



Office of Inspector General | United States Postal Service

Audit Report

Fiscal Year 2017 Bank Secrecy Act Program

Report Number FT-AR-18-006 | January 17, 2018



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Highlights

Objective

To combat money laundering in the U.S., Congress enacted a series of laws, collectively referred to as the Bank Secrecy Act (BSA), requiring financial institutions, including money services businesses (MSB), to deter and detect potential money laundering, and report suspicious activities to the U.S. Department of the Treasury's Financial Crimes Enforcement Network. Under the BSA, the U.S. Postal Service, defined as a MSB, is required to comply with the law.

Our objective was to determine whether the Postal Service anti-money laundering program is adequately designed and implemented to ensure compliance with the BSA and to identify opportunities to enhance the program.

What the OIG Found

The Postal Service anti-money laundering program is adequately designed to ensure compliance with the BSA, but management could enhance its implementation. We identified three opportunities to enhance the BSA program. Specifically, we found that Postal Service management:

- Relied on contractor services to comply with BSA requirements. BSA Compliance Office management monitors ongoing suspicious activity, identifies suspicious activity through a proactive lookback process, and analyzes reports developed by senior analysts. However, the prime contractor had full control over determinations and decisions mostly involving structuring transactions and activity not already monitored by the BSA Compliance Office. In addition, BSA management depended on a separate contractor to perform quality assurance reviews of suspicious activity reporting. This occurred because the Postal Service did not provide sufficient oversight of the contractors performing compliance or quality assurance procedures. This level of reliance, without sufficient oversight, could affect the functioning of the compliance program if the contractor relationship is terminated. Sufficient oversight is critical to ensure continued BSA compliance processing.
- Did not include changes to procedures for obtaining missing information on Postal Service (PS) Form 8105-A, Funds Transaction Report, in its

BSA procedures manual. This was an unintentional omission by BSA management. When procedures are not updated, processes may not be accurately or timely completed and required information may not be obtained, which puts the program at risk for non-compliance with BSA record-keeping requirements. Also, outdated or inaccurate procedures are an unreliable source of reference for current employees and new hires who are not aware of organizational procedures.

- Did not address all risk factors for the identification and analysis of suspicious activity in their BSA risk assessment, including BSA processing and recordkeeping systems, employee turnover at post offices, and the BSA compliance office's relationship with post offices and contract postal units. This occurred because BSA management did not have formal, documented procedures for preparing risk assessments. Also, management decided not to widely disseminate these procedures.

Documentation of the procedures for preparing the risk assessment would mitigate the risk of any significant omission of information that is critical for the identification and analysis of suspicious activity. In addition, current, accurate documentation provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a few personnel.

Because of our audit, management updated its procedures manual to include procedures for obtaining missing information on PS form 8105-A. Also, they agreed to fully address operational risk beginning with the fiscal year 2018 risk assessment and created formalized procedures for preparing the risk assessment. Accordingly, we are not making a recommendation on these issues.

What the OIG Recommended

We recommended management:

1. Enhance oversight practices over contractors used to assist the Postal Service in complying with the BSA.

Transmittal Letter

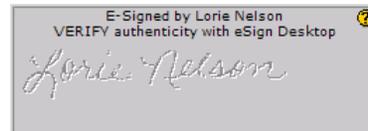


OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

January 17, 2018

MEMORANDUM FOR: JOSEPH CORBETT
CHIEF FINANCIAL OFFICER AND EXECUTIVE
VICE PRESIDENT

ELIZABETH M. SCHAFER
TREASURER



FROM: for
John E. Cihota
Deputy Assistant Inspector General
for Finance and Pricing

SUBJECT: Audit Report – Fiscal Year 2017 Bank Secrecy Act
Program (Report Number FT-AR-18-006)

This report presents the results of our audit of the Fiscal Year 2017 Bank Secrecy Act Program (Project Number 17BG012FT000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lorie Nelson, Director, Finance, or me at 703-248-2100.

Attachment

cc: Corporate Audit Response Management

Results

Introduction/Objective

This report presents the results of our self-initiated audit of the Fiscal Year (FY) 2017 Bank Secrecy Act (BSA) Program (Project Number 17BG012FT000). Our objective was to determine whether the U.S. Postal Service anti-money laundering program is adequately designed and implemented to ensure compliance with the BSA and to identify opportunities to enhance the program. See [Appendix A](#) for additional information about this audit.

Background

To combat money laundering¹ in the U.S., Congress enacted a series of laws, collectively referred to as the BSA,² requiring financial institutions, including money services businesses (MSB),³ to deter and detect potential money laundering, and report suspicious activities to the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN). The Postal Service, as a MSB, is obligated to comply with the BSA requirements.

The BSA requires all MSBs to establish and maintain an effective written anti-money laundering program designed to prevent the MSB from facilitating money laundering and the financing of terrorist activities. There are four elements or central pillars that MSBs must have in place for a well-designed program:

- A system of policies, procedures and internal controls to ensure ongoing compliance.
- Assignment of person(s) to ensure day-to-day compliance with the program.
- Provision for education or training of appropriate personnel concerning their responsibilities under the program.
- Independent review of the program.

[Table 1](#) provides a summary of FY 2016 money order, gift card, and money transfer transactions.

¹ Money laundering is the process of concealing the existence, source, or application of income derived from criminal activity and the subsequent disguising of the source of that income to make it appear legitimate.
² The Currency and Foreign Transactions Reporting Act, 31 U.S.C. §§ 5311-5330 and 12 U.S.C. §§ 1829 (b), 1951-1959, is also known as the BSA. Its implementing regulation is 31 CFR 103.
³ The BSA explicitly names the Postal Service as an MSB.

Congress enacted a series of laws, the Bank Secrecy Act (BSA), to combat money laundering.



The BSA requires financial institutions, including money services businesses, to deter and detect potential money laundering, and report suspicious activities to the U.S. Department of the Treasury's Financial Crimes Enforcement Network.



Table 1. FY 2016 Money Order, Gift Card and Money Transfer Transactions

Financial Instrument	Face Value	Transactions	Average Amount	Fee Revenue
Money Orders	\$20,853,865,374	90,388,546	\$231	\$115,883,623
Gift Cards	██████████	██████████	████	██████████
Money Transfers	██████████	██████████	████	██████████

Source: Postal Service Electronic Data Warehouse (EDW)⁵ as of August 2017.

Finding #1: Compliance Contractor Reliance

The Postal Service’s anti-money laundering program is adequately designed to ensure compliance with the BSA, but management could enhance its implementation. Specifically, the BSA Compliance Office relied on contractor services to comply with BSA requirements. BSA Compliance Office management monitored ongoing suspicious activity, identified suspicious activity through a proactive lookback process, and analyzed reports developed by senior analysts. However, the prime compliance contractor had full control over determinations and decisions mostly involving structuring transactions⁶ and activity not already monitored by the BSA Compliance Office. In addition, BSA management depended on a separate contractor to perform quality assurance reviews of suspicious activity reporting.

The prime compliance contractor has been involved with the Postal Service in the identification and analysis of suspicious transactions since FY 2002. The contractor’s responsibilities include:

- Conducting analysis to identify suspicious BSA related transactions.
- Developing and maintaining BSA databases to ensure compliance with regulatory requirements.

- Providing technical BSA and anti-money laundering system consulting services.

The contractor program manager also made suspicious activity reporting decisions, submitted required BSA reports to FinCEN, and performed reviews of suspicious activity transactions.

This occurred because the Postal Service did not provide sufficient oversight of the contractors performing compliance or quality assurance procedures. The BSA compliance officer conducted oversight activities including meeting with contractors regularly to provide direction; discussing trends and addressing potential issues; reviewing monthly contractor reports; and reviewing suspicious activity when the compliance contractor could not reach a reporting determination. However, best practices suggest a more robust process, to include:

- Independently inspecting documents.
- Frequently reviewing suspicious activity filing decisions.
- Evaluating whether any new risks were appropriately identified, assessed, and incorporated into the compliance program.

⁴ Total amount transferred.

⁵ EDW is the central electronic repository for retail, financial, and operational performance data.

⁶ Conducting transactions in currency in one or more financial institutions in any manner for the purpose of evading BSA reporting requirements.

- Periodically evaluating whether contractor personnel are properly trained, knowledgeable, and performing in accordance with program objectives.

FinCEN guidance⁷ states that although an MSB may contractually assign responsibilities for developing policies, procedures, and internal controls, the MSB remains liable under the BSA rules for the existence of these respective policies, procedures, and controls. Contractually, the BSA Compliance Office has assumed responsibility for evaluating the performance and efficiency⁸ of the contractors.

While Postal Service policy⁹ only encourages monitoring of contractor activities to ensure all requirements are met, the Committee of Sponsoring Organizations of the Treadway Commission Internal Control Integrated Framework, 2013 (COSO)¹⁰ provides stronger guidance. Specifically, COSO emphasizes ongoing and separate evaluations to confirm controls are present and functioning. In addition, it suggests management independently monitor those involved in the performance of the control activity through inspections and examinations. Further, COSO¹¹ emphasizes management's evaluation of the competence of contractors in relation to established policies and practices.

This level of reliance without sufficient oversight could affect the functioning of the compliance program if the contractor relationship is terminated. As noted by

the contractor hired by the BSA Compliance Office to perform a quality review of the BSA program,¹² the compliance officer did not completely understand the way the prime contractor structures and maintains various files used in the report writing process. Sufficient oversight is critical to ensure continued BSA compliance processing.

In addition, the Postal Service risks not identifying or reporting false suspicious activity, or potentially allowing transactions that support illegal activities. Further, when suspicious reporting expectations are not met, the U.S. Department of the Treasury and the U.S. Department of Justice could impose civil and criminal penalties on the Postal Service, potentially tarnishing the Postal Service's reputation and brand.¹³

Recommendation #1:

We recommend the Chief Financial Officer, in coordination with the Treasurer, direct the Bank Secrecy Act (BSA) compliance officer to enhance oversight practices over contractors used to assist the Postal Service in complying with the BSA.

Finding #2: Program Procedure Changes

BSA management did not include changes to procedures for obtaining missing information on Postal Service (PS) Forms 8105-A, Funds Transaction Reports, such as social security, driver's license, passport, and military identification numbers, in the *BSA/AML¹⁴ Program Procedures Manual* (Manual). In FY 2015,

management updated procedures for obtaining missing information required for BSA reporting, to include automated email notifications to post office management. However, they did not include them in the Manual. This was an unintentional omission by BSA management.

7 FIN-2016-G001, *Guidance on Existing Anti-Money Laundering Program Rule Compliance Obligations for MSB with Respect to Agent Monitoring*, dated March 11, 2016.

8 BSA and Anti-Money Laundering Compliance Program, Statement of Work dated October 20, 2014, U.S. Postal Service Responsibilities.

9 *Supplying Principles and Practices*, clause 2.1.d, dated September 2016.

10 COSO, Principle 16, Performs Ongoing and/or Separate Evaluations.

11 COSO, Principle 4, Commitment to Competence.

12 *Independent AML Review Report of the United States Postal Services' Anti-Money Laundering Program*, dated December 21, 2016.

13 The Postal Service could face civil penalties of \$25,000 per occurrence for each unreported transaction, and \$25,000 for each day, and for each office that does not comply with the laws. In addition, the Postal Service or any of its managers can receive criminal penalties in an amount up to \$250,000 and a five-year prison sentence.

14 Anti-money laundering.

The BSA requires MSBs to keep records on certain cash transactions. For each customer purchasing money orders, wire transfers, and stored value cards totaling \$3,000 or more in one day, the Postal Service collects required recordkeeping information on PS Form 8105-A. The Postal Service also uses PS Form 8105-A to collect information from customers who cash money orders totaling more than \$10,000 during the same day. Post offices with Retail System Software (RSS)¹⁵ transmit these forms electronically. However, post offices without RSS mail them to the BSA Compliance Office scanning and imaging contractor to upload into the BSA database for review.

COSO¹⁶ states documentation provides clarity around roles and responsibilities, which promotes organizational consistency of the adherence of policies and procedures. Additionally, it suggests documentation is required for effective

Finding #3: Risk Assessment

The Postal Service did not address all required operational risk¹⁸ evaluation factors in their July 2016 risk assessment. The Postal Service's *BSA/AML/OFAC Compliance Policy Manual* established the following required operational risk evaluation factors:

- Transaction processing and record keeping systems.
- Turnover frequency at post offices.
- Financial services/products transaction activity.
- Senior management involvement in BSA matters.
- BSA Compliance Office relationships with post offices and contract postal units.

design, implementation and operating effectiveness of an entity's internal control system. Effective documentation assists in management's design of internal control by establishing and communicating the who, what, when, where, and why of internal control execution to personnel.

When procedures are not included in the Manual, processes may not be accurately or timely completed and required information may not be obtained, which puts the program at risk for noncompliance with BSA record-keeping requirements.¹⁷ Also, outdated or inaccurate procedures are an unreliable source of reference for current employees and new hires who are not aware of organizational procedures. Management updated its Manual effective November 3, 2017, to include procedures for obtaining missing information on PS form 8105-A. Therefore, we are not making a recommendation.

The BSA risk assessment included a short methodology, which contained a description of the overall assessment and risk categories evaluated, but did not adequately address three of the five required operational risk evaluation factors.¹⁹

This occurred because management did not have formal, documented procedures for preparing risk assessments. Also, BSA management decided not to widely disseminate these procedures. Had these procedures been documented, BSA compliance personnel would have step-by-step instructions on how to prepare the risk assessment, including fully developing the operational risk category.

COSO states unwritten procedures can be easy to circumvent, be costly to the organization if there is turnover in personnel, and reduce accountability. Further, COSO²⁰ recommends the formal documentation of procedures when the process

¹⁵ RSS began deployment in 2014 and replaced the Point of Service system, which is the primary hardware and software system used to conduct retail sales transactions in post offices.

¹⁶ COSO, Overview of the Framework.

¹⁷ 31 CFR 1010.410 Subpart D.

¹⁸ FinCEN *Bank Secrecy Act/Anti-Money Laundering Examination Manual for Money Service Businesses*, dated 2008, *Risk Assessment* Section, states a detailed risk assessment involves identifying specific risk categories such as product, customer, geographic, and operational risks.

¹⁹ Postal Service did not adequately evaluate systems used for processing and recordkeeping transactions, turnover frequency at post offices, and BSA Compliance Office's relationship with post offices and contract postal units.

²⁰ COSO, Principle 12, Deploys Control Activities Through Policies and Procedures.

is subject to an external third party review. FinCEN recommends assessing risks across multiple risk categories.

The risk assessment is the foundation for developing effective program policies, processes, and procedures. Documentation of the procedures for preparing the risk assessment would mitigate the risk of any significant omission which are critical for the identification and analysis of suspicious activity. In addition,

Management's Comments

Management disagreed with the findings and recommendation but agreed that continuous improvement is beneficial to any program. Management also recognized the benefit of enhancing existing controls over the BSA/AML program. In response to recommendation 1, as of January 1, 2018, management stated they increased the frequency of random SAR reviews, from [REDACTED], that include an evaluation of the reason for the suspicious determination, review of the [REDACTED], and examination of [REDACTED] images. In addition, beginning January 1, 2018, management increased the frequency of sample decisions reviews by contracted analysts.

Management noted that neither the BSA or implementing recommendations prohibit the delegation of functions to contractors. They disagreed that the prime contractor had full control over certain BSA determinations but, rather, played an important, yet complementary, role in the SAR process. Management noted they have controls, standards, guidelines, and safeguards in place that ensure the level of oversight meets the regulatory standard of reasonableness and, as such, the BSA/AML Compliance Office sets forth the parameters of determining whether a SAR should be filed. Management also noted that the OIG did not identify examples of oversight deficiencies.

documentation provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a few personnel, as well as a means to communicate that knowledge as needed to external parties.

As a result of our audit, BSA management agreed to fully address operational risk beginning with the FY 2018 risk assessment and created formalized procedures for preparing the risk assessment.

Further, management stated that prime contractor decisions are subject to an independent review under the guidance of the BSA/AML Compliance Office. The compliance officer and a subject matter expert review the results and implement remedial measures if warranted. Finally, management stated that compliance with COSO in the BSA context is not required and COSO standards are not binding.

Management reiterated that the new program procedure changes were incorporated into the BSA/AML Procedures Manual prior to OIG audit report issuance. Additionally, management agreed to revise its procedures manual publication schedule, quarterly.

Management stated they are establishing a separate portion of the BSA/AML Compliance Office risk assessment to refer specifically to operational risks, and as part of that process, those currently included will be revised to more appropriately reflect AML risks. Further, management incorporated these new operational risks into the new risk assessment, scheduled to be completed in Quarter 2, FY 2018.

See [Appendix B](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation in the report.

Regarding compliance contractor reliance, we recognize that the BSA does not prohibit the delegation of functions. Our report did not state that. Rather, our report focused on the areas the BSA Compliance Office could improve its oversight of those functions to ensure they continue to play a complementary, but supportive role. We further acknowledge the BSA/AML Compliance Office's contractor controls and quality assurance measures already in place.

We also agree that COSO standards are not binding, that they present guidance, and compliance is not required. The intent of our recommendation was to enhance those controls regarding contractor oversight, mainly prior to SAR

submission. We included COSO principles as a guide to help management enhance its contractor oversight because current policy only encourages monitoring. Since the conclusion of our audit, management increased the frequency of SAR reviews and sample decisions reviews by contracted analysts. We believe these further actions will provide better oversight of the contractors.

As stated in the report, we did not make any further recommendations regarding program procedure changes and the risk assessment, due to the actions already taken by the Postal Service at the time of our audit. We believe the additional actions taken will further address the findings.

We consider recommendation 1 closed upon issuance of this report.

Appendices

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Appendix A: Additional Information

Scope and Methodology

We reviewed the design of the Postal Service BSA program for compliance with the following BSA requirements:

- Policies, procedures and internal controls.
- Assignment of BSA compliance officer.
- Provision for training of appropriate personnel.
- Periodic independent review of the program.

We did not perform transactional testing. However, to achieve our objective, we:

- Identified and reviewed BSA laws and regulations.
- Reviewed FY 2016 BSA risk assessment.
- Observed a walkthrough of the BSA transaction analysis process.
- Interviewed key Postal Service Headquarters, field, and contractor personnel to discuss procedures performed.
- Reviewed contractor oversight procedures.
- Assessed BSA office staff qualifications.

- Reviewed the BSA training program.
- Reviewed the latest BSA program independent review dated December 21, 2016.
- Benchmarked BSA compliance audit procedures to best practices within the industry.

We conducted this performance audit from April 2017 through January 2018 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 objective. We discussed our observations and conclusions with management on December 13, 2017, and included their comments where appropriate.

We did not assess the reliability of any computer generated data for the purposes of this report. Our audit scope was not designed to rely on computer generated data.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact
<i>Bank Secrecy Act Compliance for Fiscal Year 2012</i>	To determine why postal facilities did not always meet Postal Service expectations for reporting suspicious purchases and redemptions of money orders.	FT-AR-13-002	11/9/2012	None
<i>Bank Secrecy Act Compliance for Fiscal Year 2015</i>	To determine why large discrepancies in suspicious activity reporting exist among post offices located in the same high risk districts.	FT-AR-15-007	6/10/2015	None

Appendix B: Management's Comments

ELIZABETH M. SCHAFER
TREASURER



January 9, 2018

LORI LAU DILLARD
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Audit Report - Fiscal Year 2017 Bank Secrecy Act Program
(Report Number FT-AR-18-DRAFT)

We appreciate the time and effort expended by the Office of Inspector General staff and its managers in undertaking this project as well as the opportunity to respond to the draft report.

We have reviewed the December 21, 2017 Draft Report of the Office of Inspector General, Audit Operations Section, which evaluated whether the U.S. Postal Service anti-money laundering (AML) program was adequately designed and implemented to ensure compliance with the Bank Secrecy Act (BSA)¹ and its implementing regulations² and identified opportunities to enhance this program.³ We noted that the audit found "the Postal Service anti-money laundering program is adequately designed to ensure compliance with the BSA" and no deficiencies were found with the Postal Service Bank Secrecy Act/Anti-Money Laundering (BSA/AML) program's compliance with the BSA or implementing regulations.

We disagree with several of the report's findings as explained in more detail later in this response. Our strongest disagreement is to the findings regarding the BSA/AML Compliance Office use of contractors. Neither the BSA statute nor its implementing regulations prohibit the delegation of certain BSA compliance functions to outside entities.⁴ Many financial institutions utilize third parties for such services because of their provision of superior automated systems, lower costs, greater expertise and flexibility. Contracting qualified, supervised third parties for discreet BSA functions often increases these institutions' ability to perform a more robust and timely identification and analysis of BSA transactions.

Nevertheless, we disagree with the statements that the Postal Service did not provide sufficient oversight of contractors and that the prime contractor had full control over determinations and decisions. Decisions made by the prime contractor are based on the guidelines and policies set by the BSA/AML Compliance Office and are subject to independent review. Furthermore, we strongly disagree with the statement that the Postal Service risks not identifying or reporting false suspicious activity. We also disagree that the BSA/AML procedures did not accurately reflect current practices as the procedures had been formalized and individuals performing the activities were well aware of them even though they had not yet been inserted into the procedures manual or had been recorded in BSA/AML documentation other than the procedures manual.

However, we agree that continuous improvement is beneficial to any program and we have taken steps to make enhancements in response to the single recommendation as discussed later in this document. The following provides a more detailed explanation of our responses to the findings.

¹ U.S.C. §§5311-5314, 5316-5331-5332, 12 U.S.C. §1829, and §§1951-1959, as amended.

² 31 CFR Chapter X.

³ Office of Inspector General, Project Number 17BG012FT000.

⁴ This is acknowledged by the drafters of the OIG report on page 3.

MANAGEMENT RESPONSE TO HIGHLIGHTS AND SUBSTANTIVE REPORT

Finding #1: Compliance Contractor Reliance

We disagree with the audit statement that the BSA/AML Compliance Office's prime contractor had full control over certain BSA determinations and decisions, including decisions involving the reporting of potentially structured transactions.⁵ The BSA/AML Compliance Office has numerous AML standards, controls, guidelines and safeguards in place concerning the detection and reporting of potentially suspicious transactions, including those transactions determined during the initial analysis to warrant suspicious activity reporting. We believe these controls fully meet the regulatory standard of "reasonableness."⁶ As such, the BSA/AML Compliance Office, and not the prime contractor, is the entity which sets forth the parameters of determining whether a Suspicious Activity Report (SAR) should be filed, and does that activity.

As the report correctly notes, the prime contractor for AML analysis and SAR functions has been involved with these functions since FY 2002, which has provided the contractor with significant experience analyzing and identifying suspicious activity. Even though the contractor is experienced in the field, the contractor is not in "full control" of the SAR reporting process. The prime contractor is required to monitor transactions under strict guidelines and standards adopted by the BSA/AML Compliance Office. Decisions made by the prime contractor, which consist almost entirely of identifying potentially structured transactions, are subject to an independent review under the aegis of the BSA/AML Compliance Office. Indeed, filing determinations are made based on the guidelines set by the BSA/AML Compliance Office. More sophisticated transactions are subject to a tiered referral structure and receive more extensive analysis and investigation by postal staff and filing decisions are made under the BSA/AML Compliance Officer's direction.⁷ Please see Appendix A for further information on contractor oversight.

The report also asserts that the BSA/AML Compliance Office did not provide sufficient oversight of the contractors it utilized to perform compliance or quality assurance functions. We disagree. Moreover, the report fails to provide any specific examples where oversight was lacking or where defective oversight led to BSA failings. For reasons stated below, we believe the level of oversight by the BSA/AML Compliance Office more than meets the regulatory standard of "reasonableness."⁸

In addition, random samples of SAR decisions are independently reviewed for completeness, accuracy and conformity with BSA requirements. The BSA/AML Compliance Officer sets the criteria for these sample SAR reviews and a Subject Matter Expert ("SME") retrieves the underlying documents and, among other things, reviews the SAR narratives and the basis for each suspicious activity report. The BSA/AML Compliance Officer and the SME meet to review the results of this independent review and to identify and implement remedial measures if warranted.

In light of these additional AML monitoring and analytical measures, the prime contractor played an important, but complementary, role in the BSA/AML Compliance Office's SAR process. However, that role never constituted "full control" over SAR determinations and decisions.

As mentioned earlier, neither the BSA statute nor its implementing regulations prohibit the delegation of certain BSA compliance functions to outside entities.⁹ Many financial institutions utilize third parties for such services. Contracting third parties for discreet BSA functions often increases these institutions' ability to perform more robust analysis of BSA transactions.

⁵ "Structuring" transactions are defined in 31 CFR §1010.100(xx) as actual or attempted transactions in currency by any person, acting alone or in conjunction with others, at one or more financial institutions, for the purpose of evading the currency reporting requirements of the BSA regulations.

⁶ 31 CFR §1022.210(a).

⁷ BSA/AML Procedures Manual.

⁸ *Id.*

⁹ This is acknowledged by the drafters of the OIG report on page 3.

The audit report correctly does not assert that the delegation of some of these responsibilities to the prime contractor constitutes a BSA violation. Nor has it identified instances in which the prime contractor failed to comply with relevant BSA responsibilities. Instead, the report contends that guidance issued by the Committee of Sponsoring Organizations of the Treadway Commission Internal Control Integrated Framework, 2013 ("COSO") requires additional oversight. The BSA/AML Compliance Office is subject to strict and well known regulatory and statutory controls under the BSA and its implementing regulations. The audit has asserted that the Postal Service's BSA activities should also comply with COSO. However, compliance with COSO in the BSA context is not required. Had Congress or the Treasury Department intended the COSO standards to apply in the BSA context, either entity could have adopted regulations requiring COSO compliance. Nonetheless, the BSA/AML Compliance Office has implemented policies and procedures that are in line with some COSO principles, for example Principle 4 (evaluation of the competence of contractors in relation to established policies and practices). The BSA/AML Compliance Office already performs this type of evaluation beginning with the competitive bidding process and continuing through the contract. Even the OIG indicates that COSO is only guidance. For a more thorough discussion of the non-applicability of COSO, please see Appendix B.

RECOMMENDATION #1

Enhance oversight practices over contractors used to assist the Postal Service in complying with the BSA.

MANAGEMENT RESPONSE

As noted above, we disagree with the audit findings regarding contractor oversight. However, we agree that continuous improvement is beneficial to any program. In addition to the controls and oversight already in place that are discussed throughout this document, we have taken the following steps to make enhancements in response to this recommendation.

At the beginning for FY 2018, we increased the frequency of random sample SAR reviews and are now performing the reviews on a [REDACTED] basis; previously these reviews were normally done on a [REDACTED] basis. This review includes an evaluation of the reason cited for determining the activity was suspicious, a review of the [REDACTED] and examination of [REDACTED] of the [REDACTED] involved in the SAR. In addition, beginning in the second quarter of FY 2018, we increased the frequency of random sample reviews of suspicious/not-suspicious decisions by contracted analysts and will be performing them on a [REDACTED] basis.

TARGET IMPLEMENTATION DATE

The enhancements in response to this recommendation have been implemented.

RESPONSIBLE OFFICIAL

Title: BSA/AML Compliance Officer
Organization: Corporate Treasury

Finding #2: Program Procedure Changes

The report's second finding indicates that the BSA/AML Compliance Office instituted new procedures to enhance the identification of transactions that might warrant the filing of Postal Service Form 8105-A, Funds Transaction Report, or might identify forms with missing data, but failed to include these procedures in the BSA/AML Compliance Office's BSA/AML Procedures Manual. These new procedures were developed prior to publication. The automated "push" of reports and emails identified in this section of the audit was detailed in the BSA/AML technical processes because the emails were system generated. Other procedures were formalized and memorialized, but had not yet been placed in the procedures manual. The Postal Service agrees to revise its procedures manual publication schedule on a quarterly basis.

These new procedures were incorporated into the manual prior to the date the audit report was issued and copies were made available to the auditing staff before the draft was prepared. In light of this, we believe this finding is now resolved and there is no need for further corrective action.

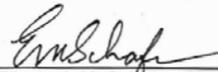
Finding #3: Risk Assessment

The third finding summarized in the highlights section asserts that the BSA/AML Compliance Office failed to incorporate certain operational risks, such as employee turnover and the status of relationships with the BSA/AML Compliance Office, Post Offices, and Contract Postal Units (CPUs) within its risk assessment procedures. While the risk assessment policies did incorporate certain operational risks, the BSA/AML Compliance Office is in the process of establishing a separate portion of its risk assessment to refer specifically to operational risks.¹⁰ As part of this process, the operational risks currently included within the risk assessment will be revised to more appropriately reflect these AML risks. These new operational risks have been incorporated into the AML risk assessment currently in process, which will be completed in the second quarter of Fiscal Year 2018. We do note that the BSA regulations do not require the development of an AML risk assessment, nor do those regulations prescribe any specific parameters for ascertaining AML risk.

FOIA STATEMENT DELETED

CONCLUSION

Management recognizes the benefit of enhancing existing controls over the BSA/AML Compliance program and appreciates the advice and recommendations provided in the draft report. We offer these comments with a view to ensuring that the final report is accurate, legally sustainable and beneficial to our common interest of ensuring that the Postal Service has a strong and effective AML compliance program.



Elizabeth M. Schafer, CTP
Treasurer

cc: John E. Cihota
Joseph Corbett
Sally Haring
Mark S. Berthold
Deborah L. Hitzeroth
Walter C. Alesevich

¹⁰ See "Enterprise BSA/AML Risk Assessment," BSA and Anti-Money Laundering Compliance Program, U.S. Postal Service.

APPENDIX A

CONTRACTOR CONTROLS AND QUALITY ASSURANCE

The Postal Service disagrees with the finding that the prime contractor had full control over the determination of suspicious activity and the filing of Suspicious Activity Reports (SARs). The BSA/AML Compliance Office has guidelines and procedures under which the BSA/AML contractors perform their duties for the Postal Service. Additionally, there are quality assurance procedures in place to ensure that contracted analysts are following established guidelines. Also, to clarify one comment in the audit, the SAR filing activity performed by the contractor program manager mentioned in the audit is an administrative task. The program manager moves a batch file from the Postal Service computer system to the Financial Crimes Enforcement Network (FinCEN) computer system.

The front-line contract analysts review and make determinations on the simplest types of suspicious activities, most of which are structuring transactions. More complex transactions are escalated to a senior Postal Service BSA/AML analyst for investigation. Guidelines for determining if a transaction is suspicious are set by the BSA/AML Compliance Office. The step-by-step procedures for performing these activities are developed by the BSA/AML Compliance Office. The step-by-step procedures are not included in this document because we do not widely distribute them as public disclosure would only benefit those individuals seeking to launder money and avoid detection. For detailed information on policies and procedures regarding analysis and escalation, please see the BSA/AML Procedures Manual.

OVERSIGHT AND QUALITY ASSURANCE

The BSA/AML Compliance Office provides ongoing oversight and quality assurance of the activities performed by the prime contractor and also assesses the contractor's skills during meetings and review.

These include:

- The evaluation of the contractor's competence begins with the competitive bidding process. During this review, the Postal Service technical evaluation team evaluates the technical merit of each offeror's proposal including the background of the company, the technical skills and abilities of the individuals proposed to work on the project, and the number and type of similar projects that the company has performed. The technical evaluation team is made up of Postal Service employees who are subject matter experts in the area of the work to be performed under the contract and also a Supply Management professional who serves as a non-voting member of the team to provide guidance and oversight for the process. The technical evaluation team checks references, past performance, and qualifications including anti-money laundering experience, certifications, and law enforcement experience as needed during the review.
- Random sample review of SARs. The BSA/AML Compliance Officer sets the criteria for these sample SAR reviews and a subject matter expert retrieves the underlying documents and, among other things, reviews the SAR narratives and the basis for each SAR. The subject matter expert then meets with the BSA/AML Compliance Officer to review the findings and the BSA/AML Compliance Officer addresses issues as required.
- Random sample review of Currency Transaction Reports (CTRs). The BSA/AML Compliance Officer sets the criteria for these samples to review if the CTRs are completely and accurately filed.

Periodic review of suspicious/not-suspicious decisions

- The BSA/AML Compliance Officer has a weekly team meeting with the entire Postal Service BSA/AML Compliance staff and senior contractors. During these meetings, suspicious activity analysis and SAR reporting is discussed/reviewed. The BSA/AML Compliance Officer provides direction on SAR investigations and ongoing activity.
- The BSA/AML Compliance Officer holds regular one-on-one meetings with the prime contract program manager to review SAR reporting, discuss issues/trends, answer questions and set direction or clarify policies as required.
- Quarterly meetings with BSA/AML Compliance staff and senior contractors concerning program activities, new policies, AML regulatory changes and emerging BSA/AML risk.
- Annual all hands BSA/AML Compliance meeting attended by BSA/AML Compliance staff and contractors, during which the BSA/AML Compliance Officer provides goals for the year and sets direction for the staff. During these meetings, the contracted analysts receive statistics on Postal Service compliance, an overview of money laundering trends, updates to policies and procedures, and information on emerging/new regulations. Outside speakers from federal agencies and law enforcement agencies provide in-depth information on SAR reporting; present studies on money laundering cases that often include information on how SARs were used in a case; and discuss red flags for various types of financial criminal activity. In addition, during the annual meetings, the BSA/AML Compliance Officer participates in a Q&A session with the contractors in which she answers questions about the program, types of activities seen, and policies and procedures.
- Ensuring skills and abilities of individuals joining the contract:
 - The BSA/AML Compliance Officer reviews the candidate's and qualifications. If the BSA/AML Compliance Officer does not approve the candidate, he/she does not join the contract.
 - Once hired, the new contractor must complete pre-reading of USPS BSA/AML policies and procedures to prepare for the BSA/AML analyst work.
 - The contracted program manager provides two-days of onsite hands-on training at the analyst's location.
 - There is 90-day probation period for all new hires onto the prime contract during which the project manager reviews the new hire's work on a daily basis for two weeks and then weekly after that for an additional 30 days, and periodically for the remainder of the probation period. Before the new hire completes the 90-day probation period, he/she also must take an online assessment, which was developed by the USPS BSA/AML Compliance group to test the new contractor's analytical skills using BSA/AML scenarios. If the new hire does not successfully complete the assessment, his/her contract is terminated.

APPENDIX B

NON-APPLICABILITY OF COSO TO BSA/AML COMPLIANCE

As you are aware, the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Integrated Control Framework is generally not binding on the Postal Service or any other entity. Although the COSO standards are not binding, they are widely used and respected in the United States when used to audit internal controls. See, e.g., 12 C.F.R. § Pt. 363, App. A. There is no indication that Congress intended the typically non-binding COSO standards (or any external standards) to be binding in the BSA context. Nor are such standards made binding through the Treasury Department's BSA regulations. If Congress or the Treasury Department intended the COSO standards to apply to the BSA, either (or both) entities would have made that clear. By contrast, there are instances where the COSO standards specifically, or standards like them generally, are made binding through regulation. See 2 C.F.R. § 200.303 (requiring non-Federal entities who are granted Federal awards to have internal controls that are in compliance with COSO), and 20 C.F.R. § 683.220 (requiring recipients of certain Department of Labor funds to have internal controls in compliance with COSO guidance).

The Postal Service has effective controls and oversight measures in place, but the OIG's audit never mentions any of these measures. The OIG should acknowledge the Postal Service's current efforts and address their strengths and potential shortcomings, as necessary, instead of concluding without any explanation that these measures are insufficient. For example, the OIG (citing COSO, Principle 16) indicates that there should be ongoing and separate evaluations to confirm controls are present and functioning and independently monitor those involved in the performance of the control activity. Currently, the Postal Service has various meetings that provide ample opportunity to confirm that the controls are operating appropriately and to independently monitor its contractors. There are quarterly BSA/AML Compliance meetings with BSA/AML postal staff and senior contractors. During these meetings, the BSA/AML Compliance Officer reviews program activities, discusses new policies, procedures, and BSA/AML challenges. The team, led by the BSA/AML Compliance Officer, also discusses process improvements, develops ways to address challenges, and provides an open forum for attendees to discuss BSA/AML Compliance issues and concerns. Additionally, all Advanced Compliance Technologies (ACT) contractors attend an annual all-hands BSA/AML Compliance meeting, held by the Postal Service, during which the BSA/AML Compliance Officer provides goals for the year and sets direction for the team. During these meetings, the contracted analysts receive statistics on USPS compliance, an overview of money laundering trends, updates to policies and procedures, and information on emerging/new regulations. Outside speakers from federal agencies and law enforcement agencies provide in-depth information on SAR reporting, present studies on money laundering cases that often includes information on how SARs were used in a case, and discuss red flags for various types of financial criminal activity. These annual meetings also provides an opportunity for the BSA/AML Compliance Officer to participate in a Question and Answer session with the ACT staff where she answers questions about the program, types of activities seen, and policies and procedures. The BSA/AML Compliance Officer also holds a weekly team meeting with the entire BSA/AML Compliance staff and senior contractors. During these meetings, suspicious activity analyses and SAR reporting are discussed and reviewed, and the BSA/AML Compliance Officer provides direction on SAR investigations and ongoing activity. Finally, the BSA/AML Compliance Officer conducts regular one-on-one meetings with the ACT program manager to review SAR reporting, discuss issues/trends, and answer questions and set direction or clarify policies. To our knowledge, COSO does not state specific activities that must be used to satisfy its standards. If the OIG has evaluated the Postal Service's practices against the COSO standards, then it should disclose that analysis.

The OIG (citing COSO, Principle 4) also suggests that management should evaluate the competence of contractors in relation to established policies and practices. The Postal Service believes it is already satisfying this standard, but the OIG does not mention or evaluate any of the Postal Service's current efforts.

The evaluation of the contractor's competence begins with the competitive bidding process. During this review, the USPS technical evaluation team evaluates the technical merit of each offeror's proposal including the background of the company, the technical skills and abilities of the individuals proposed to work on the project, and the number and type of similar projects that the company has performed. The technical evaluation team is made up of USPS employees who are subject matter experts in the area of the work to be performed under the contract and also a Supply Management professional who serves as a non-voting member of the team to provide guidance and oversight for the process. The technical evaluation team checks references, past performance, and qualifications including anti-money laundering experience, certifications, and law enforcement experience as needed during the review.

The Postal Service has a qualification review of individuals working on the contract and any new hires added during the term of the contract prior to the applicant being added to the contract. There is a 90-day probationary period for new individuals added to the contract. Additionally, the contractors must successfully complete a USPS scenario-based assessment at the end of the probationary period or be removed from the contract. The OIG has not addressed how or why these efforts fall short of the COSO standards.



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