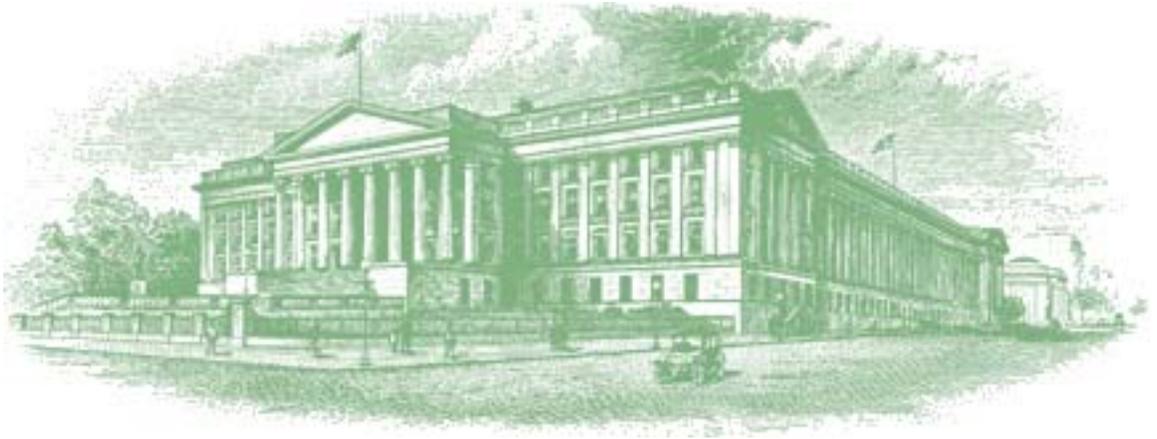




Audit Report



OIG-06-044

FOREIGN ASSETS CONTROL: Assessing OTS's Examination of OFAC Compliance Was Hampered by Limited Documentation

September 26, 2006

Office of
Inspector General
Department of the Treasury

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Abbreviations

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|-------|----------------------------------------------------|
| AML | Anti-Money Laundering |
| BSA | Bank Secrecy Act |
| FFIEC | Federal Financial Institutions Examination Council |
| OFAC | Office of Foreign Assets Control |
| OIG | Office of Inspector General |
| OTS | Office of Thrift Supervision |

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*The Department of the Treasury
Office of Inspector General*

September 26, 2006

John M. Reich
Director
Office of Thrift Supervision

As a follow-up to a previous OIG report,¹ we conducted an audit of the Office of Foreign Assets Control's (OFAC) administration and enforcement of economic sanctions against targeted foreign countries, individuals, and groups. 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 US jurisdiction. OFAC sanctions are enforced largely by financial institutions. Because OFAC is legally limited in its ability to monitor financial institutions' compliance with foreign sanction requirements,² it depends on financial institution regulators, such as the Office of Thrift Supervision (OTS), to ensure that financial institutions comply with OFAC requirements. Accordingly, as part of our OFAC audit, we tested regulator oversight of OFAC compliance for a sample of financial institutions to determine whether OFAC's foreign sanctions programs were being effectively administered. This report presents the results of the review we conducted of OTS compliance examinations.

We conducted our audit from January to September 2005 in accordance with generally accepted government auditing standards. A more detailed description of our objective, scope, and methodology is included in appendix 1.

¹ *FOREIGN ASSETS CONTROL: OFAC's Ability to Monitor Financial Institution Compliance Is Limited Due to Legislative Impairments*, (OIG-02-082, April 26, 2002).

² Section 3412 (d) of the Right to Financial Privacy Act (12 U.S.C. 3401) allows supervisory agencies to exchange examination information with other supervisory agencies. OFAC is not included in the act's list of supervisory agencies [§ 3401(7)].

Results in Brief

OTS's OFAC examination work papers did not provide us with assurance that federal and state-chartered thrift institutions³ were adequately reviewing or effectively administering OFAC's foreign sanctions programs. From a sample of 12 OTS thrift examinations conducted from fiscal years 2002 through 2004, we found, for every examination, one or more instances in which documentation was insufficient to verify that examiners adequately assessed OFAC program compliance. Specifically, the OTS examination work papers did not always contain sufficient documentary evidence to demonstrate that examiners fully assessed

- policies and procedures for the OFAC compliance program,
- internal audit results for possible OFAC program concerns, and
- OFAC penalty or warning notices that had been sent to thrifts.

Although we conducted a limited review of only 12 thrift examinations, we believe, based on discussions with OTS officials, that a larger sample would have produced similar results. OTS officials agreed but noted that documentation of OFAC examinations is generally minimal unless a problem is noted. OTS examination work papers are "exception-based" and 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.

For the period under review, OTS had only limited guidance for conducting and documenting OFAC compliance examinations. However, OTS issued the *Examination Handbook* in November 2004⁴ and new guidance in March and April 2005 that clarified and

³ A thrift institution is the general term for savings banks, and savings and loan associations.

⁴ OTS updated the *Examination Handbook* in July 2005.

expanded the procedures that OTS examiners are to follow during compliance examinations. These documents were the first updates on conducting OFAC compliance examinations that OTS had issued since 1999.

In addition, in June 2005, the Federal Financial Institutions Examination Council (FFIEC),⁵ of which OTS is a member, issued the *Bank Secrecy Act/Anti-Money Laundering Examination Manual*, which contains uniform financial institution regulator examination procedures that deal with Bank Secrecy Act/anti-money laundering (BSA/AML) compliance. Examination procedures for OFAC compliance are included in the manual.

Later in this report, we discuss our concerns about OTS examinations of thrifts' compliance with OFAC. If OTS examiners follow the OTS *Examination Handbook*, recent OTS guidance related to OFAC compliance examinations, and the FFIEC *Bank Secrecy Act/Anti-Money Laundering Examination Manual* (BSA/AML Examination Manual), our concerns about OTS compliance examinations should be alleviated.

We are making recommendations to OTS to ensure that examiners use the (1) pertinent policies and procedures in the FFIEC *Bank Secrecy Act/Anti-Money Laundering Manual* and in the OTS *Examination Handbook* and policy directives when examining thrifts for OFAC compliance, and (2) OFAC scoping and planning procedures from the FFIEC *Bank Secrecy Act/ Anti-Money Laundering Examination Manual* to document the OFAC procedures performed and include the procedures and the basis for OFAC conclusions in the workpapers.

⁵ 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 uniform principles, standards, and report forms for the examination of financial institutions by federal regulators. The members of FFIEC, in addition to OTS, 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 National Credit Union Administration.

OTS concurred with our recommendations. OTS said in its response that examinations since August 2005 have included an OFAC compliance component that follows the applicable policies and procedures in the BSA/AML Examination Manual, the OTS Examination Handbook, and OTS policies and procedures. With regard to documenting work performed, OTS also plans to issue and implement examiner guidance to enhance OFAC procedures in the fourth calendar quarter of 2006.

Background

OFAC's Mission and Sanctions Programs

The mission of OFAC, an office within the Department of the Treasury, is to administer and enforce 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. All U.S. persons, including U.S. banks, bank holding companies, and nonbank subsidiaries, must comply with OFAC regulations.

OFAC publishes a list of individuals and companies owned or controlled by, or acting for or on behalf of, targeted countries. The list also contains individuals, groups and entities, such as terrorists and drug traffickers. Collectively, such individuals, and entities are called "Specially Designated Nationals" or "SDNs."

OFAC regulations involve blocking accounts and other assets of the specified countries, entities, and individuals and rejecting financial transactions with specified countries, entities, and individuals. OFAC has the authority to impose civil monetary penalties against financial institutions for failure to block or reject prohibited transactions.

OFAC sanctions can reach into virtually all areas of banking operations. Therefore, banks need to consider all types of

transactions, products, and services when they conduct risk assessments and establish appropriate policies and procedures.

OTS Role in Ensuring Thrifts' Compliance with OFAC Regulations

OTS's mission is to supervise thrifts, and their holding companies, in order to maintain their safety and soundness and assure compliance with consumer laws, as well as to encourage a competitive industry that meets U.S. financial services needs. As of June 2006, OTS regulated 854 thrifts with total assets of \$1.53 trillion.

In its examinations of thrifts, OTS evaluates their OFAC compliance programs. However, none of the laws that authorize sanctions for OFAC violations contain specific language that delegates administrative enforcement responsibility to any of the financial institution regulatory agencies, including OTS. Consequently, OTS's OFAC enforcement responsibilities fall under its general examination responsibility to ensure that thrifts are following applicable laws and regulations.

Financial institutions, including thrifts, are not required by a specific regulation to establish an OFAC compliance program. Nonetheless, OTS has recommended that thrifts establish and maintain effective OFAC programs as a matter of good banking practice. If an OTS examiner determines that a thrift's OFAC compliance program is inadequate, the examiner would consider citing the thrift for an unsafe or unsound banking practice.

OTS Examination Guidelines for OFAC Compliance

On April 11, 2002, the director of OTS announced an initiative to improve the examination process by combining the safety and soundness and the compliance examination functions. Instead of having two separate teams (safety and soundness and compliance), each performing its own examination and issuing its own report, OTS would conduct a comprehensive examination that produced one report.

For examinations conducted prior to mid-March 2005, OTS examiners used only section 415 "Economic Sanctions," in the *OTS Compliance Activities Regulatory Handbook*, issued in December 1999, to assess OFAC-related compliance. The initial OFAC-related examination objective has been to determine whether the financial institution is aware of the Treasury regulations that impose economic sanctions against certain countries.

OTS examiners also review the thrift's internal audit or compliance program procedures for ascertaining whether the institution is in compliance with the regulations and whether the procedures were included in the internal audit's scope.

Recent OTS Guidelines for OFAC Compliance Examinations

The *OTS Examination Handbook*, issued in November 2004, stressed that all examinations should be risk-focused, meaning that more time should be expended examining higher-risk areas within an organization. Scoping is an integral part of a risk-focused examination because it helps examiners target higher-risk areas for review and determine which OTS examination procedures are appropriate to use.

During our review, OTS issued additional guidance regarding the examination of OFAC compliance. Examiners were directed to review the thrifts' written policies and procedures for complying with OFAC regulations, as well as the thrifts' work papers and documentation developed through self-assessments, periodic transaction reviews, or audits.

In addition, examiners were to review blocked or rejected transactions and documentation and procedures relating to how potential OFAC violations were reviewed and cleared. Finally, examiners were to review all correspondence that OFAC may have had with the thrift.

FFIEC Core Examination Procedures for OFAC Compliance

In June 2005, FFIEC released the BSA/AML Examination Manual. The manual includes core procedures for examiners to use to determine whether financial institutions are in compliance with OFAC sanctions programs. (See appendix 2 for the core examination procedures relating to OFAC.)

According to the BSA/AML Examination 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 a bank'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.

The manual also provides guidance for the use of transaction testing by examiners to assess the adequacy of a financial institution's OFAC program. Examiners, after performing a review of the thrift's risk assessment, prior examination reports and a review of the bank's audit findings, have the option of performing transaction testing.

Audit Results

OTS's examination work papers lacked sufficient documentation to assure us that thrifts were adequately reviewing or administering OFAC sanctions programs. Our review of OTS examinations of 12 thrifts from fiscal years 2002 through 2004 found instances of inadequate documentation for critical examinations steps. Specifically, we found instances in which there was little or no documentation that examiners had done the following:

- Evaluated whether compliance procedures were implemented (12 thrifts)
- Verified the thrift's internal audit results of OFAC compliance (7 thrifts)

-
- Reviewed the thrift's compliance program policies and procedures (6 thrifts)
 - Referenced an OFAC penalty notice (1 thrift) or OFAC warning letters (3 thrifts) or in any way changed their review scope as a result of the notice or letters
 - Used the thrifts' prohibited and rejected transactions to refine the scope of their review (4 thrifts)

Our efforts to evaluate and verify the examiners' conclusions were hampered by the lack of documentation. If examiners conclude that an institution is OFAC compliant, OTS 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. OTS guidelines do not specify the level of testing or the supporting documentation needed to substantiate OFAC compliance results.

The *OTS Examination Handbook* stresses that proper examination documentation of procedures and subsequent conclusions should leave an effective audit trail. However, the handbook also directs examiners to avoid excessive documentation and include only information that is relevant or may require follow-up. In addition, examiners are reminded that the time spent recording extraneous information would be better used to examine high-risk areas. OTS management expressed concern that our request for documentation would be contrary to OTS's longstanding standard practice, unduly time-consuming and incompatible with the agency's migration to an electronic work paper format.

As of April 2005, OTS issued additional written policies, procedures and guidance to improve its OFAC examination program. In addition, the FFIEC issued, in June 2005, the BSA/AML Examination Manual which provides for uniform BSA/AML examination procedures for financial institution regulators to use to assess OFAC compliance. These new examination policies, procedures, and guidance, if followed, should improve examination coverage.

Description of Our Review

To assess OTS examinations of thrifts' compliance with OFAC regulations, we judgmentally selected a sample of 12 thrift examinations that OTS conducted in fiscal years 2002 through 2004. Our sample included 1 thrift that had received an OFAC penalty notice and 3 thrifts that had received OFAC warning letters for failing to comply with OFAC regulations. The remaining 8 thrifts were selected based on asset size and geographic location.

As of September 2005, the average asset value of a thrift regulated by OTS is approximately \$1.6 billion. Our sample focused on thrifts that exceeded the average asset size and that were therefore more likely to have numerous and complex transactions. As a result, we selected 4 thrifts with asset values between \$2.0 billion and \$10.6 billion and 4 additional thrifts with asset values that ranged from \$15.7 billion up to \$96.1 billion. To achieve geographical coverage, our sample included thrifts from the 4 OTS regions. We reviewed OFAC examinations for 2 thrifts each in Florida, California and Texas. The remaining thrifts were located in New York, Virginia, Wisconsin, New Jersey, Delaware, and Utah.

For each of the 12 thrifts in our sample, we requested copies of the most recent examination work papers that included a review of OFAC compliance. In addition, we requested copies of all documentation that may have affected the scope of the OFAC reviews. The examination records were compiled by the OTS special counsel and were reviewed at OTS headquarters in Washington, D.C.

OTS Examinations Did Not Always Document Thrifts' Internal Audit Results

In reviewing a thrift, OTS examiners are expected to determine whether the institution's internal audit procedures include provisions to evaluate efforts to achieve OFAC compliance. Five of the 12 OTS examinations had documentation that verified that the

financial institutions had adopted and implemented internal audit or independent reviews that included OFAC compliance.

Seven of the OTS examinations had no such evidence in the work papers. Four examinations contained statements that cited the results of internal reviews but lacked documentary evidence to support the statements. The remaining 3 examinations made no reference as to whether internal reviews of OFAC compliance were conducted.

OTS Examinations Lacked Documentary Evidence of Review of Implementation of Thrifts' OFAC-Related Policies and Procedures

According to the guidance available in section 415 of the OTS *Compliance Activities Regulatory Handbook*, examiners should determine whether a thrift is satisfactorily aware of its OFAC-related responsibilities. The guidance did not offer methods for determining thrift awareness or specify the documentation required to support the conclusions. Our review found that work papers for 10 of the 12 thrift examinations included copies of OFAC-related policies and procedures and that work papers for 2 of the thrift examinations contained no evidence of OFAC-related policies and procedures.

OTS examiners provided little evidence in their work papers that they had verified or conducted any testing of the validity or reliability of the thrifts' OFAC-related policies and procedures. Six of the 12 examinations in our sample contained statements that OFAC-related policies and procedures were reviewed, but work paper documentation failed to provide evidence that the work had been performed and to support the conclusions reached. In addition, we saw no work paper evidence in any of the 12 examinations that transactional testing had been conducted to evaluate whether the OFAC-related policies and procedures were being implemented.

Documentation Was Lacking that OFAC Warning Letters Affected Scope of Examinations

Our sample of 12 thrifts included 3 thrifts that had received OFAC warning letters and 1 thrift that had received an OFAC penalty notice. OFAC personnel informed us that copies of warning letters and penalties are routinely sent to OTS personnel.

OTS personnel confirmed that copies of warning letters and penalty notices were sent to examiners' offices for future OFAC reviews. However, in our review of the OTS work papers for the examinations of the 3 thrifts that received OFAC warning letters, we found no references by the examiners to those letters. In the case of the thrift that received a penalty notice, our review of the examination work papers found evidence that the thrift had notified the OTS examiner of the existence of the notice and that the examiner did perform additional work to ensure that the thrift was in compliance in the area of concern.

Documentation Was Lacking that Existence of Prohibited and Rejected Transactions Affected Scope of Examinations

Four of the 12 thrifts in our review had reported prohibited or rejected transactions to OFAC. The thrifts reported these transactions to their OTS examiners, who documented them in the work papers. However, there was no evidence that the examiners had knowledge of these prohibited transactions before they initiated their examinations or that they used such information to refine the scope of the examinations.

Conclusions

The comprehensive examination guidelines contained in the FFIEC BSA/AML Examination Manual and the transaction testing options for OFAC compliance necessitate that examiners carefully choose those procedures that meet the specific risks associated with a particular institution. Therefore, it is critical that OTS examiners justify and document their decisions regarding the scope of their work and their basis for selecting certain procedures for review and

specific transactions for testing (if testing is utilized). OTS management should ensure that such decisions and conclusions are adequately documented in examiners' workpapers.

Recommendations

We recommend that the Director of OTS ensure that OTS examiners do the following:

1. Use the pertinent policies and procedures in the FFIEC *Bank Secrecy Act/ Anti-Money Laundering Examination Manual* and in the OTS *Examination Handbook* and policy directives when examining thrifts for OFAC compliance.
2. Use the OFAC scoping and planning procedures from the FFIEC *Bank Secrecy Act/ Anti-Money Laundering Examination Manual* to document the OFAC procedures performed and include the procedures and the basis for OFAC conclusions in the workpapers.

Management Response

OTS concurred with the first recommendation and reported that, starting August 2005, all new OTS examinations with an OFAC compliance component are following the applicable policies and procedures contained in the BSA/AML Examination Manual, the OTS Examination Handbook, and OTS policies and procedures. OTS agreed with the second recommendation and will issue and implement examiner guidance to ensure enhancement of OFAC procedures in the fourth calendar quarter of 2006.

OIG Comment

We believe that the actions OTS states in its response, if implemented as described, address the intent of our recommendations.

* * * * *

We would like to extend our appreciation to OTS's Special Counsel and other officials for the cooperation and courtesies extended to our staff during the audit. If you have any questions, please contact me at (617) 223-8640.

/s/
Donald P. Benson
Director

Our objective was to determine the effectiveness of Office of Thrift Supervision (OTS) examination efforts to ensure financial institution compliance with Office of Foreign Assets Control (OFAC) requirements. This audit was performed in conjunction with an audit of OFAC's administration and enforcement of economic sanctions against targeted foreign countries, groups, and individuals. Because OFAC is legally limited in its ability to monitor financial institutions' compliance with foreign sanction requirements, OFAC depends on financial institution regulators, such as OTS, to ensure that the institutions comply with OFAC requirements.

This audit followed up on our prior report "FOREIGN ASSETS CONTROL: OFAC's Ability To Monitor Financial Institution Compliance Is Limited Due To Legislative Impairments,"⁶ which noted the lack of transaction testing during OTS examinations of OFAC compliance.

We reviewed the examination procedures listed in section 415, "Economic Sanctions," of the OTS *Compliance Activities Regulatory Handbook* to assess OFAC-related compliance. We also compared current OTS examination guidance for OFAC compliance with the BSA/AML Examination Manual issued by the Federal Financial Institutions Examination Council in June 2005.

We judgmentally selected a sample of 12 thrifts and ensured that their OTS examinations included an assessment of OFAC compliance. OFAC compliance examinations for 11 of the 12 thrifts were conducted in fiscal years 2003 and 2004. The OFAC examination for 1 of the thrifts was conducted in fiscal year 2002.

Our sample included 1 thrift that was penalized by OFAC during the period under review and 3 thrifts that were issued warning letters by OFAC for failing to properly handle prohibited transactions. The remaining thrifts were selected based on asset size and geographic locations.

⁶ OIG-02-082 (Apr. 26, 2002).

We requested copies of the most recent examination work papers that included a review of OFAC compliance. In addition, we requested copies of all documentation that may have affected the scope of the OFAC reviews. The examination records were compiled by OTS's Special Counsel and were reviewed at OTS headquarters in Washington, D.C.

We conducted our audit from January to September 2005 in accordance with generally accepted government auditing standards.

Objective

Assess the bank's risk-based Office of Foreign Assets Control (OFAC) program to evaluate whether it is appropriate for the bank's OFAC risk, taking into consideration its products, services, customers, transactions, and geographic locations.

Procedures

1. Determine whether the board of directors and senior management of the bank have developed policies, procedures, and processes based on their risk assessment to ensure compliance with OFAC laws and regulations.
2. Regarding the risk assessment, review the bank's OFAC program. Consider the following:
 - The extent of, and method for, conducting OFAC searches of each relevant department/business line (e.g., automated clearing house (ACH), monetary instruction sales, check cashing, trusts, loans, deposits, and investments) as the process may vary from one department or business line to another.
 - The extent of, and method for, conducting OFAC searches of account parties other than accountholders, which may include beneficiaries, guarantors, principals, beneficial owners, nominee shareholders, directors, signatories, and power of attorney.
 - How responsibility for OFAC is assigned.
 - Timeliness of obtaining and updating OFAC lists or filtering criteria.
 - The appropriateness of the filtering criteria used by the bank to reasonably identify OFAC matches (e.g., the extent to which the filtering/search criteria includes misspellings and name derivations).
 - The process used to investigate potential matches.
 - The process used to block and reject transactions.
 - The process used to inform management of blocked or rejected transactions.
 - The adequacy and timeliness of reports to OFAC.

- The process to manage blocked accounts (such accounts are reported to OFAC and pay a commercially reasonable rate of interest).
 - The record retention requirements (i.e., five year requirement to retain relevant OFAC records; for blocked property, record retention for as long as blocked; once unblocked, records must be maintained for five years).
3. Determine the adequacy of independent testing (audit) and follow-up procedures.
 4. Review the adequacy of the bank's OFAC training program based on the bank's OFAC risk assessment.
 5. Determine whether the bank has adequately addressed weaknesses or deficiencies identified by OFAC, auditors or regulators.

Transaction Testing

6. On the basis of a bank's risk assessment, prior examination reports, and a review of the bank's audit findings, select the following samples to test the bank's OFAC program for adequacy, as follows:
 - Sample new accounts (e.g., deposit, loan, trust, safe deposit, investments, credit cards, and foreign office accounts,) and evaluate the filtering process used to search the OFAC database (e.g., the timing of the search), and documentation maintained evidencing the searches.
 - Sample appropriate transactions that may not be related to an account (e.g., funds transfers, monetary instrument sales and check cashing transactions), and evaluate the filtering criteria used to search the OFAC database, the timing of the search, and documentation maintained evidencing the searches.
 - If the bank uses an automated 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.

Also, evaluate whether all of the bank's databases are run against the automated system, and the frequency upon which searches are made. If there is any doubt regarding the effectiveness of the OFAC filter, then run tests of the system by entering test account names that are the same as or similar to those recently added to the OFAC list to determine whether the system identifies a potential hit.

- If the bank does not use an automated system, evaluate the process used to check the existing customer base against the OFAC list and the frequency of such checks.
 - Review a sample of potential OFAC matches and evaluate the bank's resolution and blocking/rejecting processes.
 - Review sample of reports to OFAC and evaluate their completeness and timeliness.
 - If the bank is required to maintain blocked accounts, select a sample and evaluate that the bank maintains adequate records of amounts blocked and ownership of blocked funds, that the bank is paying a commercially reasonable rate of interest on all blocked accounts, and that it is accurately reporting required information annually (by September 30th) to OFAC. Test the controls in place to verify that the account is blocked.
 - Pull a sample of false hits (potential matches) to check their handling; the resolution of a false hit should take place outside of the business line.
7. Identify any potential matches that were not reported to OFAC, discuss with bank management, advise bank management to immediately notify OFAC of unreported transactions, and immediately notify supervisory personnel at your regulatory agency.
 8. Determine the origin of deficiencies (e.g., training, audit, risk assessment, internal controls, management oversight,) and conclude on the adequacy of the bank's OFAC program.

9. Discuss OFAC related examination findings with bank management.
10. Include OFAC conclusions within the report of examination, as appropriate.

Appendix 3
Management Response



Office of Thrift Supervision
Department of the Treasury

1700 G Street, N.W., Washington, DC 20552 • (202) 906-6853

Scott M. Polakoff
Deputy Director

VIA U.S. MAIL AND TELECOPY

September 6, 2006

Mr. Donald P. Benson
Director, Eastern Field Audit Office
Office of Inspector General
Department of the Treasury
Williams Building, Suite 330
408 Atlantic Ave.
Boston, MA 02110

Dear Mr. Benson:

Thank you for the opportunity to comment on the draft report – Assessing OTS’s Examination of OFAC Compliance Was Hampered by Limited Documentation. Director Reich asked me to respond on behalf of the agency. We believe that the changes that we have already put in place, combined with the enhancements you suggest, place us in an excellent position for ensuring that the thrift industry continues to meet its OFAC obligations.

The anti-money laundering and anti-terrorist financing areas, including the OFAC responsibilities, remain important priorities for this agency. We continue to enhance these programs through increased vigilance and new policies and procedures. We have given due consideration to your report and accept each of your recommendations and will implement the following corrective measures as follows:

“We recommend that the Director of OTS ensure that OTS examiners do the following:

1. Use the pertinent polices and procedures in the FFIEC Bank Secrecy Act/Anti-Money Laundering Examination Manual and in the OTS Examination Handbook and policy directives when examining thrifts for OFAC compliance.”

OTS fully concurs with this recommendation. ALL OTS examinations with a start date as of August 2005 that include an OFAC compliance component follow the applicable policies and procedures contained in the Manual, Handbook and OTS policies and procedures.

Appendix 3
Management Response

Donald P. Benson
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“2. Use the OFAC scoping and planning procedures from the FFIEC Bank Secrecy Act/Anti-Money Laundering Examination Manual to document the OFAC procedures performed and include the procedures and the basis for OFAC conclusions in the work papers.”

The examiner guidance to ensure the enhanced OFAC procedures will be issued immediately and implemented in the fourth calendar quarter of 2006.

In conclusion, we appreciate the effort made by your audit team and senior management for the constructive recommendations that your report contains.

Sincerely,



Scott M. Polakoff

cc: Director John Reich
Robert Albanese
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Appendix 4
Major Contributors to This Report

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