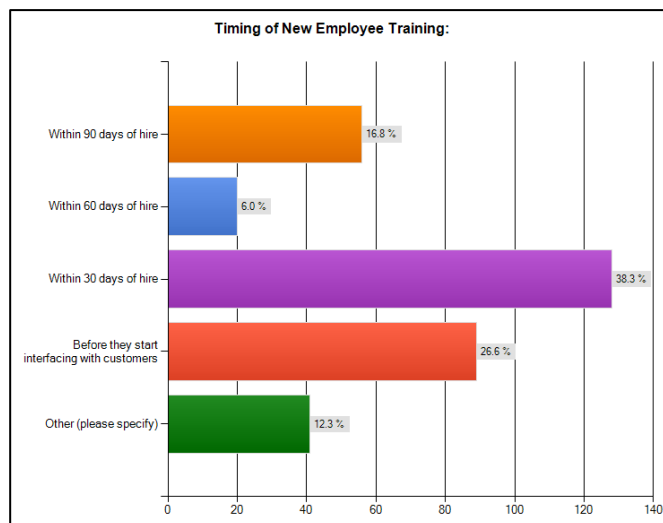


New Employees

Audit Best Practice #9

Ensure that their new employees are not hitting the trenches prior to being trained on BSA risks and the internal controls and processes.

According to our survey only 27% of the institutions that responded require the training to be conducted before that employee starts interfacing with customers.



Department Specific Training

Survey Results:

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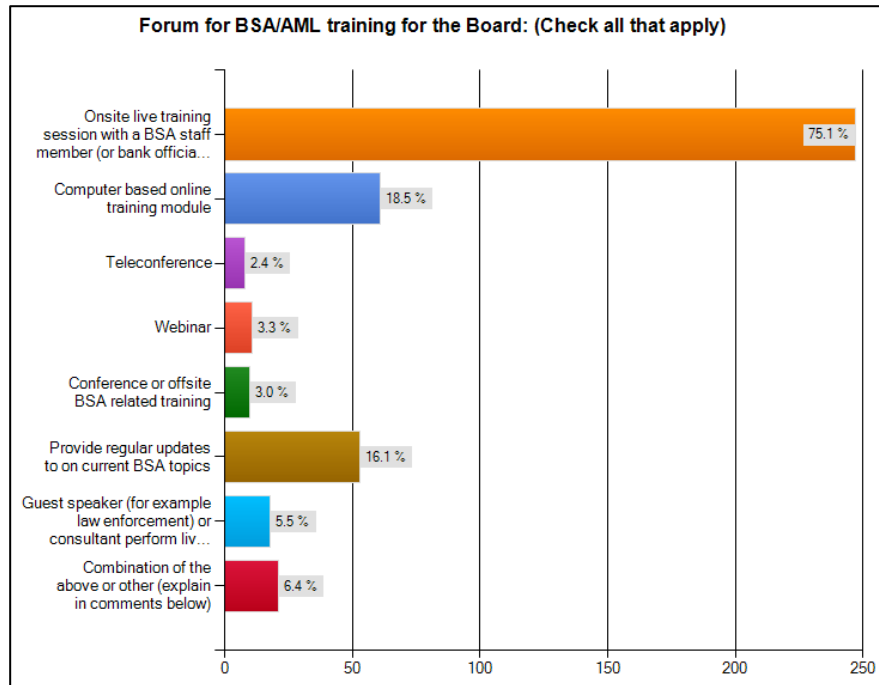
- Do all employees go through the same training at your institution?
 - 25% responded yes
- Does training include department specific relevant examples of suspicious activity?
 - 91% responded yes

Audit Best Practice #10

Review training content to ensure that training is tailored to the person's specific responsibilities. Separate training programs should have been created for different areas. For example:

- **Frontline staff** such as a teller will see different potential suspicious activity than loan clerks and both departments need to know how to escalate unusual activity to the appropriate department. Make sure there is coverage of examples of different forms of money laundering and terrorist financing relating to identification of suspicious activity that is relevant to employee's job function.
 - For example, training for tellers may focus on large currency transactions, structuring or completing a CTR; training for loan department may focus on money laundering through lending arrangements; and training for new accounts department may focus on CIP, KYC and EDD.
- **The BSA compliance officer** should receive ongoing periodic training that is relevant and includes changes to regulatory requirements.
- **BSA Department staff** will also need more advanced and ongoing training on new trends and updates to their host and monitoring systems. Staff should clearly understand the parameters and filters on their systems and how they work. An underutilization of an AML monitoring system might be a sign that more training is needed on the system. If the institution does not incorporate automated systems, the BSA staff's training also needs to include ongoing training on their manual processes.
- **Audit staff** needs to understand not only the regulations but also have an advanced knowledge on all applicable systems.
- **IT staff** will need basic knowledge since they have access to all the data.
- **Board Directors and Senior Management** do not need to know how to fill out a CTR. However they should be informed of changes and new developments in BSA and the regulator's expectations. They also need to understand the consequences of noncompliance. Without a general understanding of the BSA and the risks at the institution, they cannot adequately provide oversight; approve policies, procedures, and processes; or provide sufficient resources.

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Summary and Conclusion

The FDIC Supervisory Insights says “*The Best Defense Is a Good Offense*” and that “A strong training program should ensure that appropriate personnel are familiar with regulatory requirements and bank policies.”

Proactive versus Reactive!

Training can be used proactively as part of an institution’s internal controls instead of reactively as a solution to a criticism.

To audit for effective training, the independent review of an institution’s training program needs to include depth and concentrate on the quality, frequency and content of the training.

Over-All Best Practices for BSA/AML Training

- New employees: Provide training prior to hitting the trenches
- Wide coverage. All business lines
- Specific training. Tailored to the employee's specific duties
- Comprehensive training. Not only on BSA and how to identify suspicious activity, but also include bank's internal policies, procedures, and systems and/or manual processes. Also, don't forget covering how to escalate suspicious activity to appropriate department.
- Train the experts too. BSA officers should receive periodic training that is relevant and incorporates current developments, emerging risks/trends, and changes to the BSA and related regulations.

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- Train directors and trustees. Need training to understand importance of regulatory requirements, ramifications of noncompliance, as well as risks to the bank.
- Train for your tools. Staffs utilizing BSA/AML monitoring systems need to be provided with comprehensive and ongoing training to maintain their expertise.
- Test during training. This can be an effective method to determine not only the competence of the staff, but also to judge the effectiveness of the training as well.
- Document training regime, training accomplished along with scores of any testing. These scores may become useful to judge the effectiveness of any changes in the training program curriculum.

Resources

- (1) Federal Financial Institutions Examination Council's (FFIEC) Bank Secrecy Act/Anti-Money Laundering Examination manual
http://www.ffiec.gov/bsa_aml_infobase/pages_manual/manual_online.htm
- (2) FDIC Supervisory Insights
http://www.fdic.gov/regulations/examinations/supervisory/insights/siwin06/article03_bsa.html
- (3) Banker's Toolbox Education Survey sent May 2013 to 3500 institutions nationwide. Received 335 responses to survey.
- (4) ACAMS Resources and Trainings and Events <http://www.acams.org/Resources/ResourceLibraries/>
- (5) Zions First National Bank-Assessment of Civil Money Penalty
http://www.fincen.gov/news_room/ea/files/ZionsAssessment.pdf
- (6) TCF National Bank-Consent Order
<http://www.occ.gov/static/enforcement-actions/ea2010-164.pdf>