

There is an ongoing
debate about the
cost-benefit
relationship of
internal contro...

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Internal Controls over Cash “ Federal Reserve Faults Citigroup over Money Laundering Controls” By Jessica Silver-Greenberg Jessica Silver-Greenberg’s article discusses a case involving Citigroup that contributed to a scandalous fraud of money laundering in Mexico and the US. It emerged that the bank had raised its financial projections without tangible identification of the sources or investment ventures (Silver-Greenberg, 2013). As a result, the FBI rejected the bank’s plan to boost its dividend until the investigations were over. It is apparent that the organization did not employ proper internal control mechanisms to curb fraud and errors in the financial system. The investigators cited that the bank lacked strict safeguards against clients laundering money, following a suspicion that illicit drug money was streaming through their internal account. The Regulations by the Federal Reserve require banks to install tight internal controls in order to detect any criminal involvements in their operations (Silver-Greenberg, 2013). This is because weak controls facilitate drug dealers and terrorists to launder money through the financial institutions.

The ethical implication of Citigroup’s case is that it failed to observe the Federal’s rules of having complex control mechanisms. In this regard, money laundering might have occurred to sustain the drug traders. Banks need to ensure that they scrutinize their clients to determine the sources and the recipients of the huge sums of money. It is also evident that the management tried to manipulate its financial statements to hide transactions involving the drug dealers. The bank failed to show the money streamed through its Mexican branches into the US, which was an indication of weak controls. The Federal Reserve claims that the bank does not oversee

its operations, which leads to funneling of money in support of sanctioned individuals and countries (Silver-Greenberg, 2013).

The accounting ethical standards involve the reporting of accurate financial information without manipulations. This implies that organizations should not tamper with their accounting books to make them appear more profitable to the shareholders and investors. For instance, Citigroup had tampered with its records after the money laundering fraud in the backdrop of increasing dividends. Financial institutions need to observe the Bank Secrecy Act by removing tainted cash through recording of doubtful-activity reports (Silver-Greenberg, 2013). This implies that the Citigroup management failed to comply with the rules set by the Federal Reserve, which led to probing into its activities.

In order to strengthen its controls, the Citigroup management centralized its audit and compliance tasks. This meant that one central body conducted the detection of fraud to ensure that all the internal mechanisms were intact to avoid leakage of money (Silver-Greenberg, 2013). This helped in the identification of weaknesses or loopholes that may have allowed money laundering to take place. Another strategy was the tightening of the compliance functions in order for the bank to operate according to the Fed's rules. It simplified the management of risks in which the bank had to ensure that it oversaw all transactions before approving them. This was essential because errors could be noticed before channeling the money to the US. The cost-benefit of the internal control is that the banks are able to increase their capital base, which can affect the country's economy. This is risky because the banks issue loans that raise the transmission of money supply, leading to

inflation.

Reference

Silver-Greenberg, J. (2013). "Federal Reserve Faults Citigroup over Money Laundering

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