

How to Use This Manual

BSA/Anti-Money Laundering: Internal Audit and Risk Management is designed not only to assist you in preparing for your next BSA/AML examination, but also to assist you in developing a sound BSA/AML audit program that will help protect your financial institution from enforcement violations or from becoming a victim of criminal or terrorist activities. The manual is intended to help you write the procedures for assessing the risks associated with a host of financial institution activities, including specific regulatory requirements, products and services, identifying risk factors, mitigating risks, and conducting the related audits — all based closely on what the examiners are being asked to follow in the joint agencies' examination manual, *Bank Secrecy Act/Anti-Money Laundering Examination Manual*.

The agencies' examination manual provides a more detailed and unified approach to BSA exams. As a result, it is incumbent on financial institutions to put in place appropriate systems necessary to pass their next BSA/AML examination. The stakes are too high not to ensure that your institution is prepared.

Penalties for money laundering and terrorist financing can be severe. A person convicted of money laundering can face up to 20 years in prison and a fine of up to \$500,000. Any property involved in a transaction or traceable to the proceeds of the criminal activity, including property such as loan collateral, personal property, and, under certain conditions, entire bank accounts (even if some of the money in the account is legitimate), may be subject to forfeiture. Pursuant to various statutes, banks and individuals may incur criminal and civil liability for violating AML and terrorist financing laws. Banks can even risk losing their charters, and bank employees risk being removed and barred from banking.

How the Manual Is Organized

The manual combines both the core and expanded sections of the agencies' examination manual into one overall audit program for each area. First, we offer an explanation of the requirements of the regulation and the perceived risks for the function or bank department. In this section, we also include risk assessment and risk management tools such as checklists you can tailor to the specific needs of your financial institution. Then we offer an audit program that includes core and

expanded procedures, transaction testing, and, when appropriate, additional checklists for you to use during your audit.

All checklists and procedures, as well as the whole text of the chapters, are on the CD that accompanies this manual so that you can easily adapt procedures and checklists to your institution's specific circumstances. Also included on the CD is 31 CFR 103, which implements the Bank Secrecy Act so you can easily get to the sections that are referred to throughout the manual.

We divided the manual into five separate parts. **Chapters 1 and 2** provide a broad overview of what financial institution activities, functions, and departments are covered in your risk assessment and audit and how you can go about preparing for the risk-based audit. **Chapters 3 through 22** focus on the specific audit procedures used for three discrete areas: specific regulatory requirements, specific products and services, and specific persons and entities. Finally, we have included 31 CFR 103, 31 USC 53, and FIL-32-2005 in the **Appendices** so you can refer to them in conjunction with the checklists.