

Comptroller of the Currency

**OCC Examination of Foreign Branch Offices
Compliance With Bank Secrecy Act**

OIG-00-060

March 3, 2000

This report has been reviewed for public dissemination by the Office of Counsel to the Inspector General. Information requiring protection from public dissemination has been redacted from this report in accordance with the Freedom of Information Act, 5 U.S.C. section 552.



Office of Inspector General

United States Department of the Treasury



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

March 3, 2000

MEMORANDUM FOR JOHN D. HAWKE, JR., COMPTROLLER
OFFICE OF THE COMPTROLLER OF THE CURRENCY

FROM: Dennis S. Schindel *Dennis S. Schindel*
Assistant Inspector General for Audit

SUBJECT: Audit Report of the Office of Comptroller of
the Currency Examinations of Foreign Branch
Offices for Compliance with the Bank Secrecy
Act

This memorandum transmits the final report on the Office of the Inspector General's (OIG) audit of the Office of Comptroller of the Currency (OCC) Examinations of Foreign Branch Offices (FBO) compliance with the Bank Secrecy Act (BSA).

Overall, OCC BSA examination procedures were adequate and being applied to most FBO examinations reviewed by the OIG. The OIG believes OCC could improve its BSA compliance examination of FBOs by enhancing its use of information and services available through the Financial Crimes Enforcement Network. In addition, closer coordination and better sharing of BSA information with other state and Federal financial institution regulators could allow OCC to more effectively use BSA information in its examinations.

In its response to the draft report, OCC concurred with all of the recommendations. The final report has been updated to recognize the additional progress OCC has taken with regard to increasing their training and intelligence capabilities.

We appreciate the courtesies and cooperation provided to our staff during the audit. If you wish to discuss this report, you may contact me at (202) 927-5400 or a member of your staff may contact Benny W. Lee at (415) 977-8810 in San Francisco.

Attachment

cc: Laura L. McAuliffe, Director, Management Improvement
Comptroller of the Currency

Overview

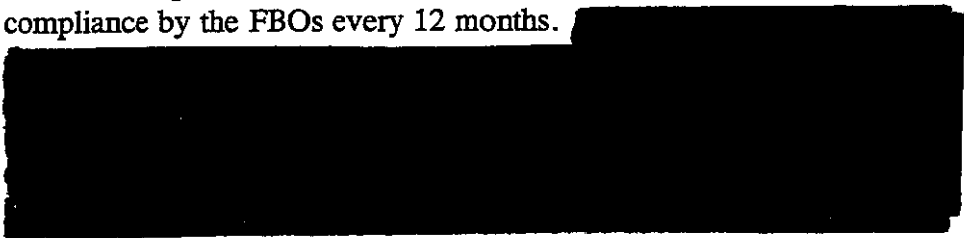
The Office of Comptroller of the Currency (OCC) Bank Secrecy Act (BSA) examination procedures were adequate and being applied in most Foreign Branch Office (FBO) examinations reviewed by the Office of Inspector General (OIG). However, the OIG believes OCC could improve its examination of FBO compliance with the BSA by enhancing its use of BSA information and the services available through the Financial Crimes Enforcement Network (FinCEN). In addition, closer coordination and better sharing of BSA information with other state and Federal financial institution regulators could allow OCC to more effectively use BSA information.

Background

Many foreign banks operate branches in the United States (U.S.) to promote commerce and provide service to its foreign and domestic account holders. Although the permissible activities of an FBO are similar to a national bank, an FBO operation is strikingly different. Many branches offer basic banking services in the U.S. to corporations and individuals. Some foreign branches are often small as to asset size, have little or no retail operations, conduct relatively few cash transactions and serve a select but well known customer base. Therefore, OCC compliance examinations at FBOs are generally less time consuming and smaller in scope than at domestic banks.

As of December 31, 1998, there were over 300 foreign banks doing business in the US. These foreign banks reported assets totaling over \$1 trillion in 750 branches operating in the US. Each FBO is licensed and supervised by a state or the Federal Government. As of June 1998, OCC supervised 64 of those branches, which reported about \$75 billion of assets. According to OCC personnel, regulations prohibit these FBOs from obtaining Federal Deposit Insurance Corporation (FDIC) insurance. However, seven were FDIC insured under grandfather provisions in the regulations.

The OCC is responsible for ensuring nationally chartered FBOs comply with BSA requirements. To accomplish this, OCC examines BSA compliance by the FBOs every 12 months.





Bank Secrecy Act Reporting Requirements

BSA legislation was passed to address Congressional concerns that large sums of cash were being deposited and laundered through the US banking system. All banks operating in the US must comply with the BSA. The implementing regulation (31 CFR 103) requires financial institutions to file certain currency and suspicious activity reports and to maintain certain records for criminal, tax, and regulatory proceedings.

Enacted in October 1970, the BSA contains three basic reporting requirements to monitor currency moving into and out of the country. The principal reports for monitoring currency movements are (1) the Currency Transaction Reports (CTR), (2) the Suspicious Activity Report (SAR) and (3) the Currency or Monetary Instrument Report (CMIR). Information from these BSA reports is reported and recorded in the US Treasury Department's FinCEN, the Government's custodian and manager of BSA information.

Congress created FinCEN in 1990 to administer the Government's anti-money laundering policies. As part of the Treasury Department, its mission is to collect and provide law enforcement and regulatory agencies with BSA information useful in detecting suspicious money movement activity. Every year FinCEN receives millions of the principal reports. In addition, FinCEN has developed an artificial intelligence system that can sort and analyze information contained in over 60 million BSA reports.

OCC Strengthening Its BSA Compliance Efforts

OCC has established four strategic goals to support its mission. One goal is to improve the efficiency of bank supervision and reduce the regulatory burden by streamlining supervisory procedures and regulations. In 1997, there were seven objectives established to accomplish these strategic goals. One of these objectives was to enhance workforce skills, abilities and resources. To meet this objective OCC is evolving towards a smaller, more highly skilled workforce to better supervise the banking industry of the future.

The goal of OCC's "supervision by risk" concept is to reduce regulatory burden by concentrating on banking activities that pose the highest risk and by focusing on bank operating results rather than

processes and procedures. The objective of this concept is to ensure compliance with applicable regulations, apply OCC policies consistently, use resources efficiently, and reduce the regulatory burden on industry.

OCC has made a concerted effort recently to improve its FBO examinations for compliance with the BSA. In late 1996, OCC issued a new handbook, *Bank Secrecy Act Comptroller's Handbook*, that provided over 100 examination procedures to examiners. In 1997, it combined the supervision of all FBOs under two Assistant Deputy Comptrollers in its Northeastern District. That same year, it created a fraud specialist position in each of its six district offices and headquarters. It also developed a cadre of about 100 examiners specializing in compliance, including BSA compliance, and money-laundering detection. Finally, in 1998 it issued supplemental examination guidelines extending the procedures for examination of BSA compliance. In 1998, OCC examined 49 FBOs for compliance with the BSA and invested over 2,300 staff hours.

Objective, Scope and Methodology

The objective of the audit was to determine whether OCC examination and supervision over FBOs operating in the US was adequate to ensure compliance with the BSA. The genesis of the OIG audit was an undercover operation known as Operation Casablanca. This undercover operation identified that drug cartels were laundering drug proceeds through foreign banks operating in the US and resulted in many indictments of bank officials and foreign banks as well as seizures of millions of dollars.

The OIG conducted its fieldwork between January and September 1999 at OCC Headquarters in Washington, D.C. and OCC Districts in New York City, New York and Glendale, California. The OIG also conducted fieldwork at FinCEN in Washington, D.C.

At OCC headquarters, the OIG discussed with personnel from the Offices of Chief Counsel and Bank Supervision-Policy the supervision over foreign bank compliance with the BSA and how it could be improved. At each field location, the OIG obtained, reviewed and discussed bank examination strategies, policies and procedures and reviewed 26 of the 49 FBO compliance examinations conducted in 1998.

This audit was conducted in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States and included such tests that were deemed necessary.

A detailed description of the objective, scope and methodology is presented in Appendix 1.

Audit Results

Overall, the OCC BSA examination procedures were adequate and being applied to most FBO examinations reviewed by the OIG. The OIG believes OCC could improve its examinations of FBOs for BSA compliance by enhancing the use of BSA information and the services available through FinCEN. In addition, closer coordination and better sharing of BSA information with other state and Federal financial regulators could allow OCC to more effectively use BSA information.

Most FBO Examinations Adequately Addressed BSA Compliance

The OCC examination procedures for determining FBO compliance with BSA requirements were generally adequate and being applied in the examinations reviewed by the OIG. The OIG reviewed 26 of the 49 FBO examinations conducted in 1998 and found the procedures in 23 examinations adequately addressed the institutional and examination risk at the FBO and that the procedures were consistent with those in the Comptroller's Handbook. However, 3 of the 26 examinations were not adequately documented to show the procedures applied by the examiners. As such, the OIG could not determine if examination coverage was adequate for those three examinations. OCC Northeastern District management agreed the documentation in those examinations was not adequate. The results of the 26 examinations reviewed by OIG are presented in Appendix 2.

Opportunities to Strengthen BSA Compliance

Opportunities exist for OCC to strengthen its examination of FBO compliance with BSA requirements. Better training could allow OCC examiners to identify and focus on suspicious currency transactions. Better use of FinCEN information could also allow them to identify trends and patterns useful in the examination planning process. Further, better sharing of BSA information among financial institution regulators could identify BSA information at the specific institution under examination giving examiners useful information for planning or using the BSA information.

Improved Training Could Enhance Exam Coverage

More and better training for fraud specialists over the access and use of BSA information could provide OCC an opportunity to enhance FBO examinations of BSA compliance. Taking full advantage of the BSA information and the services available at FinCEN could also provide an opportunity to leverage existing resources, and improve the efficiency of bank supervision with a smaller, highly skilled workforce. Given the dwindling foreign branches, it may be difficult to increase examination resources without affecting other agency priorities.

Currently, district fraud specialists are the primary OCC personnel for sorting and analyzing BSA information in the examination planning process. However, OCC officials stated fraud specialists generally do not ask FinCEN to sort BSA information or provide periodic reports on suspicious bank currency activities. They agreed their examination planning could be improved if FinCEN could provide routine reports such as the institutions' CTR filings. Also, OCC could improve the usefulness of BSA information if the specialist received training on how to request useful periodic reports from FinCEN. Through better training, OCC examiners would have access to more information relating to money laundering trends, emerging issues and other information useful in planning and conducting examinations.

At the 2 OCC locations visited, examiners and supervisors stated they were not familiar with accessing the BSA information at FinCEN. Instead, they relied on the fraud specialist to access the BSA information and identify suspicious transactions and activities. One supervisor stated the fraud specialist reviewed CTR and SAR information and ran the information through filters to identify potential suspicious activity. Adding, if suspicious activity was identified it would be shared with the exam team. However, according to the supervisor, the fraud specialist was also responsible for providing BSA information for community bank examinations; the majority of OCC's examination workload. One fraud specialist stated he could use additional assistants and still have plenty of work to do. However, the specialist felt that getting additional support was unlikely given the shrinking budgets and expanding workload for examiners.

Improved training offers three immediate benefits. First, the fraud specialist could learn to sort, analyze and synthesize BSA information to request useful periodic reports on suspicious bank currency activities. These reports could also be tailored to identify patterns of currency movements for certain areas such as High Intensity Drug

Trafficking Areas that could be valuable in planning BSA examinations. Second, this training could save the specialist time by having FinCEN provide periodic reports. And third, the specialist could cross train examiners on how to use this information in planning and conducting their examinations. FinCEN offers training to many users of its information, including OCC.

FinCEN's Technology Could Enhance Examination Process

Better use of FinCEN information and services could improve BSA examinations at minimal added cost to OCC. FinCEN analysts stated its artificial intelligence system is very sophisticated and can organize, analyze, and synthesize information contained in over 60 million BSA reports. With this system, FinCEN can sort BSA information by dollar amount, type of business, location and many other categories. By setting parameters tailored for specific agency needs, OCC could discern suspicious relationships between individuals and businesses. The system could also be used to develop benchmarks to measure and report suspicious activities useful to the BSA compliance examination.

OCC officials in the Northeastern District generally agreed they could improve their examinations by making better use of FinCEN's technology to analyze the massive amounts of BSA information.

Better Interagency Coordination Could Increase Usefulness of BSA Information

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

OCC officials at the exit conference generally agreed they needed to "push down" within the examination corps the working knowledge over using FinCEN information and services. They agreed more training for examiners and fraud specialists could broaden agency working knowledge, relieve some of the demands for the fraud specialists' time and services and generally improve bank examinations, especially in the planning phase. They stated considerable efforts have been made to train examiners since OIG performed its fieldwork. For example, about 20 examiners from two districts were recently trained on using the information and services at FinCEN. The examiners were receptive to the training and are now using FinCEN information and services in their bank examinations.

OCC officials also agreed better use of FinCEN services could improve bank examinations. To this end, OCC has been working with the Detroit Data Processing Center to design special information and periodic reports that allow OCC to proactively supervise banks' BSA activities and compliance rather than just during onsite examinations.

OCC officials were also receptive to coordinating with other Federal financial institution regulators and agreed better sharing of information among regulators could improve their examinations. [REDACTED]

[REDACTED]

Recommendation 1-1:

The Comptroller of the Currency should take full advantage of the training and artificial intelligence reporting opportunities at FinCEN to expand district fraud specialists' and compliance examiners' knowledge in accessing and using the BSA information in FBO examinations.

Management Response and OIG Comment

OCC management concurred with the OIG recommendation and has already begun working with FinCEN to increase their fraud specialists training and access to the Suspicious Activity Reporting System. OCC has also conducted training sessions on the FinCEN systems and substantially increased the number of employees trained to access the SARS databases.

The OIG believes OCC's actions will address the issues surrounding the recommendation.

Recommendation 1-2:

[REDACTED]

Management Response and OIG Comment

[REDACTED]

The OIG believes OCC's actions will address the issues surrounding the recommendation.

Recommendation 1-3:

The Comptroller of the Currency should ensure all BSA examiners adequately document their examination results to comply with OCC workpaper standards.

Management Response and OIG Comment

OCC management concurred with the OIG recommendation and has taken steps to improve the consistency of workpaper documentation and supervision. OCC is currently updating its workpaper documentation guidance and will be performing quality assurance reviews beginning in the first quarter of 2000.

The OIG believes OCC's actions will address the issues surrounding the recommendation.

OBJECTIVE, SCOPE AND METHODOLOGY

Appendix 1

The audit objective was to determine if OCC's examination and supervision over foreign banks operating in the U.S. was adequate to ensure compliance with the BSA. Specifically, the OIG reviewed the adequacy of OCC's examination and supervision over FBO compliance with the BSA reporting requirements and determined if those procedures were consistently and adequately applied during the examination.

The OIG's audit was initiated, in part, because of a large comprehensive drug money laundering undercover operation known as Operation Casablanca. This operation uncovered that drug cartels were laundering drug proceeds through branches of foreign banks operating in the US. One of many indictments charges foreign bank officials with participating in the drug money laundering, which ultimately lead to the seizure of over \$150 million and the arrest of over 100 individuals.

The audit was conducted in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States and included such tests deemed necessary.

The OIG conducted its fieldwork between January and June 1999 at OCC headquarters in Washington, D.C. as well as OCC District Offices in New York City, New York and Glendale, California. At OCC headquarters, the OIG reviewed and discussed with management the BSA laws and regulations, OCC's performance plan for 1998 and strategic plan for FY 1997-2002. The OIG reviewed OCC policies and procedures relating to the BSA and Community Bank Consumer Compliance, reviewed management reports, background information on foreign banks and discussed with OCC officials how to improve foreign bank BSA compliance examinations. At OCC district offices in New York and California, the OIG discussed with officials and personnel the working relationship between fraud specialists, compliance examiners, bank management and law enforcement agencies.

The OIG reviewed the workpapers for 26 of the 49 FBO BSA examinations OCC conducted in FY 1998 to determine the adequacy of the BSA examination coverage and the use of the BSA information available at FinCEN in those examinations. In evaluating the examination adequacy, the OIG determined OCC's [REDACTED] rating and the examination hours relating to BSA compliance. The OIG also evaluated the institutional and examination risk in relation to the examination procedures applied to the examination.

The OIG also discussed the collection of BSA information with FinCEN officials in Washington, D.C. and its data processing center in Detroit, Michigan. The OIG obtained from FinCEN the number and dollar amount of CTRs and SARs filed for 1997 and 1998 by each foreign bank regulated by OCC. This information was incorporated into the OIG's review of selected BSA examinations. The OIG did not verify the accuracy, completeness or reliability of the information received from FinCEN.

SUMMARY OF OCC FOREIGN BRANCH OFFICE EXAMINATIONS

Appendix 2

Office of the Comptroller of the Currency
FBO Examinations Reviewed by OIG
Fiscal Year 1998
(\$ in 000's)

OIG Code	FBO City	BSA Hours	CTRs	BSA Reporting		BSA Examination Procedures Applied			Adequate?
				Dollars	SARs	Mandatory	Transactional	Supplemental	
1	NY	0	0	\$0	0	YES	NO	NO	*UNKNOWN
2	NY	45	0	\$0	0	YES	YES	NO	YES
3	NY	17	0	\$0	0	YES	NO	NO	*UNKNOWN
4	NY	133	101	\$1,312,345	0	YES	NO	NO	*UNKNOWN
5	NY	242	2,489	\$82,137	178	YES	YES	NO	YES
6	NY	0	0	\$0	0	YES	YES	NO	YES
7	NY	107	36	\$1,405	0	YES	YES	NO	YES
8	NY	40	1	\$20	0	YES	NO	YES	YES
9	NY	78	22	\$726	0	YES	NO	NO	YES
10	NY	129	220	\$7,700	12	YES	YES	NO	YES
11	NY	12	0	\$0	0	YES	YES	YES	YES
12	NY	165	8	\$193	0	YES	YES	YES	YES
13	NY	53	5	\$68	3	YES	NO	NO	YES
14	NY	60	119	\$1,487	0	YES	YES	YES	YES
15	NY	80	357	\$44,625	0	YES	NO	NO	YES
16	NY	78	14	\$288	0	YES	YES	YES	YES
17	NY	2	1	\$10	0	YES	NO	YES	YES
18	NY	0	675	\$26,675	0	YES	YES	YES	YES
19	NY	0	See no. 5	See no. 5	0	YES	YES	NO	YES
20	NY	0	0	\$0	0	YES	NO	NO	YES
21	NY	61	See no. 18	See no. 18	1	YES	YES	YES	YES
22	LA	18	220	\$7,700	0	YES	YES	NO	YES
23	LA	18	1	\$20	0	YES	YES	NO	YES
24	LA	14	0	\$0	0	YES	NO	NO	YES
25	LA	70	See no. 5	See no. 5	0	YES	YES	YES	YES
26	LA	9	See no. 18	See no. 18	0	YES	YES	YES	YES
				26		100%	16	10	23
							62%	38%	88%


* Examination Procedures Not Adequately Documented



MEMORANDUM

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

To: Dennis S. Schindel, Assistant Inspector General for Audit
From: John D. Hawke, Jr., Comptroller of the Currency 
Date: December 17, 1999
Subject: Office of Inspector General (OIG) Draft Audit Report
Bank Secrecy Act Compliance

We have reviewed your draft audit report titled *OCC Examination of Foreign Branch Offices' Compliance with Bank Secrecy Act*. We welcome the opportunity to respond to your findings and recommendations.

The OIG report represents a review of 26 Bank Secrecy Act (BSA) examinations of Foreign Branch Offices (FBOs) that were conducted by the OCC during 1998. We are pleased with the OIG's finding that, in almost all instances, the scope of the examinations was consistent with OCC policy and the risks were appropriately addressed. In addition, we concur with the finding that the workpaper documentation for three of the examinations should have been more complete. Your report also contains three recommendations to enhance our supervisory activities with respect to FBOs. These include maximizing the training and artificial intelligence opportunities available through FinCEN, exploring ways to share BSA information on FBOs with other regulators, and strengthening our workpaper documentation. As detailed below, we have already implemented actions to address the first recommendation and will take steps to address the other two recommendations.

FinCEN Initiatives

Your report recommends that OCC take full advantage of the training opportunities and artificial intelligence capabilities offered by FinCEN. It is important to note that although we began working with FinCEN in 1998 to increase training and access to the Suspicious Activity Reporting System (SARS) and the Currency Banking and Retrieval System (CBRS), we have taken significant steps during 1999 to enhance this cooperative effort. In February and June of this year, our fraud specialists received specialized training regarding the FinCEN databases. In addition, in August we conducted two training sessions on the FinCEN systems for examiners in four of our six districts.

Individuals from FinCEN and the IRS Detroit Computing Center (DCC) conducted the training.

We have also substantially increased the number of employees (currently totaling 88) who are trained to access the SARS and CBRS databases. The DCC is currently working on programming changes to enable OCC employees to directly download pertinent data. Until the programming changes are complete, DCC is downloading the data and providing it to the OCC on disk or via electronic mail. The increased access and direct download capabilities will allow examiners to manipulate and analyze data on CTRs and SARs when planning and conducting BSA and anti-money laundering (AML) examinations.

In addition, we are collaborating with FinCEN to develop ways to utilize their artificial intelligence capabilities to target banks that may be vulnerable to money laundering.

[REDACTED]

OCC and FinCEN are working together to design a program to identify and target banks and bank customers for expanded review during the examination process. FinCEN recently developed some analysis reports that we are using in the examination process on a pilot basis. In addition, we have obtained access to Federal Reserve cash flow figures from FinCEN and are developing reports from this data that will assist us in planning and conducting examinations.

Interagency Coordination

[REDACTED]

Workpaper Documentation

The report identified three instances where the OIG believed that the workpaper documentation was insufficient to support conclusions reached. In order to improve the consistency of our workpaper documentation and to ensure appropriate follow up to the OIG concerns, the OCC will:

- Include the workpaper documentation guidance (PPM 5400-8) in the Examination Planning & Control Handbook, which is currently being updated;
- Expand the discussion of workpaper retention in the handbook to emphasize minimum standards of documentation; and
- Instruct the Northeastern District to perform periodic quality assurance reviews beginning in the first quarter of 2000 to ensure workpaper documentation for FBOs is consistent with OCC policies and procedures.

We are committed to ensuring that our supervisory efforts with respect to the Bank Secrecy Act and anti-money laundering activities are comprehensive and effective. We believe we have demonstrated that commitment through our expanded examination programs, establishment of a National Anti-Money Laundering Group to serve as a focal point for BSA/AML supervision, development of training programs to increase examiner expertise, and increased cooperation with other regulators and law enforcement agencies. While we feel we have made significant progress in this area, we will continue to address identified shortcomings and strengthen our policies and practices.

Technical corrections and editorial suggestions were provided to your auditors separately. We appreciate the opportunity to review and comment on the report.

MAJOR CONTRIBUTORS

Appendix 4

Benny W. Lee, Program Director

Kenneth F. Wicklander, Audit Manager

John E. Carnahan, Auditor

REPORT DISTRIBUTION

Appendix 5

U.S. Department of the Treasury

Office of the Assistant Secretary for Financial Institutions

Office of Strategic Planning and Evaluations, Departmental Offices

Office of Accounting and Internal Control, Departmental Offices

Office of Budget, Financial Management Division, Departmental Offices

Office of Comptroller of the Currency

Comptroller of the Currency

Senior Deputy Comptroller, Bank Supervision-Operations

Senior Deputy Comptroller, Bank Supervision-Policy

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Director

Chief Counsel

Office of Management and Budget

OIG Budget Examiner