

BSA/AML/CFT in the Hot Seat

Prevent Enforcement Actions and Protect Profits

Kristen Stogniew, Esq, Shareholder
2024 BankChat

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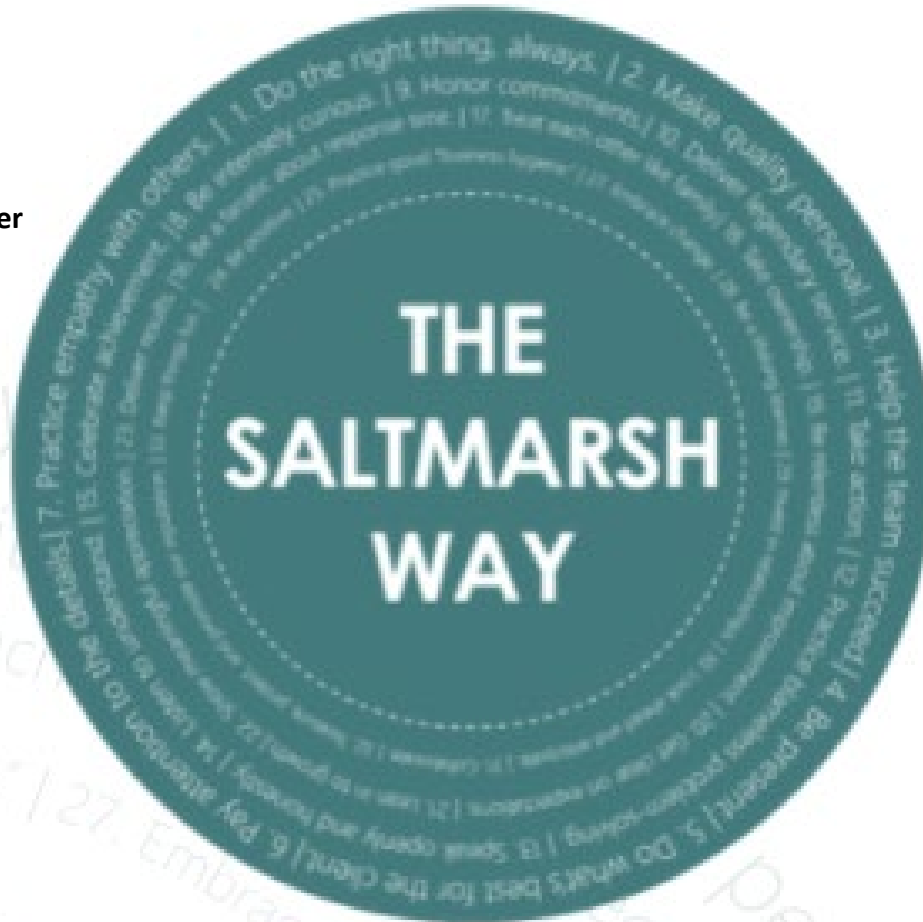
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Saltmarsh's FI Consulting practice received "World Class" Net Promoter Scores the last 4 years



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Recent BSA-related Enforcement actions

- 3/21/2024 – FDIC consent order against The Exchange Bank (\$130 million) Skiatook, Oklahoma
- 2/21/2024 – FDIC consent order against River Bank & Trust (\$3.23 billion), Prattville, AL for BSA violations
- 1/31/2024 – FinCEN removes and fines BSA officer of failed \$1.8 million NYSEFCU 5 years and \$100k for BSA violations, including failure to register his MSB (he was CEO/Chair) and failure to file SARs on bulk cash and checks from Mexico.
- 1/29/2024 – FDIC Issued consent order against First Farmers and Commercial Bank (\$211 million), Pikeville, TN, for BSA violations. IN addition to typical, requires succession plan for key members of management.
- 1/24/2024 – OCC enters agreement with BaaS Blue Ridge Bank, NA, requiring compliance committee, BSA/AML Action plan, third party risk management, BSA risk assessment, BSA audit plan, assessment of compliance personnel, policies and procedures for CDD, EDD and high risk customer identification, suspicious activity monitoring and reporting (including model validation), and a suspicious activity lookback review (and other IT-related).
- 1/21/2024 – OCC issues \$65 million CMP and consent order against City National Bank, CA (\$93.4 billion), requiring BSA/AML internal controls, risk assessment, and CDD program (among other things).
- 12/28/2023 – FDIC orders Bank of Morton (\$77 million total assets) to pay \$600,000 for failing to comply with June 2020 Consent Order (bank has since been acquired).
- 12/28/2023 – FDIC issues consent order against First & Peoples B&TC, KY (\$226 million), targeted to BSA/AML/TF weaknesses in third party risk management program.
- 12/20/2023 – OCC issues \$30k CMP and consent order against VP/Branch Manager/Loan officer of Midstates Bank N.A., IA (\$653 million) for conflict of interest and breach of fiduciary duty. He was loan officer for loans to borrower from whom he received an interest-free personal loan, owed an outstanding debt, and pursued investment opportunities with the borrower. He did not disclose his personal dealings until after the borrower defaulted.
- 12/18/2023 – FDIC issues consent order against **Choice** Financial Group, ND (\$4.97 billion), requiring Board supervision; revised AML/CFT Program and Risk Assessment; internal controls, including CIP, CDD, SAR monitoring and reporting; and a lookback review of all customers onboarded through any TP relationship; AML system validation; assessment of AML/CFT staffing and resources; independent testing; and training.
- 11/20/2023 – FDIC issues consent order against Brighton Bank, TN (\$59.7 million), to improve BSA pillars
- 11/14/2023 – OCC issues consent order against B2 Bank, NA, MN (\$71 billion), to improve pillars re: its affiliate marketing programs, with potential for
³ lookback to accounts opened with risky non-documentary methods

2023 BSA Enforcement actions - continued

- 11/7/2023 – FDIC issues consent order against Peoples Bank, IN (\$2.11 billion), same as Choice above except broader lookback review scope
- 10/16/2023 – FRB/State fines Metropolitan Commercial Bank, NY (\$7.07 billion) \$29.5mm for CIP and vendor risk deficiencies.
- 9/23/2023 – FDIC, State and FinCEN fine Shinhan Bank of America (\$1.75 billion) \$25mm
- 9/19/2023 – FDIC issued consent order against Citizens B&TC, IN (\$168 million), same as Choice above except broader lookback review scope
- 9/15/2023 – FinCEN fines Puerto Rican IBE \$15mm for willful BSA violations
- 9/11/2023 – FDIC issues consent order to Loyal Trust Bank, GA (\$199 million), same as Choice above except broader lookback review scope
- 6/29/2023 – OCC issues Formal Agreement with The National Iron Bank, CT (\$301 million) re: (among many things) BSA pillars, including lookback
- 6/20/2023 – OCC issues consent order against California International Bank, NA (\$56 million) requiring assessment of pillars
- 5/25/2023 – OCC issues consent order prohibiting Wells Fargo employee who submitted fraudulent EIDL loan application, stating her business had 11 employees and \$90,000 in revenue from employment at an insured bank, credit union, etc.; she received \$10,000 advance and \$27,500 in EIDL funding.
- 5/24/2023 – FDIC consent order against Israel Discount Bank of New York (\$12.2 billion), same as Choice above except broader lookback review scope
- 4/25/2023 – FinCEN fines Kingdom Trust Company \$1.5mm for BSA violations
- 4/7/2023 – OCC issues \$25,000 CMP to CEO/Director of Capital Bank of Texas, NA (\$592 million) – As account officer for the largest of several entities affiliated with a Bank customer, he approved millions of dollars in average uncollected funds including personally approved NSF checks written by the customer (which were usually covered by deposits the same day) even after communicating with customer’s CFO, the bank’s Fraud Officer, and the bank’s Chief Lending Officer. Did not take additional steps or direct others to take additional steps to determine if activity required further investigation. Check kiting scheme was discovered 8 months later.
- 2/9/2023 – OCC issues consent order against Lake Shore Savings Bank, NY (\$725 million) for BSA pillars, including lookback and model validation.
- 1/17/2023 – FDIC issues BSA (and IT) consent order against Ashton State Bank, NE (\$55 million) related to payment system affiliate and debit card program.

1. The Board must immediately **enhance its oversight** of the Bank's AML/CFT Compliance Program and assume full responsibility ...
2. The Bank shall **revise its written AML/CFT Compliance Program**, including policies and procedures ...
3. The Bank shall **conduct a Risk Assessment** that includes a review of the deficiencies identified in the Exam...must be documented and weigh all relevant factors that affect the overall money laundering, terrorist financing, and other illicit financial activities risk profile of the Bank including...identification and measurement of the specific risk characteristics of and within the Bank's business activities such as products, services, customer types, affiliates, and geographic locations....Ensure that risk ratings are accurate and **well-supported by qualitative and quantitative data.**
4. Conduct **CDD for new customers and ongoing CDD for existing customers**...The level of due diligence should be **sufficient to understand the nature and purpose** of the account...including the **anticipated type and volume of account activity** and the **customer's products and services** and their geographic reach...

5. Define responsibilities with regard to customer risk profile changes...Establish guidance for resolving issues relative to insufficient or inaccurate information that prevents the Bank from understanding the nature and purpose of the account to perform customer due diligence...Ensure the bank's compliance with CDD requirements is included in independent testing.
6. Collect and verify beneficial ownership information on any customer accounts for which such information has not been collected and/or verified and develop policies and procedures to address accounts when the Bank is not able to form a reasonable belief that it knows the true identity of a customer or if the Bank does not receive the required information.
7. ...provide for periodic reports that address the review of internally identified Higher Risk Accounts and monitoring of AML/CFT reporting systems to ensure the appropriate filing of SARs. Such reports shall be provided to, and reviewed by, the Board at each Board meeting...

8. The Board and management shall develop and implement systems across all business lines for monitoring and detecting unusual or unexpected activity to enable the Bank to investigate, and if applicable, file timely reports of suspicious activity.
9. The program for the automated software (must) address the specific risk profiles of the Bank's customers...including, but not limited to, cash transactions, international and domestic wire transfers, ACH originators, and internally identified Higher Risk Accounts... and is sufficient to allow for aggregation of transactional data across customer relationships, products, and services.
10. Ensure that related accounts are discussed in the SAR filing; that a detailed, accurate, comprehensive, and readable narrative description of the activity is included in the SAR filing...assesses the customer information it has collected in connection with its Customer Due Diligence Program in determining whether to file a SAR; and file SARs within the prescribed timeframe...and provide for ongoing monitoring of an account and customer relationship across all products and services.
11. Test the SAR program for accuracy and completeness through independent testing immediately after its implementation and thereafter at least annually.

11. (T)he Bank shall retain a qualified bank consultant to develop a written analysis and assessment of the Bank's AML/CFT staffing needs ("AML/CFT Staff Report") for the purpose of ensuring the Bank's staffing resources are sufficient and the Bank employs AML/CFT staff with the requisite ability, experience, and other qualifications that align with Bank's Risk Assessment described in paragraph 3 of this ORDER and to ensure compliance with AML/CFT Rules...The Bank shall provide the Supervisory Authorities with a copy of the proposed bank consultant engagement letter or contract for review before it is executed....
12. Periodically thereafter, but no less often than annually, the Bank shall assess its AML/CFT staffing needs in conjunction with its annual Risk Assessment to ensure adequate and appropriate AML/CFT staffing resources are in place at all times.
13. (T)he Board shall designate a qualified individual or individuals ("AML/CFT Officer"), with sufficient executive authority and adequate and appropriate resources to effectively implement, coordinate, and monitor the Bank's day-to-day compliance with AML/CFT Rules and to administer all aspects of the AML/CFT Compliance Program and the Bank's compliance with this Order.

14. Within thirty (30) days from the effective date of this ORDER, the Bank shall identify a qualified individual that is independent of the Bank's AML/CFT department, or an independent, qualified firm acceptable to the Supervisory Authorities, to conduct a review ("Look Back Review") of all accounts and transactions identified in the Exam Report that were not monitored adequately as well as all Higher Risk Accounts and higher risk transaction activity, as determined by the bank and individual(s) conducting the review, that includes returned checks and positive pay mismatches for **(27 months)** to determine whether suspicious activity was properly identified and reported in accordance with the applicable suspicious activity reporting requirements..
15. Upon completion of the Look Back Review, the Bank shall submit to Supervisory Authorities a copy of the Look Back Review and copies of any additional SARs and Currency Transaction Reports ("CTRs") filed as a result of the Look Back Review. Following review of the Look Back Review, the Supervisory Authorities will notify the Bank within 30 days if findings warrant an additional period of look back.

Staffing Discussion

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Kristen Stogniew, Esq, Shareholder

May 2024

	6 Banks over \$1 billion		6 Banks under \$1 billion	
Bank	Mean/Average	Median/Middle	Mean/Average	Median/Middle
Assets (\$000)	2325	\$ 2,320	515	\$ 533
Locations	14	\$ 11	5	\$ 4
BSAO experience years	11	\$ 11	11	\$ 11
Total BSA FTE (total hours/1960)	4.7	4.0	1	\$ 1
BSA+Fraud/FTE	1.7%	1.3%	0.0	0.0
High risk customers (1)	186	\$ 218	68	\$ 20
% of Customer base that is HR	0.56%	0.42%	1.14%	0.42%
frequency of HR reviews/year	3.00	4.00	4.33	3.00
Time for each HR review-Average hours	1.89	1.50	2.75	1.50
Account fraud alerts/month	664	525	287	194
per alert - minutes	21	15	23	17.5
BSA/AML alerts/month	187	115	50	38.5
per alert - minutes	25	15	25	15
Card fraud alerts/month	42	38	34	24.5
per card fraud alert - minutes	7	5	8	6
CDD/EDD alerts/month	369	76.5	69	37
time for CDD/EDD alert - minutes	29	17.5	33	15
Watchlist Alerts/month	45	27.5	27	21.5
time per Watchlist alert-minutes	5	5	3	3.5
Cases investigated /month	41	21.5	15	5.5
time per case- minutes	165	75	225	60
SARs filed /month	11	6.5	4	1.5
time per SAR - minutes	115	75	150	75
CTRs filed /month	117	41	32	24
time per CTR minutes	27	15	23	17.5
% Coverage on just CDD/EDD Verafin	1.58	1.25	2.02	1.52
Additional hires needed for Alert Mgmt	-0.17	-0.28	-0.11	-0.28

Additional duties - hours per month	6 Banks over \$1 billion		6 Banks under \$1 billion	
CIP/New account review and verification	29	20	47	46
Wire transfer analysis	7	5	2	1
Monetary Instrument sales analysis	3	2	3	2
ACH Analysis	6	2	3	1
Review of lending activity outside of verafin	4	2	1	1
314(a) response	1	1	1	1
Responding to subpoena or other contact with Law Enforcement	3	2	1	1
BSA or Fraud staff Training	4	4	5	5
Institution / Line of business BSA or fraud training	2	1	1	1
Risk Assessment	2	1	1	1
Board reporting, training and other attendance at Board/Committee meetings	5	3	3	3
Representing BSA at an internal meeting, new product, etc.	8	3	3	3
Support to line of business	23	19	18	18
Trust department/affiliate review or support	1	1	-	-
Mortgage department/affiliate review or support	1	1	1	1
Internal reviews or staffing assessment	4	2	2	2
Work with external auditors / independent test	4	3	3	3
Work with regulators	4	3	2	2
Work with core or AML system vendor(s)	8	3	2	2
Follow up on testing or exam findings	5	4	2	2
Change management	1	1	2	2
Third party risk management	1.79	1.08	0.00	0.00
Additional hours per month	87.59	74.86	55.25	63.85
Additional hours, per year	1,051	898	Not sufficient data/ only 2 answered in detail.	
% Coverage on all duties	89%	57%		
Total Additional Staff required	1.93	2.01		

Anatomy of an AML/CFT Investigation

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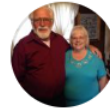
Kristen Stogniew, Esq, Shareholder

May 2024

Trigger

1. Manager called.....lady is doing weird stuff.... Retired woman in her 70s....Opened a New account....deposited a \$22k cashier's check.... She withdrew the funds as soon they were available...She told the bank she needed the money to sell her husband's antiques
 - Look at check: Was drawn on a personal account from a CA credit union
2. Received email from another local bank...Watch out for this lady....She told them she needed the money to settle her deceased mother's affairs....Later she told them she needed money to move her mother in.
 - Research on Facebook...

16. Following the effective date of this ORDER, the Bank shall send to its shareholder(s) or otherwise furnish a description of this ORDER in conjunction with the Bank's next shareholder communication and in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. The description shall fully describe the ORDER in all material respects.



Viola Monger Suddarth



September 7, 2019 · 🌐

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\$200

Collection of porcelain cats

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7 💬

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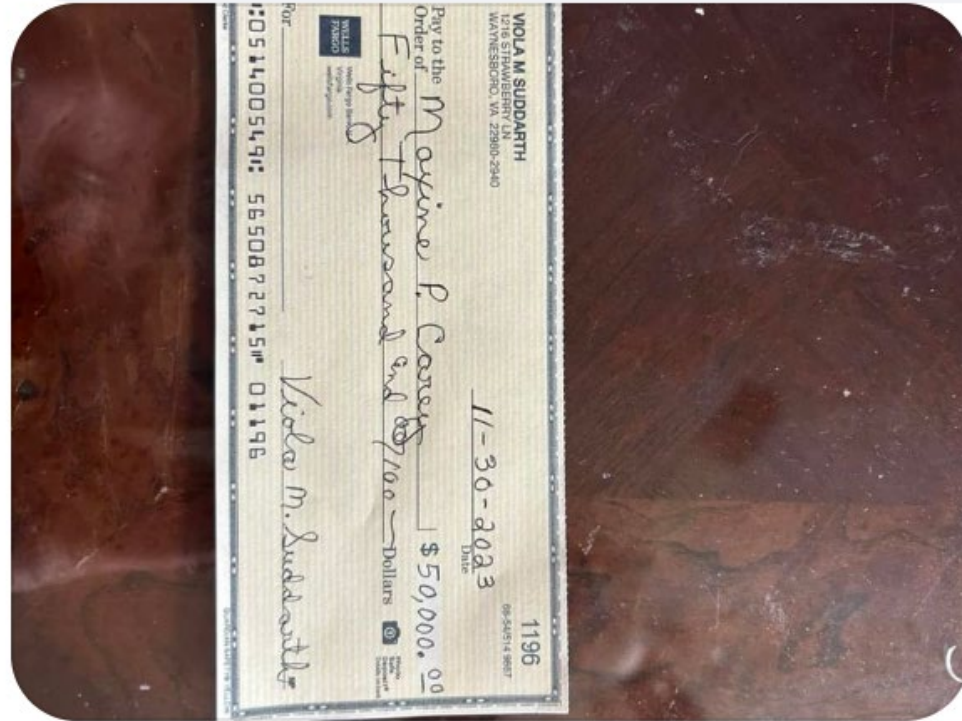


18w Like Reply



Charlotte Wierck

You need to quit scamming my mother



18w Like Reply



Maxine Poe Carey

Viol this is Maxine P Carey received your check! Taking it to My bank. We are both victims of fraud. God Bless you. !! I have been to HELand back several times. Do not give anyone money because you are not going to get anything. I will be 89 in March. Not cashing uour Che k! Hope you have a Happy rest Year 🌈🙏🙏



18w Like Reply

November 30, 2023

Maxine P. Carey
1700 W. BelDon
Sherman, TX 75092

Please DO NOT attempt to cash this check BEFORE you talk with James Freeman, Major Manager at Publishers Clearing House. His telephone number is (773) 599-3822. This is very important.

Thank you very much.

Viola Suddarth

Encl.

3. Bank did 314(b) on the CA Credit union...They were beside themselves with all the money the drawer had paid out in checks...He was being scammed by multiple people.
4. Branch Manager found a court case...Client is on 12-month probation for embezzlement from her previous employer.

On Social media – Before clicking into LinkedIn, set your account to Anonymous, so you cannot see who is looking at you, **nor can they see you looking at them.** **BETTER** **YET**, open a new anonymous account.

What are YOUR investigation processes?