

## OFAC Terrorism Sanctions Regulations Policy

### 1. BACKGROUND

Treasury Operations manages electronic payment processes for wire and Automated Clearing House (ACH) financial transactions and the related requirements which prohibit U.S. persons from dealing with individuals and companies listed as OFAC Specially Designated Nationals (SDNs). According to OFAC 31 § 595.311, an SDN is defined as “a foreign person designated by the Secretary of State, in coordination with the Secretary of the Treasury and the Attorney General, because they are found 1. to have committed, or to pose a significant risk of committing, acts of violence that have the purpose or effect of disrupting the Middle East peace process, or 2. to assist in, sponsor, or provide financial, material, or technological support for, or services in support of, such acts of violence or persons determined by the Secretary of the Treasury, in coordination with the Secretary of State and the Attorney General, to be owned or controlled by, or to act for or on behalf of, any other specially designated terrorist.” The full text of OFAC 31 § 595.311 can be found here: <http://www.treasury.gov/resource-center/sanctions/Pages/designations.aspx>.

NU Treasury Operations is a member of the US Dept of Treasury list-serve, receiving emails daily with updates to regulatory language and SDN list content.

### 2. SCOPE

#### *i.* Areas:

- 2.i.1 Treasury Operations
- 2.i.2 Purchasing Resource Services
- 2.i.3 Accounts Payable
- 2.i.4 Office of Student Accounts
- 2.i.5 Human Resources
  - 2.i.5.1 Payroll
- 2.i.6 Student Loans

#### *ii.* Activity:

- 2.ii.1 Outbound ACH, Wire, and cross-border payments from Treasury;
- 2.ii.2 Outbound ACH, Wire, and cross-border payments from Accounts Payable or authorized by Accounts Payable;
- 2.ii.3 Outbound ACH, Wire, and cross border refunds to employees originating in HR Payroll;
- 2.ii.4 Tuition, fee, room & board refunds to students or parents;
- 2.ii.5 HR Loan disbursements and/or loan refunds to students originating in Student Loans.

### 3. Types of Outbound Payments

Northwestern University utilizes two types of electronic funds transfer using JP Morgan Chase's online system called ACCESS. They are:

- i.* WIRE TRANSFER. Treasury Operations is the only originators of Wire Transfer transactions, a more expensive method of funds transfer which generally carries the benefit of enhanced remittance information and same-day domestic settlement or two-day cross-border settlement. Included in "wire transfer" are the following:
  - 3.i.1 Domestic Fedwire: funds settle in the domestic U.S. clearing through the Federal Reserve System and generally settling on the same day;
  - 3.i.2 Swiftwire: USD or FX funds settle cross-border using the Swift Network;
  - 3.i.3 Clearing House Interbank Payments System: CHIPS is an electronic payments system that transfers funds and settles transactions in U.S. dollars. CHIPS enables banks to transfer and settle international payments more quickly by replacing official bank checks with electronic bookkeeping entries. More on this topic: <http://www.newyorkfed.org/aboutthefed/fedpoint/fed36.html>
  - 3.i.4 FX/JP Morgan Chase: telephone or online bank-enabled spot market purchase and transfer of foreign currency across US borders. Settlement generally occurs within 2 business days; some currencies are restricted by central banks.
- ii.* AUTOMATED CLEARING HOUSE TRANSFERS. The Automated Clearinghouse (ACH) network is a domestic next-day settlement payment network, meaning that funds move between U.S.-domiciled financial institutions only, including banks, which participate in the ACH network. The National ACH Association (or NACHA) provides overall governance and standards for the ACH network. An ACH transfer can be sent using a number of different NACHA-provided formats, depending upon the type of payment (corporate, personal, payroll, etc). It can also be said that certain types of ACH formats are notorious for lacking meaningful sender or receiver information. Because of this, OFAC and NACHA have created a new ACH formatted file to be used when the sender declares that the initial domestic \$USD ACH transfer will in its entirety have a final destination outside of the U.S. The IAT (International ACH Transaction) regulation indicates a sender's responsibility to be to ask the requester of an ACH payment whether or not the payment, in total, will stay inside the U.S. or move across U.S. borders by some other means. If the requester indicates the latter, then the ACH originator is required to either A) Use the new IAT format to transmit the payment; or B) change the method of payment (e.g. to check or wire transfer). Addenda B & C summarizes NU departments' response to this compliance mandate.

### 4. COMPLIANCE FRAMEWORK

- i.* Control Environment
  - 4.i.1 Treasury Operations has taken the lead in developing process and controls which keep its daily operations compliant with OFAC Terrorism Sanctions Regulation. It has also managed compliance and monitoring efforts across other departments within NU that originate EFTs.

*ii.* Risk Assessment

- 4.ii.1 Non-compliance of OFAC regulations could result in sanctions against the University that could include severe monetary fines.
- 4.ii.2 To date there appear to have been no monetary fines or other penalties against organizations that have made good faith efforts to comply with OFAC terrorism sanctions regulation.

*iii.* Key Control Activities

- 4.iii.1 The EFT controls established by Treasury Operations ensure segregation of duties and limits of authority enforced by the banks and approved by management.
- 4.iii.2 **Any beneficiary** of University funds sent electronically (including methods listed above in section 3) is screened against the SDN list. Any positive match to the SDN list (by name or organization only – i.e. not by Country) results in a suspended transaction and is referred back to Treasury for further action. Our main banking relationship, JPM Chase is also informed for additional investigation.
- 4.iii.3 See Addenda A-H for process flow diagram of Treasury Operation’s EFT control process, as well as ongoing compliance activity in each department originating EFT at NU.

*iv.* Information and Communication

- 4.iv.1 Due to the constantly changing OFAC compliance landscape, Treasury Operations checks for updates to the SDN list at least weekly to ensure the most current regulatory requirements are reflected. The link to this most recent SDN list is posted on the Treasury Ops intranet page to ensure this information is transparent to all departments of the University.

*v.* Layers of Monitoring

- 4.v.1 Directors or Managers from Treasury Operations, HR Payroll, Office of Student Accounts, Accounts Payable, and Office of Student Loans (latter beginning in 2014) meet on an annual basis to review and discuss University compliance with OFAC Terrorism Sanctions Regulations. During these meetings an assessment of the effectiveness of current controls is performed.
- 4.v.2 This group will conduct an annual assessment of compliance with all regulations and formally identify any gaps in compliance, strategies to mitigate, and any other relevant updates such as regulatory changes. The report will be presented to the Associate Vice President of Financial Operations and Treasurer.
- 4.v.3 Treasury Operations ensures all EFTs are OFAC complaint by monitoring the Dept. of Treasury’s website for recent actions and enhancements at least on a weekly basis.

## 4.v.4 Bank Screening

4.v.4.1 Our main banking relationship (JP Morgan Chase) provides NU with an online banking system and a file transmission process through which materially all EFTs payments are made. Attachment section 8.v. outlines JP Morgan Chase's rigorous compliance methodology, a contractual requirement as our service providing bank, to ensure that all EFT requests from Northwestern University comply with OFAC Terrorism Sanctions Regulation (as well as all Federal Regulations).

## 5. ACCOUNTABILITY

### *i.* Director, Treasury Operations

5.i.1 Director, Treasury Operations is responsible for University-wide coordination of compliance efforts. This includes:

5.i.1.1 Policy updates

5.i.1.2 Annual review-meetings

5.i.1.3 Control assessment reports to Controller and Treasurer

## 6. OUT OF SCOPE

*i.* Inbound EFTs (credits) in favor of the University.

## 7. MODIFICATION TO THIS POLICY

Modifications to this policy may be made only with the review and consent of the University Policy Committee. A history of modifications is listed here below.

## 8. ATTACHMENT/APPENDIX

- i.* **Published and summarized expressions of OFAC Regulation 595.311**
- ii.* **List of NU Schools and Departments**
- iii.* **Treasury Operations EFT process diagram**
- iv.* **SDN Search Instructions**
- v.* **JP Morgan Chase Screening Process**
- vi.* **JP Morgan Chase Contract Amendment to include Screening**

vii. Example TO screening log on TO and PRS activity

**Document Updates**

<u>Date</u> _____.	<u>Name</u> _____.	<u>Nature of Change</u> _____.
7/23/14	Richard Emrich	Update information, add OS�, Attachment list.