

Compliance Management Systems

Developing a System That Meets Examiner Expectations



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Examination Expectations

- NCUA Supervisory Letter 17-01
- Board and Management Oversight
 - Commitment to the Compliance Management System (CMS)
 - Effectiveness of change management processes
 - Risk management – products, services, and activities
 - Self-identification efforts and corrective actions taken

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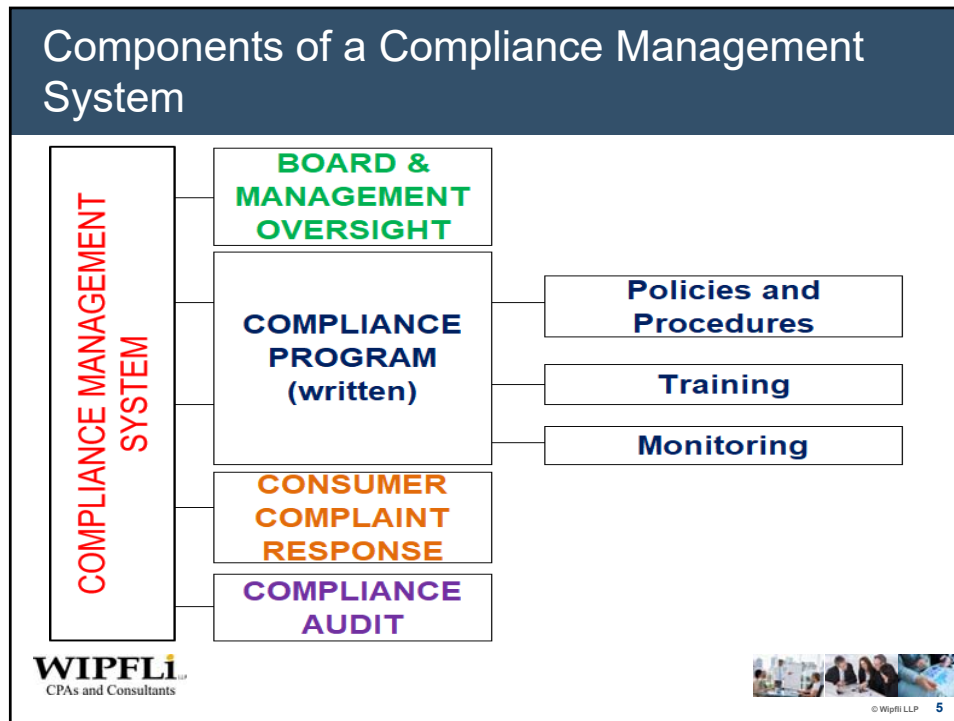
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Examination Expectations

- Compliance Program
 - Effectiveness of CMS
 - Policies, procedures, training, monitoring and audit, complaint resolution
- Violations of Law and Consumer Harm
 - Pervasiveness, root cause, severity of violation or consumer harm, duration

Compliance Management System

- System – *noun*
 - an assemblage or combination of things or parts forming a complex or unitary whole
 - an ordered and comprehensive assemblage of facts, principles, doctrines, or the like in a particular field of knowledge or thought
 - a coordinated body of methods or a scheme or plan of procedure; organizational scheme
 - any formulated, regular, or special method or plan of procedure



- ### Compliance Management System
- CFPB Examination Manual – Compliance Program
 - Establishes compliance responsibilities;
 - Communicates those responsibilities to employees;
 - Ensures that you incorporate responsibilities for meeting legal requirements and internal policies into business processes;
 - Reviews operations to ensure staff carry out responsibilities and meet legal requirements; and
 - Takes corrective action and updates tools, systems, and materials as necessary.
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Compliance Management System

One size
does **NOT**
fit all.



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Risk



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Board and Management Oversight

- Set clear expectations/set policy statements
- Appoint a compliance leader with accountability and authority
- Establish compliance function to set policies, procedures, and standards
- Allocate resources – commensurate with risk
- Address compliance issues and risks of harm
- Audits – including follow up
- Recurring reports



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Compliance Responsibility

- Appointment of an appropriately qualified and experienced chief compliance officer and provide for other compliance officers with authority and accountability
 - May or may not be full time
 - Management should have clear responsibility for compliance management, and compliance staff should be assigned to carry out the compliance function



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Compliance Responsibility

- Assessing emerging issues or potential liabilities
- Reporting to the Board
- Ensuring corrective actions are implemented
- Ensuring corrective actions are effective
- Ongoing training for Compliance Officer
- Sufficient time and adequate resources to perform job
- Job descriptions and performance evaluations

Policies and Procedures

- Determine whether a written policy or procedure is required
 - If so, ensure required information is included
- If a control weakness is identified, ensure written procedures are established
- Review and approve
- Keep the line bright between policies and procedures

Policies Versus Procedures

- Policies
 - “Big picture” documents
 - May be very short
 - Adopted by Board/Supervisory Committee
- Procedures
 - Focus on who, what, when, where, and how
 - Various lengths
 - Developed and implemented by management

Additional Documents and Processes

- Work Instructions
 - Very specific and detailed, and address a single task
- Quick reference guides, forms, and checklists
- Processes
 - Informal, unwritten actions to carry out a policy or procedure

Drafting Policies and Procedures

- Utilize standard structure
- Embed modification and approval dates
- Do not overcommit
- Consider using titles instead of names
- Include citations, when appropriate
- Be concise, use an active voice, use lists and bullets
- Note the existence of related policies/procedures

Drafting Policies and Procedures

- Customize sample policies/procedures, forms, etc.
- Maintain in organized manner and in one place
- Establish review schedule and ownership
- Track changes and consider a cover summary of changes

Training Is a Key Piece of a Compliance Program

- Train everyone, including directors
- Cover regulations AND institution's own policies and procedures
- Have a schedule
- Use various methods
- Maintain a training file
- Assess knowledge retention
- Refresh as things change



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Monitoring vs Auditing

- Monitoring – proactive approach to identify procedural or training weaknesses in and effort to preclude regulatory violations
- Auditing – independent assessment and validation of the system of internal controls, operations, and compliance risk management framework; may be performed internally or externally, as long as the individual(s) performing the audit is independent of the areas being audited
- Both should be risk based



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Monitoring vs Auditing

- Monitoring – management determines the scope and frequency of the monitoring
- Auditing – board determines the scope and frequency of the audit
- Monitoring - results should be reported to management and potentially the Board
- Auditing – results should be reported to Board
- Both - management establishes corrective action and follow-up procedures to verify effectiveness

Monitoring

- Monitoring comes in many forms
- It's performed at regularly scheduled intervals
 - Typically increases when concerns arise
 - Frequency may change due to staff turnover
- It may be performed by department or compliance staff . . . does not need to be independent

Monitoring

- Includes testing
- Includes reviewing disclosures, calculations, transactions, posted notices, marketing literature, third-party service providers, etc.
- Changes in regulations, business operations, products, or services should trigger a review
- Helps establish accountability
- Identifies procedural or training weaknesses through prompt identification and correction of weaknesses

Monitoring

- Compliance Officers should monitor employee performance to ensure that they are following established internal compliance policies and procedures
- Compliance Officers involvement in the planning, development, and implementation of business propositions increases the likelihood of success of the compliance monitoring function

Third-Party Services

- Board and senior management must ensure third-party operations, products, services, and activities are reviewed for compliance with consumer protection laws and regulations

Auditing

- Employs a formalized independent testing program based on a set schedule and risk-based scope
- Has schedule determined by a formalized risk assessment
- Tests the effectiveness of the Compliance Program
- Incorporates vigorous transaction testing
- Identifies noncompliance with laws and policy gaps
- Assesses if Board directives are being followed

Auditing

- Should make certain internal and external auditors are well-versed in compliance, and that the audit program is based on current law and regulation, as well as comprehensive in scope
- Complements monitoring activities

Monitoring and Auditing

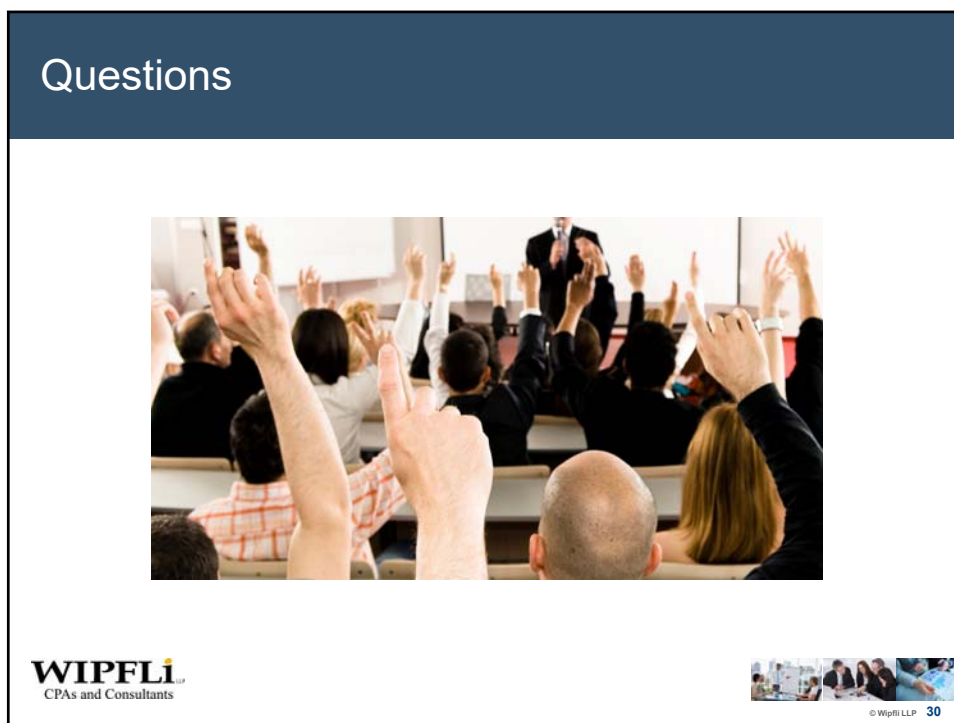
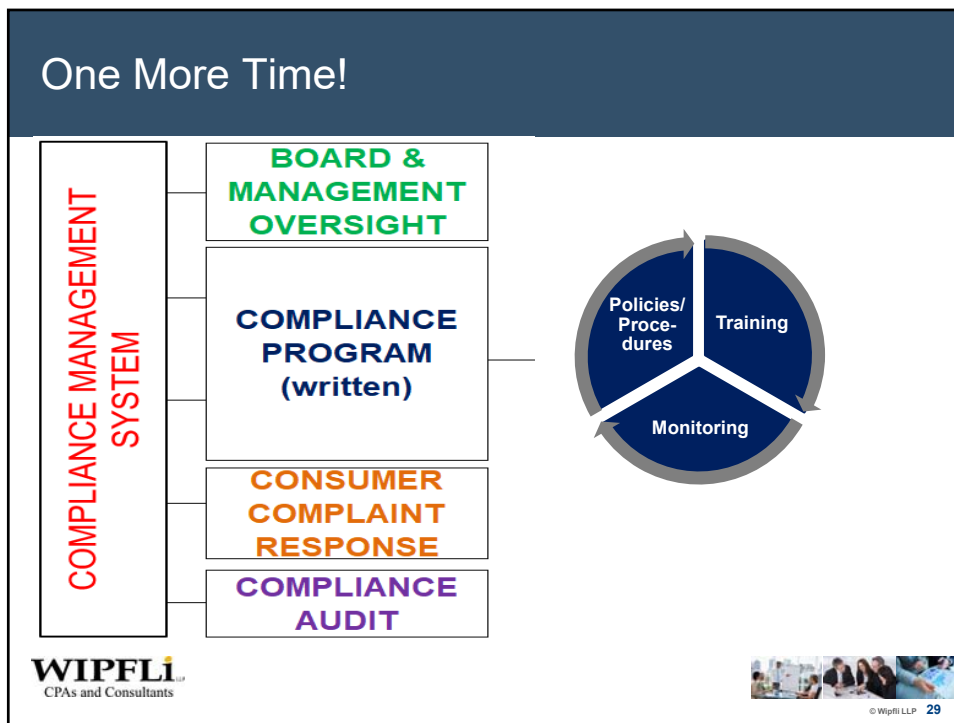
- What happens if you find something?
 - Fix it – immediately
 - Consider how consumer harm can be resolved
 - Determine root cause
 - Establish processes to ensure no repeat
 - P/P, training
 - Retest

Complaint Management

- Establish a system to manage complaints
 - Investigate and resolve
 - Respond
 - Ensure record retention
 - Follow up internally, including evaluating for possible violations of law
 - Analyze
- Use information to improve business practices

Pulling it All Together

- Its time for an exam!
 - Review the Examination Criteria
 - Be sure you have documentation to support all the components of the CMS
 - Communicate regularly with examiners
 - “Present” your CMS in a manner that clearly demonstrates its depth and effectiveness – sell it!



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