

State examination Prep 101-

“How to prepare for your next state examination”

State regulated companies that offer financial services are subject to state examinations. This guide will prepare you for your next state examination. However, it's important to remember that each industry and state are different.

Core State Specific Regulations, High Level Overview

A critical part of the state examination is to ensure state specific regulations are complied with. The goal of each examiner is to ensure compliance with their respective rules and regulations. Non-compliance with any of these items will result in a state violation and could result in fines and or penalties. Below is a list of some core items that are typically verified during a state examination as well as helpful hints:

- **Permissible Investments / Eligible Securities:** All bank accounts used as permissible investments must be in the name of the licensed entity with the state.
- **Bonds:** Bonds are obtained prior to becoming licensed and examined. Some state bonds increase in respect to the company's volume or outstanding money transmission liabilities in the state. Each state statute should be reviewed carefully before a state examination to ensure bond amounts are in compliance with state requirements. Examiners will also ask for supporting documents to verify bond premiums have been paid.
- **Reporting changes of control and/or material changes:** Examiners will verify that any changes of control or material changes during the state examination scope period have been reported to their respective states within the required time frame.
- **State specific disclosures:** Specific disclosures are required in many states. A periodic review of state specific requirements is recommended.
- **Receipt requirements:** Examiners will verify the receipt requirements of their respective states are met.
- **State specific call reports and ongoing licensing renewals and maintenance.** The process of state reporting can be arduous. The company should carefully review the money transmitter activity and licensing reporting requirements of each state.

Hospitality and Interaction with Examiners

Some of the keys to a positive state examination experience are: the hospitality provided to examiners, and the consistent interaction by management with the state examination team.

Make the examiners feel welcome:

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- Ensure that a conference room is available and reserved for the examiners during the entire stay. The room should be of appropriate size to fit the number of examiners expected during the onsite portion of the state examination comfortably.
 - Provide examiners a tour of the office during the first day of the on-site visit and continuously offer suggestions for lunch and dinner locations and other entertainment options in town.

Always be active on conversations and consistently follow up with examiners on any outstanding items. Maintain an outstanding item tracker and attempt to provide the items to the examiners as early as possible. Share the tracker with the examiners daily in the morning and afternoon to update them on the status of any outstanding items.

State examination Kick-off and Exit Meetings Content

One of the responsibilities for an examiner in charge (“EIC”) of a state examination is to schedule all the meetings with management and manage the receipt of requested pre-state examination documents. We recommend our customers be proactive and take charge as much as possible during the pre-exam stage. This communicates a level of positive commitment to the examiners.

Some of the simple ways this can occur is by:

- Offering the EIC to schedule a kick-off meeting, any management meetings required, and an exit meeting. This should be completed with anticipation soon after receiving the engagement and document request letter.
- Discuss if any meetings with CFO & CISO should be scheduled. This will give you an idea of the depth at which the financial safety & soundness and IT/IS areas will be covered during the exam in order to prepare for them.
- Work closely with the EIC on the document request list. Analyze it thoroughly. This will also help you identify the scope of the state examination.

Below is a list of areas that may be covered by a state examination:

- Financial Safety and Soundness
- Regulatory Compliance, BSA/AML/OFAC
- Provider of Prepaid Access Regulatory Controls and Account Monitoring
- Management Oversight Over Compliance Program
- Disaster Recovery / Business Continuity Contingency Planning
- Information Technology and Security, Basic Overview of Regulatory Controls

Exit Meetings Content

The exit meeting will typically take place on site during the last day of the onsite visit. It's good practice to offer to schedule the exit meeting in advance as state examiners do not schedule off-site exit meetings. It is critical that all pending items be resolved before the last day examiners are onsite. The exit meeting can allow for discussion and clarification of possible issues that could have resulted in a violation or recommendation in the state examination report. The exit meeting is a valuable part of the state examination process as it gives insight as to what to expect in the official state examination report.