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## Correspondence Memorandum

**Date:** February 23, 2017  
**To:** Audit Committee  
**From:** Yikchau Sze, Director  
Office of Internal Audit  
**Subject:** Follow Up on the Office of Foreign Assets Control (OFAC) Audit

**This memo is for informational purposes only. No action is required.**

At the December 2016 Audit Committee meeting the Office of Internal Audit (OIA) agreed to report back regarding several outstanding questions on the OFAC audit. Below is an overview of the assurance provided by the OFAC audit and the steps taken by the Division of Trust Finance (DTF) since the audit.

### OIA's Assurance

The mission of the OIA is to enhance and protect Department of Employee Trust Funds (ETF) values by providing risk-based and objective assurance, advice and insight. OIA evaluates the design effectiveness of individual controls and combinations of controls that aim to mitigate a significant risk.

Overall, the audit verified ETF's compliance with the OFAC for a sample of payments made in October 2016. The audit also confirmed the controls established by DTF for OFAC compliance verification were functioning as designed for the month audited and addressed significant risks of noncompliance. Although a risk exists that a payment is sent within the United States to an individual on the Specially Designated Nationals (SDN) List, OIA does not consider this to be a significant risk of noncompliance. Such consideration was based on OIA's assessment of the low likelihood of the noncompliance occurrence.

Reviewed and approved by Robert J. Conlin, Secretary

Electronically Signed 3/7/17/17

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AUD	3.23.17	5B

### **Actions Taken by the DTF since the OFAC Audit**

DTF has completed corrective actions that address audit findings and has taken steps in response to the questions raised by the Audit Committee at the December 2016 meeting, including the following:

- fully documented procedures for the OFAC verification process;
- documented risk assessment of OFAC noncompliance;
- implemented a control to verify compliance for all checks issued by ETF;
- implemented a backup role for the OFAC verification process; and
- contacted US Bank and the Wisconsin Department of Administration to gain an understanding of the controls outside of ETF that may reduce the risk of OFAC noncompliance.

After multiple follow-up attempts, on February 22, 2017, DTF received US Bank's responses to questions related to the OFAC verification at the bank and a link to the regulations US Bank is required to follow.

US Bank stated that it updates its list of SDNs and other OFAC information throughout the day and completes OFAC verification before wire transfers and international automated clearing house (ACH) payments are processed. US Bank also stated that domestic ACH payments and checks are not screened for OFAC compliance because compliance verification at the individual transaction level is not required by OFAC. US Bank further explained that for these domestic items, OFAC requires compliance verification to be handled by each bank at account opening and through periodic review processes.

DTF believes ETF's risk of noncompliance for the aforementioned domestic transactions is low. Therefore, DTF plans to accept the risk for domestic ACH payments until there is an opportunity to implement a systematic control for OFAC compliance in BAS Rollout 3. DTF also reached out to the Department of Administration but has not yet received detailed information about any OFAC verification completed.

I will be available at the Audit Committee meeting to answer any questions.