

Evaluating and Designing a BSA Program

BSA Graduate School

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Section 1: Evaluating a BSA Program

Program Objectives

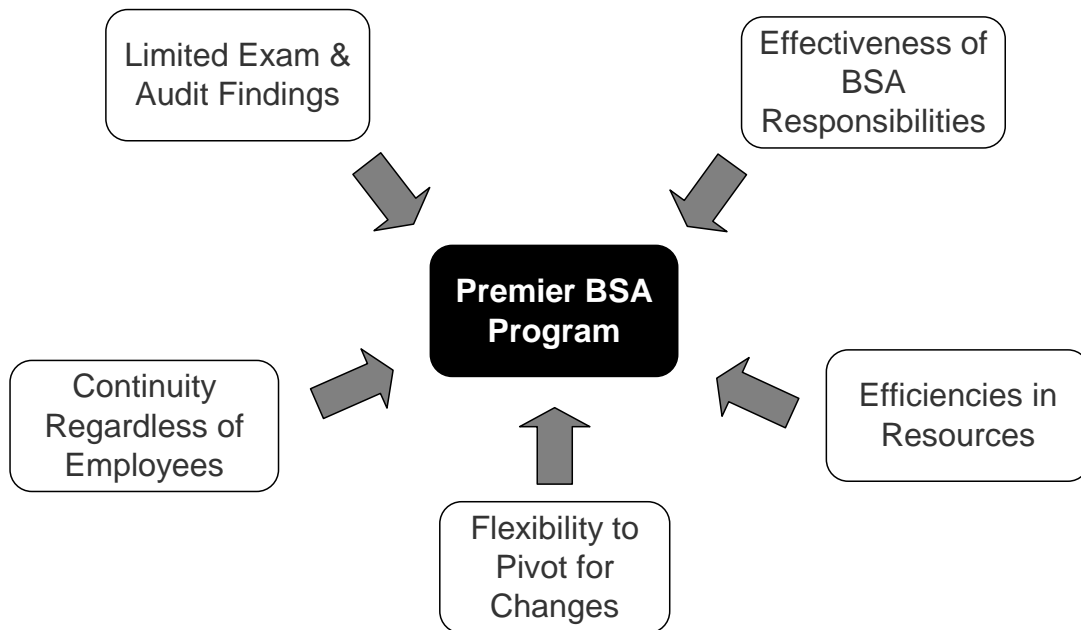
Managing an effective BSA program is one of the core responsibilities of a BSA Officer. In Part 5 of this program, we go into the specifics of managing a BSA program. Before one can effectively and efficiently manage a BSA program, however, one must first be able to evaluate and (re)design the program so that it becomes a Premier BSA Program (PBP).

The objective of this portion of our program is to discuss how to evaluate and (re)design a BSA program so that an organization can effectively establish a Premier BSA Program.

A Premier BSA Program (PBP)

A Premier BSA Program (PBP) is an elite BSA program that is pro-actively designed to consider more elements than just making sure a financial institution passes an audit or examination. A PBP is a program that generally contains the following traits:

- Limited Examination Findings
- Effectiveness in Meeting BSA Responsibilities
- Efficiencies in Resources
- Flexibility to Pivot for Applicable Changes
- Continuity Regardless of Specific Individuals



Limited Examination Findings. While the primary goal of your BSA program should not be to avoid examiner scrutiny, examinations and independent audits can be a significant measurement of the overall effectiveness of the BSA program. That said, however, the goal of any BSA program should be to comply with applicable BSA rules. In reality, each examiner and auditor brings with them a different background, experiences, and level of expertise. Therefore, a Bank should generally not rely solely on audit and examination results to determine whether or not the BSA program is effective. Other measures, such as a GAP analysis (as discussed later in this section) and ongoing internal evaluations should also be utilized.

Effectiveness in Meeting BSA Responsibilities. While bank management want to ensure that BSA audits and examinations produce satisfactory results, the primary objective of a Premier BSA Program should be to ensure the effectiveness of the bank’s responsibilities in establishing a program. A PBP should effectively address applicable areas of BSA rules and provide for a continuity and integration between each part of the PBP.

Efficiencies in Resources. One area that often seems to be overlooked in BSA programs are the efficiencies of the program. Many financial institutions often overlook, or turn a blind eye to efficiencies in the BSA program, as they are afraid that efficiencies will result in deficiencies. A Premier BSA program, however, is one that is able to establish clear efficiency in the program without creating additional problems, or gaps, within the program. PBPs eliminate re-work, which is the process of completing a task more than one time.

Rework often occurs in two different ways. First, it can often occur in processes where multiple people are involved. If information is not clearly passed “down the line,” each employee must spend time familiarizing themselves with the account or problem being worked on. This process of “familiarizing themselves” is rework that can be eliminated by utilizing one individual to complete the entire process, as one individual would not have a need to re-familiarize themselves for each step of the process.

The second way rework can occur is through overlapping processes. When two processes that are designed to achieve two different results overlap, rework can occur in the portions of the process that overlap. For example, if employee Ted is given the task of reviewing a complex report for item A and Tina is given the task of reviewing the same complex report for item B, the process of reviewing the report two separate times creates rework. A solution to this could be to instruct Tina to review both items A and B, while Ted’s time can be utilized in different areas.

Finally, efficiencies in a Premier BSA Program are often the result of utilizing a risk-based approach. A PBP will be designed so that the greatest amount of resources (time, employees, etc) are spent on the areas of greatest risk. Alternatively, areas of lower risk will not utilize excessive resources.

Flexibility to Pivot for Changes. The term pivot refers to the ability of a department, organization, or program to retain continuity with what is already established, but to also ensure that changes are effectively integrated into the existing program. A Premier BSA Program must be able to Pivot without losing the efficiencies and effectiveness already established by the program.

A PBP will be designed with the ability to adjust with the changing regulatory landscape. Changes can occur in organizations as a result of many things including regulatory changes, new products, changes in procedures and processes, or new internal policies. A PBP, however, will be able to effectively pivot with these changes so that the existing program retains continuity, but also so that the applicable changes are effectively integrated into the program.

Continuity Regardless of Individuals. The final trait of a Premier BSA Program is that it will provide for continuity regardless of which specific individuals are completing BSA tasks, processes, and functions. Many BSA programs are not formalized and often depend of one individual, the BSA Officer, being able to remember what tasks need completed. While some information may be stored in documents (such as Excel spreadsheets), the retention of this information is often informal, so that the only person who really understands how to utilize and where the information can be found, is the BSA Officer.

A Premier BSA Program will formalize processes, procedures, and tasks so that each specific function can easily be picked up by a new employee, without reliance on a single person, such as a BSA Officer. The goal of continuity is to ensure that the posture of the BSA program does not deteriorate when a change in the BSA officer occurs.

Challenges in BSA Program Designs

BSA programs at financial institutions, in one form or another, have been around for years. In looking at the evolution of BSA guidance, it is important to understand that BSA programs have evolved to coincide with changes in the regulatory requirements for such programs. Therefore, what has happened is that the current BSA program at many organizations is actually the result of dozens of “add-ons” (or revisions) that have been added to the original program. The challenge for financial institutions is that this method of “piecing” a program together can result in some deficiencies.

Let’s consider the illustration of a building. Buildings are designed for a specific purpose. A good architect will create a structure to cater to the groups that are going to utilize the building. For example, an architect would never design a residential unit with many different rooms if the actual usage of the building would be for large conferences where thousands of people would get together to listen to a speaker or performer. While a large residential structure (apartment sky-rise) may technically be able to hold the number of people required for a conference, it would not function in the way a conference needs to function. The same concept can be applied to a BSA program.

Over the years, many BSA programs have been designed in pieces, rather than being designed holistically. When a program is designed holistically, or all at once, there is a *continuity* and *integration* that is often missing from programs that are pieced together. Pieced together programs aren’t necessarily a bad thing, but in order to establish a premier BSA program, one must be able to integrate all functions of the program so that there is a clear continuity from one aspect of the program to another.

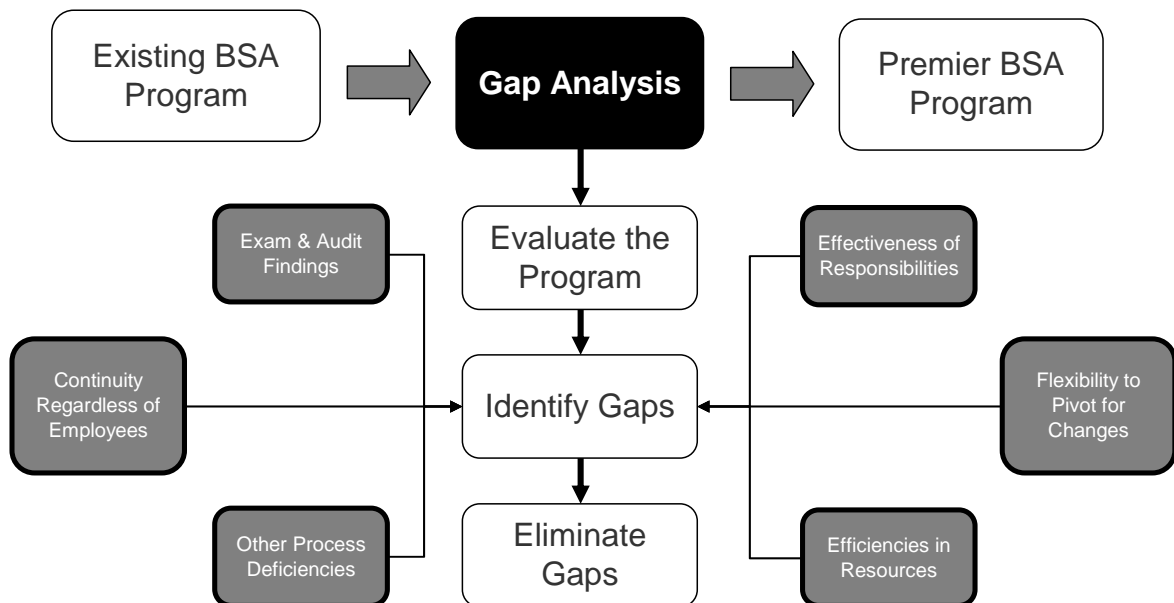
Evaluating a BSA Program

The first step to ensuring a program is a Premier BSA Program is to evaluate the existing program. This can be accomplished through a self-test of the program and can be conducted by the BSA Officer or another individual who is responsible for BSA in the financial institution. This person, however, should have a working knowledge of the BSA rules, but also be able to evaluate processes and procedures for both efficiencies and effectiveness.

Gap Analysis. The first step to conducting and evaluation of an existing BSA program is to conduct a Gap Analysis. A Gap Analysis is the process of comparing the existing BSA program with the desired results and identifying what “gaps” are missing from the desired program. This is done through a three-step process as follows:

1. Evaluation
2. Identification
3. Elimination

The following flow chart visually explains the process of conducting a GAP Analysis. The first step of the process is to evaluate the existing program. The next step is to compare the elements of a Premier BSA Program to the existing program in order to identify gaps in the program that could be improved. Once gaps have been identified, the final step of the process is to eliminate the gaps by implementing new processes or procedures that enhance the program. The end result should be a Premier BSA program, as defined previously in this manual.



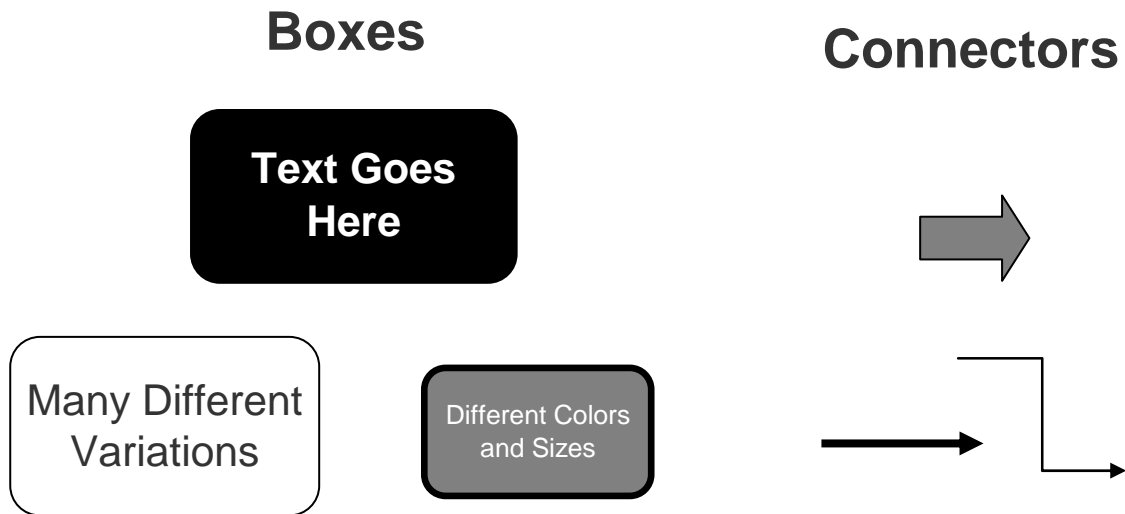
Section 2: Formalizing a BSA Program

Introduction

When developing a Premier BSA Program, it is important to be able to communicate the design of the program to Management, Examiners, and other employees who may perform BSA duties for the organization in the future. While written procedures and a defined policy can be essential in this process, another way to communicate the design of a program is through the utilization of visual workflow charts.

Workflow Basics

Workflow charts are a visual representation of the process that identifies each step of the process needed to complete a task. A workflow chart can either cover only major elements (big picture) of a program, or can go into great detail for the break-out of a process. A workflow chart will typically include the following basic elements:

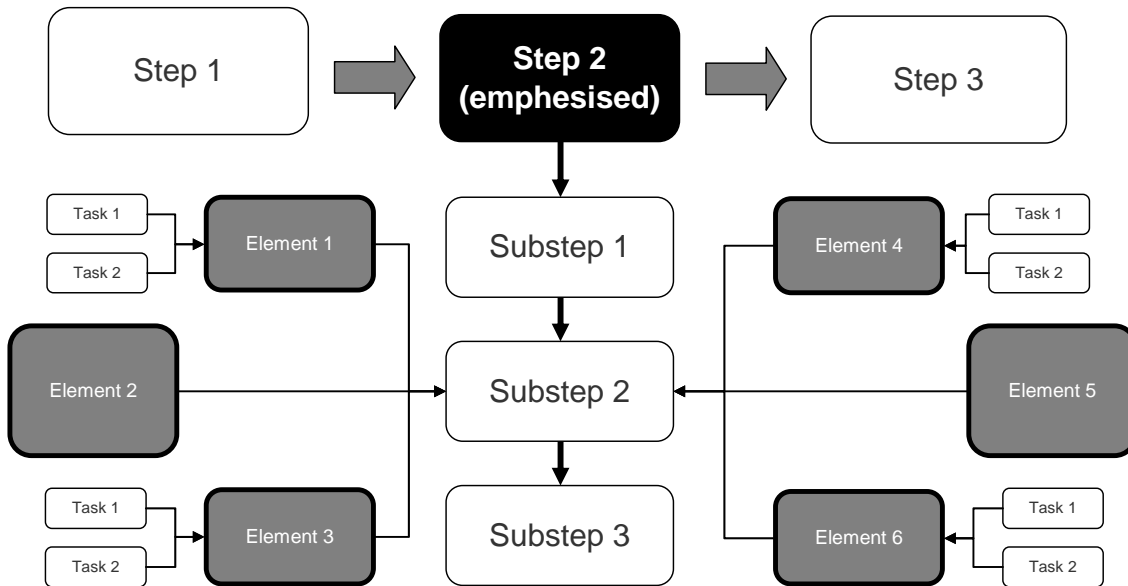


When creating a workflow chart, the idea is that one is attempting to communicate the steps needed to complete a function. In some instances, the designer is only interested in communicating the big-picture, or major steps without having a need to discuss all of the details needed to complete the bigger step. In other instances, however, the designer may desire to include all of the finite steps needed to complete a task.

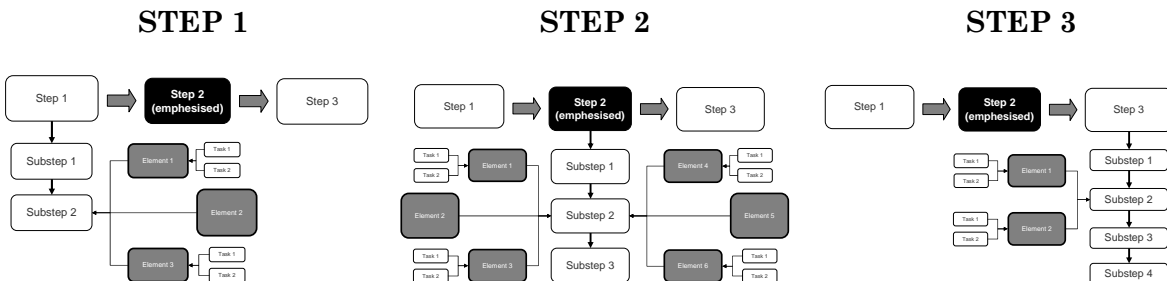
The thought process of designing a workflow should be broken down into different levels. For example, the highest level should represent the big-picture goal or task while the lowest level should represent the most finite (detailed) elements of the process. To accomplish this hierarchy, these different “levels” of the workflow chart can be broken down into categories such as the following:

1. Steps
2. Substeps
3. Elements
4. Tasks

To visually show how these four different categories can be utilized in a workflow chart, we will alter the design we utilized in creating the Gap Analysis flow chart from the end of Section 1 of this module. For illustration purposes, we added “tasks” to the design to explain how they would fit into the design.



As you can see from the above design, this workflow is explaining how to accomplish Step 2 of the three-step process. This flow chart could essentially be only one of three different charts. For example, if **Step 1** had two different items that needed completed and **Step 3** had four different items to complete, then each of those steps could have their own flow chart. The following is an example of how the above flowchart could fit into a series of charts:



Designing Specific Programs

Introduction. Once the basics of workflow design are understood, one can begin to formalize their BSA program by developing workflow charts for applicable areas. In this section, we are going to develop several workflows for an imaginary bank, The Ocean National Bank (ONB).

Case Study Bank (Background). Ocean National Bank is the new name for Pacific State Bank, a 7 branch community bank located in the middle of the Pacific Ocean with \$433 million in assets. Pacific State Bank just acquired a 4 branch bank, Atlantic State Bank. The two banks have just merged and Management changed the name of the combined bank to Ocean State Bank, though it really was an acquisition more than a merger – Management just felt they couldn't call branches located in the Atlantic Ocean, Pacific State Bank.

Though the two bank's are now chartered as one bank, Management has decided to phase in the merging of the two banks to uniform systems and processes as there are some logistical issues associated with merging two banks that are so far apart from each other.

As the two banks had operated on different core systems, Management has decided that each bank will continue to use the same operation system they had been using for the next two years. At the end of this period, the Bank will then merge the two systems into one. In addition to the core system, Management is also waiting to merge several departments such as the lending, deposit, and Trust departments of each Bank. Therefore each Bank is essentially operating as a separate bank though the bank is chartered as a single bank.

Dolly Flynn was the BSA Officer for Pacific State Bank and has just been promoted to be the BSA Officer of Ocean National Bank. Char K. Bates was the BSA Officer at the Atlantic State Bank and is now working as the Security Officer, though she has offered to assist Dol with anything she needs. BSA Officer Flynn feels that she will be able to manage the entire BSA program as she no longer has Security or Compliance responsibilities. However, she knows that she is going to need to significantly enhance the BSA program as Atlantic State Bank was under an MOU for BSA. In addition, the Pacific Ocean was just designated as a High Drug Trafficking Area.

Therefore, it is Dol Flynn's goal to design a Premeir BSA Program for Ocean National Bank. The next part of our manual will be to assist Dolly Flynn in designing a Premier BSA Program.

What are some of the challenges BSA Officer Flynn going to face?

Systems to Identify and Report Suspicious Activity

Overview. The first area that BSA Officer Flynn would like to enhance is the SAR program – specifically the systems used to identify and report suspicious activity. Dol understands that the SAR program is the backbone of the BSA program and she doesn't want anything slipping through the cracks. Therefore, she plans to establish her program into two different parts as follows:

1. A formalized system to identify and report suspicious activity in alignment with the BSA Exam Manual
2. A formalized SAR referral program for employees to refer suspicious activity

Case Study 1. Formalized Program.

The first part that Dol Flynn will focus on will be bigger picture in nature as she wants her program to align with the Interagency guidance on developing a system to identify and report suspicious activity. As Ms. Flynn recalls from Section 3 of this program, effective suspicious activity monitoring and reporting systems include four key components as follows:

- Identification of unusual activity
- Managing alerts.
- SAR decision making.
- SAR completion and filing.

Dol has determined that she is going to create a workflow chart based off of the four components listed above. She is going to start with the “SAR Program” at the top of her chart and plans to list the four above items as subsets of the program. She is then going to evaluate the needed elements to place as further subsets under each of the four items listed above. She was able to find some of her subsets from the material in Module 3 of this manual, but also came up with several subsets based on her understanding of what each of the 4 listed items needs.

Case Study 2. SAR Referral Program

The second thing that Dol wants to create is a formal SAR referral program. She has not implement this type of program in the past, but wants to establish a formalized way for employees to send possible suspicious activity to her for SAR consideration. Dol has found that employees often feel intimidated by Suspicious Activity Reports and therefore, she wants her program to be a non-threatening way for employees to send her any information they feel may be suspicious. As she will be making all SAR filing decisions, she hopes that this type of referral program will take the pressure off of other employees so they feel comfortable sending her anything they want a second person to review.

BREAK OUT SESSION: With one or two partners, work as a team to determine what steps Dol should take for each of her Suspicious Activity workflows. Then, draft out on a blank piece of paper what the workflow could look like for BOTH the 1) formalized program and 2) the SAR referral program. For the formalized program, you may want to reference module three of this program, under Systems to Identify and Report Suspicious Activity.

Customer Identification Program

Overview. The next area that BSA Officer Flynn would like to enhance is the Customer Identification Program (CIP). Flynn recently found out that the Atlantic State Bank has never monitored their CIP program to ensure that all needed documents are in the file.

Case Study 3. CIP

Dolly just recently learned that the Branches from Atlantic State Bank have never monitored their CIP program to ensure that their new accounts staff are actually obtaining what their CIP policy requires. Ms. Flynn is especially concerned since a recent audit reflected significant deficiencies in accounts that were recently opened for new customers. In addition, Ms. Flynn’s auditors found several CIP deficiencies in Pacific State Bank’s new accounts. Though not as significant, it is enough for her to be concerned. Therefore, Dol Flynn is planning a complete revision of the CIP program.

Dolly is planning to roll out a new program with very detailed procedures regarding what steps each new account person is expected to take when validating certain information. Ocean National Bank is now utilizing a third-party verification system so that the following elements are verified for each new individual:

- Tax ID Number Verification
- Name Verification
- Address Verification
- Date of Birth Verification
- Driver’s Licence/State ID Verification
- Phone Number Verification

Dol is particularly concerned as to what procedures new account employees taken when the third party vendor generate discrepancies with the date the bank provides and the data they have on file.

BREAK OUT SESSION: With one or two partners, complete the following:

1. Discuss what steps would be needed to establish a formal and consistent program to address instances where the third party provides the bank with a warning that some of the entered data does not match the data they have in their records.
2. Discuss what additional steps may need to be taken in certain cases, such as what additional due diligence may be needed. Discuss instances where the account should not be opened.
3. Consider the appropriateness of allowing an exception waiver program and discuss how this may be incorporated into the CIP workflow. Which items would allow exceptions?

FinCEN 314(a)

Overview. BSA Officer Flynn would like to next establish a formalized program for reviewing FinCEN 314(a) lists.

Case Study 4. FinCEN 314(a) Process

The recent internal audit also identified several deficiencies related to 314(a) searches. The first issue identified was that the Bank is currently not monitoring Monetary Instruments purchased by non-customers against the list. In addition to this deficiency identified in the audit, Ms. Flynn recently discovered a few other deficiencies as follows:

- ONB now operates two separate mortgage departments and each of these departments utilize their own unique processing system, which means that their customers are not found on the Bank's core system. As ONB currently only runs the FinCEN list against the core system, none of the customers found on the mortgage department's servers would be verified against the list as they do not utilize the core system.
- The trust department for ONB also utilizes separate systems, one for each bank. While each bank has their own system, there are three centralized employees that do work for both trust departments. Both of these systems are not integrated with the core system and, therefore, do not appear to be complying with the FinCEN 314(a) validation requirements.
- The bank's core system does host all deposit customers (outside of the Trust area), portfolio and commercial loans, and safe deposit boxes.

BREAK OUT SESSION: In groups of one or two, work as a team to draw out a workflow that formalizes the FinCEN 314(a) program of the Bank so that no gaps are overlooked. Be sure to include all applicable areas such as wires, monetary instruments, and safe deposit boxes.

High Risk Customer Monitoring

Overview. Dol Flynn has talked to her boss, President Gray T. White, about purchasing and implementing an automated system for account monitoring. President White, however, does not want to spend the money and feels confident that BSA Officer Flynn has the abilities to implement all of the needed components of a BSA program. As Dolly Flynn is establishing a Premier BSA Program, she is planning to formalize her manual monitoring system for high-risk customers.

Case Study 5. Monitoring Program

As the Ocean National Bank does not have an automated account monitoring program, Dolly Flynn is implementing a manual system to monitor the activity of high-risk customer accounts. To accomplish this, Dol must consider the following:

- What levels of risk the organization is going to identify (e.g. High, Moderate, Low)
- What frequency of review will be performed for each level of risk
- How high-risk customers are going to be identified and added to the review program
- How SAR consideration should be incorporated
- Instances when a high-risk customer may be removed from the program.

BREAK OUT SESSION: With one or two partners, work as a team to:

- Discuss what steps Dol should take for establishing a manual high-risk customer monitoring program.
- Discuss both effectiveness and efficiencies of different approaches to developing the program.
- Draft out a basic workflow of what a high-risk customer monitoring program could look like.

Section 3: Building a BSA Policy

The final step in establishing a Premier BSA Program is to clearly formalize the program into a formal, board-approved, policy. As each financial institution already has an existing BSA policy, we are not going to spend a significant portion of this course discussing the specifics of creating a BSA policy. However, it would be beneficial for each attendee to take some time to reflect on the information learned thus far in the course and plan how you will work to update your BSA Program.

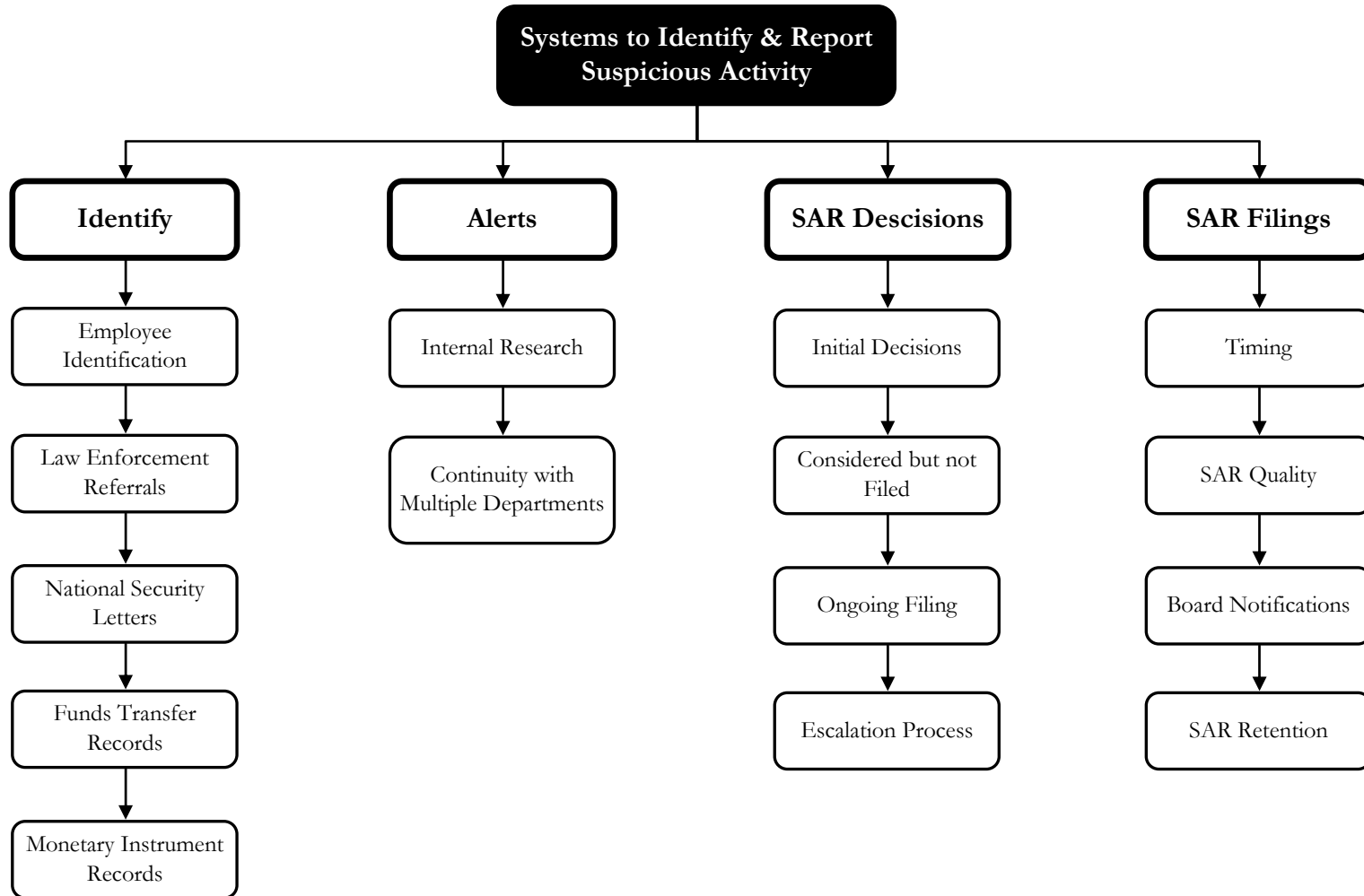
REFLECTION SESSION: By yourself, consider the following:

- What gaps have I identified in my program that prohibit my program from becoming a Premier BSA Program?
- What high-risk areas will provide the greatest impact after enhancements are made?
- What other items have I learned in this course that I can utilize to enhance my BSA program to a Premier BSA Program?

Appendix A: Workflow Examples from Case Studies

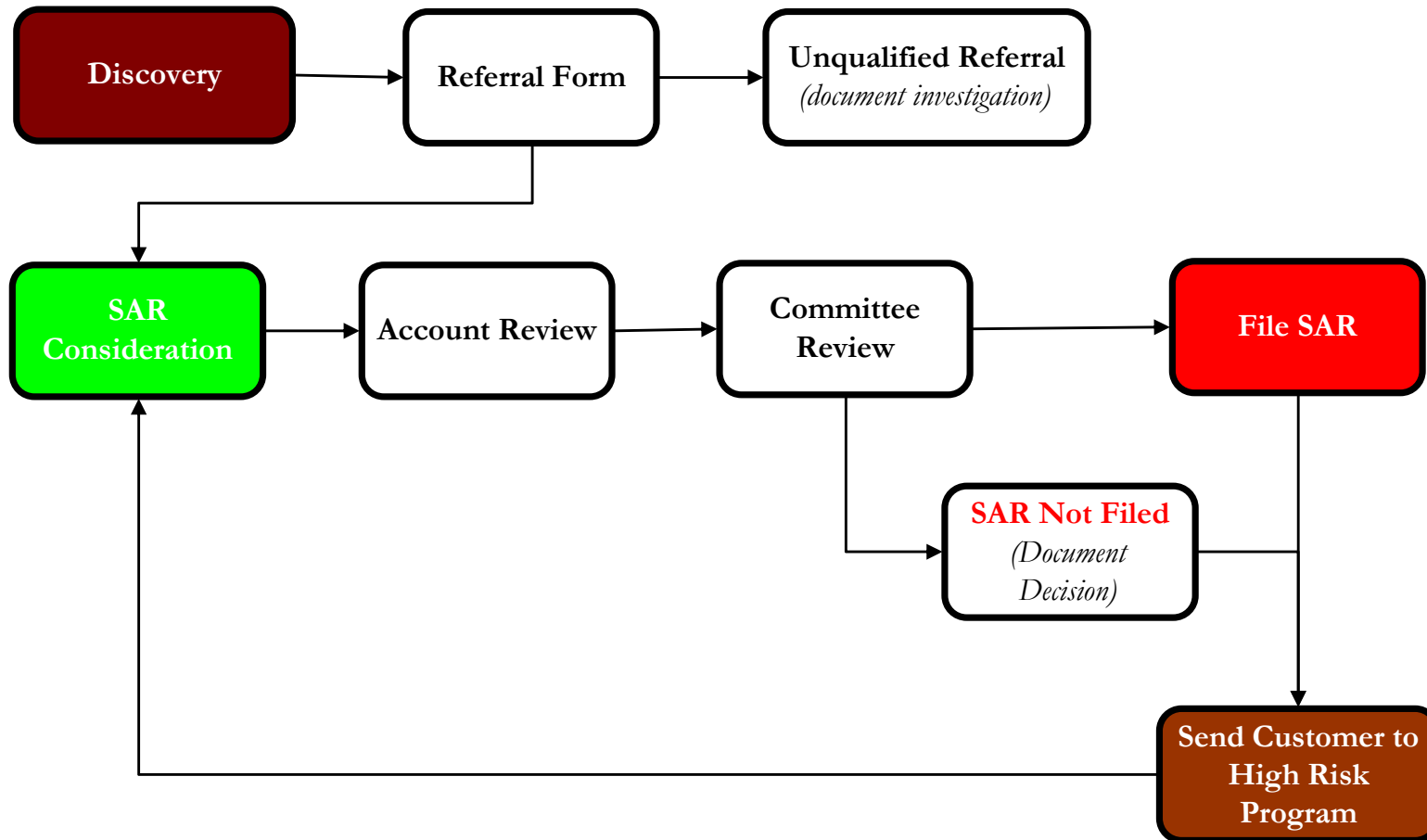
The following charts are examples of what the workflow chart could look like, based on the case study of the imaginary bank discussed in Section 2 of this module. It is important to understand that each financial institution is different. Therefore, these examples will not be appropriate in some institutions. These examples, however, are intended to help one understand what a workflow chart for each applicable are could look like.

Systems to Identify Suspicious Activity



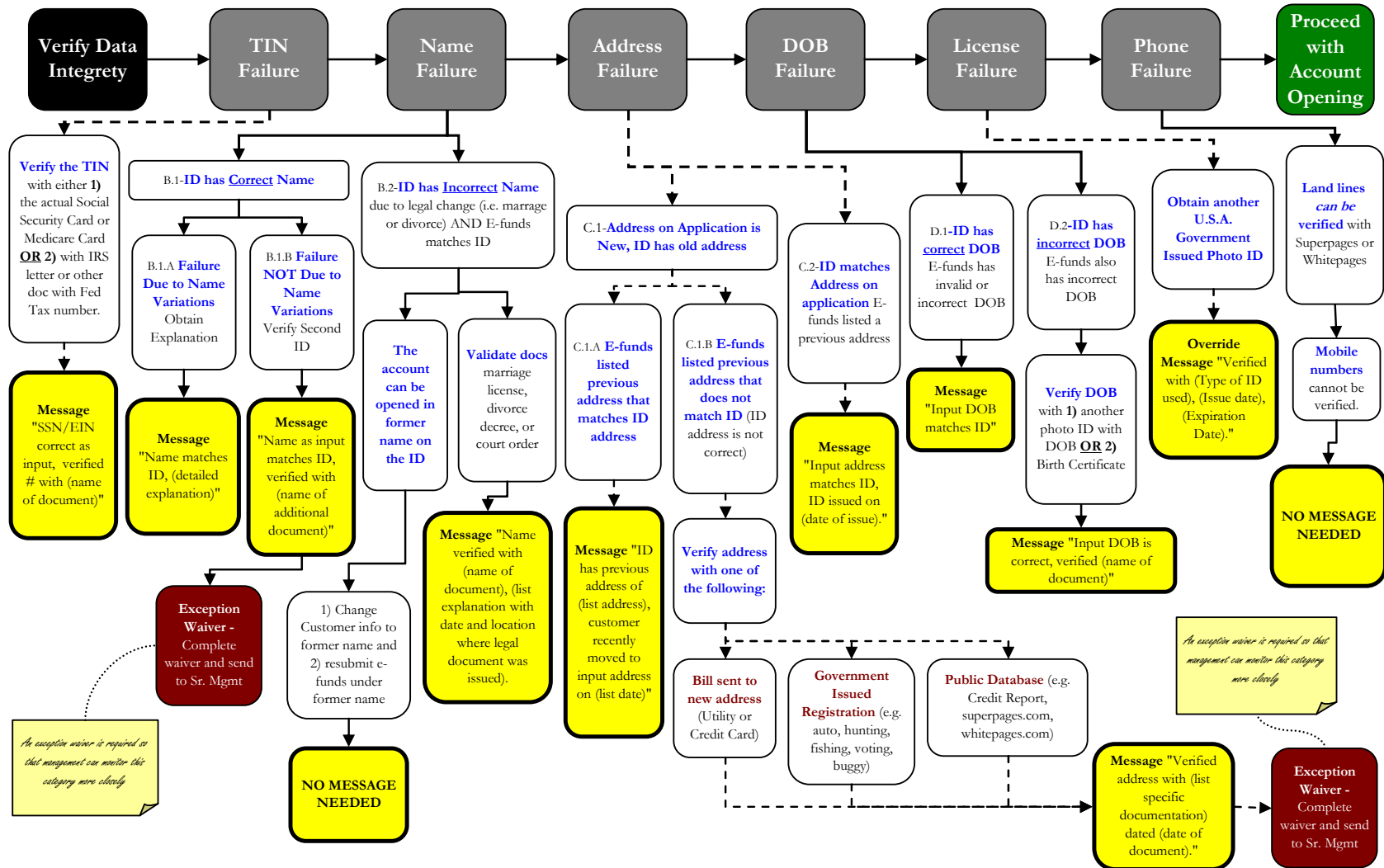
Case Study 2 – SAR Referral Form

Suspicious Activity Monitoring Program

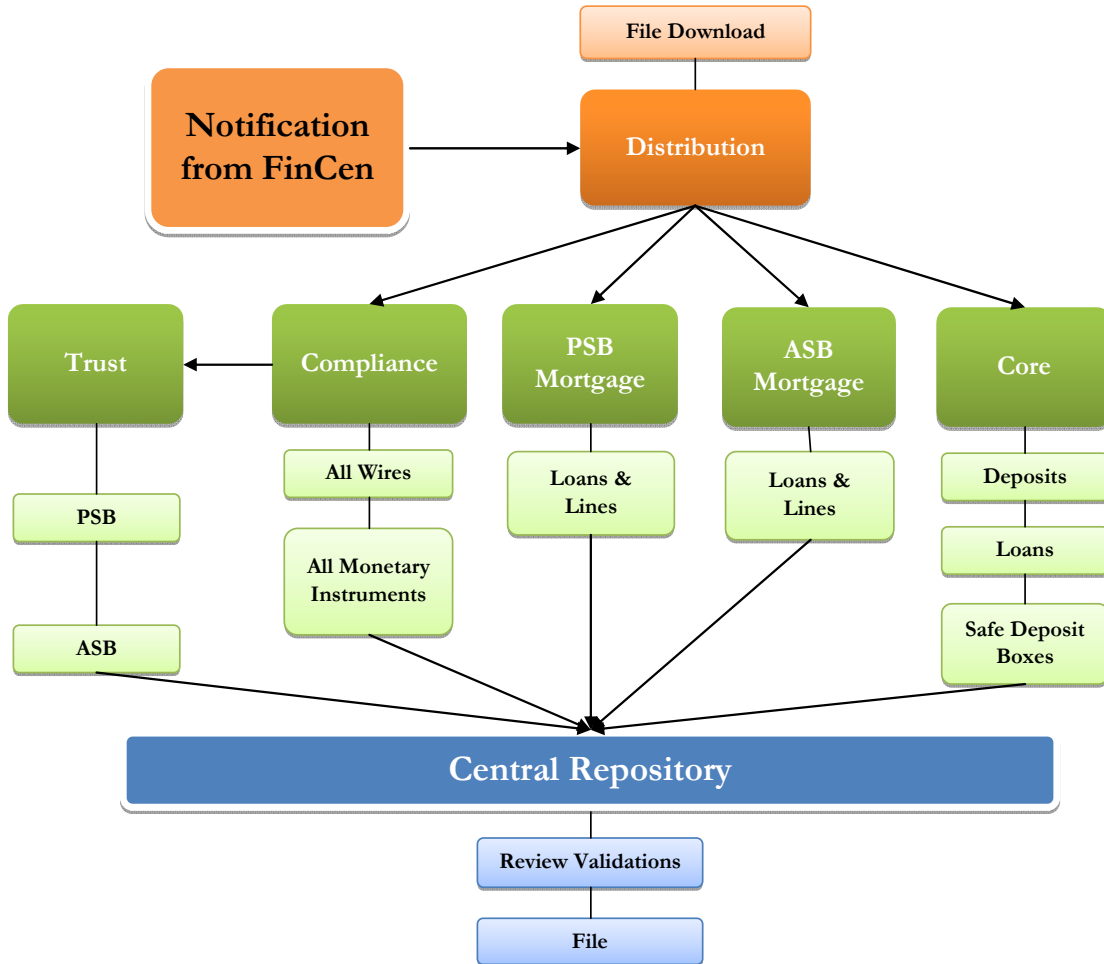


Case Study 3 – Customer Identification Program

PROCEDURES FOR CIP FAILURES

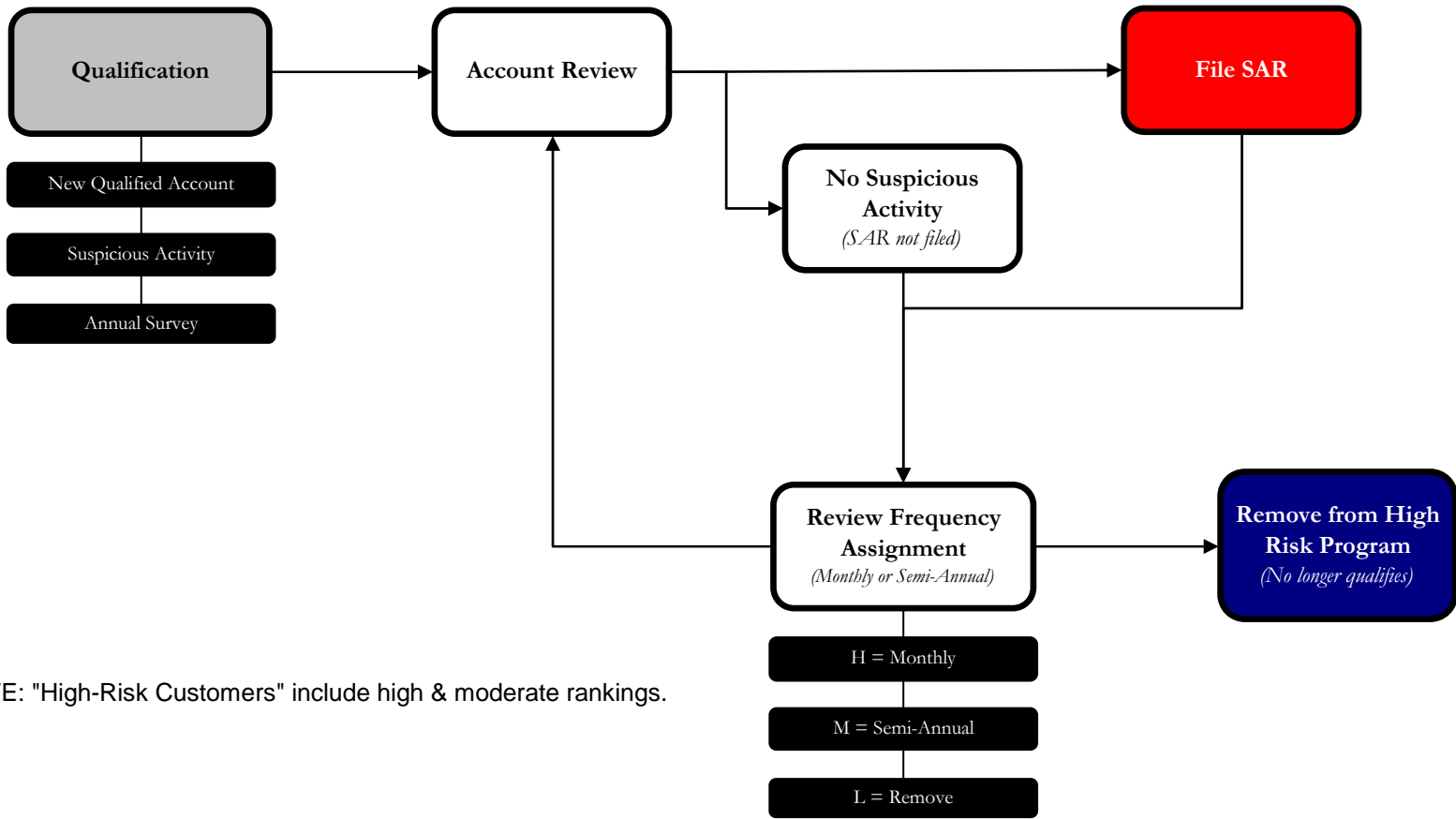


FinCen 314(a) Verification Program



Case Study 5 – High Risk Customer Monitoring

High Risk Customer Monitoring Program



NOTE: "High-Risk Customers" include high & moderate rankings.