

**NATIONAL CREDIT UNION ADMINISTRATION
OFFICE OF INSPECTOR GENERAL**

**OFFICE OF FOREIGN ASSET CONTROL
COMPLIANCE REVIEW**

Report #OIG-06-09

December 18, 2006



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EXECUTIVE SUMMARY

The United States Congress has shown an interest in the status of financial institutions' compliance with the Office of Foreign Asset Control (OFAC) administered laws and regulations. Therefore, the National Credit Union Administration (NCUA) Office of Inspector General (OIG) initiated a review to determine whether NCUA provides effective supervision over federally chartered credit unions' compliance with OFAC requirements.

We reviewed OFAC program requirements as well as NCUA policies, procedures and guidance related to the examination and supervision of credit unions' compliance with those requirements. In addition, we reviewed the Federal Financial Institutions Examination Council (FFIEC) Bank Secrecy Act/Anti-Money Laundering Examination Manual (BSA/AML Manual) as it relates to OFAC requirements. Finally, we reviewed reports of examination and related examination workpapers for a random judgmentally selected sample of 12 federally chartered credit unions.

Our efforts to evaluate and verify the examiners' conclusions were hampered by the lack of documentation. We were unable to determine conclusively whether NCUA was effectively supervising federal credit unions' compliance with OFAC regulations. Under the NCUA Risk Focused Examination program, OFAC compliance is not required to be reviewed at each examination and NCUA examination workpapers are exception based. If an examiner concludes that an institution is OFAC compliant, there is no requirement that the examiner maintain copies of documentation to support that conclusion. We believe, however, that this policy makes it difficult to assess the adequacy of examinations and creates inconsistency in how program results are documented. Guidelines recently issued by the FFIEC should help ensure the consistency of examination coverage.

Eleven of twelve credit unions in our sample were reviewed by NCUA examiners for OFAC compliance. However, there was a lack of supporting documentation for some OFAC examination procedures performed, and only six of the twelve examinations made use of the NCUA OFAC checklist.

NCUA has issued guidance to both credit unions and examiners which address the requirements for an OFAC compliance program and supervision of that program, respectively. However, in both instances we found the guidance too general, especially with regard to guidelines for examiner review of credit union compliance programs.

The OIG has made two recommendations that should result in an improved OFAC compliance examination program.

BACKGROUND

OFAC Requirements

The Office of Foreign Assets Control (OFAC) of the U.S. Department of Treasury administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign countries, terrorists, international narcotics traffickers, and those engaged in activities related to the proliferation of weapons of mass destruction. OFAC acts under Presidential wartime and national emergency powers, as well as authority granted by specific legislation, to impose controls on transactions and freeze foreign assets under U.S. jurisdiction.

OFAC regulations apply to all U.S. persons and entities, including financial institutions. Financial institutions are subject to the prohibitions and reporting required by OFAC regulations. However, OFAC has not issued specific regulatory program requirements for compliance. A violation of law occurs only when a financial institution conducts a transaction which has been blocked or rejected, or fails to block or report an illicit transfer. Moreover, while there is no minimum or maximum dollar limit on transactions, every transaction is subject to OFAC sanctions.

OFAC maintains the list of Specially Designated Nationals (SDN), which includes the names of individuals and entities whose transactions are prohibited. The SDN is frequently updated with no predetermined timetable. OFAC urges financial institutions to establish compliance programs, including designating an OFAC compliance officer, and developing internal audit procedures. OFAC recommends that financial institutions conduct in-depth annual audits at least annually. OFAC further states that an adequate compliance program depends in large part on who the financial institution's customers are and what kinds of business the financial institution conducts.

Financial institutions are required to report, in writing, all blocked and rejected transactions to OFAC within ten days of occurrence. In addition, there is an annual financial institution reporting requirement of blocked transactions held, as of June 30, which is due September 30.

Financial regulatory agencies, including NCUA, are responsible for reviewing financial institutions under their supervision to determine the adequacy of OFAC compliance programs.

Agency Issued OFAC Compliance Guidance

NCUA has issued guidance on OFAC program compliance through the NCUA Examiner's Guide, NCUA Federal Credit Union (FCU) Handbook, NCUA Letters to Credit Unions, and NCUA Regulatory Alerts. (See Appendix A for details).

Appendix 18A of the NCUA Examiner's Guide sets forth the OFAC compliance requirements that credit unions must adhere to. The Guide provides a brief overview of

what a viable compliance program should cover, including requiring credit unions, when they conduct member/customer identification procedures, to determine whether the member or entity appears on the SDN list. The FCU Handbook generally provides that credit unions must maintain a current list of prohibited individuals and countries; must compare their members, new members and account transactions against the list; must block all accounts and transactions with prohibited entities; and must ensure that a designated person compares and maintains the current list of prohibited individuals and entities with members' transactions.

NCUA Letter to Credit Unions 05-CU-09, issued June 2005, states that credit unions have both BSA and OFAC responsibilities. While recognizing that BSA and OFAC requirements are separate and distinct, Letter 05-CU-09 emphasizes that both are an essential part of an anti-money laundering program. Consequently, the letter directs credit unions to evaluate potential compliance violations under the BSA and OFAC and take appropriate action to reduce any risks detected or address any violations.

Likewise, NCUA has advised its examiners to treat compliance with OFAC requirements as related to BSA compliance, such that supervisory examinations by the regulators for both BSA and OFAC programs are connected. In December 2001, NCUA issued Letter to Credit Unions 01-CU-25, which stated that, as part of NCUA's responsibility to ensure federally insured credit unions comply with applicable laws and regulations, NCUA had developed an *examiner checklist* which examiners may use to document their review of a credit union's OFAC compliance program.

Federal Financial Institutions Examination Council (FFIEC)¹ Bank Secrecy Act/Anti-Money Laundering Examination Manual

In order to codify in one comprehensive document previously issued guidance on the BSA and anti-money laundering efforts, the Financial Crimes Enforcement Network (FinCen), OFAC, FFIEC members, including NCUA, worked together to develop standards to evaluate BSA and OFAC compliance programs at financial institutions. In June 2005, the FFIEC released its *Bank Secrecy Act Anti-Money Laundering Examination Manual* (BSA/AML Manual). Federal agencies, including NCUA, began using the Manual during the third quarter of 2005. On July 28, 2006, the FFIEC released a revised BSA/AML Manual. The Manual was updated to further clarify supervisory expectations and incorporate regulatory changes since the manual's 2005 release. The revisions also drew upon feedback from the banking industry and examination staff.

Portions of the Manual relate specifically to compliance with various OFAC sanctions programs. In addition, working with FFIEC members, OFAC developed a risk matrix (see Appendix B to this report) which may be used by financial institutions' as "best practices." The matrix provides a guide for evaluating a credit union's risk of

¹ FFIEC, established under Title X of the Financial Institutions Regulatory and Interest Rate Control Act of 1978, is a formal interagency body empowered to prescribe principles, standards, and report forms for the examination of financial institutions by federal regulators. The members of FFIEC, in addition to NCUA, are the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, and the Office of Thrift Supervision.

encountering accounts or transactions subject to OFAC regulations and for determining the quality of an institution's compliance program.

PURPOSE AND OBJECTIVES

The U.S. Congress has shown an interest in the status of financial institutions' compliance with OFAC foreign sanction requirements. Therefore, the NCUA OIG initiated a review to determine whether NCUA provides effective supervision over federally chartered credit unions' compliance with OFAC requirements.

SCOPE AND METHODOLOGY

We reviewed OFAC sanction requirements and NCUA policies, procedures and guidance related to the examination and supervision of credit unions' compliance with OFAC requirements. In addition, we reviewed the FFIEC BSA/AML Examination Manual as it relates NCUA examiner efforts to supervise OFAC compliance.

We reviewed reports of examination and related examination workpapers for a random judgmentally selected sample of 12 federally chartered credit unions. Our sample consisted of credit unions with headquarters located in New York, New York; Miami, Florida; and Los Angeles, California. In addition, the sample was stratified between large, medium and small asset sized credit unions. The reviewed examinations had effective dates between July 1, 2005 and March 31, 2006.

This engagement was performed in accordance with Generally Accepted Government Auditing Standards.

RESULTS

NCUA supervision for OFAC compliance

Our efforts to evaluate and verify the examiners' conclusions were hampered by the lack of documentation. We were unable to conclude as to the effectiveness of NCUA supervision over credit union compliance with OFAC regulations. Under the NCUA Risk Focused Examination program, review of OFAC compliance is not required as part of a credit union examination. If examiners conclude that an institution is OFAC compliant, NCUA does not require that documentation be maintained and available to support their conclusions. As a result, documentation is often not available to allow an external reviewer to verify and assess the examiners' conclusions. NCUA guidelines do not specify the level of testing or the supporting documentation needed to substantiate OFAC compliance testing.

NCUA examiners reviewed eleven of twelve credit unions in our sample for OFAC compliance. However, there was a lack of supporting documentation for some examination procedures performed and only six of the twelve examinations made use of the NCUA OFAC checklist. Only one of the eleven credit unions reported an OFAC violation. The credit union reported this violation to OFAC in 2006. In addition, the workpapers for one credit union contained no discussion or reasons why OFAC procedures were not reviewed.

In our review of the eleven credit unions where we found some evidence of examiner review of OFAC compliance, examiners identified the following findings:

- No OFAC audit – 3 credit unions
- Policies need to be updated – 3 credit unions
- Need independent testing – 2 credit unions
- Need to test all parties to account/transactions – 2 credit unions
- Need to test wire transfers, check deposits and internet bill pays – 1 credit union
- Member accounts not matched timely to SDN list – 2 credit unions
- Need an OFAC compliance officer – 2 credit unions
- Need OFAC training for staff – 5 credit unions

Examiners may use the NCUA OFAC checklist to document their review of a credit union's OFAC compliance program. Agency management cited this check list as a source document in conducting OFAC compliance reviews. Two of the three regional directors cited the OFAC checklist as the workpaper used to document an OFAC review. One of these regional directors stated that the OFAC checklist is the internal control that ensures examiners performed appropriate examination procedures. Our review found that only six of the twelve examinations utilized the OFAC checklist. See Appendix A for details of the checklist.

Listed below is a summary of the examination procedures performed for the twelve federally insured credit unions in our sample.

Compliance Risk Assessment

All twelve credit unions were assigned a risk rating for compliance risk (6 rated high, 4 rated moderate and 2 rated low). However, eight credit unions lacked sufficient documentation in the scope workbook to support risk associated with OFAC as part of the overall compliance rating. For example, one credit union with a high compliance risk rating had workpapers that referred to BSA but did not address OFAC risk or the FFIEC OFAC risk factors, other than electronic banking.

Examination Scope

Seven credit unions lacked sufficient documentation regarding exam procedures performed. For example, the workpapers reviewed for several credit unions simply stated “reviewed compliance for OFAC” with no further explanation. In other reviews the examiner referred to BSA exam procedures without mentioning OFAC.

Policies and Procedures

Six credit union examinations lacked sufficient documentation regarding the examiners review of OFAC policy/procedures. In two additional exams, we noted that the workpapers credited the credit union with having policies and procedures. However, our review of those policies and procedures indicated that they were overly general and did not provide details on how often the credit union should perform transaction testing and on which products.

Transaction Testing

Five of the twelve exams in our sample lacked sufficient documentation supporting exam transaction procedures performed. Another three exams had limited workpaper discussion of procedures performed and one exam had no OFAC testing procedures performed by the examiner.

Four credit unions used some form of interdict software for transaction testing. The examination workpapers for seven credit union examinations were silent on the method used by the credit unions for transaction testing. Without the use of some form of interdiction software, credit unions would have had to perform manual transaction testing.

Compliance Conclusion

Our efforts to evaluate and verify the examiners’ conclusions regarding OFAC compliance were hampered by the overall lack of documentation. If examiners conclude that an institution is OFAC compliant, NCUA does not require the examiner to maintain documentation to support their conclusions. As a result, documentation is often not available to allow an external reviewer to verify and assess the examiners’ conclusions. NCUA guidelines do not specify the level of testing or the supporting documentation needed to substantiate OFAC compliance results.

We found that five exams (four with a high and one with a moderate compliance risk rating) lacked a specific conclusion regarding OFAC compliance. In addition, four

exams lacked sufficient exam documentation to support the OFAC compliance conclusion. For example, one examiner concluded that there were no significant weaknesses in the OFAC compliance program. However, there was a lack of supporting documentation for the assessment of OFAC risk, exam scope, policies and procedures review and transaction testing was limited to BSA transactions.

Recommendation 1

NCUA should ensure that whenever examiners conduct an OFAC review, the examination workpapers should contain sufficient documentation to support the OFAC risk assessment and when applicable:

- The related OFAC examination scope;
- Policies and Procedures review;
- Transaction testing review; and
- An overall OFAC compliance conclusion

Management Response

Agree, NCUA management agrees with the need for sufficient documentation to support a review of OFAC requirements if the risk profile warrants such a review.

OIG Response

Concur with agency response.

OFAC Guidance

NCUA has issued guidance to both credit unions and examiners which address the requirements for an OFAC compliance program. However, in both instances the guidance is too general and does not provide specific guidelines, especially for examiners. NCUA OFAC guidance is frequently included as part of more specific BSA guidance, although OFAC and BSA regulations and examination compliance are distinct in many ways. For example, the NCUA Examiner's Guide discusses OFAC examination procedures under the Guide section for BSA. The Guide provides a general discussion of OFAC requirements and only limited discussion of specific examination procedures for an OFAC review. NCUA guidance does not provide specific guidance on how to assess OFAC compliance risk; how that risk impacts upon examination scope and procedures; or the depth of review required.

We noted six examinations where BSA and OFAC discussions were commingled. This made it unclear whether the examination procedures were related to BSA or OFAC compliance.

In June 2005, FFIEC first released the BSA/AML Manual. An updated manual was released in June 2006. The manual includes core procedures for examiners to use to determine whether financial institutions are in compliance with OFAC sanctions programs.

According to the BSA/AML Manual, financial institutions should use a risk based approach when considering the likelihood of encountering possible OFAC violations. The manual recognizes that a fundamental element of sound OFAC compliance is an institution's assessment of its product lines, customer base, geographic location, the nature of its transactions, and the identification of high-risk areas for OFAC transactions.

Recommendation 2

NCUA should ensure that examiners use the applicable policies and procedures in the FFIEC Bank Secrecy Act/Anti-Money Laundering Examination Manual as well as the NCUA Examiner's Guide and policy directives when examining credit unions for OFAC compliance.

Management Response

Agree, NCUA management agrees with using applicable policies and procedures in the FFIEC Bank Secrecy Act/Anti-Money Laundering Examination Manual as well as the NCUA Examiner's Guide and policy directives when examining credit unions for OFAC compliance.

OIG Response

Concur with agency response.

MANAGEMENT RESPONSE

EI/MJB:mjb

Sent via E-Mail

TO: William DeSarno, Inspector General
Office of Inspector General

FROM: Director David M. Marquis
Office of Examination and Insurance

SUBJECT: Comments on Office of Foreign Asset Control Compliance Review Report

DATE: December 14, 2006

This memorandum responds to your request for comments on the report titled, Office of Foreign Asset Control Compliance Review (IG Audit Report #OIG-06-09). My office appreciates the opportunity to comment on the report and we agree with the two recommendations contained in it. As you appropriately pointed out in the report, our examiners have been assessing compliance with OFAC requirements as directed under our current risk-based examination program. In order to provide the additional documentation cited in your report, we will need to evaluate amending our examination process as it relates to OFAC compliance.

We offer the following comments regarding the specific recommendations contained in the report:

OIG Report Recommendation #1

NCUA should ensure that whenever examiners conduct an OFAC review, the examination workpapers should contain sufficient documentation to support the OFAC risk assessment and when applicable:

- The related OFAC examination scope;
- Policies and Procedures review;
- Transaction testing review; and
- An overall OFAC compliance conclusion.

Office of Examination & Insurance Response:

My office agrees with the need for sufficient documentation to support a review of OFAC requirements if the risk profile warrants such a review. At this time, however, we do not require credit unions to perform an OFAC risk assessment, nor do we require our examiners to perform one if a credit union has not completed one. That being said, because we expect credit unions to develop risk-based OFAC procedures commensurate with their risk profiles, a review of a risk assessment should be sufficiently documented.

I understand the other federal banking agencies are also evaluating OFAC compliance guidance and believe it is appropriate to confer with them on this issue to ensure consistency among the regulators.

OIG Report Recommendation #2

NCUA should ensure that examiners use the applicable policies and procedures in the FFIEC Bank Secrecy Act/Anti-Money Laundering Examination Manual as well as the NCUA Examiner's Guide and policy directives when examining credit unions for OFAC compliance.

Office of Examination & Insurance Response:

We agree with using applicable policies and procedures in the FFIEC Bank Secrecy Act/Anti-Money Laundering Examination Manual as well as the NCUA Examiner's Guide and policy directives when examining credit unions for OFAC compliance. As we move forward with developing additional guidance with OFAC compliance, including a national Instruction, we will strive to maintain consistency with other federal banking regulators.

Again, thank you for the opportunity to comment on this report. If you have any questions, please do not hesitate to contact my office.

cc: Office of the Executive Director

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APPENDIX A

NCUA Issued OFAC Compliance Guidance, Letters to Credit Unions, and Regulatory Alerts

Agency Issued OFAC Compliance Guidance

NCUA has issued OFAC compliance program guidance in the NCUA Examiner's Guide, NCUA FCU Handbook, NCUA Letters to Credit Unions and NCUA Regulatory Alerts.

NCUA Examiner's Guide, Bank Secrecy Act, Appendix 18A

OFAC examination procedures are discussed as part of the section on the BSA in Appendix 18A of the NCUA Examiner's Guide. The portion on OFAC states that NCUA is responsible for determining that credit unions comply with OFAC regulations. One of the listed examination objectives is to ensure the credit union has adequate BSA policies, procedures, and controls for each of the following:

- Verifying member identity;
- Identifying reportable transactions;
- Maintaining proper documentation;
- Blocking and reporting transactions required by OFAC; and
- Complying with the U.S.A. Patriot Act

One of the objectives of a member due diligence program is listed as, "enforcing OFAC and Patriot Act regulations and enhancing national security". The credit union's due diligence policy should reflect the;

- Size and complexity of the credit union;
- Nature and extent of services offered;
- Level of risk; and
- Documentation requirements

NCUA Rules and Regulations, Part 748 requires credit unions to have a Bank Secrecy Act compliance program and procedures. Although NCUA's regulations do not specifically require that credit unions institute an OFAC compliance program, the agency has advised (see Examiner's Guide, Appendix 18A) that credit unions may include OFAC policies within their existing BSA compliance policy.

In particular, NCUA has advised that a part of any credit union's OFAC compliance program must include conducting member identification procedures. That is, a specially designated person within the credit union should determine whether any individual or entity member appears on the SDN list, as provided and regularly updated by OFAC. Credit unions must frequently update their own SDN lists in response to any OFAC-generated updates. Moreover, credit unions must check the names of all parties to a transaction (i.e. beneficiaries, collateral owners, cosigners/guarantors, receiving/sending parties) against the SDN list. The credit union must review for compliance all types of member transactions, including:

- Share accounts
- Loans and loan payments
- Credit cards
- Letters of credit
- Lines of credit
- Safety deposit boxes
- Wire and ACH transfers
- Currency exchanges
- Depositing and cashing checks
- Money orders or traveler's checks
- Trust accounts

Larger credit unions may have special software which can interdict prohibited transactions.

Credit unions must report to OFAC all blocked and rejected transactions within ten days from occurrence. Credit unions must also file a comprehensive report of blocked property held as of June 30, by September 30 of each year.

OFAC requires credit unions to retain all reports of blockings or rejections and related records for five years.

NCUA FCU Handbook

The FCU handbook states that credit unions must understand the various laws, regulations and penalties for OFAC non-compliance. The handbook states that credit unions must: (1) establish effective OFAC policies and procedures; (2) maintain a current list of prohibited individuals and countries; (3) compare their members, new members and account transactions against the list, blocking all accounts and transactions with prohibited entities; and (4) ensure that a designated person within the credit union compares and maintains the current list of prohibited individuals and entities with members' transactions.

NCUA Letters to Credit Unions

NCUA Letter to Credit Unions 05-CU-09, issued June 2005, states that a review of BSA compliance is required as part of NCUA's risk focused examination program. In that letter, NCUA acknowledged that while both BSA and OFAC compliance are integral to any anti-money laundering program, they arise from distinct laws with different requirements. Consequently, while they are different, some requirements for successful compliance are the same. Accordingly, credit unions must develop policies to evaluate potential compliance risk under both BSA and OFAC requirements and take appropriate action to reduce such risks.

NCUA Letter to Credit Unions 01-CU-25, issued December 2001, states as part of NCUA's responsibility to ensure that federally insured credit unions comply with

applicable laws and regulations, NCUA developed an *examiner checklist* that examiners may use to document their review of a credit union's OFAC compliance program. The checklist contains an introduction and purpose; applicability; penalties; record retention requirements and includes the following questions:

1. Does the credit union have policies and procedures for complying with OFAC regulations and the various laws OFAC is responsible for administering?
2. Has the credit union designated a person to be responsible for overseeing compliance with the OFAC regulations and any blocked funds?
3. Does the credit union have a current listing of prohibited countries, organizations and individuals?
4. Does the credit union have a person who is responsible for maintaining a current list of prohibited countries, organizations and individuals?
5. Does the credit union compare new accounts with the OFAC prohibited listing?
6. Does the credit union regularly compare established accounts and member transactions with the prohibited OFAC listing?
7. Does the credit union block or freeze the accounts and transactions found to match the prohibited OFAC listing?
8. Did the credit union report the blocked or rejected accounts to OFAC within 10 days?
9. Did the credit union submit an annual report of the blocked property by September 30?
10. Does the credit union have an OFAC compliance audit at least annually?

NCUA/OFAC Memorandum of Understanding

NCUA, along with the other federal financial institution regulators signed a memorandum of understanding (MOU) with OFAC on April 12, 2006. The MOU provided for information sharing among the signatories pertaining to OFAC compliance program violations. Under the MOU, the banking agency signatories to the MOU will provide to OFAC:

- Information gathered during the course of an examination if such information appears to relate to an unreported sanctions violation;
- Information pertaining to significant deficiencies in a banking organization's policies, procedures, and processes for ensuring compliance with OFAC regulations; and
- Information responding to OFAC requests related to examination or supervisory findings regarding a banking organization's policies, procedures, and processes for ensuring compliance with OFAC regulations.

OFAC, in return will share with the signatories to the MOU:

- Reports of apparent sanctions violations, including any relevant correspondence between OFAC and the subject of the financial institution and status of any enforcement action;
- Notice prior to an on-site investigation or audit of a banking organization;

- The results of on-site investigations or audits of a banking organization; and
- Evaluations of apparent violations by a banking organization, including whether OFAC has decided to issue a pre-penalty notice or a penalty notice, or to close its investigation.

Because the federal banking agencies and OFAC are now sharing information about any potential sanctions violations, individual financial institutions are expected to report all potential violations to OFAC or be prepared to explain to all of the financial regulators why such reports were not filed.

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

Enforcement procedures recognize that each financial institution is subject to supervision and examination by a federal financial institution regulator, which is in turn a member of the FFIEC. Below are OFAC related excerpts from the FFIEC BSA/AML examination manual:

OFAC Risk Assessment:

Risk matrix (high, moderate, low) for examiner OFAC Procedures

- Customer base
- High risk customers
- Overseas branches
- Electronic banking
- Number of fund transfers and international transfers
- Other types of international transactions
- History of OFAC actions

Other factors to consider

- Management risk assessment
- Board approved policies/procedures consistent with risk profile
- Strong Quality controls
- Compliance incorporated into all products and organization areas
- Policies on screening new accounts and transactions

Core Examination Procedures:

The objective is to assess the institution's risk-based OFAC program and to evaluate whether it is appropriate for the institution's risk, taking into consideration its products, services, customers, transactions, and geographic locations. Procedures –

1. Determine whether the Board of Directors and senior management have developed policies, procedures, and processes based on their risk assessment to ensure compliance with OFAC.
2. Regarding the risk assessment review the institution's OFAC program, considering the following:
 - The extent of and method for conducting OFAC searches of each relevant department/business;
 - The extent of and method for conducting OFAC searches of account parties other than account holders;
 - How OFAC responsibility is assigned;
 - Timeliness of obtaining and updating OFAC lists or filtering criteria;

- appropriateness of filtering criteria used to reasonably identify OFAC matches;
 - The process used to investigate potential matches;
 - The process used to block or reject transactions;
 - The process used to inform management of blocked/rejected transactions;
 - The adequacy and timeliness of reports to OFAC;
 - The process to manage blocked accounts;
 - The record retention requirements
3. Determine the adequacy of independent testing (audit) and follow-up procedures
 4. Review the adequacy of the institution's OFAC training program
 5. Determine whether the institution has adequately addressed weaknesses or deficiencies identified by OFAC, auditors or regulators.
 6. Transaction Testing – on the basis of institution's risk assessment, prior exam reports and review of audit findings test the adequacy of the OFAC program by reviewing samples to test the credit unions OFAC program for adequacy as follows:
 - Sample new accounts and evaluate filtering process used and documentation maintained evidencing searches.
 - Sample appropriate transactions that may not be related to an account (e.g. fund transfers, check cashing) and evaluate filtering criteria used, timing of search and documentation maintained evidencing searches.
 - If the credit union uses an automated search system to conduct searches, assess the timing of when updates are made to the system and when the most recent OFAC changes were made to the system.
 - Evaluate whether all the institutions data bases are run against the system and frequency of searches
 - If an automated system is not used, evaluate the process used to check existing customer base against the OFAC list and frequency of such checks
 - Review a sample of potential OFAC matches and evaluate resolution process and blocking/rejection process; review sample of reports to OFAC for completeness and timeliness; if the institution is required to maintain blocked accounts.
 - Evaluate a sample that adequate records are maintained, institution pays commercially reasonable rate of interest and is accurately reporting such accounts annually at September 30 and test account blocking controls.
 7. Identify any potential matches not reported to OFAC, discuss with credit union management, advise management to immediately report to OFAC and notify NCUA management.
 8. Determine the origin of deficiencies and conclude on the adequacy of the credit unions OFAC program.
 9. Discuss OFAC related examination findings with credit union management.
 10. Include OFAC conclusions within the report of examination, as appropriate.

Other examination factors

- Compliance program staffing levels adequate

- Qualified OFAC officer and clearly defined authority and accountability
- Appropriate training based upon risk profile
- Effectiveness of compliance systems and controls
- Effectiveness of independent testing of systems, training and use
- Problems and potential problems identified and resolved
- Compliance systems and controls adaptability to OFAC SDN updates