

Federal Reserve Board of Governors

**Course Description for
Bank Operations Simulation
(S&R Technology Lab)**

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Bank Operations Simulation (S&R Technology Lab)

The Board of Governors of the Federal Reserve System is proud to offer technology-related courses developed and hosted by the S.T.R.E.A.M./Technology Lab at the Federal Reserve Bank of Chicago, Chicago, Illinois. For over nine years, the S.T.R.E.A.M./Technology Lab has pursued a unique approach to examiner technology training by combining hands-on exercises with lectures. Learning materials are based on applicable FFIEC Examination Handbooks and other examiner guides. The hands-on exercises reinforce concepts by allowing participants to interact with various vendor software applications, operating systems, and security appliances widely used in the financial industry and observing how they work. Each participant has a PC at their disposal in the state-of-the-art facility which supports teleconferencing, audio/video recordings, and interactive participant response systems.

Type of Participant Targeted

The course is designed for safety-and-soundness examiners (both pre- and post-commissioned) who are looking for bank operations training. Consumer and community affairs examiners can also benefit if they are looking for additional training on bank operations.

Prerequisites

Federal Reserve participants should have completed the STaRT modules within the Examiner Orientation.

Course Overview

This course provides participants with a simulated bank operations experience. Using an industry-standard general ledger system, participants receive training on fundamental bank operations and their key risks, risk management principles, control activities, and red flags. The course includes lectures and hands-on practice with the major operational activities of a community bank, including teller and check operations, back office operations, investment and loan operations, and electronic payments systems (ACH, Remote Deposit Capture and Wire Transfer). Participants experience bank management's perspective in managing operations, detecting misappropriations, and mitigating operational risk and control weaknesses. The participants' also improve their understanding of examiner responsibilities by identifying issues and root causes that contribute to control weaknesses and increase operational risk.

The course offers 32 Continuing Professional Education (CPE) credits.

Course Objectives

Upon completion of this course, the participant, at a minimum, will be able to demonstrate the following skills:

- Discuss typical procedures for major bank operational functions.
- Identify red flags for weak controls.
- Evaluate the adequacy of internal controls.
- Participate on internal control reviews at community banks.

Post-Course Intervention

To reinforce learning after the class, participants should be assigned to detail projects and internal control reviews on safety and soundness examinations of community banks.

Overview of Bank Operations Simulation Curriculum

Subject	Class Hours
Bank operations and general ledger overview	2.5
Cash and teller operations	2.0
Check operations	1.0
Back office operations and exercises	7.0
ACH operations	1.5
Wire Transfer operations	1.0
Investment operations	1.5
Lending operations	3.5
Accounts payable/fixed assets	2.0
Call Report	1.5
Due from correspondent	1.0
Payment Systems Risk	1.0
Security and system access	1.0
Total Lecture & Exercise Hours	26.5*

* Note: 32 CPEs are awarded based on 1 CPE for every 50 minutes of classroom instruction.

Learning Objectives

Participants develop a solid understanding of bank operations through the following modules.

By module, the following learning objectives will be accomplished:

Module	Learning Objectives
Bank Operations and General Ledger Overview	<ul style="list-style-type: none"> • Explain and define the use and purpose of the General Ledger . • Recall four key steps in the segregation of duties. • Create debit/credit entries for some major bank transactions. • Explain the terms batch processing, memo-posting, balancing, and reconciling.
Cash and Teller operations	<ul style="list-style-type: none"> • Create Dr/Cr entries of basic cash transactions using T-accounts. • List 4 key risks and controls of cash ops. • Identify who does what in a teller transaction for the Segregation of Duties Box. • Identify the controls which should be in Red Flag situations.
Check operations	<ul style="list-style-type: none"> • Explain the check clearing process • Create Dr/Cr entries for official checks • List 3 controls around official checks • List 2 advantages and 2 risks of Remote Deposit Capture • Explain how a check kite works
Back Office Routines and Proof and Transit Operations	<ul style="list-style-type: none"> • Explain what "proof" means for the back office • Give 2 examples of the difference between balancing and reconciling • Create Db/Cr entries for handling NSF and Overdraft items • Create Db/Cr entries for cash letters sent and received • Recall 2 red flags for back office operations
ACH Operations	<ul style="list-style-type: none"> • Explain what ACH is and how it works. • Explain how a bank incurs credit risk from ACH. • List 3 ways to control ACH-related credit risk. • List 3 ways to control ACH-related operational risk. • Recall 2 important red flags related to ACH.
Wire Transfer Operations	<ul style="list-style-type: none"> • Explain how a wire transfer works. • List 3 key questions regarding wire transfer controls • List 2 red flags with respect to wire transfers
Investment Operations	<ul style="list-style-type: none"> • Name 3 types of permitted investments

Module	Learning Objectives
	<ul style="list-style-type: none"> • Create the Db/Cr entries for an investment purchase • Describe the typical segregation of duties for the investments function • List 3 key examiner questions when reviewing investments.
Lending Operations	<ul style="list-style-type: none"> • Discuss the responsibilities and controls for key steps in the loan operations function • Use the GL system to perform a variety of loan operations transactions • Create Db/Cr entries for basic loan operations transactions using T-accounts • Describe some examiner procedures and questions used to evaluate the adequacy of loan operations
Accounts Payable	<ul style="list-style-type: none"> • Discuss a typical Accounts Payable process • Give two examples of how fraud can be committed with accounts payable • Explain the proper segregation of duties which should be in place in the A/P process
Fixed Assets	<ul style="list-style-type: none"> • Describe three key accounting concepts related to fixed assets. • Discuss the segregation of duties which should be in place in the fixed asset process • List at least 3 things that examiners should do when reviewing fixed assets
Introduction to Call Report	<ul style="list-style-type: none"> • Explain the process of Call Report preparation • Give examples of the data inputs & data sources used in compiling the Call Report • Discuss the purpose of at least three of the supporting schedules
Due From Correspondent Reconciliation	<ul style="list-style-type: none"> • Reconcile a Due From Correspondent account • List 3 risk management elements for correspondent accounts • State the basic rule of Reg F • List 2 red flags for correspondent accounts
Payment Systems Risk	<ul style="list-style-type: none"> • Define Payment Systems Risk • Discuss the types of Net Debit Caps • Discuss the major characteristics of the Federal Reserve's credit programs
Security & System Access	<ul style="list-style-type: none"> • Recall 3 Key Questions for security and system access • List 2 red flags related to system access • List 2 things to do as an examiner reviewing system access

Class Size

The optimal class size for the Bank Operations Simulation course is approximately 20 participants. To provide sufficient variety of interaction among class participants, the minimum class size should be 10 participants.

Instructors

Bank Operations Simulation is conducted and supported by a group of professionals, including senior safety and soundness examiners and technology architects. Instructors are recruited from the Federal Reserve System, FFIEC-member agencies, and state banking supervision departments. This course may require from 3 to 5 instructors.