

GUIDELINES FOR MONITORING BANK SECRECY ACT COMPLIANCE

Section 326.8 of the FDIC's Rules and Regulations requires banks to develop and administer a program to assure compliance with the Bank Secrecy Act (BSA) and 31 C. F. R. 103. The compliance program must be in writing, approved by the bank's board of directors and noted in the minutes.

Section 326.8(c) sets out four minimum requirements of the compliance program. To meet the minimum requirements, a bank's compliance program should include:

1. *A system of internal controls.* At a minimum, the system must be designed to:
 - Identify reportable transactions at a point where all of the information necessary to properly complete the required reporting forms can be obtained. The bank might accomplish this by sufficiently training tellers and personnel in other departments or by referring large currency transactions to a designated teller. If all pertinent information cannot be obtained from the customer, the bank should consider declining the transaction.
 - Ensure that all required reports are completed accurately and properly filed. Banks should consider centralizing the review and report-filing functions within the banking organization.
 - Ensure that customer exemptions are properly granted and recorded. The compliance officer or other designated officer should review and initial all exemptions prior to granting them.
 - Provide for adequate supervision of employees who accept currency transactions, complete reports, grant exemptions or engage in any other activity covered by 31 C. F. R. 103.
 - Establish dual controls and provide for separation of duties. Employees who complete the reporting forms should not be responsible for filing them or for granting customer exemptions.
2. *Independent testing for compliance with the BSA and 31 C. F. R. 103.* The independent testing should be conducted at least annually, preferably by the internal audit department, outside auditors, or consultants. Banks that do not employ outside auditors or consultants or that do not operate internal audit departments can comply with this requirement by utilizing for testing employees who are not involved in the currency transaction reporting function.

The compliance testing should include, at a minimum:

- A test of the bank's internal procedures for monitoring compliance with the BSA, including interviews of employees who handle cash transactions and their supervisors.
- A sampling of large currency transactions followed by a review of CTR filings.
- A test of the validity and reasonableness of the customer exemptions granted by the bank.
- A test of the bank's recordkeeping system for compliance with the BSA.
- Documentation of the scope of the testing procedures performed and the findings of the testing. Any apparent violations, exceptions or other problems noted during the testing procedures should be promptly reported to the board of directors or appropriate committee thereof.

It is essential that the scope of any testing procedures, and the results of those procedures, be thoroughly documented. In most cases, this will involve retention of workpapers from internal and/or external audits of BSA compliance. Procedures that are not adequately

documented will not be accepted as being in compliance with the independent testing requirement.

3. *The designation of an individual or individuals to be responsible for coordinating and monitoring compliance with the Bank Secrecy Act.* To meet the minimum requirement, each bank must designate a senior bank official to be responsible for overall BSA compliance. Other individuals in each office, department or regional headquarters should be given the responsibility for day-to-day compliance. The title of the individual responsible for overall BSA compliance is not important; however, the level of authority and responsibility within the institution is. The senior bank official in charge of BSA compliance should be in a position, and have the authority, to make and enforce policies. A "BSA Officer" who reports to a senior official would not be sufficient to meet the requirements unless the senior official is officially designated as the officer in charge of overall BSA compliance.
4. *Training for appropriate personnel.* At a minimum, the bank's training program must provide training of all personnel whose duties may require knowledge of the BSA, including, but not limited to, tellers, new accounts personnel, lending personnel, bookkeeping personnel, wire room personnel, etc.

In addition, an overview of the BSA requirements should be given to new employees and efforts should be made to keep executives informed of changes and new developments in BSA regulation.

Depending on the bank's needs, training materials can be purchased from banking associations, trade groups or outside vendors, or they can be developed by the bank. Copies of the training materials must be available in the bank for review by examiners.

An effective "Know Your Customer" policy also is essential to compliance with the BSA and may aid in preventing the financial institution from becoming a conduit for a money laundering scheme. A "know your customer" policy consists of procedures that require proper identification of every customer at the time an account is opened in order to prevent establishment of fictitious accounts. The primary objective of such a policy is to enable the financial institution to predict, with relative certainty, the types of transactions the customer is likely to be engaged in. Internal systems should then be developed for monitoring transactions which are inconsistent with each customer's "transaction profile". In addition, the bank's employee education program should provide examples of customer behavior or activity which may warrant investigation.