

# **Compliance Management System**

## **Compliance Management Examination Procedures**

### **Board of Directors and Management Oversight – Examination Objectives**

The board of directors is ultimately responsible for developing and administering a compliance management system that ensures compliance with state and Federal consumer debt collection laws and regulations and all other applicable laws and addresses and prevents associated risks of harm to consumers. In smaller entities, that ultimate responsibility may rest with a controlling person.

Because the effectiveness of a compliance management system is grounded in the actions taken by its board and senior management, examiners should seek to determine whether the board and senior management have:

1. Demonstrated clear expectations about compliance, not only within the entity, but also to service providers.
2. Adopted clear policy statements regarding consumer compliance.
3. Appointed an appropriately qualified and experienced chief compliance officer and provided for other compliance officers with authority and accountability. (In smaller or less complex entities where staffing is limited, a full-time compliance officer may not be necessary. However, management should have clear responsibility for compliance management and compliance staff should be assigned to carry out this function in a manner commensurate with the size of the entity and the nature and risks of its activities.)
4. Established a compliance function to set policies, procedures, and standards.
5. Allocated resources to the compliance function commensurate with the size and complexity of the entity's operations and practices, the Federal consumer financial laws and regulations to which the entity is subject, and necessary to avoid the potential consumer harm associated with violations of such laws and regulations.
6. Addressed consumer compliance issues and associated risks of harm to consumers throughout product development, marketing, and account administration, and through the entity's handling of consumer complaints and inquiries.
7. Required audit coverage of compliance matters and reviewed the results of periodic compliance audits.
8. Provided for recurring reports of compliance risks, issues, and resolution through a committee structure or to the board.

### **Board of Directors and Management Oversight – Examination Procedures**

Complete the attached module

**Insert Module here**

## **Compliance Program**

A sound compliance program is essential to the efficient and successful operation of the licensed entity, much as a business plan. A compliance program includes the following components:

- Policies and procedures;
- Training; and
- Monitoring and corrective action.

A supervised entity should establish a formal, written compliance program, and that program generally should be administered by a chief compliance officer. In addition to being a planned and organized effort to guide the entity's compliance activities, a written program represents an essential source document that may serve as a training and reference tool for employees. A well planned, implemented, and maintained compliance program will prevent or reduce regulatory violations, protect consumers from non-compliance and associated harms, and help align business strategies with outcomes. The examination objectives and procedures for the compliance program are divided in this section of the Manual among the three components of a program.

### **Policies and Procedures – Examination Objectives**

Compliance policies and procedures should be documented and in sufficient detail to implement the board-approved policy documents. Overall, examiners should seek to determine whether compliance policies and procedures:

1. Are consistent with board-approved policies.
2. Address compliance with applicable state and Federal consumer collection laws in a manner designed to prevent violations and to detect and prevent associated risks of harm to consumers.
3. Are maintained and modified to remain current and to serve as a reference for employees in their day-to-day activities.

### **Policies and Procedures – Examination Procedures**

Examiners should request and review compliance policies and procedures and discuss elements with compliance officers or other responsible officers and employees of the supervised entity, as outlined in the attached module. The module should be completed and retained as part of the examination workpapers.

**INSERT MODULE**

### **Training – Examination Objectives**

Education of an entity's board of directors, management, and staff is essential to maintaining an effective compliance program. Board members should receive sufficient information to enable them to understand the entity's responsibilities and the commensurate resource requirements. Management and staff should receive specific, comprehensive training that reinforces and helps implement written policies and procedures. Requirements for compliance with state and Federal consumer collection laws, including deceptive, and abusive acts and practices, should be incorporated into training for all relevant officers and employees, including audit personnel.

Examiners should seek to determine whether:

1. Compliance training is current, complete, directed to appropriate individuals based on their roles, effective, and commensurate with the size of the entity and nature and risks to consumers presented by its activities
2. Training is consistent with policies and procedures and designed to reinforce those policies and procedures.
3. Compliance professionals have access to training that is necessary to administer a compliance program that is appropriate for that supervised entity and its business strategy and operations.

## **Training – Examination Procedures**

Examiners should request and review training records and interview management and staff as appropriate to evaluate this element of the compliance program. Examiners should complete the attached module and retain as part of the examination workpapers.

**INSERT MODULE**

## **Monitoring and Corrective Action – Examination Objectives**

Monitoring is a compliance program element that seeks, in an organized and risk-focused way, to identify procedural or training weaknesses in an effort to provide for a high level of compliance by promptly identifying and correcting weaknesses. Monitoring and testing is generally more frequent and less formal than compliance audit coverage and reporting, may be carried out by the business unit, and does not require the same level of independence from the business or compliance function that an audit program does. Examiners should evaluate monitoring and audit programs to determine whether, considered together, they are adequate and comprehensive.

Examiners review of compliance monitoring and testing should determine whether:

1. Monitoring is scheduled and completed and leads to timely corrective actions where appropriate.
2. The supervised entity is determining that transactions and other consumer contacts are handled according to the entity's policies and procedures.
3. Monitoring and testing consider the results of risk assessments or other guides for prioritizing reviews.
4. Monitoring addresses deficiencies identified in internal or external audits, and the board's or management's directives on resolving the deficiencies.
5. Findings are escalated to management and to the board of directors if appropriate.

## **Monitoring and Corrective Action – Examination Procedures**

Examiners should review monitoring, testing, and corrective action reports; sample supporting documents; and interview individuals

**Insert Module**

## **Consumer Complaints Examination Objectives**

An effective compliance management system should ensure that a supervised entity is responsive and responsible in handling consumer complaints and inquiries. Intelligence gathered from consumer contacts should be organized, retained, and used as part of an institution's compliance management system.

Examiners will consider consumer complaints to determine whether:

1. Consumer complaints and inquiries, regardless of where submitted, are appropriately recorded and categorized.
2. Complaints and inquiries, whether regarding the entity or its service providers, are addressed and resolved promptly.
3. Complaints that raise legal issues involving potential consumer harm from unfair treatment or discrimination, or other regulatory compliance issues, are appropriately escalated.

4. Complaint data and individual cases drive adjustments to business practices as appropriate.
5. Consumer complaints result in retrospective corrective action to correct the effects of the supervised entity's actions when appropriate.
6. Weaknesses in the compliance management system exist, based on the nature or number of substantive complaints from consumers.

## **Consumer Complaints – Examination Procedures**

Examiners should review records, interview management, and contact consumers if needed to evaluate this consumer response component of the compliance management system. Examiners should complete the attached module.

**INSERT MODULE**

## **Compliance Audit Examination Objectives**

Audit coverage of compliance matters is the fourth component of an effective compliance management system. The audit function should review an institution's compliance with Federal consumer financial laws and adherence to internal policies and procedures and be independent of both the compliance program and business functions that include customer sales or service. A compliance audit program provides a board of directors or its designated committees with a determination of whether policies and standards adopted by the board to guide risk management are being implemented to provide for the level of compliance and consumer protection established by the board. The audit should also identify any significant gaps in board policies and standards.

Examiners will seek to determine whether:

1. The audit program is sufficiently independent and reports to the board or a committee of the board.
2. The audit program addresses compliance with all applicable Federal consumer financial laws.
3. The schedule and coverage of audit activities is appropriate to the size of the entity, its consumer financial product offerings, and its manner of conducting its consumer financial products business.
4. All appropriate compliance and business unit managers receive copies of audit reports in a timely manner.
5. Audit results lead to appropriate, timely corrective action.

## **Compliance Audit – Examination Procedures**

Examiners will review records of the compliance audit program and discuss the audit methods, results, and reporting with audit managers. Examiners should complete the attached module:

**Insert Module here**