

AML Audit Expectations – Managing Corrective Actions

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Anti-money laundering programs are chock full of essential and complex elements required and needed to manage compliance. The findings, issues or recommendations resulting from AML compliance reviews and examinations, regulatory or independent, require action and often have time frames associated due to the risk exposures that exist. Whether the firm is out of compliance or simply implementing best practice recommendations for enhancement, getting those corrections fully integrated will be the focus of the AML compliance team in order to meet the expectations of the Board of Directors/Senior Management and the regulators.

A Call to Action

Managing corrective actions – complex or simple – requires effective planning, project management, and cooperation and collaboration among colleagues. Compliance issue management is a process that begins with issue identification and ends with the verification of a fully tested and sustainable¹ outcome and, finally, closure.

Depending on the complexity of the finding(s), outside assistance from a specialist provider may be required and this can take more time than perhaps internal personnel capabilities. The first course of action is to prepare an Action Plan and identify the risk priorities, followed by the strategy to apply remediation steps and arrange who will lead and collaborate. Let's explore each of these important components and how the compliance team might tackle the issues.

Confirming the Finding

When the examiner or reviewer comes to call and the final report reveals issues or findings of weaknesses in your AML compliance program, firms must get out in front to manage it. Among the first steps is to ensure that the findings are clearly written and accurate, material and actionable deficiencies. The following examples illustrate



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an action list as the outcome of an independent review and the other a regulatory exam:

Example 1: Independent Review Findings

Item	Findings	Risk
1	Senior Management Training Provide specialized training around the risks faced in the various business lines.	Medium
2	Independent / Regulatory Exams Track all findings from regulatory examinations and independent reviews as well as corrective actions taken. Self-test once actions are implemented and periodically to ensure long-term sustainability.	Medium
3	Due Diligence / Enhanced Due Diligence Conduct enhanced due diligence on high-risk customers and activities and document to the file.	High
4	Suspicious Activity Monitoring Fine tune alerts and reset filters to ensure timely escalations for review and investigation.	High

Example 2: Regulatory Exam Findings

Exception	Details
The member organization was not in compliance with 31 CFR 1023.220 Customer Identification Programs for broker-dealers and FINRA Rule 3310(b) Anti-Money Laundering Compliance Program.	Subject Firm failed to adequately establish and implement a risk-based approach to the opening and approval of new customer accounts. Specifically, for 42 of 60, or 70% of, customer accounts selected for review, staff noted the firm failed to adequately verify the identity of new customers.

Planning the Strategy

The compliance team will identify the strategy around how the firm will address a corrective action plan and related steps that will include responsibilities and timings. In some cases, the team shares the proposed actions with a group of personnel who are affected by the change and make adjustments to the plan based on feedback from the group. The team will direct and oversee the implementation based on the plan, systematically report progress on the implementation, and regularly compare new measurements with problem statement measurements. The implementa-

tion step is where sustainability hangs in the balance, and sustainability is the goal.

Responding to Findings

The independent review findings do not require a written response to a third party provider; however, management will expect written responses.

In the world of regulatory examinations, a written response within 30 days of report issuance is appropriate for findings. Following the same structure, responses are typically written as follows:

Table 1.

Exception	Details
The member organization was not in compliance with 31 CFR 1023.220 Customer Identification Programs for broker-dealers and FINRA Rule 3310(b) Anti-Money Laundering Compliance Program	Subject firm failed to adequately establish and implement a risk-based approach to the opening and approval of new customer accounts. Specifically, in 12 of 22 customer accounts selected for review, staff noted the firm failed to adequately verify the identity of new customers.
Response	
The firm believes it has adequately established and implemented a risk-based approach to the opening and approval of new customer accounts. The accounts selected for review, as noted during the examination, have either been closed or restricted due to non-receipt of new account documentation. The firm has taken steps to strengthen its CIP, including conducting additional EDD during the account opening process by requesting from all foreign customer applicants, documentation verifying permanent address (e.g., utility bill) and documentation verifying employment (e.g., pay stub). For clients with no proof of employment, we are requesting a recent bank statement to verify source of funds.	

When regulatory examinations result in disciplinary action from the division of enforcement and a settlement is made between FINRA and the firm, the AWC is issued, signed and dated by the parties, and the firm issues a Corrective Action Statement. The firm states what actions it has taken to correct the findings in an effort to demonstrate their commitment and willingness to address regulatory concerns.

Creating the Corrective Action Plan

A Corrective Action Plan is typically drafted within 30 days of report issuance. Each specific step is then assigned a remediation date beyond the action plan date. Some firms just track by the action plan date, others track both the action plan date and remediation date. Validation is performed either on the Action Plan or on both the Action Plan and Corrective Steps as each date comes due.

What needs to be in the Corrective Action Plan? First, develop a spreadsheet to track each finding. Indicate the finding type, such as Requiring Management Attention, Technical, or Best Practice. Appoint an individual responsible for responding to each finding and ultimately providing corrective action, along with the due date.

Then, consider the risk level of the finding. Risk-ranking the finding will help to identify the severity and how swift an action plan to put against it, and it will also assist in applying appropriate time lines.

In the following example, we'll look at a finding by Internal Audit during their independent AML/BSA review at the firm. In this example of an action plan, the finding was "Inadequate Oversight of AML/BSA Processes" and one that is categorized as "requiring management attention."

Example 3: Corrective Action Plan

Description of Finding	Inadequate Oversight of AML/BSA Processes
Type	Requiring Management Attention
Finding Rating	High Risk
Action Plan Date	June 30, 2014
Plan	Develop and implement a process to effectively oversee the underlying processes that impact the AML/BSA Program

Noting the action plan due date, let's move on to the corrective steps.

Example 4: High-Level Corrective Action Steps

Item	Corrective Step	Remediation Date
1	Designate/Hire AML/BSA officer	07/30/2014
2	Identifying underlying processes that impact the AML/BSA Program	08/30/2014
3	Identify underlying applications that support each process identified	09/15/2014
4	Determine the reportable items for each of the underlying processes	
5	Determine the reporting functionality for each process supported by each of the underlying applications	09/30/2014
6	Establish a QA program that would conduct periodic testing and reporting of processes and applications	10/30/2014
7	Develop and provide periodic reporting to AML/BSA Officer, Compliance Committee, and Board of Directors	11/30/2014

Each step may include several deliverables that reflect sustainability of each of the steps, and these may include revised policies and procedures, training for appropriate personnel on the revised processes, change controls, key risk indicators, testing and senior management oversight.

Following implementation of the plan, an analysis of the effectiveness of the corrective actions will determine whether the remediated corrections are sustainable. Validating eliminates causes of issues, minimizes or prevents a recurrence and may identify opportunities for improvement. Some things to consider include:

- Does the corrective action address the root cause?
- Does the corrective action prevent recurrence of similar conditions due to similar causes?
- Has the corrective action been implemented as intended?
- Does the corrective action demonstrate endurance and sustainability?
- Has the corrective action introduced negative unintended consequences?
- Has the corrective action improved the program's performance?

Corrective actions that are not effective will require additional corrective action and may lead to recurring events. Therefore, it is of utmost importance to ensure sustainability.

Verification of Sustainability

Sustainability requires validation and requires key steps including actions to take and dates to apply. In Example 5 we take a look at one aspect of the corrective steps illustrated in Example 4 to view validation steps.

It will also be important to establish monitoring or auditing processes to ensure the changes are anchored to the culture of the firm. For example, communicating the changes requires multiple channels, and removing obstacles and/or systems that undermine change will ensure a successful implementation.

Conclusion

To recap, an effective and simple approach can include:

- Confirm the Finding
- Plan the Strategy
- Respond to the Finding

Example 5: Verification of Sustainability Matrix

Factor	Action Plan Deliverable	Target Date	Action Plan Owner	Validation Action	Verification of Sustainability	Verify Date
Policies	Policies on internal processes	6/01/14	AML Team Lead	Obtain Policies	Has policy been approved? Has policy been communicated? Is policy being adhered to?	8/30/14

- Create Corrective Action Plan
- Implement the Corrective Actions
- Verify Sustainability

Regardless of the number or complexity of actions that a firm may face, managing corrective actions requires direction, discipline, and determination to reach the desired outcome. Each firm may have its own methodology but to be successful there must be an effective plan to convey the goals and objectives and the actions needed to achieve them.

ENDNOTES

¹ Sustainability refers to any control, group of controls, protocols or measures put in place that have been tested and meet a standard in which that control, protocol or measure will not fail or will not be breached. Validation steps will ensure that key steps include actions to take and dates to apply.

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