Frequently Asked Question and Answer
December 15, 2015

Question

Should the Remote Deposit Capture (RDC) service offered by financial institutions be encompassed in the scope of an annual Bank Secrecy Act (BSA) audit, and what should the focus of the review be?

Short Answer

Yes, the RDC service is encompassed in the scope of the required independent annual BSA review that financial institutions must perform due to the inherent risk involved. The inherent risks include the risks of abuse by individuals and businesses seeking to defraud financial institutions, along with the potential money laundering and information security concerns for financial institutions offering the service. Individuals performing BSA audits should concentrate the focus of the review of this service on controls financial institutions have in place to monitor transactions for the above concerns. Coverage of RDC risks in other areas should be considered in other audits covering the product.

Long Answer

Since RDC may expose financial institutions to various money laundering, fraud and information security risks, the Federal Financial Institutions Examination Council (FFIEC)'s 2014 Examination Manual suggests that financial institutions "develop appropriate policies, procedures and processes to mitigate the risks associated with RDC services and to *effectively monitor for unusual or suspicious activity".* A list of risk mitigation techniques are outlined in the Manual. Another reason to include the service within the scope of the BSA audit is the similarities between a financial institution's Enhanced Due Diligence in onboarding new business customers and the transaction testing the that FFIEC Examination Manual recommends. This includes a review of account opening documentation, comparing expected activity with actual activity and determining whether the activity is consistent with the nature of the customer's business, and identifying unusual or suspicious activity. Financial institutions should consider whether the customer is a long-standing client with effective management and close control of financial processes or a new customer whose business characteristics and transaction history are relatively unknown. Financial institutions should also evaluate the track record of any 3rd party vendors providing the service. Along with the Examination Manual, the Federal Deposit Insurance Corporation (FDIC) Supervisory Insights June 2009 publication and FDIC Financial Institution Letter 4-2009 provide additional guidance.

While the Examination Manual and the FDIC guidance discusses onboarding due diligence, the focus of the review from a BSA auditor's perspective should primarily be suspicious transaction monitoring and controls in place for such monitoring. A good portion of any BSA audit concerns itself with customers transacting with the financial institution (deposits, withdrawals, purchases of monetary instruments, loans, credit cards, etc…); the RDC service therefore is another deposit mechanism subject to scrutiny as any of the above areas. Most - if not all - RDC customers have already undergone one level of onboarding due diligence when their accounts were opened.

This may include Enhanced Due Diligence forms, risk rating, and the establishment of a monitoring schedule, all areas which should already be in the scope of a BSA audit. It is noteworthy that the FFIEC Examination Manual concentrates on determining whether the financial institution's systems for RDC monitoring for suspicious activity is adequate as one of the examination objectives in this area, along with comparing expected vs. actual activity, and a determination of the consistency of the transactions with the nature of the customer's business.

If you have any questions or need assistance with a BSA audit for your institution, please contact Brian Shea at bshea@wolfandco.com or Erica Torres at etorres@wolfandco.com.