

# The Regulatory Alchemist

A Publication of Alchemetric Solutions, Inc.

*In this issue: OFAC Quality Control*

For over ten years we have been writing about employing an OFAC Quality Control program (see Appendix A to 31 CFR Part 501). Now, with OFAC's recently released guidance document (A Framework for OFAC Compliance Commitments), OFAC quality control is even more important. Accordingly, the focal point of this newsletter is directed to the discussion of developing OFAC quality control.

Quality control is different from having an audit completed. Whereas an audit is a one-time review which is typically completed on a specified date, quality control is an ongoing activity. Some quality control basics include:

1. Establishing a quality control review schedule. For example, quarterly testing of newly opened accounts or wire transfers.
2. Determining the sample size to test. To illustrate, a basic sample may be a static number, such as ten new accounts. More advanced sampling methods include statistical analysis so that a correct number can be reviewed to provide a minimum confidence level.

3. Establishing test review criteria. Typically, sound quality control review methodologies require reverification of the internal controls used in the original process.

For instance, one primary OFAC reverification would be to test the individual or entity to a different OFAC verification source than the one used in making the original OFAC determination. This process could be to manually check the name to the OFAC SDN list or through the use of a different service provider.

In addition, another test could be to test recently added names to your institution's OFAC system (or systems) - to make sure such systems are being updated promptly and correctly. Using the SDN New list available from the "Changes to the SDN List" portion of the OFAC web site is helpful in completing this task.

4. One key step that should be incorporated into quality control processes is the testing of the precision level(s) being used for OFAC searches. It should be noted that many systems permit multiple accuracy levels to be assigned. For

example, one accuracy level may be used for portfolio scans, a different level for individual lookups, and yet a different one for ACH scans. If possible it is important to test each level - for each system being used.

A simple way to test precision levels is to search actual published names (we recommend testing both SDN and consolidated list names) to verify the published names are detected. Then test slight variations of the published names to determine whether the system detects the varied names. For example, Staroil (published name) to Star Oil (test name).

4. The final step is to employ what has been learned. Results should be analyzed and reported to Senior Management or the Audit Committee, staff training should be completed, and process changes implemented to compensate for any identified weaknesses.

#### **And the Really Fine Print....**

This newsletter is freely distributed and should not be considered as legal advice. Users assume all risk. The author, publisher, and distributor assume no liability for its content or use.

JUNE 2019

Visit us at:  
[www.alchemetricsolutions.com](http://www.alchemetricsolutions.com)

Contact us via e-mail at:  
[info@alchemetricsolutions.com](mailto:info@alchemetricsolutions.com)