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Banking Network



BSA/AML 2020

IDENTIFY SUSPICIOUS ACTIVITY

FEBRUARY 11, 2020

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AGENDA

- Definition and Purpose of a SAR
- Suspicious Case Studies
- SAR Investigations
- Suspicious Activity Reports Requirements
- SAR Requirements
- FinCEN Numbers of SARs filed
- Penalties and Enforcement Actions
- Resources





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SUSPICIOUS ACTIVITY REPORTS (SAR)

SAR is required reporting to the Financial Crime Enforcement Network (FinCEN) by a financial institution when there is a suspected case of money laundering or financial fraud.

Suspicious transactions are varied and appear in many forms for example:

- Money laundering
- Terrorist financing
- Financial fraud
- Cash transactions fall under the required CTR reporting threshold
- Bulk transactions
- Transactions that don't match with expected volumes when compared to peer businesses or customers
- Unusually large number of wire transfers to high risk country
- Complex transactions indicating customer may be "layering" the funds to disguise source of funds





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PURPOSE OF SAR

SARs allow law enforcement agencies to identify and prosecute significant money laundering, financial crime and other illegal schemes.

- Data identifies emerging threats through patterns and trends.
- Data on SARs provides information to law enforcement on an existing case or to establish a criminal investigation.
 - For example: legal names, street address, email address, IP address, phone numbers, identification, bank account numbers, bank locations, types of instruments used, etc.
 - SARs identify and analyze emerging trends such as:
 - Business Email Compromise
 - Elder Financial Abuse
 - Internet Scams



SUSPICIOUS CASE STUDIES

EXERCISE: IS THIS SUSPICIOUS?

1. Unemployed homemaker receives ACH credits from PayPal aggregating to \$25,000 per month. She withdraws \$5000 in cash every Friday.
2. Customer sells his RV for \$60,000 in cash and proceeds to deposit \$6,000 in cash to his checking account for 10 consecutive days.
3. Professional NBA player withdraws \$100,000 in cash.
4. Liquor store owner has a private ATM on site at the store and requests \$5,000 in \$100 bills to replenish the ATM cartridge.
5. \$50,000 Escrow check is deposited by customer. Withdrawals of \$7,000 in cash conducted over 2 weeks totaling \$49,000. Client states he is remodeling his home.
6. College student opens a checking account with \$100 cash. Account is dormant for 3 months. On the 4th month total of 5 wires at \$9,965 each are received from the same originating bank in the Bahamas over a 10-day period by different originators. Student wires a total of \$45,000 to an unknown individual in Ukraine.



SUSPICIOUS CASE STUDIES

EXERCISE: WHAT WOULD YOU DO?

Mr. Jones is a retired engineer from Lockheed and has monthly direct deposit of his retirement pension in the amount of \$5,000 going to his checking account. He maintains an average balance of \$30,000 in his checking account and has a savings account with a balance of \$300,000. Other than normal monthly living expenses, there is no unusual activity conducted in his account.

One morning, Mr. Jones walks into the bank and requests a wire be sent to Malaysia for \$10,000 to an individual named Tammy Lin. Within the next 3 weeks, Mr. Jones has transferred funds from his savings account for the purpose of remitting funds to Malaysia for the benefit of Tammy totaling \$80,000.

The teller inquires why Mr. Jones is sending so much money to Malaysia and Mr. Jones shares that he met someone on the internet and Tammy is his fiancé. Tammy's mother is ill and their home needs repair, so he is sending funds to assist her.

What are the red flags and what would you do as an investigator?



SAR INVESTIGATIONS



Workflow Management:

1. Alerting: process of identifying potential suspicious activity through various means.
 - Business referrals
 - Transaction monitoring system through generated alerts for review



SAR INVESTIGATIONS



2. Conduct Financial Investigations

- a. Investigative mindset: understand crime problems, risks and vulnerable factors, understand reasonable factors, etc.
- b. Follow bank's policy and procedures
- c. Case management system
- d. Investigative tools
- e. Documentation





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SAR INVESTIGATIONS

3. Investigative Follow-up

a. Validation of activity

- i. Reasonable or out of pattern & not normal

b. Vigilance, is there more to the case

c. Follow-up with business line for additional information

- i. Business line or customer becomes intimidating with line of questions presented
- ii. Maintain composure and focus





SAR INVESTIGATIONS

The analyst or investigator that reviews suspicious activity should approach their work in a systemic and consistent manner.

The investigation process should include:

- Analysis of exemptions (no SARs)
- Investigation process
- Documentation supporting the conclusions of the case (to file or not file a SAR)
- Management review prior to report submission





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SAR DECISIONING

- Investigation determines
 1. Not suspicious, case/alert closed and state reason with supporting documentation to support decision.
 2. Activity deemed suspicious with recommendation to file a SAR.
 3. Who is responsible to make SAR Decision?
 - Committee
 - BSA Officer
 - Supervisor/Manager
 - Investigator





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FILING A SAR

Decision made that the activity is suspicious and a SAR must be filed.

When preparing a SAR form, compile all the appropriate information to complete the fields of the SAR and create the narrative to be:

- ✓ Concise
- ✓ Clear
- ✓ Chronological
- ✓ Complete



SAR FORM REQUIREMENTS: ELECTRONICALLY FILED



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SARs are filed electronically through the secured FinCEN BSA E-Filing website. Each tab contains fields that must be completed with specific information:

- Home Tab
- Step 1: Filing Institution's contact information
- Step 2: Filing Institution, Where activity occurred
- Step 3: Subject Information
- Step 4: Suspicious Activity Information
- Step 5: Narrative

NOTE: fields with an "*" must be completed and deemed as critical fields; however FinCEN recommends to complete fields in which the bank has relevant information to provide.





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SAR FORM REQUIREMENTS

- Required fields are highlighted in yellow with an asterisk (*) in front of the field number. Some fields have a drop-down menu to select from a list.

Suspicious Activity Report

Home **Step 1. Filing Institution Contact Information** Step 2. Financial Institution Where Activity Occurred Step 3. Subject Information Step 4. Suspicious Activity Information Step 5. Narrative

Part IV Filing Institution Contact Information

*82 Type of financial institution	<input type="text"/>	<input type="text"/>
*78 Primary federal regulator	<ul style="list-style-type: none"> Casino/Card Club Depository institution Insurance company MSB Securities/Futures Loan or Finance Company Housing GSE Other 	<input type="text"/>
*79 Filer name (Holding company, institution, or agency, if applicable)	<input type="text"/>	<input type="text"/>
*80 TIN	<input type="text"/>	*81 TIN type <input type="text"/>





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SAR FORM REQUIREMENTS

- Form allows you to point/hover your mouse over a numbered text field to get a definition or information of what is required for that field.

Item *53 - Enter the legal name of the financial institution where activity occurred as recorded on articles of incorporation or other documents establishing the institution. Enter the full name of the filer if the filer is an individual, such as a sole proprietorship, acting as a financial institution. If an individual's name is recorded, enter the name in (first name) (middle name) (last name) or equivalent format, e.g. John Jacob Doe or Richard R. Roe II, etc. Check "Unknown" if the legal name is unknown and leave this item blank.

*53 Legal name of financial institution Unknown

54 Alternate Name, e.g., AKA - individual or trade name, DBA - entity

Unknown

Unknown

Unknown

Unknown

Unknown

Unknown

56 TIN type

63 Loss to financial institution \$.00





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SAR FORM REQUIREMENTS

Step 4 tab: Suspicious Activity Information section:

- Enter dollar amount involved
- Enter date or date range of activity in this report
- If this is a continuous SAR filing, enter the cumulative amount.
- Fields 32 through 42 are fields to select and identify the type of suspicious activity ranging from Structuring, Terrorist Financing, Fraud, Gaming Activities, Money Laundering, Identification/Documentation, Other Suspicious Activities, Insurance, Securities/Futures/Options, Mortgage Fraud and Cyber Event.





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SAR FORM REQUIREMENTS

BSA E-filing allows institution to attach an excel file that lists the transactions to include details such as date, amount, check numbers, payee names, beneficiaries, addresses, etc.

This file is suitable for documenting transactions records that are too numerous to list in the Narrative section of the SAR form.

Any other supporting documentation such as copies of transactions or identification should be mentioned in the Narrative section and retained as supporting documentation if requested by law enforcement.





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SAR NARRATIVE

SAR narrative must be clear, concise, comprehensive and thorough to answer the following:

1. **Who** is conducting the suspicious activity
2. **What** instruments or mechanisms were used to facilitate the suspicious activity
3. **When** did the suspicious activity take place
4. **Where** did the suspicious activity occur
5. **Why** is the activity considered suspicious
6. **How** was the suspicious activity conducted.





SAR NARRATIVE

Formatting the Narrative should have the following:

1. Introduction (Impact Statement):
 - a. Sets the purpose of the SAR and briefly explain why the activity is suspicious
2. Body:
 - a. Answer who, what, where, when and how.
 - b. Elaborate on why
 - c. Other information or observations that could help law enforcement
3. Conclusion:
 - a. Follow-up actions taken by the bank
 - b. Points of contact
 - c. Documentation that may be available



SAR NARRATIVE:

WHY IS THE ACTIVITY SUSPICIOUS

HOW WAS THE FINANCIAL INSTITUTION USED

Introduction describes the unusual activity is being reported and why it is suspicious.

- Grab the attention of the reader (law enforcement)

Part V Suspicious Activity Information - Narrative*

Investigation case number: A1234567. The customer/member, a grocery store and its owner, are suspected of intentionally structuring cash deposits to circumvent federal reporting requirements. The customer/member is also engaged in activity indicative of an informal value transfer operation: deposits of bulk cash, third-party out of state personal checks and money orders, and engaging in aggregate wire transfers to Dubai, UAE. The type and volume of activity observed is non-commensurate with the customer/member's expected business volume and deviates from the normal volume of similar types of businesses located in the same area as the customer/member. Investigative activities are continuing. Our FI has elected to directly contact law enforcement concerning this matter along with filing this SAR.



SAR NARRATIVE:

WHO & WHAT IS INVOLVED

- Identify suspects involved: individuals, businesses & other banks
- Type of banking products and services utilized
- Account numbers involved with the financial transactions conducted at the financial institution
- Identification, IP address, occupation, dates accounts

John Doe opened a personal checking account, #12345-6789, in March of 1994. Doe indicated that he was born in Yemen, presented a Virginia driver's license as identification, and claimed he was the self-employed owner of a grocery store identified as Acme, Inc. A business checking account, #23456-7891, was opened in January of 1998 for Acme, Inc.



SAR NARRATIVE:

WHEN & WHERE THE ACTIVITY OCCURRED

- Identify date range of suspicious activity
- State total number of transaction types
 - e.g. checks, cash, wires, cashier's checks, money orders, etc.
- State range of dollar amounts involved
- Identify locations of occurrence

Between January 17, 2014, and March 21, 2014, John Doe was the originator of nine wires totaling \$225,000. The wire transfers were always conducted at the end of each week in the amount of \$25,000. All of the wires were remitted to the Bank of Anan in Dubai, UAE, to benefit Kulkutta Building Supply Company, account #345678.

Reviews covering the period between January 2 and March 17, 2014, revealed that 13 deposits (consisting of cash, checks, money orders) totaling approximately \$50,000 posted to the personal account. Individual amounts ranged between \$1,500 and \$9,500 and occurred on consecutive business days in several instances. A number of third-party out of state checks and money orders were also deposited into the account.

A review of deposit activity on the Acme, Inc. account covering the same period revealed 33 deposits (consisting of cash, checks, money orders) totaling approximately \$275,000. Individual amounts ranged between \$4,446 and \$9,729; however 22 of 33 deposits ranged between \$9,150 and \$9,980. It was further noted that in nine of 13 instances in which cash deposits were made to both accounts on the same day, the combined deposits of cash exceeded \$10,000. The FI filed currency transaction reports to the IRS for all aggregate daily transactions exceeding \$10,000.



SAR NARRATIVE

Provide additional information that may be useful to law enforcement, such as:

- Research information: negative news, websites reviewed
- Documents provided by customer
- CTRs filed
- Bank closed/exited customer's account

A search of the world wide web identified a website for Acme, Inc., which identified the company as a grocery store that provides remittance services to countries in the Middle East that includes Iran (an OFAC blocked country). Contact with the Virginia State Department of Banking indicates Acme, Inc. is not a licensed money wire transfer business. The FI will close this account because of the suspect nature of the transactions being conducted by John Doe



SAR NARRATIVE: CASE REFERENCE NUMBER & BANK CONTACT

Provide any bank internal reference number and contact information for law enforcement to reference and reach out to for legal process

All documentation obtained during this investigation is located in the case file, case #01-101, maintained by the bank's anti-money laundering department. Additional branch location address: Main Office branch- 100 West Happy Valley Street, Anytown, CA 12345.





COMPLETE SAR NARRATIVE

SAR is concise and addresses the Who, What, Where, When, Why, and How in chronological order.

Do not assume reader is familiar with your institution's terminology.

Goal is to never leave the person reading your SAR narrative with questions or assume the reader is as familiar with the investigation as you are.

Suspicious Activity Report

Home Step 1. Filing Institution Contact Information Step 2. Filing Institution Where Activity Occurred Step 3. Subject Information Step 4. Suspicious Activity Information Step 5. Narrative

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SAR REQUIREMENTS

BSA regulations require a SAR to be filed when:

- Suspicious transactions of more than \$5,000 takes place and the financial institution can identify and name the suspect.
 - Cash Structuring by a customer
 - Unusual movements of funds from customer's account
 - Money Laundering
- Fraud/criminal amounts of \$25,000 or more are reported when there is no suspect identified.
 - Check fraud
 - Business Email Compromise
- A criminal violation occurred and an insider is suspected in any amount.





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SAR FILING TIMELINES

- An initial SAR is filed to FinCEN within 30-calendar days after determining the activity is suspicious and a suspect can be named.
- If no suspect can be identified, the financial institution can extend the filing to 60-days.
- Deadline for continuing activity SAR with subject information must be filed on day 150 from date of last filed report (120 days of the initial filing plus 30-days to file the additional SAR).
- If conducting a 90-day review and the activity is suspicious, you have 30-days to file the SAR (day 120).





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SAFE HARBOR

BSA Regulations, 31 U.S.C. §5318(g)(3) provides a financial institution protection from civil liability for the reporting of known or suspected criminal offenses or suspicious activity by the use of SAR.

NOTE: if you receive a subpoena for records and a SAR is requested on the subpoena, notify your legal advisor and regulator to inform them a SAR is being requested. Under no circumstances are you allowed to provide the SAR. This information is used by law enforcement only.





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SAR STATISTICS BY FINCEN

Between 2012 and 2019 total SARs filed by depository institutions in the US and US Territories totaled **7,969,499**.

TOP 10 SAR FILING STATES

1. CA = 1,113,198	6. NC = 395,168
2. NY = 709,361	7. VA = 438,475
3. OH = 610,601	8. DE = 346,999
4. TX = 558,937	9. PA = 232,809
5. FL = 472,627	10. GA = 223,460





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SAR STATISTICS BY FINCEN

Between 2012 and 2019 total SARs filed by all required industries in the US and US Territories totaled **16,608,987**.

List of industries:

- Casino/Card Club
- Depository Institution
- Housing Government Sponsored Enterprise
- Insurance Company
- Loan or Finance Company
- Money Services Business
- Securities/Futures



PENALTIES/ENFORCEMENT ACTIONS

Date	Financial Institution	Amount	Reason
12/17/18	UBS Financial Services Inc. (Sec./Futures)	\$9.5M CMP	SEC/FINRA issued CMP due to inadequate AML program that failed to detect and monitor suspicious transactions and failed to file SARs
5/3/18	Artichoke Joe's Casino (Card Club)	\$550K CMP	FinCEN determined casino failed to implement an AML program to identify and report criminal activity that took place in the card club
2/27/17	Merchants Bank of California	\$7M CMP	Bank willfully violated BSA reporting requirements failed to detect and report suspicious activity on foreign correspondent accts. & MSB customers
1/19/17	Western Union (MSB)	\$184M \$586M	Violation to implement effective AML program among issues of failing to report suspicious transactions from illegal activity.





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RESOURCES

- FinCEN.gov
 - <https://www.fincen.gov/resources/filing-information>
 - <https://www.fincen.gov/frequently-asked-questions-regarding-fincen-suspicious-activity-report-sar>
 - <https://www.fincen.gov/reports/sar-stats>
 - https://www.fincen.gov/sites/default/files/shared/sarnarrcompletguidfinal_112003.pdf
- FFIEC Bank Secrecy Act/Anti-Money Laundering Examination Manual
 - <https://bsaaml.ffiec.gov/manual/Introduction/01>
- Financial Institution's policy and procedures
- Subscription services (e.g., World Check, LexisNexis, Clear, etc.)
- Websites: Google, Yahoo, etc.





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QUESTIONS?



February 11-12, 2020

