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## AUDIT PROCEDURES – BANK SECRECY ACT

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1. Complete the Internal Control Questionnaire.
2. Review prior audit reports (internal and external) and determine if any noted violations or weaknesses were corrected.
3. Based on the evaluation of internal controls and the work performed by the examiners, determine the scope of the audit.
4. Determine if the Board has adopted a written compliance program that ensures compliance with all reporting and record keeping requirements of the BSA (including SAR requirements), anti-money laundering provisions and contains the following required elements:
  - A system of internal controls to ensure ongoing compliance;
  - Independent testing for compliance conducted by either bank personnel or an outside party
  - Designation of a qualified individual(s) responsible for coordinating and monitoring day-to-day compliance.
  - Training for appropriate personnel
5. Determine if anti-money laundering policies, procedures, and programs address:
  - Identifying and reporting money laundering in its different forms (placement, layering, and integration);
  - Identification of high-risk activities, businesses, and countries;
  - Development of a system for detecting, monitoring, and reporting suspicious activity;
  - Establishment of a comprehensive program for opening and maintaining accounts and establishing other customer relationships to include procedures for identifying, documenting, and verifying customer information.
  - Compliance with OFAC regulations;
6. Determine if the anti-money laundering policies, procedures, and programs cover **all** products and units of the bank, including, but not limited to:
  - Teller/currency operations
  - Lending
  - Wire Transfer function
  - Trust activities
  - Correspondent Banking
  - Private Banking

- Monetary Instrument Sales
  - Discount Brokerage operations
  - International dept.
  - Safe Deposit Box rental
7. Determine if management has implemented internal controls to minimize the risk of money laundering; the controls should include but not be limited, to the following:
    - a. Money laundering detection procedures;
    - b. Identification and monitoring of non-bank financial institutions that are depositors of the institution and that engage in a high volume of cash activity (i.e., money transmitters and check cashing businesses);
    - c. Periodic account activity monitoring, and;
    - d. Internal investigation, monitoring and reporting of suspicious transactions.
  8. Review the cash totals shipped to and received from the Federal Reserve Bank, correspondent banks, or between branch offices for a reasonable period of time. Through discussion with management, determine the cause of unusual activity noted (i.e., material variance in totals of currency shipped or received or large denomination currency exchanged). Also determine if the volume of CTR filings during the period is consistent with any changes in the patterns of cash activity.
  9. Test the accuracy of the automated system used to capture and provide information on cash transactions by determining the following:
    - a. Whether the reports show all transactions (individual and multiple transactions) in excess of \$10,000 on the same business day by or on behalf of the same individual, or account;
    - b. Whether the system includes all points of cash entry and exit;
    - c. Whether the discount brokerage, private banking, trust, or any other departments within the bank engage in currency transactions subject to the regulations, and if so, that aggregation systems cover such activities.
  10. Review a sample of completed CTRs, whether hard copy or computer generated filings, to determine that:
    - a. CTRs were completed in accordance with IRS instructions.
    - b. Transaction amounts were consistent with the type and nature of business or occupation of the customer.
    - c. CTRs were filed for large cash transactions identified by tellers' cash proof sheets, automated large currency transaction system, or other type of aggregation system, unless an exemption exists for the customer.
    - d. CTRs were filed within 15 calendar days after the date of the transaction.

11. Review any correspondence received from the IRS relating to incorrect or incomplete CTRs and determine if management has taken appropriate corrective action.
12. If the review of the above audit procedures indicates significant weaknesses in handling, identifying and reporting of large currency transactions, or if money laundering is suspected, conduct the following steps:
  - a. Review tellers' cash proof sheets for nonreporting of large currency transactions for periods of time of suspected violations.
  - b. Review automated systems reports for the following indicators of possible money laundering:
    1. evidence of structured transactions
    2. evidence of "concentration" accounts
    3. customers with frequent cash transactions that have provided either a foreign address or post office box as an address or have requested that the bank hold monthly statements
    4. other suspicious or unusual transactions
13. If available review copies of the following internally generated reports to identify and verify that large cash transactions are being reported:
  - a. Suspect Kiting report – a customer using their account for money laundering is similar to that a customer who is kiting
  - b. Demand Deposit Large Balance report – reports shows balances equal to or greater than \$10,000
  - c. Demand Deposit Large Transaction report – report shows transactions equal to or greater than \$10,000
  - d. Incoming/Outgoing Wire Transfer Logs – logs will help identify transfer out of the country, transfers funded by cash or monetary instruments, transfers for non-customers, and unusual patterns of activity.
  - e. Loans Listed by Collateral – report can identify significant loans secured by cash (CDs/DDAs), which should be reviewed for purpose and consistency with customer's business and resources.
14. Review copies of major correspondent bank statements for at least two months, together with reconciliation sheets and general ledger sheets covering the same period. Investigate large transactions reflected on either the institution's or the correspondent's records to determine the nature, as indicated by copies of credit/debit advices, or general ledger tickets. Note any cash shipments made on behalf of individual customers to a correspondent bank for credit to the customer's account at the correspondent bank.
15. Review correspondent account statements, customer account records, or telex records for large deposits into accounts controlled by the same person of cashier's checks, money orders, or similar instruments drawn on other institutions in amounts under \$10,000. These funds may possibly be transferred elsewhere in

- bulk amounts. Note whether the instruments under \$10,000 are sequentially numbered.
16. Review incoming mail of the institution to determine if currency deposits are received via mail, courier services, or internal deliveries, and whether CTRs are properly filed.
  17. Review SARs filed within the last year and verify that they were filed in a timely manner – 30 calendar days after the date of the initial detections of the facts.  
Note: Banks are allowed an additional 30 days if a suspect is not identified at the facts are known (total of 60 days). Determine is a SAR should have been filed for suspicious activity noted during the audit.
  18. Determine if the BSA policy notes the retention period of five years for required records under 31 CFR 103.
  19. For each payment order of \$3,000 or more that the banks accepts as the originating bank, verify whether the bank retained either the original or a microfilm, other copy, or electronic records of the payment order – 31 CFR 103.33 (e) (1) (i).
  20. Determine whether the bank retains the following records for each payment order of \$3,000 or more (which may be with the payment order in the bank’s files if the customer has a loan or deposit relationship with the bank):
    - a. The name and address of the originator
    - b. The amount of the funds transfer
    - c. The date of the fund transfer
    - d. Any payment instructions received from the originator with the pymt.order
    - e. The identity of the beneficiary’s bank
    - f. As many of the following items as are received with the payment order – name and address of the beneficiary, the account number of the beneficiary and any other specific identifier of the beneficiary
  21. For funds transfers of \$3,000 or more for originators that do not have an established relationship with the bank, ascertain if the information listed in step #20 is retained, in addition to the following:
    - a. If the payment order was made in person, the identity of the non-customer should be verified and documented.
    - b. If the bank had knowledge that the person placing the payment order was not the originator, the bank should obtain and retain a record of the originator’s taxpayer identification number or passport number and country of issuance (if known by the person placing the order). The bank should also note the lack of this information.
    - c. If the payment order was not made in person, the bank should obtain and retain a record of the name and address of the person placing the payment

order, as well as the person's taxpayer identification number or if none, alien identification number or passport number and country of issuance. The bank should also note the lack of this information. A copy or record of the method of payment (e.g., check or credit card) should also be retained.

22. For funds transfer of \$3,000 or more for which the bank is acting as the intermediary, determine that the original or a microfilm, other copy, or electronic record of the payment order is retained.
23. For each payment order accepted by a beneficiary's bank, if the beneficiary does not have an established relationship with the originating bank, determine that the beneficiary bank retains the following information:
  - a. If the proceeds were delivered in person to the beneficiary or its representative or agent, the bank must verify the identity of the person receiving the proceeds and retain a record of that information.
  - b. If the bank has knowledge that the person receiving the proceeds is not the beneficiary, the bank must obtain and retain a record of the beneficiary's name and address, as well as the beneficiary's taxpayer identification number (TIN or SSN) or if none, alien identification number or passport number and country of issuance, if known by the person receiving the proceeds, or a notation of the lack of this information.
  - c. If the proceeds were delivered other than in person, a copy of the check or other instrument used to effect payment, or the information contained thereon, as well as the name and address of the person to whom it was sent must be retained.
24. Determine that the information retained for wire transfer funds greater than \$3,000 is retrievable by the name of the originator or beneficiary. If the originator or beneficiary is established customer of the bank, the information must also be retrievable by account number.
25. Review a sample of monetary instruments of \$3,000 - \$10,000, inclusive and determine whether the bank's records include the following required information for purchasers who have deposit accounts with the bank:
  - a. The name of the purchaser
  - b. Date of purchase
  - c. The type(s) of instrument(s) purchased
  - d. The serial number(s) of each instrument(s) purchased in currency
  - e. The dollar amount(s) of each the instrument(s) purchased in currency
  - f. Method of verifying the identity (either at the time of purchase or when deposit account opened)

26. For purchasers who do not have deposit accounts with the bank, the following information for cash purchases of monetary instruments in amounts of \$3,000 to \$10,000, inclusive, should be retained:
  - a. The name and address of the purchaser
  - b. The social security or alien identification number of the purchaser
  - c. The date of birth of the purchaser
  - d. The date of purchase
  - e. The type(s) of instrument(s) purchased
  - f. The serial number(s) of each of the instrument(s) purchased
  - g. The dollar amount(s) of each of the instruments(s) purchased
  - h. Method of verifying the identity of purchaser and specific identifying information (e.g. state of issuance and driver's license number).
27. Determine whether the bank's records are retained for five years and retrievable, upon request from the Treasury, within a reasonable period of time.
28. If the bank has an automated system for capturing multiple sales of monetary instruments in one day in amounts totaling \$3,000 or more, assess the accuracy and validity of the system with regards to all points of purchase/sale.
29. Determine if Treasury Form TD F 90-22.53 (Designation of Exempt Person) has been filed with the IRS for each "exempt person" as defined in 31 CFR 103.22(h)(2) (e.g., a bank's domestic operations, governmental agencies, "listed entities" and their subsidiaries, etc.).
30. Assess whether ongoing and reasonable due diligence is performed, including required annual reviews, to determine if a customer remains eligible for designation as an "exempt person" under Phase I rules. Exemption determinations should be properly documented (e.g., stock quotes from newspapers, consolidated returns, etc.).
31. Determine that "exempt person" accounts are reviewed for unusual or suspicious activity.
32. Determine if Treasury Form TF F 90-22.53 has been filed with the IRS for each "exempt person" under Phase II rules as identified by bank management. *Under the Phase II rules, the definition of exempt person includes "non-listed businesses" and "payroll customers" as defined in 31 CFR 103.22. However, there are several businesses that remain ineligible for exemption purposes – see 31 CFR 103.22(d)(6)(vii) for more info.*
33. Assess whether ongoing and reasonable due diligence is performed, including required annual reviews, to determine if a customer is eligible for designation as an "exempt person". Customers must meet the following requirement to be eligible for exemption under Phase II:

- a. Verify that the biennial filing includes both a notification of any change in control relative to the “exempt persons” and a certification by the bank as to its maintenance of a system for reporting suspicious activity.
  - b. Have frequent currency transactions in excess of \$10,000 (withdrawals to pay domestic employees in cash in the case of a payroll customer)
  - c. Conducts business in the USA
  - d. Maintain a transaction account at the bank for at least 12 months.
34. Review the institution’s program for educating appropriate employees regarding the BSA to determine if the established program includes the following:
- Reporting of large currency transactions
  - Exemptions from large currency transaction reporting
  - Identifying and reporting of suspicious activity or alleged criminal conduct
  - Record retention requirements
  - Sale/purchase of monetary instruments
  - Review of internal policies/procedures
  - Examples of money laundering cases and the methods in which activities can be detected/resolved/reported.
  - Overview of the different forms that money laundering can take (deposit accounts, wire transfer loans, etc.)
  - Wire (fund) transfer activity
  - “Know Your Customer” procedures.
35. Review the training program to determine if the following elements are adequately addressed:
- a. The importance management places on ongoing education and training
  - b. The appropriateness of the scope and frequency of training
  - c. The inclusion of personnel from all functional areas of the bank
  - d. Coverage of bank policies and procedures
  - e. Coverage of new rules and requirements
  - f. Enhanced procedures to address previously cited violations and deficiencies.
36. Determine if management has established procedures to review transaction activity through electronic banking products for possible money laundering and suspicious activity.
37. Assess the bank’s wire activity for the following:
- a. If procedures are in place to monitor accounts with frequent cash deposits and subsequent wire transfers of funds to a larger institution or out of the country.
  - b. If cash is accepted for wire transfers, determine whether the bank requires proper identification, maintains documentation and records, and files CTRs, if applicable.
  - c. Determine if the volume of wire transfer activity is appropriate given the bank’s size, location, and nature of customer account relationships.

38. Determine if the board and senior management have developed policies and procedures that comply with OFAC laws and regulations, including:
  - a. Maintaining a list of prohibited countries, entities and individuals
  - b. Comparing new accounts to the OFAC listings
  - c. Monitoring transactions for possible prohibited activity, including transactions through non-bank financial institutions, if applicable.
  - d. Determine that all incoming ACH files and outgoing originators are scanned for matches to the most current SDN listing.
  
39. Review a sample of interest-bearing and non-interest bearing deposits accounts to determine that the bank has a record of the depositors' TINs. If the does not have a TIN on hand for each depositor, verify that it has a back-up withholding procedures in place. Determine if the bank maintains a list of the names, addresses, and account numbers of customers from whom it has not been able to obtain TINs.
  
40. Summarize any finding and prepare audit report.