



NCUA
National Credit Union Administration

**OFFICE OF INSPECTOR
GENERAL**

**AUDIT OF THE NCUA'S
BANK SECRECY ACT ENFORCEMENT PROGRAM**

**Report #OIG-24-06
May 30, 2024**





National Credit Union Administration

Office of Inspector General

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A handwritten signature in black ink, appearing to read "Jim W. Hagen", is written over the "FROM:" line.

SUBJ: Audit of the NCUA's Bank Secrecy Act Program

DATE: May 30, 2024

The National Credit Union Administration (NCUA) Office of Inspector General (OIG) conducted this self-initiated audit to assess the NCUA's Bank Secrecy Act (BSA) program. The objectives of our audit included determining whether the NCUA: (1) adequately reviewed compliance with the Bank Secrecy Act during credit union safety and soundness examinations, (2) issued timely formal or informal enforcement actions to address Bank Secrecy Act-related violations, (3) tailored enforcement actions to address deficiencies identified during the supervisory process, (4) followed up on reported Bank Secrecy Act violations to ensure credit unions take appropriate corrective action before closure of the violation, and (5) appropriately referred significant Bank Secrecy Act violations and deficiencies to the Financial Crimes Enforcement Network, a bureau within the United States Department of the Treasury.

Results of our audit determined the NCUA adequately reviewed compliance with the Bank Secrecy Act during credit union safety and soundness examinations, issued timely formal and informal enforcement actions to address Bank Secrecy Act-related violations, tailored enforcement actions to address deficiencies identified during the supervisory process, followed up on reported Bank Secrecy Act violations, and appropriately referred violations and deficiencies to the Financial Crimes Enforcement Network. However, we determined the agency could improve: (1) the Bank Secrecy Act examination steps within its Modern Examination and Risk Identification Tool examination system to ensure examiners complete and document all necessary steps during examinations, (2) its reporting process to the Financial Crimes Enforcement Network by documenting and communicating any revised agreements between the agencies through agency policy and updating the data reports it uses for reporting to reduce or eliminate the need for manual reconciliation, and (3) its Bank Secrecy Act Enforcement Manual to ensure it contains current guidance and communicates information consistent with other agencies policies. Therefore, we are making four recommendations in our report that we believe will improve the NCUA's enforcement of the Bank Secrecy Act.

We appreciate the cooperation and courtesies NCUA management and staff provided to us during the audit. If you have any questions, please contact me at 703-518-6350.

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EXECUTIVE SUMMARY

The NCUA OIG conducted this self-initiated audit to assess the NCUA's enforcement of the Bank Secrecy Act. Our audit objectives included determining whether the NCUA: (1) adequately reviewed compliance with the Bank Secrecy Act during credit union safety and soundness examinations, (2) issued timely formal or informal enforcement actions to address Bank Secrecy Act-related violations, (3) tailored enforcement actions to address deficiencies identified during the supervisory process, (4) followed up on reported Bank Secrecy Act violations to ensure credit unions take appropriate corrective action before closure of the violation, and (5) appropriately referred significant Bank Secrecy Act violations and deficiencies to the Financial Crimes Enforcement Network, a bureau within the United States Department of the Treasury.¹ The audit scope included federal credit union Bank Secrecy Act examinations and enforcement actions from January 1, 2018, through December 31, 2021, and all applicable procedures, documentation, and controls.

Our audit determined the NCUA adequately reviewed compliance with the Bank Secrecy Act during credit union safety and soundness examinations; however, we determined the agency could improve the Bank Secrecy Act examination steps within the Modern Examination and Risk Identification Tool examination system. Specifically, the NCUA should ensure the Modern Examination and Risk Identification Tool includes all necessary examination steps and clear guidance on how to complete these steps. We also determined examiners issued timely formal and informal enforcement actions to address Bank Secrecy Act-related violations, tailored enforcement actions to address deficiencies identified during the supervisory process, and followed up on reported Bank Secrecy Act violations to ensure credit unions took appropriate corrective action before closure of a violation. In addition, although the agency communicated and reported Bank Secrecy Act violations and deficiencies to the Financial Crimes Enforcement Network, the agency could improve its reporting process by documenting and communicating any revised agreements through agency policy when applicable and updating the Modern Examination and Risk Identification Tool reports to reduce or eliminate the need for manual review. The agency could further improve its Bank Secrecy Act program by revising and documenting its Bank Secrecy Act enforcement policies and updating the Modern Examination and Risk Identification Tool Bank Secrecy Act scope tasks and questions to ensure examiners complete and document all necessary steps during examinations. Therefore, we are making four

¹ The Bank Secrecy Act authorizes the United States Department of the Treasury to impose reporting and other requirements on financial institutions and other businesses to help detect and prevent money laundering. By virtue of the USA Patriot Act of 2001, Treasury Order 180-01 authorized the Financial Crimes Enforcement Network, created as a bureau within the United States Department of the Treasury, to carry out the duties and responsibilities set forth by the Bank Secrecy Act to support law enforcement efforts to foster interagency and global cooperation against domestic and international financial crimes, and to provide United States policy makers with strategic analysis of domestic and worldwide trends and patterns. The Financial Crimes Enforcement Network works toward those ends through information collection, analysis, sharing, as well as technological assistance and innovative, cost-effective implementation of the Bank Secrecy Act and other United States Department of the Treasury authorities assigned to the Financial Crimes Enforcement Network.



recommendations in our report that we believe will improve the NCUA's enforcement of the Bank Secrecy Act.

We appreciate the cooperation and courtesies NCUA management and staff provided to us during this audit.



BACKGROUND

The NCUA is an independent federal agency created by the U.S. Congress that insures deposits of federally insured credit unions, protects members who own credit unions, and charters and regulates federal credit unions. The NCUA's organizational structure consists of a Headquarters, Asset Management and Assistance Center, and three regional offices.² The following NCUA offices and staff have responsibilities directly related to or supporting Bank Secrecy Act/Anti-Money Laundering (BSA/AML) enforcement:

- The NCUA's Office of Examination and Insurance (E&I) provides leadership and collaborates with other agency offices and regions on establishment of policy, direction, and quality control over the examination, surveillance, and problem resolution programs for federally insured credit unions. E&I is responsible for the NCUA's supervision programs that ensure the safety and soundness of federally insured credit unions. Specifically, within E&I, the following divisions perform duties related to or in support of the NCUA's BSA Enforcement:
 - During our audit scope period, the Chief Accountant Division³ was primarily responsible for BSA/AML enforcement. However, in 2023, after the audit scope period, the agency created the Division of Fraud and Anti-Money Laundering to support fraud and BSA/AML related interagency work. This Division also supports other subject matter units and the policy unit with respect to fraud and BSA and provides leadership over the BSA Working Group,⁴ the BSA subject matter examiner program, and the future regional BSA specialists program.
 - The Division of Risk Management monitors risk to the National Credit Union Share Insurance Fund through regional and the Office of National Examinations and Supervision (ONES) monitoring and quality control assessments. This Division also provides support for general supervisory rulemaking and guidance development and maintains enforcement policies and procedures and related training.
 - The Division of Policy oversees the NCUA's examination and supervision program, including resource management and allocation and the development and maintenance of examination and supervision policy manuals.
 - The Division of Data maintains risk monitoring reports, enterprise data reporting, and data governance policies.

² The three regional offices are the Eastern, Southern, and Western regions.

³ In 2019, the Chief Accountant Division established a BSA Working Group to update existing BSA-related guidance, develop new guidance, and address training needs for staff at varying experience levels.

⁴ In 2019, the NCUA established the BSA Working Group to update existing BSA- and Office of Foreign Assets Control (OFAC) related guidance, develop new guidance, and address training needs for staff at varying experience levels. BSA Working Group members include representatives from E&I, ONES, and the regional offices.



- The Division of Systems maintains ongoing operations and maintenance of examination and supervision systems and supports new system development.
- The NCUA's ONES examines the safety and soundness of all corporate credit unions and natural person credit unions with assets of \$15 billion⁵ or more.
- The NCUA's three regional offices⁶ examine credit unions with assets less than \$15 billion.
- The NCUA's Office of General Counsel (OGC) reviews proposed enforcement actions upon request by the regional director, advises regional staff on the preparation of the contents of enforcement action documents, provides concurrence as required by the NCUA's Delegations of Authority, coordinates the NCUA's response to any enforcement order legal challenges, assists the region in enforcing enforcement orders, and publishes applicable enforcement documents.
- The NCUA's Office of Business Innovation (OBI) partners to design and implement the agency's modernization vision, which includes the Enterprise Solution Modernization program. The purpose of this program is to modernize the NCUA's technology solutions to create an integrated examination and data environment and facilitate a safe and sound credit union system. This included transitioning the agency from the Automated Integrated Regulatory Examination System (AIRES) to the Modern Examination and Risk Identification Tool (MERIT) examination system.
- The NCUA's Office of External Affairs and Communications publishes applicable enforcement documents and responds to public inquiries.

Bank Secrecy Act and the NCUA's Enforcement Authority

The Financial Recordkeeping and Reporting of Currency and Foreign Transactions Reporting Act of 1970, its amendments, and other statutes related to the subject matter of the Act, are referred to as the "Bank Secrecy Act" (BSA).⁷ The BSA is intended to safeguard the U.S. financial system and the financial institutions that make up that system from the abuses of financial crime, including money laundering, terrorist financing, and other illicit financial transactions. To accomplish this purpose, the BSA establishes recordkeeping and reporting requirements by private individuals, banks, and other financial institutions.

The Federal Credit Union Act⁸ directs the NCUA to prescribe regulations that require federally insured credit unions to establish and maintain procedures reasonably designed to assure and

⁵ During the audit scope period (2018-2021), the asset threshold was \$10 billion.

⁶ The NCUA's three regional office locations include Alexandria, Virginia; Austin, Texas; and Tempe, Arizona.

⁷ Codified at 12 U.S.C. §§ 1829b, 1951-1960; and 31 U.S.C. § 5311-5314, 5316-5336, and included notes.

⁸ 12 U.S.C. 1786(q).



monitor compliance with the BSA. NCUA regulations⁹ establish the compliance program responsibilities a federally insured credit union must adopt and implement. Collectively, these procedures form the basis for a federally insured credit union's BSA compliance program. Every credit union must comply with BSA requirements. BSA compliance requires credit unions to track cash transactions and purchases of cash equivalents, such as money orders, and to comply with other recordkeeping and reporting requirements. The BSA recordkeeping regulations¹⁰ also include the requirement that a financial institution's records be sufficient to enable transactions and activity in customer accounts to be reconstructed, if necessary. These records provide evidence used by law enforcement agencies in prosecuting money laundering and other financial crimes. Credit unions, and other financial institutions, primarily use Currency Transaction Reports (CTR)¹¹ and Suspicious Activity Reports (SAR)¹² to comply with the requirements of the BSA and to report transactions to the Financial Crime Enforcement Network (FinCEN), a bureau within the United States Department of the Treasury (Treasury). Credit unions must also verify member identity and respond to information request lists provided by FinCEN.

The NCUA requires BSA compliance as a condition of federal insurance. The NCUA has authority to ensure compliance with BSA requirements¹³ and reviews compliance with the BSA during all federal credit union examinations. In addition to the NCUA's authority, State Supervisory Authorities conduct BSA examinations at federally insured state-chartered credit unions. The NCUA may reach agreements with State Supervisory Authorities for NCUA examiners to conduct the BSA examinations at federally insured state-chartered credit unions, but generally relies on them to review compliance with the BSA during federally insured state-chartered credit union examinations. The NCUA has enforcement authority for the federally insured state-chartered credit unions it examines. The scope of this audit did not include federally insured state-chartered credit unions.

Each federally insured credit union examination must include a review of the procedures established and maintained as part of the federally insured credit union's compliance program; the examination report must describe any problem(s) with the compliance program; and the NCUA must issue a cease and desist¹⁴ (C&D) order for noncompliance in certain circumstances. In addition to ordering a cessation of certain activities, a C&D order may require affirmative

⁹ 12 C.F.R Part 748, Security Program, Report of Suspected Crimes, Suspicious Transactions, Catastrophic Acts and Bank Secrecy Act Compliance (10/02/2020).

¹⁰ 31 C.F.R. Parts 1010 and 1020.

¹¹ Under 31 C.F.R. § 1010.311, financial institutions, including credit unions, must file a CTR if total currency transactions in or total currency transactions out conducted by, or on behalf of, the same person exceed \$10,000 in one day. Every financial institution must file CTRs within 15 days of the transaction under 31 C.F.R. § 1010.306(a)(1).

¹² Banks regulated by a federal regulator, including banks, savings associations, and credit unions must monitor transactions for suspicious activity in all products and services. § 1020.210(a)(2)(v)(B). They must file a SAR electronically through FinCEN's BSA E-Filing website within 30 days of the date of detection (if no suspect can be identified, the period for filing a SAR is extended to 60 days). 31 C.F.R. § 1010.306. In addition, NCUA regulations require credit unions to file SARs. 12 C.F.R. § 748.1(d).

¹³ 12 U.S.C. § 1786(q).



corrective action, such as engaging a third-party to conduct an independent test of BSA compliance or requiring the credit union to provide appropriate BSA training to staff.

A BSA/AML compliance program must be reasonably designed to assure and monitor the institution's compliance with the requirements of the BSA and its implementing regulations and have, at a minimum, the following four core elements, often referred to as the "pillars":

1. A system of internal controls (such as customer due diligence, customer identification program, procedures for monitoring suspicious activity, and an appropriate risk assessment) to assure ongoing compliance with the BSA,
2. Independent testing for BSA/AML compliance,
3. A designated individual or individuals responsible for coordinating and monitoring BSA/AML compliance, and
4. Training for appropriate personnel.

In 2016, FinCEN issued a final rule that imposed new requirements for identifying and verifying beneficial owners of legal entity customers.¹⁵ A credit union's program must include risk-based procedures for conducting ongoing customer due diligence, to include understanding the nature and purpose of customer relationships for the purpose of developing a customer risk profile; and conducting ongoing monitoring to identify and report suspicious transactions and, on a risk basis, to maintain and update customer information. These new rules, amending the BSA, became effective in July 2016, and all federally insured credit unions had to comply fully by May 11, 2018.

The federal financial supervisory agencies,¹⁶ including the NCUA, did not change their program rules when FinCEN added customer due diligence. Rather, the agencies considered customer due diligence to fall under the first pillar of internal controls. For that reason, the agencies still refer to the four pillars but are aware that FinCEN considers customer due diligence a 5th pillar.

NCUA's BSA Guidance

NCUA's Enforcement Manual

The NCUA issued its current Enforcement Manual on September 16, 2004, through Instruction No. 4820, Enforcement Manual. The Enforcement Manual describes NCUA's policy for taking

¹⁵ 31 C.F.R. § 1010.230. A beneficial owner is each individual who owns 25 percent or more of the equity interests of a legal entity customer (such as a corporation, limited liability company, or a general partnership) and an individual with significant responsibility to control, manage, or direct a legal entity customer, such as an executive officer or senior manager.

¹⁶ NCUA's Memorandum of Understanding with FinCEN, discussed later in this report, refers to the NCUA as a federal banking agency. The federal banking agencies include the NCUA, Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency.



appropriate enforcement action in response to violations of law, rules, regulations, final agency orders, and/or unsafe and unsound practices or conditions. The Instruction directed agency staff to use the Enforcement Manual in selecting and processing enforcement action decisions and adhere to the policies, guidelines, and procedures incorporated in the Enforcement Manual. The Instruction also stated that although the NCUA customarily uses close supervision and informal enforcement actions to resolve safety and soundness concerns, it also has broad enforcement powers under the Federal Credit Union Act to issue formal enforcement actions when necessary. The Enforcement Manual includes the following guidance: an enforcement action overview and general policy, letters of understanding and agreement, C&D orders and civil money penalties, removal of officials and prohibitions, administering prompt corrective action directives and related actions, conservatorship, involuntary liquidations, and termination of insurance.

Memorandum of Understanding with FinCEN

In September 2004, the NCUA and the other federal financial supervisory agencies entered a memorandum of understanding (MOU) with FinCEN that set forth procedures for the exchange of certain information among the agencies and FinCEN. Information exchanged under this MOU included information about FinCEN's administration of the BSA; information relating to the federal financial supervisory agencies' policies and procedures for examination of BSA compliance; significant BSA compliance issues at banking organizations supervised by the federal financial supervisory agencies; and analytical data based on or derived from information provided by the federal financial supervisory agencies. Information exchanged pursuant to the terms of the MOU is intended to (1) help FinCEN in fulfilling its role as administrator of the BSA and to assist the federal financial supervisory agencies in fulfilling their role as banking organization supervisors; (2) further the purpose of the BSA by better ensuring compliance in the filing of reports and keeping of records that "have a high degree of usefulness in criminal, tax or regulatory investigations or proceedings, or in the conduct of intelligence or counterintelligence activities, including analysis, to protect against international terrorism;"¹⁷ and (3) improve and enhance the level of interagency cooperation in the area of BSA examination and compliance. The collective goal of FinCEN and the agencies is to communicate and coordinate to help financial institutions identify, deter, and interdict terrorist financing and money laundering. With the effective use of information exchanged, these agencies seek to enhance the level of assistance and analysis that can be provided to the banking industry and to law enforcement in BSA compliance.

Each federal financial supervisory agency has examination and enforcement authority for the financial condition, safe and sound operation, and compliance with laws and regulations of the banking organizations it supervises. Under delegated authority from the Secretary of the Treasury, FinCEN is the administrator of the BSA. FinCEN has the authority to examine financial institutions for compliance with the BSA and regulations as well as to take enforcement actions for violations of the BSA and the implementing regulations.¹⁸ The Treasury Secretary has delegated BSA examination authority, to each federal financial supervisory agency with

¹⁷ 31 U.S.C. § 5311.

¹⁸ 31 U.S.C. § 5318(a)(3).



respect to banking organizations supervised by that federal financial supervisory agency. The federal financial supervisory agencies have separate authority to ensure that banking organizations comply with the BSA, including enforcement authority.¹⁹ FinCEN's regulations specify that each agency that performs FinCEN's delegated examination authority shall make periodic reports to FinCEN.²⁰

The MOU establishes that the agencies shall meet, no less often than annually, to discuss the operation of the MOU and to identify any issues or adjustments that may be required. FinCEN will provide an update on how the information provided by the federal financial supervisory agencies has been used; and the agencies will evaluate the effectiveness of the information sharing in meeting goals. The MOU provided that amendments to the format and delivery of information required by the MOU may be done by the mutual agreement of staff of the agencies.

The MOU also states that the federal financial supervisory agencies will provide the following information to FinCEN:

- An annual report summarizing the BSA examination program that includes the number of financial institutions examined for BSA compliance as of the date of the report, descriptions of the examination cycle, description of criteria used for determining the timing and scope of BSA examinations, description of examination staffing and resources, description of BSA training programs provided to examiners, and description of the extent to which state banking regulatory agencies are relied upon to conduct BSA examinations.
- Program documents such as BSA examination work program documents and written guidance pertaining to BSA examinations.
- Quarterly reports within 45 days after the end of each calendar quarter with the number of BSA examinations conducted within the agency's established examination cycle, number of BSA examinations conducted by a State banking agency and reviewed under an established joint or alternate program, number of BSA examinations or visitations conducted outside the agency's established BSA examination cycle, number of banking organizations cited for BSA violations, number and type of BSA violations, number of enforcement actions by category taken to address BSA compliance, number of terminated enforcement actions taken by category that addressed BSA compliance, and if available, list of banking organizations instructed to request currency transaction report backfiling²¹ determinations.

¹⁹ 12 U.S.C. §§ 1786 and 1818.

²⁰ 31 C.F.R. § 103.56(e).

²¹ If a credit union becomes aware, either through self-identification or through an examination, that it has failed to file CTRs on reportable transactions, or filed CTRs with errors, the credit union may request a determination from FinCEN on whether to backfile unreported transactions or amend CTRs filed with errors.



- Special BSA examination project information or special BSA examination initiatives²² to include a description of the scope of the special BSA examination initiatives conducted because of, or to address, serious anti-money laundering (AML) issues that could have a national systemic impact on the banking industry.
- Significant BSA violations or deficiencies promptly, such as:
 - When the agency discovers a significant BSA violation or deficiency, it will notify FinCEN as soon as practicable, but no later than 30 days after the agency cites the organization, in a written communication, for a significant BSA violation or deficiency.
 - As soon as practicable, but no later than 30 days after completion, the agency will provide to FinCEN portions of the Report(s) of Examination and other written materials relating to the significant BSA violation or deficiency.
 - To the extent that FinCEN is not already a party to the action, the federal financial supervisory agencies will notify FinCEN of public enforcement actions involving a significant BSA violation or deficiency as soon as practicable, but no later than 30 days after the federal financial supervisory agency has decided to pursue the action. In all cases, the notification must occur before such action is made public. For all other enforcement actions involving a significant BSA violation or deficiency, the federal financial supervisory agency will notify FinCEN of the action as soon as practicable, but no later than 30 days after taking the action.
 - If an enforcement action involving a significant BSA violation or deficiency requires the banking organization subject to the action to take corrective measures, develop, and implement an action plan, or submit progress reports to the federal financial supervisory agency, the federal financial supervisory agency will provide FinCEN with a quarterly assessment of those banking organizations that have failed to comply with such requirements. The federal financial supervisory agency will provide to FinCEN copies of any relevant Report(s) of Examination related to such banking organizations if not otherwise provided. Copies of the Report(s) of Examination will be provided as soon as practicable, but not later than 30 days after completion. Upon request by FinCEN, the federal financial supervisory agency will provide reports submitted by the banking organization in response to an enforcement action, as well as Report(s) of Examination related to follow up on actions involving a significant BSA violation or deficiency.

²² A “special BSA examination initiative” is defined as a special initiative designed to address identified or emerging risks on a national or regional basis. It also includes examinations conducted because of, or to address, serious AML issues that could have a national systemic impact on the banking industry.



- To the extent not otherwise known to FinCEN, the federal financial supervisory agencies will notify FinCEN of the resolution of any action involving a significant BSA violation or deficiency as soon as practicable, but no later than 30 days after the resolution²³ of the action and provide any material relevant to the resolution.
- Workpapers and supporting documentation relating to BSA examinations shall be available to FinCEN as soon as practicable upon FinCEN's written request, but no later than 45 days after such request.
- The format for providing information to FinCEN may vary among the federal financial supervisory agencies. Each federal financial supervisory agency shall provide information under this MOU in a format that is mutually acceptable to FinCEN and the federal financial supervisory agencies.

NCUA Instruction 5001.06 Bank Secrecy Act Compliance

On May 10, 2005, the NCUA issued Instruction No. 5001.06 (Rev.1), Bank Secrecy Act Compliance. This Instruction updated NCUA's policy on enforcing BSA compliance in federally insured credit unions and provided guidance concerning the following:

- the evaluation of BSA violations (identifying),
- retention of relevant supervision documents (tracking),
- timely corrective action (resolving),
- completion of follow-up supervision (supervising),
- information collected for communication to FinCEN (reporting), and
- notification process when money-laundering or other high-profile activities are detected (quick response).

The Instruction provided definitions for consistent assessment of BSA violations and necessary corrective action for compliance with the FinCEN MOU. For example, this Instruction defined significant BSA violations²⁴ as data quality violations,²⁵ pervasive violations,²⁶ systemic

²³ For purposes of the MOU, resolution is defined as termination of an action, or the issuance of a subsequent action.

²⁴ NSPM version 20.0, issued after the audit scope period, contains an updated definition of "significant," which aligns with the Joint Statement on Enforcement of BSA/AML Requirements.

²⁵ A data quality violation involves the collection or report of information to FinCEN through a SAR or CTR and involves unfiled SARs or CTRs.

²⁶ A pervasive violation taints the entire operation of a credit union and includes lack of written BSA compliance program covering all required elements and or a willful or reckless disregard for BSA.



violations,²⁷ and repeat violations.²⁸ It also provided information on how to capture BSA information in AIRES, the system NCUA examiners used prior to MERIT, and examiner flowcharts²⁹ to reflect the new submission process and FinCEN data reporting. As discussed below, after the audit scope period, the NCUA cancelled this Instruction concurrently with an update to the National Supervision Policy Manual (NSPM).

Federal Financial Institutions Examination Council (FFIEC) BSA/AML Examination Manual

On December 2, 2014, the FFIEC released a revised Bank Secrecy Act/Anti-Money Laundering Examination Manual and later restructured the manual on April 15, 2020.³⁰ The FFIEC Examination Manual provides guidance to examiners for carrying out BSA/AML and OFAC³¹ examinations. The development of this manual was a collaborative effort of the federal and state banking agencies and FinCEN, to ensure consistency in the application of the BSA/AML requirements. The manual provides guidance on identifying and controlling risks associated with money laundering and terrorist financing and contains an overview of BSA/AML compliance program requirements, BSA/AML risks and risk management expectations, industry sound practices, and examination procedures. The manual is structured to allow examiners to tailor the BSA/AML examination scope and procedures to the specific risk profile of the banking organization. During our audit scope period, the manual consisted of sections such as:

- Core Examination Overview and Procedures for Assessing the BSA/AML Compliance Program.
- Core Examination Overview and Procedures for Regulatory Requirements and Related Topics.
- Expanded Examination Overview and Procedures for Consolidated and Other Types of BSA/AML Compliance Program Structures.
- Expanded Examination Overview and Procedures for Products and Services.
- Expanded Examination Overview and Procedures for Persons and Entities.

The core and expanded overview sections provide narrative guidance and background information on each topic. Each overview is followed by examination procedures. The core examination overview and procedures sections serve as a platform for the BSA/AML

²⁷ A systemic violation reflects an organizational disregard for provisions of BSA. A systemic violation can often be identified through multiple instances of BSA non-compliance.

²⁸ A repeat BSA violation indicates a lack of management attention to AML requirements. Examples of repeat violations include a history of program, recordkeeping, or reporting violations and uncorrected BSA violations.

²⁹ The agency plans to provide an updated flowchart in the next NSPM version, expected in early 2024.

³⁰ The FFIEC published other updates to the manual on February 25, 2021; June 21, 2021; and December 1, 2021. On August 2, 2023, after our audit scope period, the FFIEC released updates to some sections of this manual to offer further transparency into the examination process and support risk-focused examination work.

³¹ OFAC examinations did not fall within the scope of this audit. Therefore, we did not review these examinations.



examination and, for the most part, address legal and regulatory requirements of the BSA/AML compliance program. Not all the core and expanded examination procedures are likely to be applicable to every banking organization. The specific examination procedures that will need to be performed depend on the BSA/AML risk profile of the banking organization, the quality and quantity of independent testing, the financial institution's history of BSA/AML compliance, and other relevant factors. At a minimum, examiners should use the following examination procedures included within the "Core Examination Overview and Procedures for Assessing the BSA/AML Compliance Program" section of this manual to ensure that the credit union has an adequate BSA/AML compliance program commensurate with its risk profile:

- Scoping and Planning,
- BSA/AML Risk Assessment,
- BSA/AML Compliance Program, and
- Developing Conclusions and Finalizing the Examination.

The "Scoping and Planning" and the "BSA/AML Risk Assessment" sections help the examiner develop an appropriate examination plan based on the risk profile of the credit union. There may be instances where a topic is covered in both the core and expanded sections. In such instances, the core overview and examination procedures address the BSA requirements while the expanded³² overview and examination procedures address the AML risks of the specific activity.

Examiner's Guide

The NCUA provides the Examiner's Guide as a resource for its staff to use in the supervision of credit unions. NCUA's E&I updates the guide on an ongoing basis to address developments in the industry and in NCUA's supervision policy. The information in the guide assists examiners in areas such as the scoping process and on- and off-site supervision contacts. Specifically, the Examiner's Guide provides guidance to NCUA examination staff on regulations and examination procedures. Each section of the Examiner's Guide focuses on a specific topic, providing background information and outlining any related regulatory and statutory requirements. The guide also provides instructions to help examination staff implement procedures required by agency policy in the NSPM, discussed later. The Examiner's Guide is intended to provide a framework for more consistent application of staff judgment with respect to conclusions about a credit union's financial and operational condition, and related CAMELS³³

³² The expanded sections address specific lines of business, products, customers, or entities that may present unique challenges and exposures for which banks should institute appropriate policies, procedures, and processes. Absent appropriate controls, these lines of business, products, customers, or entities could elevate BSA/AML risks. In addition, the expanded section provides guidance on BSA/AML compliance program structures and risk management.

³³ Examiners assign a numeric value to each of the CAMELS components based on the evaluation of six critical elements of a credit union's operations over the course of an examination. The six elements are Capital, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk.



and risk ratings. It also provides a consistent approach for evaluating the adequacy of a credit union's relevant risk-management processes. Supervisory criteria detailed in this guide are not strict requirements unless noted as required by law or regulation.

The Examiner's Guide contains a chapter on BSA. This chapter includes topics such as BSA examination objectives, risk categories, enforcement responsibilities, member due diligence, credit union reporting requirements for SARs and CTRs, FinCEN referrals, and documenting violations. During examinations, examiners determine the credit union's level of BSA compliance. The Examiner's Guide establishes that the objectives of the BSA examination, in part, are to ensure the credit union has adequate policies, procedures, and controls for verifying member identity, identifying reportable transactions, filing required reports, and maintaining proper documentation. On February 2, 2023, after our audit scope period, the NCUA issued an updated Examiner's Guide with new and modified BSA content. This revision replaced the previous BSA content in its entirety.

National Supervision Policy Manual

On June 29, 2012, the NCUA issued the first version of the NSPM (version 1.0) in response to the need for an agency-wide, consistent approach to supervision and quality assurance measures.³⁴ The NSPM establishes the national policies, procedures, and guidelines for effective district management, supervision of credit unions, and quality assurance. The NSPM promotes the consistent application of examination procedures and coordinates across the agency when examination policies and procedures change. NCUA's examiners must use the NSPM and not create new or additional operating procedures. However, on a case-by-case basis, supervisors can and should implement procedures to manage risk in specific credit unions and/or address the development needs of individual employees. Any alternative or additional examination policies, procedures, or directives beyond those included in the NSPM and adopted by field offices or supervisors must be cleared through NCUA's Exam Steering Group³⁵ and E&I. The Exam Steering Group will review and evaluate specific practices to determine if they require E&I approval.

The NSPM includes a chapter on BSA Enforcement to provide examiners information regarding their role in enforcing BSA in credit unions. This chapter sets forth the framework for the BSA examination program to mitigate compliance risk and ensure federally insured credit unions comply with all applicable regulations. During our audit scope period, topics in the BSA section of the NSPM included:

- SARs,
- CTRs,

³⁴ During the audit scope period, the agency revised the NSPM 15 times. NSPM version 5.3, released on October 23, 2017, was the first applicable manual for the scope of this audit. NSPM version 16.1, released on November 9, 2021, was the last applicable manual for the scope of this audit.

³⁵ The Exam Steering Group consists of senior staff and managers from each region, OBI, ONES, Office of Consumer Financial Protection, and E&I.



- BSA Enforcement,
- BSA Violations (including applicable citations),
- Resolution of significant BSA violations, and
- Reporting the resolution of a BSA violation.

On February 2, 2023, after our audit scope period, the NCUA issued NSPM version 20.0 with new and modified content. This revision provided an entire rewrite of the BSA chapter and replaced the previous BSA chapter in its entirety. Specifically, this revision updated the BSA policy and MERIT terminology and cancelled Instruction 5001.06 (Rev.1), Bank Secrecy Act Compliance. This revision updated and improved the NSPM's BSA content.

NCUA's BSA Enforcement Process

As previously mentioned, the NCUA conducts BSA examinations for all federal credit unions. For these examinations, NCUA examiners conduct planning and scoping activities. During our audit scope period, these activities included completing a pre-exam planning questionnaire and documenting the examination scope. Examiners also conducted risk assessments, which included completing a preliminary and a final risk assessment questionnaire in AIRES and risk assessment tasks in MERIT.³⁶ During our audit scope period, examiners conducted risk assessment reviews within the agency's Risk Analysis and Trending Evaluation (RATE)³⁷ and Risk Assessment and Data Analytics Rating (RADAR)³⁸ systems. Also, in August 2020, the agency further improved their risk assessment process by implementing the BSA Offsite Monitoring Tool for examiner review.³⁹ The agency designed the BSA Offsite Monitoring Tool to help examiners scope their review of BSA compliance and, when appropriate, assist in developing a preliminary risk rating

³⁶ During the scope period of this audit, the NCUA's credit union examination systems included AIRES and MERIT. Beginning in 1995, the NCUA used AIRES as the primary credit union examination tool to incorporate databases, Excel workbooks, Word documents, and other interfaces for documenting examinations or contacts. In 2021, the agency replaced AIRES with a new examination platform, MERIT. MERIT is a configured, web-based application with integrated business intelligence analytics and data integration with the NCUA's legacy systems. During the audit scope period, the NSPM described the BSA examination process using AIRES terminology. Although not intended to provide comprehensive instructions, the NSPM did not describe how examiners documented BSA examinations and violations using MERIT. Therefore, we obtained information about how examiners used MERIT during our audit by conducting walkthroughs and reviewing the MERIT User's Guide.

³⁷ The RATE tool formalizes the quarterly risk trending and surveillance review process where examiners analyze Financial Performance Reports, risk reports, and Call Report data and review information in the aggregated RATE dashboard such as the scope module final risk assessments and CAMELS codes. An important component of the RATE dashboard is the risk report section, which lists various risk thresholds and identifies potential areas of risk or regulatory violations. The information in the RATE tool can help examiners develop an exam scope and identify red flags in a credit union's operations or financial position.

³⁸ On July 13, 2020, RADAR replaced RATE for documenting quarterly trending and analysis. RADAR uses data and field staff feedback to develop a comprehensive understanding of existing risk and the direction of risk at a given point in time.

³⁹ The agency required review of the BSA Offsite Monitoring tool as part of RATE reviews in NSPM version 12.0.



for compliance risk. This tool highlights aggregate data and risk indicators and provides an indicator of complexity and potential risk.⁴⁰ The agency also maintains a Fraud Indicator Report, another scoping tool, to help identify characteristics of potential internal fraud at a credit union, which may warrant further review during the examination.

Examiners reviewed credit unions' compliance programs by completing steps contained within the examination systems. AIRES included a BSA questionnaire with approximately 80 questions for examiners to complete.⁴¹ During the transition to MERIT, examiners included this AIRES questionnaire within MERIT. However, later during the scope period, MERIT contained four questionnaire scope tasks with a subset of questions within each task, a total of 17 higher-level questions for examiners to complete. During BSA reviews, NCUA examiners:

- Assess the adequacy of the federally insured credit union's compliance program, relative to its risk profile;
- Assess the federally insured credit union's compliance with applicable BSA regulatory requirements, including reporting and recordkeeping requirements; and
- Determine whether the federally insured credit union has developed and implemented adequate processes to identify, measure, monitor, and control the risks associated with money-laundering, terrorist financing, and other illicit financial activities.

At the conclusion of the examination, examiners develop conclusions in an examination report and finalize the examination.

When an examiner identifies a BSA violation, the agency implements targeted enforcement to resolve supervisory concerns. First, examiners determine whether the violation meets the definition of significant (data quality, pervasive, systemic, or repeat). If a violation is not significant, examiners may use judgment to guide the credit union regarding BSA compliance. While nonsignificant BSA violations are generally isolated or technical in nature, multiple technical violations throughout departments or divisions may indicate systemic weaknesses indicative of a larger problem that rises to the level of a significant violation. In both AIRES and MERIT, examiners mark nonsignificant BSA violations as "BSA"⁴² in the Consumer Compliance Violation (CCV) module. In MERIT, examiners will also mark the rating field of the MERIT Issue Details Form as "low" or "medium" for nonsignificant BSA violations. In both AIRES and MERIT, for data quality violations identified, formal actions taken for BSA noncompliance, and any other significant BSA violations, a BSA report excerpt (using a FinCEN.doc template)⁴³ must be prepared for all federal credit unions. In MERIT, examiners

⁴⁰ This data and the related analysis are intended as a starting point in the BSA and AML review process. On-site testing, review, and analysis must be conducted to assess the risk appropriately.

⁴¹ The number of AIRES BSA questions varied during the audit scope period.

⁴² "BSA" is the code used for violations that are not considered as significant.

⁴³ The goal of the FinCEN.doc is to compile all BSA-related discussions given to credit union management into one document for FinCEN's review. NSPM version 20.0, issued after the audit scope period, directs examiners to include only information about significant BSA violations not resolved during the exam or contact where they were identified.



will address these violations in the MERIT Issue Details Form and will mark the Rating field of the Issue Details Form as “High” for significant BSA violations. CCVs in the MERIT Issue Details Form are the NCUA’s primary means of collecting data for reporting to FinCEN. Examiners must accurately report both significant and nonsignificant BSA violations as a CCV in the Issue Type field of the MERIT Issue Details Form, using the correct regulation (“BSA-S” or “BSA,” respectively)⁴⁴ to identify the violations. Examiners work with the credit union to write a mutually acceptable plan to take corrective action in 90 days or less, or a maximum of 150 days for independent testing.⁴⁵

Significant violations require a Document of Resolution and a compliance risk rating of high. If a credit union resolves the violation before the completion of the examination, the examiner may report the violation as resolved by selecting the appropriate code in the AIRES CCV module. Also, the Document of Resolution can be marked as corrected and a compliance risk rating of high can be avoided if the credit union fully corrects all significant BSA violations during the examination and the examiner verifies the credit union implemented proper controls designed to prevent future violations. If a credit union does not resolve a violation before examination completion, the examiner must report the violation as not resolved on the AIRES violation worksheet. If applicable, the regional examiner will send the BSA examination excerpts to the regional office for reporting to E&I. For ONES examinations, ONES will provide the excerpt to E&I. Then, the examiner will complete a follow-up examination or supervision contact within 90 days from the identification date⁴⁶ of the significant BSA violation. When significant BSA violations have been adequately corrected, examiners must update the CCV to reflect it has been properly completed. Each credit union with significant violations must have at least one AIRES file uploaded within the 90- or 150-day timeframe to identify corrections. Examiners need to perform a follow-up contact within 75 days from the examination or contact completion date to assess progress. Such planning allows sufficient time to draft and process any pending administrative action if necessary. If inadequate corrective action is noted, escalation of administrative action is required by the examiner. For example, when credit union compliance with the Document of Resolution is inadequate, a preliminary warning letter or other administrative action must be issued to achieve resolution within 180 days or less from the first date of identification. Based on the severity of the violation, the timeframes for administrative action can be accelerated.

The Federal Credit Union Act contains a list of applicable administrative actions. These administrative actions include informal and formal enforcement actions. Informal actions include Documents of Resolution, Regional Director letters, non-published letters of understanding and

⁴⁴ “BSA-S” is the code used for significant BSA violations. “BSA” is the code used for violations that are not considered as significant. Prior to MERIT, examiners completed the CCV module using the standard BSA citations and regulation codes.

⁴⁵ Based on the severity of the violation, the timeframes for administrative action can be accelerated. If inadequate corrective action is noted, escalation of administrative action is required by the examiner.

⁴⁶ The examination systems automatically capture the violation identification dates. In AIRES, the date of identification was also known as the examination completion date or the dates the AIRES file or scope workbook associated with the supervision contact was uploaded to the host server.



agreement, and preliminary warning letters. Formal actions include published letters of understanding and agreement, intermediate and/or permanent C&Ds, civil monetary penalties, involuntary liquidation, conservatorship, removal and/or prohibition, termination of insurance and/or revocation of charter, and some prompt corrective actions-, such as dismissing a director or senior officer. In August 2020, the NCUA and the other federal financial supervisory agencies issued a “Joint Statement on Enforcement of Bank Secrecy Act/Anti-Money Laundering Requirements” to enhance transparency regarding how they evaluate enforcement actions that are required by statute when financial institutions fail to meet BSA/AML obligations and described the circumstances in which an agency may use its discretion to issue formal or informal enforcement actions or use other supervisory actions to address BSA-related violations or unsafe or unsound banking practices or other deficiencies. This statement also communicated that a C&D order is required if a federally insured credit union has failed to establish and maintain procedures reasonably designed to assure and monitor compliance with the BSA or has failed to correct a previously reported problem.

E&I is responsible for monitoring the national status and trends based on monthly and quarterly regional reports and will compile this information into reports provided to FinCEN. E&I is also responsible for establishing agency examination procedures, coordinating with the other agencies to promote consistent examination practices, evaluating the overall quality of the BSA examination program, collecting information on emerging risks, resources, and program quality, and monitoring overall national trends to ensure a high quality BSA examination program. Regional directors are responsible for measuring and monitoring the BSA examination program for quality and completeness, as well as adherence to established standards. The regions are responsible for reviewing and ensuring BSA violations are cited appropriately and correctly. ONES conducts similar procedures as the regions.



RESULTS IN DETAIL

Our audit objectives included determining whether the NCUA: (1) adequately reviewed compliance with the BSA during credit union safety and soundness examinations, (2) issued timely formal or informal enforcement actions to address BSA-related violations, (3) tailored enforcement actions to address deficiencies identified during the supervisory process, (4) followed up on reported BSA violations to ensure credit unions take appropriate corrective action before closure of the violation, and (5) appropriately referred significant BSA violations and deficiencies to FinCEN, a bureau within the United States Department of the Treasury.⁴⁷

Results of our audit determined that NCUA examiners adequately reviewed compliance with the BSA during credit union safety and soundness exams; however, the MERIT examination steps need improvement. We also determined the NCUA timely issued formal and informal enforcement actions to address BSA-related violations, tailored enforcement actions to address deficiencies identified during the supervisory process, and followed up on reported BSA violations to ensure credit unions took corrective action before closing the violation(s). In addition, although the agency communicated and reported BSA violations and deficiencies to FinCEN, the agency could improve its reporting process and its BSA enforcement policies.

The detailed results of our audit follow.

**BSA Compliance
Adequately Reviewed
but MERIT
Examination Steps
Need Improvement**

We determined NCUA examiners adequately reviewed compliance with the BSA. Although we noted some exceptions during our review of examinations, the exceptions we identified did not negatively affect the quality of the BSA examinations performed. In addition, through our review of the agency's policies and procedures, examination steps, and testing of examinations, we determined MERIT included significantly fewer examination steps than did its predecessor, AIREs.

Although MERIT's examination steps covered the BSA examination steps previously included in AIREs at a high level, we determined examiners could have benefited from consulting the BSA Job Aid in MERIT to ensure their examinations included all BSA pillars. However, E&I did not require examiners to use the BSA Job Aid, nor did the examination steps specifically address all the BSA examination pillars. During the agency's transition from AIREs to MERIT, E&I understood that OBI recommended limiting the number of examination steps in MERIT due to the poor user experience in MERIT at the time.

⁴⁷ The BSA authorizes the Treasury to impose reporting and other requirements on financial institutions and other businesses to help detect and prevent money laundering. By virtue of the USA Patriot Act of 2001, Treasury Order 180-01 authorized FinCEN to carry out the duties and responsibilities set forth by the BSA to support law enforcement efforts to foster interagency and global cooperation against domestic and international financial crimes, and to provide United States policy makers with strategic analysis of domestic and worldwide trends and patterns. FinCEN works toward those ends through information collection, analysis, sharing, as well as technological assistance and innovative, cost-effective implementation of the BSA and other Treasury authorities assigned to FinCEN.



The U.S. Government Accountability Office (GAO) issued the Standards for Internal Control in the Federal Government, known as the “Green Book,” to set the standards for an effective internal control system for federal agencies.⁴⁸ According to GAO’s Green Book Principle 4.08, “documentation is a necessary part of an effective internal control system.” Also, as a best practice, examination documentation should demonstrate a clear trail of decisions and supporting logic within a given area. A well-constructed examination documentation file will provide sufficient data to reconstruct the examiner’s decision process for each step of the examination. This includes support for the examiner’s decision to include or exclude an area of review from the scope of the examination. If examination steps do not include all necessary examination steps or clear guidance on how to complete the steps, a risk exists that examiners may not adequately or consistently document the results of their examinations.

Details

To determine whether the NCUA adequately reviewed credit union compliance with the BSA, we reviewed the NCUA's examination guidance, including the NSPM and Examiner's Guide. We reviewed this guidance to determine whether it included all required examination steps in the FFIEC Examination Manual. In addition to reviewing the agency’s BSA examination guidance, we also reviewed the BSA modules within the examination systems. These modules included BSA questionnaires and steps for examiners to complete. We compared these examination questionnaires to the FFIEC Examination Manual. As previously mentioned, the FFIEC Examination Manual allows examiners flexibility to perform BSA examinations based on the BSA risk profile of the financial institution. Specifically, the FFIEC Examination Manual states, “Not all of the core and expanded examination procedures are likely to be applicable to every banking organization. The specific examination procedures that need to be performed depend on the BSA/AML risk profile of the banking organization, the quality and quantity of independent testing, the financial institution’s history of BSA/AML compliance, and other relevant factors.” The FFIEC Examination Manual also states “BSA/AML examinations should include at a minimum:

- Scoping and Planning
- BSA/AML Risk Assessment
- BSA/AML Compliance Program
- Developing Conclusions and Finalizing the Examination.”

We conducted walkthroughs of both the AIRES and MERIT examination systems and reviewed samples of examinations. We determined both the AIRES and MERIT systems included all the minimum requirements described in the FFIEC Examination Manual. Examiners considered BSA during overall exam scoping, planning, risk assessment, and when developing conclusions and finalizing exams. The NCUA included BSA during scoping and planning of all credit union

⁴⁸ GAO-14-704G (2014)



examinations. For example, examiners conducted scoping and planning within a pre-exam planning questionnaire and within an exam scope module in AIRES. For risk assessments, examinations also included a preliminary risk assessment and final risk assessment. The regions and ONES also conducted quarterly RATE and/or RADAR reviews for offsite monitoring and for scoping and planning examinations. In addition, beginning in August 2020, examiners began using a BSA Offsite Monitoring Tool to review BSA risk. To review a credit union's BSA compliance program, the examination systems contained BSA questionnaires for examiners to complete. After completing the questionnaire(s), examiners developed conclusions included in the final examination documentation. If examiners identified issues regarding BSA during the examination, examiners included these conclusions in the examination report. In addition, examiners recorded and tracked all BSA violations in the CCV module. Examiners finalized their examinations by issuing an examination report to the credit union. For examinations in our sample, we noted examination teams did not frequently involve BSA subject matter examiners. Out of a total of 30 examinations tested, only 5 included an assigned BSA subject matter examiner. However, we learned that examiners could request BSA subject matter examiner assistance, if needed.

We reviewed all modules within the AIRES and MERIT examination systems to determine which modules, tasks, and steps related to BSA examinations. The AIRES system included a BSA Questionnaire in an Excel format.⁴⁹ The MERIT system included scope tasks to complete, which included a subset of questions within each task. We compared these questionnaires and tasks to the core examination procedures contained in the FFIEC Examination Manual and considered whether the questionnaires addressed the four BSA pillars. Although the AIRES questionnaire did not contain the core examination procedures contained in the FFIEC Examination Manual verbatim, we determined the AIRES examination questionnaire covered the core questions in the FFIEC Examination Manual and included all four BSA pillars. This AIRES questionnaire contained approximately 80 questions. In addition to the questions, the questionnaire contained additional guidance for examiners to review when conducting their examinations. The questionnaire required a yes, no, or not applicable response for each question and instructed examiners to document their comments and results within the questionnaire.

In contrast to AIRES, the MERIT system did not contain the same detailed procedures for the examiners to conduct. As previously mentioned, the MERIT system contained four BSA questionnaire scope tasks with a subset of questions in the tasks, a total of 17 questions. Although the agency provided training and guidance to follow such as the FFIEC Examination Manual, NSPM, Examiner's Guide, and a BSA Job Aid⁵⁰ in MERIT, the MERIT questionnaire only provided these 17 high-level questions for examiners to complete. These high-level questions did not specifically address all the BSA pillars, such as a designated individual or individuals responsible for coordinating and monitoring BSA/AML compliance. However, the Job Aid in MERIT contained a requirement related to the assignment of a designated individual responsible for monitoring the day-to-day compliance with the BSA, and we noted that this BSA

⁴⁹ Regional examiners used AIRES and the BSA Questionnaire until late 2021, after our audit scope period. During our audit scope period, ONES transitioned to using MERIT in late 2020.

⁵⁰ The Job Aid, located within MERIT's Job Aid Repository, contained additional BSA examination information and references to the FFIEC Examination Manual.



pillar was included in the NSPM and Examiner's Guide. During the audit, we learned that during the MERIT transition, OBI recommended that E&I limit the number of scope task questions to include only the questions E&I wanted to collect data about to minimize the work on examiners due to the poor user experience in MERIT at the time. Although OBI did not recall limiting E&I to a specific number of questions, E&I understood that they should limit the number of questions to "around 4" for each scope task.

Although the Job Aid contains guidance and specific questions for examiners to consider during their exam and NCUA management has encouraged its use during agency BSA trainings, the Job Aid was not required to be completed or used during examinations. When responding to the BSA questionnaire, the MERIT scope tasks, and review steps did not direct examiners to respond to questions included in the Job Aid to ensure consistent and adequate responses to the BSA questionnaire. Although we reviewed ONES examinations conducted in MERIT during our audit scope period and did not note any concerns regarding the examiner's documentation, ONES examiners tend to be more experienced than regional examiners. With the current MERIT questionnaire, there is a risk that less experienced examiners could respond in MERIT with a yes or no response without performing essential review steps, if not explicitly included, and without documenting the results of the review for each scope task. Also, with fewer and less detailed review steps, there is also a greater burden on the examiner to review for relevant guidance during the examination and document a thorough BSA review. For example, in the four scope tasks, it is expected that examiners would review whether a credit union designated an individual(s) responsible for coordinating and monitoring day-to-day BSA compliance in the first scope step related to internal control as they review the Job Aid. However, when we asked E&I about this requirement, E&I indicated examiners would only comment if there wasn't a designated individual, if the individual did not appear qualified in some way, or if the policy did not designate an individual responsible for day-to-day BSA compliance.

To review regional examinations, we selected two non-statistical random samples from AIRES for testing: 12 examinations without BSA violations cited and 12 examinations with BSA violations cited. We also reviewed three AIRES examination files for the credit unions with cease-and-desist orders completed. In addition to the regional examinations, we also selected two judgmental samples of ONES examinations: two MERIT examinations without BSA violations cited and one AIRES examination with BSA violations cited. Although we did not note any exceptions with the MERIT examinations conducted by ONES examiners, we did note the following exceptions with the AIRES examinations conducted by regional examiners.

- Three examiners did not fully complete the BSA questionnaires. This included examiners not describing the testing conducted, as instructed in the comment section of the examination questionnaire, and leaving Yes, No, or not applicable responses blank. However, although these examiners left a few questions unanswered, they addressed these questions in other areas of the examination file.
- Two examiners marked questions in the BSA questionnaire as not reviewed without explaining why they did not complete these questions in the comment section of the



questionnaire. However, we determined these examiners addressed the reasons why they did not conduct these reviews in another section of the examination.

- One examiner did not timely resolve a BSA violation in the CCV tracking system. Although the examiner noted the resolution of the violation in the examination file at the time it was resolved, the examiner inadvertently missed closing the violation in the tracking module. The examiner, however, closed this violation in the tracking module during the next examination.

After reviewing and considering the documentation included in the entire file for each sampled examination, we determined these findings did not significantly impact the overall quality of the BSA examinations. Also, during the audit, we learned the regions implemented a pre-release secondary review process.⁵¹ We noted that the exceptions we identified either occurred prior to the pre-release secondary review process or in the early stages of it. Although we did not note any exceptions for ONES examinations, the ONES' Division of Supervision performs pre-delivery examination report reviews and post-delivery quality control reviews of ONES credit unions examination reports. ONES national field supervisors also perform quality assurance activities. Because the pre-release secondary review process should prevent or reduce examination exceptions going forward, we are not making a recommendation related to secondary reviews of BSA examinations.

After our audit scope period, we learned the agency's BSA Working Group has been working on recommended updates to the BSA scope tasks and questions within MERIT for management consideration. Because the agency has not yet made these updates, we are making the following recommendation to ensure examination documentation demonstrates a clear trail of the work conducted to support the examination results.

Recommendation:

We recommend NCUA management:

1. Update the Bank Secrecy Act scope tasks and questions within the Modern Examination and Risk Identification Tool to ensure examiners complete and document all necessary steps during Bank Secrecy Act examinations and direct examiners to use additional external guidance such as the National Supervision Policy Manual, Examiner's Guide, and Federal Financial Institutions Examination Council BSA/AML Manual, as needed.

⁵¹ The pre-release secondary review, completed prior to issuance of examination reports, is the primary quality assurance process for the examination and supervision function.



Management Response

Management agreed with the recommendation. Management indicated the NCUA implemented changes to the Modern Examination and Risk Identification Tool and the National Supervision Policy Manual that addresses this recommendation in May of 2024.

OIG Response

We concur with management's actions to address the recommendation.

Enforcement Actions Issued Timely to Address BSA Violations

We determined the NCUA timely issued enforcement actions to address BSA-related violations. Specifically, for the BSA violations identified during examinations, examiners properly issued and recorded the violation for tracking and follow up in accordance with the NSPM and Instruction 5001.06 (Rev.1). In addition, for formal enforcement actions published on the NCUA's website during the audit scope period, the region, in consultation with the OGC, timely issued the administrative orders to resolve the identified issues. As a result, we are not making a recommendation related to the timeliness of issuing enforcement actions to address BSA violations.

Details

To determine whether the NCUA timely issued formal and informal enforcement actions to address BSA-related violations, we used and tested the same samples of examinations with and without violations cited, as previously mentioned. For examinations without violations cited, we reviewed these examinations to determine whether violations should have been cited. This review included scanning various examination modules⁵² within the examination systems for indications of BSA related violations not included in the BSA review section of the exam. We noted no exceptions during the review of this additional documentation. For examinations with violations cited, we reviewed these exams to determine whether examiners timely identified violations and issued enforcement actions. In addition, we also reviewed examinations for all three enforcement actions with BSA-related actions issued publicly on the NCUA's website during the audit scope period.

In accordance with NCUA Instruction 5001.06 (Rev.1), NCUA examiners identified BSA violations and weaknesses in credit union BSA programs. When identified, examiners accurately recorded the violation(s) in the agency's CCV module to track corrective actions taken by the credit union(s) in the examination system. In addition, we did not note any instances where evidence existed that a violation should have been cited and was not. When examiners identified

⁵² We scanned all modules completed in the examination files for documented BSA related issues. For example, these exam modules included cash, loan, investment, and shares. Also, during BSA testing, we reviewed other examination documentation such as the CCV module, examination scope, examination notification and items requested letter, examination overview, preliminary risk assessment, plans and budget, and the final risk assessment.



BSA-related issues, examiners documented and promptly included the issues in the examination tracking system during that examination. During our testing, we noted no exceptions related to timely issuance of violations or enforcement actions. Therefore, as previously mentioned, we are not making any recommendations related to the NCUA's ability to timely issue enforcement actions to address BSA violations.

**Enforcement Actions
Tailored to Address
Identified Deficiencies**

We determined NCUA examiners tailored enforcement actions to address identified deficiencies during the supervisory process. Specifically, examiners issued violations as either BSA or BSA-S violations and cited appropriate federal statutes and/or NCUA regulations for identified violations in accordance with the NSPM. In addition, for examinations where the agency took formal actions against the credit union, the agency tailored these actions in accordance with the agency's NSPM. Therefore, we are not making a recommendation to NCUA management regarding tailoring of enforcement actions.

Details

To determine whether examiners tailored enforcement actions to address identified deficiencies, we used our selected sample of 12 examinations conducted by regional examiners with BSA violations, 1 ONES examination with violations, and the 3 administrative actions publicly posted on the NCUA's website. We reviewed the cited violations to determine the extent and type of violation identified, whether the examiner selected the violation type as a BSA or BSA-S violation, and whether the examiner cited an appropriate federal statute or NCUA regulation for the violation. If a violation was a repeat violation, we determined whether the examiner considered the nature and extent of repeat violations to escalate the issue, if warranted.

Based on our review of our sample, examiners cited the applicable federal statute or NCUA regulations for identified BSA violations. First, we reviewed the examination, which included a review of the BSA questionnaire, scope tasks, risk assessments, and CCV module, to determine the identified violation and scope of the violation. Next, we reviewed the violations to determine whether the examiner(s) followed proper agency procedures to cite the violation and record it in the CCV module. Then, we reviewed the identified violation to determine whether it fit within the scope of the cited law or regulation and whether the examiner properly cited the violation as a BSA or BSA-S violation. We also reviewed the citation(s) to determine whether it applied to the issues identified and documented by the examiner.

During this review, we noted no exceptions. For all examinations selected in our testing sample, examiners properly recorded all 16 BSA and BSA-S violations; cited violations within the scope of the applicable laws and regulations; and followed the agency's procedures to record the violations in the CCV module in accordance with the NSPM. As previously mentioned, we are not making a recommendation related to the tailoring of enforcement actions to address identified deficiencies.



**Timely Follow Up
Conducted on Reported
BSA Violations**

We determined NCUA examiners timely followed up on reported BSA violations to ensure credit unions took corrective actions before the closure of the violation(s). Specifically, examiners followed up on BSA-S violations at federal credit unions and resolved the violations within 90 or fewer days from the examination or contact completion date in accordance with NCUA Instruction 5001.06 (Rev.1). Prior to closure,

examiners ensured credit unions took corrective action(s) to resolve the violation. In addition, although examiners did not have a specific time requirement for resolution of other BSA violations,⁵³ examiners timely followed up on these cited violations. Results of our testing reflected that credit unions worked to resolve violations with the examiner during the examination in which it was identified or during the following examination. As a result, we are not making a recommendation related to BSA violation follow up or closure.

Details

When examiners identify BSA violations for credit unions during an examination or supervision contact, examiners assess compliance risk as high for significant violations and record the violations in the CCV module for tracking. All significant⁵⁴ BSA violations must be reported as BSA-S in the CCV module, and the NCUA will report the existence of BSA-S violations to FinCEN. We will discuss FinCEN reporting later in this report. When a BSA violation does not meet the criteria to be classified as a significant BSA violation, examiners note the BSA violation on the CCV form with the regulation code “BSA” and use examiner judgment to ensure the credit union takes adequate corrective action. Aside from completing the violation form, no special reporting requirements exist for other BSA violations. All BSA-S violations are expected to be resolved in 90 or fewer days from the date of the identification. Examiners may allow up to 150 days for final resolution for independent testing if the credit union demonstrates adequate progress within 90 days from the examination or contact completion date. However, examiners should not wait until the end of the maximum resolution timeframe to determine whether a credit union is making adequate progress toward resolution.⁵⁵

To determine whether examiners timely followed up on reported BSA violations and ensured credit unions took corrective action before closure of a violation, we used the sample of 12 examinations conducted by regional examiners and 1 ONES examination with BSA violations cited. We traced these violations through the examination files to determine when follow up occurred and whether the credit union resolved the violation with the examiner. For all BSA-S violations, credit unions resolved the BSA-S violations with the examiner within 90 days. For all other BSA violations, credit unions resolved the BSA violations during the same examination in which it was identified or during the following examination. For all 13 examinations, we

⁵³ Violations not considered significant.

⁵⁴ Significant BSA violations include data quality violations, pervasive violations, systemic violations, and repeat violations.

⁵⁵ NSPM version 20.0, issued after our audit scope period, updated the timeframes for resolution.



determined examiners documented actions taken by the credit union(s) to resolve the issues in the CCV module.

In addition to the sample of examinations with BSA violations, we also reviewed the published administrative orders that included BSA issues on the NCUA's website during our audit scope period. Based on our search, we determined the website included three C&D orders; two in 2019 and one in 2021, issued by the Eastern region, along with the OGC. We reviewed the administrative order provisions, initiation and termination approval documentation, examination reports, and correspondence related to these three C&D orders. Based on our review of examinations, we determined the region had recorded and tracked the credit union's progress in meeting the terms of the administrative order. For the three C&D orders issued, one credit union was liquidated, one credit union C&D order was terminated with OGC approval, and one C&D order remained active. For the remaining active C&D order from 2019, we confirmed that the region tracked the credit union's progress for the administrative order and communicated with the credit union about its terms by reviewing the C&D order, the examination reports, and reports provided to the credit union. We learned the regions work with OGC on closing C&D orders. In this case, the region had not yet contacted OGC to close the C&D order. When E&I followed up with the region to determine the status, the region replied that the supervisory contact completed in April 2023 showed there were 4 outstanding items out of 18 action items required in the C&D order and an examination was currently in progress. The region stated that if the examination supports sufficient action has been taken, the region will work with OGC to issue a termination of the C&D order. We reviewed the last MERIT examination and the C&D order for the credit union. We noted the last examination contained an update on the status of the C&D order and the C&D order contained three items related to BSA and OFAC. After reviewing the examination, we determined that the remaining C&D items did not include BSA-related issues. Therefore, for purposes of this audit, we did not determine whether escalation or closure of the C&D order should occur, because the credit union had resolved the BSA issues, and the remaining C&D items related to other matters. As previously mentioned, we are not making a recommendation related to examiners timely following up on BSA violations and ensuring corrective actions were taken before the closure of the violation(s).

BSA Violations Referred to FinCEN but Improvements Needed

The NCUA's E&I referred BSA violations to FinCEN; however, we determined the NCUA needs to improve its BSA reporting. Specifically, the NCUA did not include two of the three public C&D orders in the summary data reported to FinCEN and did not consistently meet the annual and quarterly reporting deadlines as described in the MOU. This occurred because the agency did not:

- (1) document a revised agreement or adjustments to the MOU reporting requirements with FinCEN or communicate the information needed from the regions,
- (2) resolve data and reconciliation challenges created by the agency's transition to MERIT to ensure data obtained from its examination systems met the FinCEN reporting objectives,
- (3) require regional examiners to notify or consult with E&I about administrative orders, and
- (4) communicate consistent guidance in its Enforcement Manual and NSPM.



The NCUA's MOU with FinCEN states "the agencies shall meet, no less often than annually, to discuss the operation of the MOU and to identify any issues or adjustments that may be required." Also, as previously discussed in the background section of this report, the MOU provides, in part, the agency's reporting requirements to FinCEN, which include annual and quarterly reports. GAO's Green Book Principle 12 also states "management should implement control activities through policies," which includes documentation of responsibilities and periodic review for continued relevance and effectiveness in achieving the agency's objectives or addressing related risks. Outdated policies and procedures that are contradictory or inconsistent with other agency guidance can create confusion for employees and lead to errors or misunderstandings. Regularly updating policies and procedures helps maintain confidence in agency policies across the board. In addition, GAO's Green Book Principle 11.09 states "management designs control activities over the information technology structure to support the completeness, accuracy, and validity of information processing by information technology." As a result of not timely reporting complete and accurate data for significant BSA violations in accordance with the MOU, the agency did not ensure it exchanged useful information to help FinCEN fulfill its role as administrator of the BSA.

Details

As previously mentioned, FinCEN's regulations specify that each agency that performs FinCEN's delegated examination authority shall make reports to FinCEN. Pursuant to the MOU, the NCUA and other federal financial supervisory agencies intend to improve and enhance the level of interagency cooperation in BSA examination and compliance and to enhance communication and coordination to help financial institutions identify, deter and interdict terrorist financing and money laundering. The information provided by the federal financial supervisory agencies assists FinCEN, alone and in conjunction with other financial regulatory agencies, with developing a variety of analytical products that identify common BSA compliance deficiencies, patterns, and trends in BSA compliance, developments in money laundering and terrorist financing, and trends and best practices in BSA examination. Such products also focus on assisting the banking organizations and other financial institutions in meeting their BSA compliance obligations.

Although the agency filed all required annual and quarterly reports to FinCEN for the audit scope period, we determined it did not timely submit these reports in compliance with the MOU. The NCUA submitted 4 annual reports and 16 quarterly reports to FinCEN. We reviewed these submissions and determined the agency submitted all the annual reports and 10 of the 16 quarterly reports after the due dates described in the MOU. However, we learned E&I communicated with FinCEN frequently through email, informed them of the reasons for delay such as reporting challenges related to the MERIT transition, and requested extensions. In response to these emails, FinCEN approved these extensions and approved the NCUA to change from fiscal year reporting to calendar year reporting. However, the NCUA did not document these changes and did not amend the MOU. Also, although the NCUA did not timely submit its annual and quarterly reports in accordance with the MOU, we determined the agency did include all the information requested within its submissions.



In addition to the quarterly and annual reporting requirement, the MOU also included a 30-day reporting requirement for significant violations. E&I submitted a question to FinCEN in September 2019 and again in December 2019 about the 30-day reporting requirement's applicability to BSA violations. Based on a discussion at that time, E&I understood that quarterly reporting would suffice. During our audit, the NCUA discussed the 30-day reporting requirement again with FinCEN. FinCEN's restructuring prompted a different response and the agency reached a new agreement on limited monthly reporting, to be submitted to FinCEN by the 15th of the next month. This more frequent reporting will require notification to regional Division of Supervision and an update to the NSPM. Changes were not made to the MOU; rather, E&I discussed their differing interpretations or understanding of some issues and then reached an agreement with FinCEN on what to do going forward. During our audit, we learned that E&I plans to make some additional changes to the NSPM to communicate the additional information they agreed to provide FinCEN monthly and therefore the information E&I will need from the regions monthly. NCUA Instruction No. 5001.06 (Rev.1) also provided a requirement for E&I to notify FinCEN of any high-profile activity to include money laundering, terrorist financing, and willful violations of the BSA within 24 hours of report by the regional offices or ONES. However, E&I was not aware of any high-profile violations triggering the 24-hour reporting requirement during the audit scope period.

During our review of annual and quarterly reports, we learned E&I manually reconciles data obtained from the agency's examination systems and reports this information to FinCEN. For the AIRES examination system, which was still in use for most of our audit scope period, the reconciliation process was manual but not necessarily labor intensive. AIRES required pulling data using Access,⁵⁶ reviewing violations to identify duplicates and incorrect citations, asking regions to correct both types of errors, and then pulling the data again using Access. In contrast, after the transition to MERIT, E&I performs a more labor-intensive manual review, which includes matching up and eliminating transitioned violations pulled from the examination system using Power BI⁵⁷ reports and then using Excel pivot tables to summarize the data. This manual reconciliation process caused inefficiencies and potential reporting errors and resulted in the FinCEN reporting challenges previously discussed. We also learned that E&I currently uses a Power BI reporting tool, which does not contain all the fields needed to reduce the amount of manual review. E&I monitors BSA CCVs differently than other issues and these CCVs require different reports and reporting fields. To resolve this issue, E&I stated it needs a separate CCV report designed to meet the agency's reporting objectives. During our audit, E&I began working with OBI, the Office of the Chief Information Officer, and the E&I Systems Division to make changes to the reporting tool and establish reports with MERIT. However, the MERIT reconciliation process currently still requires extensive manual review and data scrubbing.

E&I, in consultation with OGC, formally maintained the NCUA's 2004 Enforcement Manual. However, E&I had never updated the contents of the Enforcement Manual, which resulted in obsolete and inconsistent guidance with the NSPM. For example, the Enforcement

⁵⁶ Access is a Microsoft database management system.

⁵⁷ Power BI is an interactive data visualization software product developed by Microsoft with a primary focus on business intelligence.



Manual established that the Division of Risk Management would maintain a directory of approved C&D orders. However, E&I stated that the Division of Risk Management is not involved and is not aware of having a directory of approved C&D orders. In addition to this inconsistency, although we determined the agency did attach a FinCEN document for each federal credit union with a significant BSA violation unresolved after 90 days to the data reports, the agency did not report two of the three formal C&D orders listed on the NCUA website as formal enforcement actions in the data reports submitted to FinCEN.⁵⁸ E&I stated this occurred because the regions were not required to notify E&I of formal C&Ds involving significant BSA concerns. As a result, the agency did not accurately report these formal C&D orders to FinCEN in accordance with the MOU.

The NCUA's Delegations of Authority provide the regional directors, ONES director, and the Office of Consumer Financial Protection director the authority to issue a C&D order with prior concurrence from OGC. The Delegations of Authority do not require prior concurrence from E&I and do not require a reporting or notification requirement to E&I. In addition, neither the Enforcement Manual nor the NSPM included a requirement to consult with E&I about enforcement actions. During our audit, we learned that E&I recognized the lack of any requirement for the regions to notify E&I of formal C&D orders related to BSA-S violations by early 2021 and included a new notification requirement in the NSPM update. During our audit, E&I provided the applicable updated excerpts from the NSPM. E&I currently tracks the total number of outstanding C&D orders quarterly by region but does not retain a copy of the actions. However, because the NSPM did not previously contain this notification requirement, E&I did not include all the public C&D orders in the formal enforcement actions data reported to FinCEN during our audit scope period. We learned E&I is currently revising the Enforcement Manual content and incorporating it into the NSPM. E&I stated the Enforcement Manual has not been and will not be cancelled until all chapters are incorporated into the NSPM. Because the NSPM is currently being updated and the Enforcement Manual has not yet been rescinded, inconsistencies have resulted in the guidance provided to staff.

Because the agency has not yet made these improvements to the FinCEN reporting process or its enforcement policies, we are making the following recommendations.

Recommendations:

We recommend NCUA management:

2. Meet with the Financial Crime Enforcement Network (FinCEN), no less often than annually, to discuss the operation of the Memorandum of Understanding and to identify any issues or adjustments that may be required. Document any revised agreements and

⁵⁸ Both missing C&D orders are from 2019. E&I stated that FinCEN will contact them when it wants to follow up on a particular credit union's significant BSA violations. Also, E&I started to include resolution information in the significant BSA violations list provided every quarter. For example, if a credit union included in the prior quarter(s) dropped off in the current quarter, E&I noted that the violation was resolved or that the credit union was liquidated or merged with another credit union. In this way, FinCEN can now track credit unions on the greater than 90-day violation list from quarter to quarter until the issue is resolved or the credit union ceases to exist.



update the agency's policies to communicate the FinCEN reporting requirements and information needed from the regions and the Office of National Examinations and Supervision.

Management Response

Management agreed with this recommendation and indicated the NCUA will incorporate this topic into one of the meetings they customarily have each year with FinCEN.

OIG Response

We concur with management's planned action.

3. Develop and implement an efficient process that ensures the completeness, accuracy, timeliness, and validity of information obtained from the agency's Modern Examination and Risk Identification Tool, such as establishing reports, to meet the agency's Bank Secrecy Act reporting objectives, including communicating information in accordance with the Memorandum of Understanding and other agreement(s) with the Financial Crimes Enforcement Network.

Management Response

Management agreed with this recommendation. Management indicated as of May 2024, the NCUA has established a new report from the information in MERIT to better meet the agency's Bank Secrecy Act reporting objectives.

OIG Response

We concur with management's action to address the recommendation.

4. Revise the content of the NCUA's Enforcement Manual to include current policies, procedures, and responsibilities for the NCUA's formal enforcement actions and ensure its content is consistent with other agency policies. Regularly review this guidance for continued relevance and effectiveness in achieving the agency's objectives.

Management Response

Management agreed with this recommendation. Management indicated the NCUA will update the relevant content currently in the Enforcement Manual and incorporate this manual into the NSPM by December 31, 2025. They will also ensure this content is consistent with the NCUA's other related policies.

OIG Response

We concur with management's planned actions.



OBJECTIVES, SCOPE, AND METHODOLOGY

We developed our objectives for this engagement based on OIG's 2022 Annual Work Plan. Specifically, our audit objectives included determining whether the NCUA: (1) adequately reviewed compliance with the BSA during credit union safety and soundness examinations, (2) issued timely formal or informal enforcement actions to address BSA-related violations, (3) tailored enforcement actions to address deficiencies identified during the supervisory process, (4) followed up on reported BSA violations to ensure credit unions take appropriate corrective action before closure of the violation, and (5) appropriately referred significant BSA violations and deficiencies to FinCEN, a bureau within the United States Department of the Treasury. The audit scope included federal credit union BSA examinations and enforcement actions from January 1, 2018, through December 31, 2021, and all applicable procedures, documentation, and controls.

To achieve our objectives, we reviewed laws, regulations, and the NCUA's BSA enforcement policies and procedures; interviewed personnel involved with the program; reviewed credit union examinations and BSA enforcement actions; and evaluated related controls. Specifically, we

- Reviewed laws and regulations applicable to the BSA.
- Reviewed NCUA's Instruction No. 5001.06 (Rev.1), Bank Secrecy Act Compliance, dated May 10, 2005.
- Reviewed the NCUA's NSPM and Examiner's Guide.
- Compared the FFIEC's Bank Secrecy Act/Anti-Money Laundering Examination Manual to the agency's examination steps.
- Conducted walkthroughs of the BSA examination process in both the AIRES and MERIT examination systems with E&I's BSA officers and regional BSA subject matter examiners.
- Conducted a walkthrough of the MERIT examination system with OBI management.
- Interviewed E&I & OGC management about the NCUA's BSA enforcement.
- Identified and assessed key internal controls in the BSA examination process.
- Developed a sampling plan. Due to the large population of examinations, which would have resulted in a large sample size, we did not select a statistical sample. Therefore, we cannot project or make inferences based on our random or judgmental samples for the entire population of examinations. However, we assessed our samples against the criteria



provided in this report and analyzed the exceptions, such as policy exceptions, within the context of our audit objectives, to form the basis of our audit findings and conclusions.

- Obtained a population of all, a total of 8,985, BSA examinations for federally insured credit unions during the period of January 1, 2018, through December 31, 2021. The population included BSA examinations for all three regions and ONES. We stratified this population into six categories based on credit union asset size. We used a data analytics software to generate a seed value and randomly sort the population. From this population of 8,985, we selected a non-statistical random sample of 12 BSA examinations without violations from the regions and a judgmental sample of 2 examinations without violations from ONES, a total sample size of 14 examinations. We selected examinations from each stratum to ensure a range of credit union sizes in our sample. Because this population also contained examinations with violations, if we selected an examination with a violation, we replaced it with the next examination in our random sample from the same stratum. For these selected examinations, regional examiners conducted BSA examinations in the AIRES system, and ONES examiners conducted BSA examinations in the MERIT system. We tested these examinations for compliance with the NCUA's policies.
 - Obtained a population of all, a total of 4,885, BSA examinations with violations for federally insured credit unions during the period of January 1, 2018, through December 31, 2021. The population included examinations for three regions and ONES. We stratified this population into six categories based on credit union asset size. We used a data analytics software to generate a seed value and randomly sort the population. From this population of 4,885, we selected and tested a non-statistical random sample of 12 BSA examinations with violations from the regions and judgmentally selected 1 examination with a violation from ONES, a total sample size of 13 examinations. For these selected examinations, regional examiners conducted BSA examinations in the AIRES system, and ONES examiners conducted BSA examinations in the MERIT system. We tested these examinations for compliance with the NCUA's policies.
 - Obtained all published administrative orders related to BSA violations during the audit scope period from the NCUA's public website.⁵⁹ We tested all these administrative orders for compliance with the NCUA's policies and procedures, a total of three administrative orders.
- Inquired of the NCUA's regions and ONES about pre-release secondary reviews of examinations.
 - Reviewed the NCUA's MOU with FinCEN.

⁵⁹ <https://ncua.gov/news/enforcement-actions/administrative-orders?npp=100&sq=BSA#results>



- Obtained and reviewed all annual and quarterly reports, along with supporting documentation, submitted to FinCEN during our audit scope period and tested these reports for compliance with the MOU.

During the audit scope period, the NCUA used two systems to conduct BSA examinations – AIRES and MERIT. In addition to these systems, the NCUA used Power BI reports to obtain information from these systems. Because we used computer-processed data, we obtained a sufficient understanding of the internal controls necessary to assess audit risk and plan the audit within the context of the objectives. We did not audit these systems, rather, we relied on our analysis of interviews, walkthroughs, agency policies and procedures, reconciliations, and corroborating data obtained from other sources, such as information posted to the NCUA's website, to support our conclusions.

During our review of examination data, we determined this data contained CCV and examination deletions. Reasons for these deletions included deletion of duplicate violations, cleanup from the conversion from AIRES to MERIT, and corrections that were made after quality control reviews. Although the agency did have procedures to track the deletion of CCV and examination contacts, a risk existed that the examination system did not contain complete data. However, we determined the data was sufficiently reliable to address the audit objectives and to support the audit's findings, conclusions, and recommendations.

We conducted this audit from March 2022 through May 2024 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We assessed the effectiveness of internal controls we determined were significant to the audit objectives. Specifically, we assessed 5 of the 5 internal control Components and 15 of the 17 associated underlying Principles defined in the GAO Standards for Internal Control in the Federal Government.⁶⁰ We summarize in Table 1 below the Components and Principles we assessed.

⁶⁰ The Standards for Internal Control in the Federal Government organizes internal control through a hierarchical structure of 5 components and 17 principles. The five components, which represent the highest level of the hierarchy, consist of the Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. The 17 principles support the effective design, implementation, and operation of the components, and represent the requirements for establishing an effective internal control system.



Table 1: Internal Control Components and Underlying Principles Assessed

Component: Control Environment
Principle #3 – Establish Structure, Responsibility and Authority
Principle #4 – Demonstrate Commitment to Competence
Principle #5 – Enforce Accountability
Component: Risk Assessment
Principle #6 – Define Objectives and Risk Tolerances
Principle #7 – Identify, Analyze, and Respond to Risks
Principle #8 – Assess Fraud Risk
Principle #9 – Identify, Analyze, and Respond to Change
Component: Control Activities
Principle #10 – Design Control Activities
Principle #11 – Design Activities for the Information System
Principle #12 – Implement Control Activities
Component: Information and Communication
Principle #13 – Use Quality Information
Principle #14 – Communicate Internally
Principle #15 – Communicate Externally
Component: Monitoring
Principle #16 – Perform Monitoring Activities
Principle #17 – Evaluate Issues and Remediate Deficiencies

This report presents the internal control deficiencies we identified within the findings. However, because our audit focused on significant internal control Components and underlying Principles within the context of our audit objectives, it may not have identified all internal control deficiencies that existed at the time of this audit.



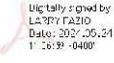
NCUA MANAGEMENT RESPONSE



National Credit Union Administration
Office of the Executive Director

SENT VIA EMAIL

TO: Inspector General James Hagen

FROM: Executive Director Larry Fazio  LARRY FAZIO
Digitally signed by
LARRY FAZIO
Date: 2024.05.24
11:26:39 -0400

SUBJ: Management Response- *Audit of the NCUA's Bank Secrecy Act Enforcement Program*

DATE: May 24, 2024

We reviewed the Office of the Inspector General's audit report titled *Audit of NCUA's Bank Secrecy Act Enforcement Program*. The audit determined the NCUA adequately reviewed compliance with the Bank Secrecy Act during credit union examinations. We agree with the report's four recommendations.

Recommendation (1)

Update the Bank Secrecy Act scope tasks and questions within the Modern Examination and Risk Identification Tool to ensure examiners complete and document all necessary steps during Bank Secrecy Act examinations and direct examiners to use additional external guidance such as the National Supervision Policy Manual, Examiner's Guide, and Federal Financial Institutions Examination Council Examination Manual, as needed.

Management Response: We agree with this recommendation. In May of 2024, the NCUA implemented changes to the Modern Examination and Risk Identification Tool (MERIT) and the National Supervision Policy Manual (NSPM) that address this recommendation.

Recommendation (2)

Meet with the Financial Crimes Enforcement Network (FinCEN), no less often than annually, to discuss the operation of the Memorandum of Understanding and to identify any issues or adjustments that may be required. Document any revised agreements and update the agency's policies to communicate the FinCEN reporting requirements and information needed from the regions and the Office of National Examinations and Supervision.

Management Response: We agree with this recommendation and will incorporate this topic into one of the meetings we customarily have each year with FinCEN.

Recommendation (3)

Develop and implement an efficient process that ensures the completeness, accuracy, timeliness, and validity of information obtained from the agency's Modern Examination and Risk Identification Tool, such as establishing reports, to meet the agency's Bank Secrecy Act reporting objectives, including communicating information in accordance with the Memorandum of Understanding and other agreement(s) with the Financial Crimes Enforcement Network.

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Management Response: We agree with this recommendation. As of May 2024, the NCUA has established a new report from the information in MERIT to better meet the agency's Bank Secrecy Act reporting objectives.

Recommendation (4)

Revise the content of the NCUA's Enforcement Manual to include current policies, procedures, and responsibilities for the NCUA's formal enforcement actions and ensure its content is consistent with other agency policies. Regularly review this guidance for continued relevance and effectiveness in achieving the agency's objectives.

Management Response: We agree with this recommendation. By December 31, 2025, the NCUA will update the relevant content currently in the Enforcement Manual and incorporate this manual into the NSPM. We will ensure this content is consistent with the NCUA's other related policies.

Thank you for the opportunity to comment. If you have any questions regarding this response, please contact Shameka Sutton at (703) 548-2485 or ssutton@ncua.gov.



ACRONYMS AND ABBREVIATIONS

Acronym	Term
AIRES	Automated Integrated Regulatory Examination System
AML	Anti-Money Laundering
BSA	Bank Secrecy Act
BSA/AML	Bank Secrecy Act/Anti-Money Laundering
BSA-S	Significant BSA Violation
C&D	Cease and Desist
CAMELS	<u>C</u> apital, <u>A</u> sset Quality, <u>M</u> anagement, <u>E</u> arnings, <u>L</u> iquidity, and <u>S</u> ensitivity to Market Risk
CCV	Consumer Compliance Violation
CTR	Currency Transaction Reports
E&I	Office of Examination and Insurance
FFIEC	Federal Financial Institutions Examination Council
FinCEN	Financial Crimes Enforcement Network
GAO	Government Accountability Office
MERIT	Modern Examination and Risk Identification Tool
MOU	Memorandum of Understanding
NCUA	National Credit Union Administration
NSPM	National Supervision Policy Manual
OBI	Office of Business Innovation
OFAC	Office of Foreign Assets Control
OGC	Office of General Counsel
ONES	Office of National Examinations and Supervision
RADAR	Risk Assessment and Data Analytics Rating
RATE	Risk Analysis and Trending Evaluation
Rev.	Revision
SAR	Suspicious Activity Reports