

OFAC Reporting: The Check's **NOT** in the Mail

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Port Description

The Port of Houston Authority owns and operates the public facilities located along the Port of Houston, Texas, the 25-mile long complex of diversified public and private facilities designed for handling general cargo, containers, grain and other dry bulk materials, project and heavy lift cargo, and other types of cargo.

Each year, more than 6,300 vessels call at the port, which ranks first in the U.S. in foreign waterborne tonnage, second in the U.S. in total tonnage, and sixth in the world in total tonnage.

The Port Authority plays a vital role in ensuring navigational safety along the Houston Ship Channel, which has been instrumental in Houston's development as a center of international trade. The Barbours Cut Container Terminal and Central Maintenance Facility at the Turning Basin Terminal are the first of any U.S. port facilities to develop and implement an innovative Environmental Management System that meets the rigorous standards of ISO 14001. Additionally, the port is an approved delivery point for Coffee "C" futures contracts traded on the New York Board of Trade's Coffee, Sugar & Cocoa Exchange.

Introduction

Responsible citizens always pay their bills. However, in this post-9/11 world, it's not wise to make some payments. Fines of over \$1 million may be imposed on individuals or companies that pay terrorists, narcotics traffickers, targeted foreign countries, or those engaged in activities related to the proliferation of weapons of mass destruction.

Government Watchdog - OFAC

The Office of Foreign Assets Control ("OFAC") of the U. S. Department of the Treasury administers and enforces economic and trade sanctions against hostile entities that pose a threat to the safety and security of the U.S. and its citizens. Any asset, including money, can be frozen or blocked by OFAC if the owner is known to pose such a threat.

The "bad guys" conceal their criminal behavior. So how does a company recognize a potential business associate that's on OFAC's "hit list"?

Electronic Solutions

A host of software companies have created weapons to assist businesses with identifying targeted countries, companies and individuals. Of course, they come with a large price tag -- systems are available for one-time fees of up to \$150,000, and many vendors also charge a monthly maintenance fee of up to \$2,500. Online identity checking is available to determine if a specific entity should be blocked from future business transactions, and batch reporting can be performed to verify that all existing payees are safe from OFAC sanctions.

As part of its enforcement efforts, OFAC publishes a list of individuals and companies owned or controlled by targeted countries. It also lists individuals, groups, and entities, such as terrorists and narcotics traffickers, designated under programs that are not country specific. Collectively, such individuals and companies are called "Specially Designated Nationals" or "SDNs." U.S. persons are prohibited from engaging in any transactions with SDNs and must block any property in their possession or under their control in which an SDN has an interest. The SDN lists are stored electronically and are available to constituents for download.

The PHA Approach

The Port Authority is subject to OFAC jurisdiction, and as such, must verify that it doesn't compensate a vendor that is on the SDN lists. Port Authority management has chosen to bypass the costly software packages available and has instead created an in-house application to perform this vendor validation.

A specific Port Authority employee has been named the OFAC Compliance Officer, and is the user for this application. OFAC provides a free service to notify subscribers by e-mail when the SDN lists are modified. The OFAC Compliance Officer has subscribed to this free notification service and performs the vendor validation tasks when she receives the notification e-mail. Additionally, she performs a scheduled validation every two weeks, which will assure that new vendors are reviewed for OFAC compliance.

Business Problem

The Port of Houston pays vendors for goods and services through the Lawson Accounts Payable system. Names, addresses and other pertinent data are currently stored for more than 9,000 active vendors.

OFAC's SDN file currently includes in excess of 2,700 entries, with an additional 2,300 aliases.

To comply with OFAC's regulations, the Port Authority examines all vendors to determine if any are included on the SDN lists or are located in targeted countries. This comparison would be a time-consuming and tedious task if performed manually. Therefore, the examination procedure must be automated, vendors that are SDNs must be identified and any funds payable to sanctioned vendors must be identified and frozen.

The Solution

◇ Background

American businesses, individuals, and others subject to OFAC must comply with the requirements of OFAC's programs. The Port Authority has established procedures to ensure that it complies with all sanctions programs administered by OFAC.

If it is determined that a vendor is a "Specially Designated National," then any funds payable to that vendor are blocked. These funds must be placed into an interest-bearing account from which only OFAC-authorized debits can be made. But the difficult task is first to correctly identify the "bad guy."

◇ Objectives and Methodology

The OFAC Compliance Officer must be able to verify that the accounts payable vendors are not from targeted countries and that the vendors are not included on OFAC's SDN lists.

To assist the OFAC Compliance Officer, the Management Information Services (MIS) department has:

1. Provided a storage medium for the sanctioned country data;

Although OFAC makes the SDN lists available for file transfer, there are sanctions for specifically targeted countries that are not available for download. An individual company's OFAC Compliance Officer must review OFAC's "Sanctions Program and Country Summaries" web site to determine which countries are sanctioned. The MIS department created an Access database to store the names of these targeted countries. The OFAC Compliance Officer must update this database as countries are added or removed from OFAC's online documentation.

2. Extracted the Accounts Payable current vendor name and address data for comparison to OFAC's data;

Crystal Reports was chosen as the tool to extract the Lawson Oracle Accounts Payable vendor data for this project. A vendor export file in fixed field format was created.

3. Programmatically compared the Accounts Payable vendor data to OFAC's sanctioned countries and SDN lists and generated a report of all matches;

The MIS department created a COBOL program that runs on a server to perform this file comparison. It performs several functions, including reading the Port Authority accounts payable vendor flat file as the primary input, reading the Access table for sanctioned countries and validating the vendor's country and reading the SDN and alias files to validate the accounts payable vendor name against OFAC's SDN lists. A report, entitled "OFAC Reporting - Suspect Vendors," is generated to list vendor name and address information for any vendor that matches either a sanctioned country or a name from the SDN or alias files.

4. Provided some means to automate the OFAC Compliance Officer's reporting tasks.

OFAC provides an FTP site with the data stored in several convenient formats. The MIS department chose to download the fixed field format to the Port Authority server. The OFAC Compliance Officer submits a command and three files are downloaded: the SDN file, the address file and the alias file. The COBOL reporting program described in the prior step is then executed and a report is printed, "OFAC Reporting - Suspect Vendors."

◇ Hardware/Software Used

The OFAC Compliance Officer's workstation is a Dell Pentium 4 with a Windows XP operating system. The LAN server that's utilized is an HP Proliant server running the Windows 2003 Server operating system.

Seagate Crystal Reports is the software tool that exports the Oracle Accounts Payable vendor data to the server. Microsoft Access is utilized to store the table of OFAC sanctioned countries. FTP is the utility that transfers data from the OFAC server to the port's server. MicroFocus COBOL NetExpress is the COBOL programming software tool that runs on the server's MicroFocus Application Server platform.

◇ Project Cost

All hardware and software utilized in the project was in place prior to the project's inception, with the exception of the MicroFocus Application Server platform that was installed on the server. This software is licensed for \$380. Programming salaries attributable to the project are approximately \$2,700.

◇ Performance Measures

The Port Authority is within OFAC's jurisdiction and could be subject to potential fines in excess of \$1 million per offense. This software application will automate the validation of the accounts payable vendors to ensure the Port Authority's compliance with OFAC's rulings, possibly avoiding fines assessed in the millions of dollars.

Additionally, the costs for this in-house application are only about \$3,000. If the application had been purchased from an outside software company, the initial purchase price and first year's maintenance fee could have exceeded \$180,000.

◇ How the project fulfills the Award Criteria

With a limited financial investment, the Port Authority has provided software and hardware to identify targeted vendors and facilitate the blocking of funds and mandated reporting to the Department of the Treasury for OFAC. This project ensures that the Port Authority's assets are used to modernize and maintain facilities, and they're not used to pay fines for non-compliance with federal regulations.

All ports within the United States could be subject to potential OFAC sanctions and, therefore should perform their own "due diligence" to ensure that no terrorists, narcotics traffickers, or other hostile entities are receiving compensation.

The hardware and software utilized in this project are fairly common and inexpensive, so this application should be easily transferable to other ports.

This project was completed in May 2005, and no vendors in the Port Authority's accounts payable system were found within OFAC's SDN lists or sanctioned countries web site. Therefore, the Port of Houston Authority is fully OFAC compliant. The Compliance Officer repeats these reporting procedures bi-weekly and as updates are made to OFAC's SDN lists to verify that the Port Authority remains in compliance.

Conclusion

The Port of Houston Authority will not provide funding to terrorists, narcotics traffickers, or hostile nations. Additionally, the Port Authority strives to comply with all federal, state and local rules and regulations. Therefore, the Port Authority has implemented an automated system to assist in its efforts to identify SDNs and embargoed countries, and thereby avoid inadvertently running afoul of the law.