Community Bank BSA/AML Examination Procedures

The Community Bank Procedures are to be used when evaluating all banks supervised by the OCC's community bank group. Examinations are to be conducted in a risk-based manner, with exam procedures and level of scrutiny tailored to the bank's risk profile. As is described throughout the Community Bank Procedures, and in Objective 1: Scoping and Planning in particular, examiners must leverage available information, as appropriate, to properly tailor examination procedures.

As a baseline, examiners should use the Community Bank Procedures, as applicable, included in the following three sections during each examination cycle to ensure the bank has an adequate BSA/AML compliance program commensurate with its risk profile:

Objective 1: Scoping and Planning
Objective 2: BSA/AML Compliance Program
Objective 3: Develop Conclusions and Finalize the Examination

Using these procedures as a baseline, examiners must tailor examination procedures based on the instructions below. The level of scrutiny within each procedure may be heightened or reduced based on a bank's risk profile and examiners' ability to leverage independent testing, past examination findings, or additional resources as appropriate. Additional procedures from the *FFIEC BSA/AML Examination Manual* should be completed, as appropriate for the bank's unique risk profile, to address specific areas of higher risk.

Objective 1: Scoping and Planning

Objective: Develop an understanding of the bank's money laundering/terrorist financing (ML/TF) and other illicit financial activity risk profile. Based on the bank's ML/TF and other illicit financial activity risk profile, develop a risk-focused examination scope and document the BSA/AML examination plan.

Whenever possible, the scoping and planning process should be completed before the examination, although some information may not be available during this advance process. The scoping and planning process begins with a review of the bank's ML/TF and other illicit financial activity risks through a number of documents to determine the staffing needs, technical expertise, and BSA/AML examination and testing procedures to be completed. Documents used for this process include the bank's BSA/AML risk assessment, other available data[1] or data reported by the bank, independent testing, past supervisory findings and conclusions, communications from law enforcement, other information available through off-site and ongoing monitoring processes, and request letter items received from the bank.

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[1] Includes but not limited to data obtained through the OCC's payment analytics tool and FinCEN Analysis or FinCEN data process.

Examiners must next determine, based on the bank's BSA/AML risk profile, whether it is appropriate to add procedures.[2] For example, if the bank engages in higher risk prepaid card activities, examiners may complete additional examination procedures and/or testing specific to that area.

Each section below includes an introductory overview and instructions on how to properly scope in accompanying examination and testing procedures, as applicable. Examiners may exercise discretion to rely on independent testing deemed adequate by examiners for each section and to determine whether to carry forward prior examination conclusions for the Training and BSA Officer pillars, where appropriate.

Many banks rely on technology to aid in BSA/AML compliance, and, therefore, the scoping and planning process should include developing an understanding of the bank's information technology sources, systems, and processes used in the BSA/AML compliance program. This information assists examiners in the scoping and planning process to determine what, if any, additional examiner subject matter expertise is warranted.

Office of Foreign Assets Control (OFAC) regulations are not part of the BSA, and a review of the bank's OFAC compliance program is not required during each examination cycle.[3] OFAC compliance programs are, however, frequently assessed in conjunction with BSA/AML examinations. Examiners should make a risk-based determination of whether and to what extent to review the bank's OFAC compliance program. If OFAC compliance will be evaluated in conjunction with the BSA/AML examination, examiners should also determine the appropriate scope of any OFAC compliance program review through assessing the bank's OFAC risk assessment, other OCC data or data reported by the bank, related independent testing, past supervisory findings, and communications with and findings from OFAC.

To facilitate the examiner's understanding of the bank's risk profile and to adequately establish the scope of the BSA/AML examination, the examiner should complete the following steps.

Procedure 1: Prepare for Risk-Focused BSA/AML Supervision

Objective: Determine the examination activities necessary to assess the adequacy of the bank's BSA/AML compliance program, relative to the bank's risk profile, and the bank's compliance with BSA regulatory requirements. If included within the examination scope, determine appropriate OFAC compliance examination activities.

- Obtain and review the following documents, as appropriate:
    - Prior examination reports and corresponding work papers
    - Management's responses to any previously identified BSA concerns

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[2] See the FFIEC BSA/AML Infobase for additional examination procedures.

[3] Refer to *FFIEC BSA/AML Examination Manual*, "Scoping and Planning" section.

  - Other available data[4]
  - Any recommendations for future supervisory work from the prior examination
- Obtain the BSA/AML risk assessment if the bank has completed one. If the bank has not developed a BSA/AML risk assessment or if the BSA/AML risk assessment is inadequate, refer to Procedure 2: BSA/AML Risk Assessment Process, for considerations to determine risk.
- Examiners should review relevant documents such as the auditor's report(s), scope, and supporting workpapers, as needed.
- Obtain management's responses, including current status of issues, regarding independent testing or other independent assessment results and examination findings.
- Obtain any other information available through the off-site and ongoing monitoring process or from information received from the bank in response to the request letter.
- Determine which aspects of independent testing documents reviewed are adequate and may be leveraged for use in assessing the bank's BSA/AML compliance program, the bank's compliance with BSA regulatory requirements, or specific areas of the bank's BSA program.

Note: Review of independent testing for the purposes of leveraging to support examination findings is a process separate and apart from determining compliance with the independent testing pillar under 12 CFR 21.21(d)(2). Examiners may leverage certain areas of testing completed, but not others, depending on the quality of the work performed covering specific areas of the examination. For example, examiners may determine they may rely on audit testing of Currency Transaction Reporting but not audit testing of suspicious activity monitoring as a result of insufficient audit coverage of suspicious activity monitoring controls.

- Preliminarily determine whether prior cycle examination findings may be carried forward related to the BSA Officer and Training procedure sections below. Examiners may rely on prior findings and carry them forward if the following conditions are met:
  - prior cycle findings were satisfactory.
  - exam findings may not be carried forward for two consecutive examinations.
  - there have been no material changes to the bank's ML/TF risk profile, staffing, or operations.
  - there have been no material findings from independent testing performed.
  - there are no adverse findings from the work performed during the current examination related to these pillars[5].

The decision to carry forward findings may be impacted if examiners identify deficiencies within the BSA Program. In this instance, examiners should consider whether the root cause of those deficiencies relate to the BSA Officer and/or Training pillar.

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[4] Includes but not limited to data obtained through the OCC's payment analytics tool and FinCEN Analysis or FinCEN data process.

[5] The decision to carry forward findings may need to be revisited if examiners identify deficiencies.

- Using the information reviewed above, determine whether or to what degree transaction testing should be performed or whether testing should be limited to analytical or other reviews. [6] To determine, consider
  - the risk profile of the institution and any recent changes in the risk profile.
  - new products or services.
  - changes in staffing or operations.
  - findings from independent testing.
  - prior cycle examination findings.
- Determine whether FinCEN data, including suspicious activity reports (SAR), currency transaction reports (CTR), and/or CTR exemption information and filings, should be considered for further testing.
- Review correspondence between the bank and government agencies, including the OCC, other regulators, and law enforcement, as appropriate. Communications, particularly those received from FinCEN, may provide information relevant to the bank's risk profile or the examination process.
- Review the bank's information technology sources, systems, and processes used in its BSA/AML compliance program to determine whether additional examiner subject matter expertise is warranted.
- As appropriate, examiners may review the bank's OFAC risk assessment and independent testing to determine the extent to which a review of the bank's OFAC compliance program should be conducted during each BSA/AML examination.[7]

Procedure 2: Assess BSA/AML Risk Assessment Process

Objective. Determine the adequacy of the bank's BSA/AML risk assessment process and determine whether the bank has adequately identified the ML/TF and other illicit financial activity risks within its banking operations.

Perform the following, as applicable:

- Determine whether the bank has identified, analyzed, and assessed the ML/TF and other illicit financial activity risks associated with the bank's business activities, including its products, services, customers, and geographic locations.
- Determine whether the bank has a process for updating its BSA/AML risk assessment, as necessary, so it remains as an accurate reflection of its ML/TF and other illicit financial activity risks, and it reflects changes, if any, in the bank's business activities, including its products, services, customers, and geographic locations.
- If the bank has not developed a BSA/AML risk assessment, or if the BSA/AML risk assessment is inadequate, examiners should determine the bank's BSA/AML risks by

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[6] Refer to *FFIEC BSA/AML Examination Manual*, "Risk-Focused BSA/AML Supervision" section. "Where transaction testing typically involves reviewing specific transactions or files, analytical reviews are usually higher level without transaction or file details, such as analyzing reports."

[7] See the *FFIEC BSA/AML Examination Manual* Office of Foreign Assets Control Examination Procedures.

considering past risk assessments or past supervisory determinations, including RAS,[8] as a starting point.[9]

- Document and discuss with the bank any findings related to the BSA/AML risk assessment process.

Procedure 3: Develop Risk-Focused Examination Plan

Objective: Based on the bank's risk profile, develop and document a BSA/AML examination plan that includes the BSA/AML examination and testing procedures to be completed.

- Based on the review of relevant examination documents, in conjunction with the review of the bank's BSA/AML risk assessment, develop and document an initial BSA/AML examination plan. At a minimum, the plan should address
  - the bank's risk profile.
  - the scope and adequacy of the bank's BSA/AML independent testing and the degree to which independent testing will be leveraged to assist in the assessment of the bank's BSA/AML compliance program and the bank's compliance with BSA regulatory requirements.
  - whether the prior cycle examination findings may be carried forward for the BSA Officer and Training pillars.
  - the examination staffing needs, including any subject matter expertise (BSA and non-BSA).
  - the scope of the BSA/AML examination, including the examination and testing procedures necessary to assess the adequacy of the bank's BSA/AML compliance program, the bank's compliance with BSA regulatory requirements, and the bank's adherence to, and the appropriateness of, its policies, procedures, and processes.
- Determine the request letter items that are necessary to complete examination and testing procedures. Examiners are expected to review the request letter items provided by the bank before field work.

Objective 2: BSA/AML Compliance Program

Objective: Determine whether the bank has designed, implemented, and maintains an adequate BSA/AML compliance program that complies with BSA regulatory requirements.

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[8] The "Community Bank Supervision" booklet of the *Comptroller's Handbook* states, "The RAS is a concise method of communicating and documenting conclusions regarding eight risk categories: credit, interest rate, liquidity, price, operational, compliance, strategic~~, and reputation~~. … The community bank RAS is designed to prospectively identify and measure the risks in a bank and to help examiners determine the depth and type of supervisory activities that are appropriate for each community bank. To effectively use the system, examiners consider the current condition of the bank and other factors that indicate a potential change in risk. Examiners should watch for early warning signs that the level of risk may rise."

[9] Examiners may complete the BSA/AML RAS worksheet to document the BSA/AML Risk profile, but this is not required. See Comptroller's Handbook: Community Bank Supervision.

- Confirm that the bank's BSA/AML compliance program is written, has been approved by the board of directors, and that the approval was noted in the board minutes.[10]
- Review the BSA/AML compliance program and determine whether it is tailored to the bank's ML/TF and other illicit financial activity risk profile. Determine whether the bank's compliance program contains the following requirements:
  - A system of internal controls to ensure ongoing compliance.[11]
  - Independent testing for compliance to be conducted by bank personnel or an outside party.[12]
  - Designation of an individual or individuals responsible for coordinating and monitoring day-to-day compliance (BSA compliance officer).[13]
  - Training for appropriate personnel.[14]
- Determine whether the bank's customer identification program,[15] risk-based customer due diligence,[16] and beneficial ownership procedures[17] are included as part of the BSA/AML compliance program.
- Determine whether the initial BSA/AML examination plan should be adjusted based on new information identified during the examination. Discuss any required changes to the scope with the examiner in charge (EIC).

Procedure 1: Internal Controls System

Objective: Determine whether the bank has implemented a system of internal controls that is reasonably designed to ensure and monitor ongoing compliance with BSA regulatory requirements.

In completing the below procedures, examiners may leverage the results of independent testing as determined to be appropriate.

- Determine whether the bank's system of internal controls (i.e., policies, procedures, and processes) is reasonably designed to
  - mitigate and manage ML/TF and other illicit financial activity risks.
  - ensure ongoing compliance with BSA regulatory requirements.
- Determine whether the internal controls, consistent with the bank's risk profile

[10] Refer to 12 CFR 21.21 (c)(1).

[11] Refer to 12 CFR 21.21(d)(1).

[12] Refer to 12 CFR 21.21(d)(2).

[13] Refer to 12 CFR 21.21(d)(3).

[14] Refer to 12 CFR 21.21(d)(4).

[15] Refer to 12 CFR 21.21(c)(2) and 31 CFR 1020.220.

[16] Refer to 31 CFR 1020.210(a)(2)(v).

[17] Refer to 31 CFR 1010.230.

- incorporate the bank's BSA/AML risk assessment and the identification of ML/TF and other illicit financial activity risks, along with changes in those risks.
- provide for program continuity despite changes in operations, management, or employee composition or structure.
- facilitate oversight of information technology sources, systems, and processes that support BSA/AML compliance.
- provide for timely updates to implement changes in regulations.
- incorporate dual controls and segregation of duties to the extent possible.
- include mechanisms to identify and escalate BSA compliance issues to management and the board, or a designated board committee, as appropriate.
- inform the board, or a designated board committee, and senior management of compliance initiatives, identified compliance deficiencies, and corrective action taken, and notify the board of SARs filed.
- identify and establish specific BSA compliance responsibilities for bank personnel and provide oversight for execution of those responsibilities, as appropriate.

This list is not all-inclusive and should be tailored to reflect the bank's ML/TF and other illicit financial activity risk profile.

Procedure 2: Independent Testing

Objective: Determine whether the bank has designed, implemented, and maintains an adequate BSA/AML independent testing program for compliance with BSA regulatory requirements.

- Determine whether the BSA/AML independent testing is performed by a person or persons who is qualified and not involved with the function being tested or other BSA-related functions at the bank that may present a conflict of interest or lack of independence.
- Determine whether independent testing addresses the overall adequacy of the BSA/AML compliance program, including policies, procedures, and processes (internal controls).
- Determine whether independent testing frequency is commensurate with the bank's risk profile.
- Through a review of board minutes or other board materials, determine whether persons conducting the independent testing reported directly to the board, or a designated board committee, comprised primarily or completely of outside directors.
- Consistent with the bank's risk profile, review independent testing reports, scope, and supporting work papers to determine whether they are comprehensive, accurate, adequate, and timely.
- Determine whether the independent testing includes a review and evaluation of the overall suspicious activity monitoring and reporting process. Although there are no specific regulatory requirements for independent testing programs, consistent with the bank's risk profile, consider whether the independent testing should include an evaluation of
    - the identification or alert process.
    - the management of alerts, research, SAR decision making, SAR completion and filing, and monitoring of continuous activity.
    - policies, procedures, and processes for referring potentially suspicious activity from all operational areas and business lines (such as trust services, private banking, and foreign

correspondent banking) to the personnel or department responsible for evaluating potentially suspicious activity.
- Determine whether the independent testing performed was adequate, relative to the bank's risk profile.

Procedure 3: Compliance Officer

Objective: Confirm that the board has designated a qualified individual or individuals (BSA compliance officer) responsible for coordinating and monitoring day-to-day compliance with BSA regulatory requirements. Determine whether the BSA compliance officer has the appropriate authority, independence, access to resources, and competence to effectively execute all duties.

Determine whether the below procedures need to be completed or whether prior supervisory cycle examination findings can be carried forward.

- Confirm that the board has designated a qualified individual or individuals responsible for the overall BSA/AML compliance program.
- Confirm that the BSA compliance officer regularly updates the board and senior management about the status of ongoing compliance with the BSA and pertinent BSA-related information, including the required notification of SAR filings.
- Determine whether the BSA compliance officer is competent, as demonstrated by knowledge of the BSA and related regulations, implementation of the bank's BSA/AML compliance program, and understanding of the bank's ML/TF and other illicit financial activity risk profiles associated with its banking activities.
- Determine whether the BSA compliance officer has the appropriate authority.
- Determine whether the BSA compliance officer has the appropriate independence. Indicators of appropriate independence may include
  - clear lines of reporting and communication ultimately up to the board of directors, or a designated board committee, that do not compromise the BSA compliance officer's independence.
  - the ability to undertake the BSA compliance officer's role without undue influence from the bank's business lines.
  - identification and reporting of issues to senior management and the board.
- Determine whether the BSA compliance officer has access to suitable resources. Indicators of suitable resources may include
  - adequate staffing with the skills and expertise for the bank's overall risk level (based on products, services, customers, and geographic locations), size or complexity, and organizational structure.
  - systems to support the identification, measurement, monitoring, reporting, and management of the bank's ML/TF and other illicit financial activity risks.

Procedure 4: Training

Objective: Determine whether the bank has developed a BSA/AML training program and has trained appropriate personnel.

Determine whether the below procedures need to be completed or whether prior supervisory cycle examination findings can be carried forward.

- Determine whether all personnel whose duties require BSA knowledge are included in the training program, whether the BSA compliance officer and BSA compliance staff have received periodic, relevant, and appropriate training, and whether the board receives appropriate training that may include changes or new developments in the BSA.
- Determine whether the bank's training program materials address
  - the importance that the board and senior management place on ongoing education, training, employee accountability, and compliance.
  - results of previous findings of noncompliance with internal policies and regulatory requirements, if applicable.
  - an overview of the BSA's purposes, its regulatory requirements, and supervisory guidance, and an overview of the bank's internal policies, procedures, and processes.
  - different forms of ML/TF and other illicit financial activity risks as they relate to identification as well as examples of suspicious activity.
  - information tailored to specific risks of individual business lines or operational units.
  - information on current developments and changes to BSA regulatory requirements.
  - adequate training for agents responsible for conducting BSA-related functions on the bank's behalf.
- Determine whether the bank documents dates of training sessions and training and testing materials (if the bank uses testing). Documentation should include attendance records and failures of personnel to take the requisite training in a timely manner as well as corrective actions taken to address such failures.

Note: Risk-Focused Testing

Testing performed during BSA/AML examinations can take the form of testing specific transactions or performing analytical or other reviews, depending on the bank's risk profile, past supervisory findings, leveraging of independent testing, or other information as appropriate. Testing may focus on any of the regulatory requirements and may address different areas of the BSA/AML compliance program but may not be necessary for every regulation or BSA area examined. Testing performed during BSA/AML examinations should be risk-focused and may assess the implementation of policies, procedures, and processes or evaluate controls, information technology sources, systems, and processes used for BSA compliance.

Under a risk-focused examination approach, the size and composition of a sample selected for testing, as well as the type of testing, should be commensurate with the bank's risk profile and the examination scope. Examiners should limit the extent and type of testing for the banks with lower-risk profiles for ML/TF and other illicit financial activity. Examiners generally test different areas in successive examinations. It may be appropriate, however, to test the same areas in successive examinations if there are previous examination findings or changes in the bank's risk profile and risk assessment. Examples of testing may include one or more of the following:

- Sampling suspicious activity alerts, discussing at a high level the investigation process with staff, and reviewing the decision-making process regarding SAR filings.18
- Determining whether reports, such as SARs and CTRs, are complete and accurate.
- Comparing filed CTRs against reportable transactions that can be identified on the bank's large cash transaction report.
- Confirming that the bank has collected and verified customer identification program and collected customer due diligence data on a sample of new accounts.
- Determining whether the bank has collected beneficial ownership information on a sample of legal entity customers by comparing internal reports with customer files.
- Determining whether eligible Phase II CTR-exempt customers (or nonlisted businesses) have been exempted appropriately by reviewing annual reportable cash transactions.
- Determining whether independent testing findings have been reported to the board, or a designated board committee, by reviewing the board or committee minutes.
- Comparing staff training records with the standards outlined in the bank's training policy.

Objective 3: Develop Conclusions and Finalize the Examination

Objective: Develop conclusions about the adequacy of the bank's BSA/AML compliance program relative to the bank's risk profile and the bank's compliance with BSA regulatory requirements, develop an appropriate supervisory response, and communicate BSA/AML examination findings to the bank.

- Accumulate pertinent findings from the BSA/AML examination and testing procedures performed.
- Develop conclusions about the adequacy of the bank's BSA/AML compliance program. Prepare written comments for the report of examination (ROE) covering areas or subjects pertinent to findings and conclusions. Prepare work papers in sufficient detail to support discussions in the ROE, including whether any previously completed independent testing or supervisory conclusions (for the BSA Officer and Training pillars) were relied upon to aid in the conclusion of a specific area. Reach a preliminary conclusion as to whether:
  - The BSA/AML compliance program is written, board-approved, and noted in the board minutes.
  - Internal controls, including risk assessment, policies, procedures, and processes, are reasonably designed to manage the bank's ML/TF and other illicit financial activity risks and to ensure compliance with BSA reporting and record-keeping requirements, especially for any higher-risk operations (products, services, customers, and geographic locations).
  - Independent testing is adequate to assess the bank's BSA compliance with regulatory requirements and assess the overall adequacy of the BSA/AML compliance program. The overall independent testing coverage and frequency are appropriate in relation to the ML/TF and other illicit financial activity risk profile of the bank and any expansionary activity. Transaction testing is adequate, particularly for any higher-risk banking operations and suspicious activity monitoring systems.

[18] Refer to OCC Bulletin 2025-31, "Bank Secrecy Act/Anti-Money Laundering: FinCEN Frequently Asked Questions on Suspicious Activity Reporting." See Question 4.

- The designated individual or individuals responsible for coordinating and monitoring day-to-day BSA/AML compliance are competent, have properly executed policies and procedures, and have the appropriate authority, independence, and access to resources.
- Personnel are sufficiently trained to follow legal, regulatory, and policy requirements. Communication of policies, procedures, and processes is adequate throughout the bank. The board and senior management are aware of BSA/AML regulatory requirements, adequately oversee BSA/AML compliance, and commit, as necessary, to corrective actions that address any independent testing or regulatory examination findings and recommendations in a timely manner. The board and senior management clearly communicate the need and support for BSA/AML risk management and internal controls throughout the bank.
- The BSA/AML compliance program is reasonably designed to ensure and monitor compliance with the BSA relative to the bank's overall ML/TF and other illicit financial activity risks.

- Prepare written comments for the ROE documenting any deficiencies or less substantive violations identified. Prepare written comments for work papers regarding any supervisory response that may be appropriate. The written comments should discuss the nature, duration, and severity of the deficiencies or violations and the necessary remediation by the bank. Note whether the bank previously identified the deficiencies or less substantive violations or they were identified by independent testing or as part of an examination.
- Discuss preliminary findings with the EIC or the examiner responsible for the BSA/AML examination. Specifically, discuss findings that have been or will be discussed with the bank, such as
  - a conclusion regarding the adequacy of the bank's BSA/AML compliance program and the bank's compliance with BSA regulatory requirements.
  - any identified deficiencies or violations (technical, isolated, and less substantive) and an assessment of the issues' severity.
  - bank actions to correct violations or deficiencies.
  - preliminary recommendations for a supervisory response, if necessary.
    - If the agency needs to take an informal or formal enforcement action to address violations of BSA regulatory requirements, examiners should discuss this fact with appropriate agency supervision management and legal staff.