



Part Five: OFAC Independent Audits and Evaluations

Probably the best control an organization has in its OFAC controls arsenal is an OFAC scanning system. However, some organizations have been criticized for being too reliant on those systems when they weren't working properly. So, in order to list them as a control, you must ensure they are working properly.

Manual or Automated

That being said, regulations don't say everyone and everything must be automated. ***It says manual or automated.***

There may be certain transactions; say, for example, new employees, that your procedures/process is to check these manually, and that may be sufficient for the volume and the risk. However, scanning your entire database of customers every time there is an OFAC update is not something you could easily do manually. Whatever processes you use, you will have to justify that they are sufficient for catching transactions that are in violation of OFAC.

Automated Scanning/Filtering Systems

When using OFAC scanning/filtering systems, regulators expect organizations to periodically reassess the effectiveness of the software systems. OFAC transaction filtering systems enable organizations to monitor their accounts and transactional activity systemically for OFAC compliance, and the screening criteria used by organizations to identify name variations and misspellings should be based on the level of OFAC risk associated with the particular product or type of transaction.

Most financial organizations will be utilizing more than one filtering system. They might have one that scans all new accounts at account opening, another that is used by the sanctions group to run complete database scans, and another used by the core system for scanning ACH items on a daily basis, and yet another used by the wire room to scan incoming and outgoing wires before processing. *(I worked with one organization that utilized 11 different OFAC systems.)*

For each of these systems, you should create a chart that details which department uses the system, what type of activity does it scan, who is the administrator of the system, who is responsible for updates, and who is responsible for testing the updates. Also, any procedures that are associated with all of these systems should be kept in a common database so that they can be made readily available for auditors, examiners, and other validators.

OFAC Audits/Model Validations

More and more organizations are having system validations conducted on their OFAC systems to determine if they are working as designed. The need to measure controls is what makes independent reviews so important.

Audits and model validations take an independent look at your policies, procedures, and the systems to ensure they are working properly and that the controls are strong and effective. So, the results of these reviews will determine if you can list the controls as strong or weak.

An OFAC Model Validation will also help you understand the scanning logic used by your tools. They will validate that the logic and algorithms utilized by the OFAC systems actually work as designed and are appropriate for your risk.

Take a look at the reviews. If there are weaknesses identified, you can work with your vendors to make adjustments to strengthen the control. The results of these reviews can then be used to determine how strong of a control your OFAC scanning systems are to help you determine your overall residual risk.

Documentation/Remediation

Document all results – good or bad in the risk assessment. You will also need to document any remediation tracking that includes management response and resolution dates. If you have had any correspondence from OFAC, this also needs to be documented in the risk assessment, especially if there was activity for OFAC entities that were accidentally processed by your organization.

You might have also received notice from a correspondent organization that you process wires through that an OFAC SDN or possible sanctions violation was identified. Once again, this all has to be considered and documented and might also be evidence that there is a weakness in a control.

For any of these, the examiners will want to see what your remediation will be, and they should also be reflected in your risk assessment.

Sensitivity Testing

Another control is independent periodic sensitivity testing. These are areas that should be included in the audit or validation.

- Fuzzy logic
- Abbreviations
- Partial names
- Names flipped

Once again, documentation of these processes is a control to show the strength of your tools.

OFAC Series Key Take-Aways

- A documented risk methodology process absolutely makes succession planning and risk assessment updates a much smoother process
- Pre-work ensures you are being thorough in identifying new and increased risks
- Be as detailed as possible, especially when documenting the numbers and the controls
- Strong controls will absolutely help to lower your residual risk.
- And finally, independent evaluations are key to identifying systemic or unknown risks and also to ensure your controls can be relied on.

Arc-Serv can help with your OFAC Risk Assessment, Risk Assessment Methodology, and conduct OFAC Model Validations. [Contact us](#) to learn more.