

# OFFICE OF FINANCIAL INSTITUTIONS

## OFI BULLETIN

BL-06-2003  
September 2, 2003

TO: THE CHIEF EXECUTIVE OFFICER/MANAGER

SUBJECT: INCREASED EMPHASIS ON OPERATIONAL RISK

While a great majority of Louisiana state-chartered financial institutions are doing a good job of identifying, measuring, monitoring, and controlling risks, there is a growing concern that key operational controls may be lacking which could assist you with respect to fraud detection and prevention. As a result, OFI examiners will increase/expand their efforts to evaluate operational risks at future examinations. Typically, our examinations include some limited audit tests but are not to be considered full-scope audits. Nevertheless, by increasing the scope of our review, we hope to prevent/limit fraudulent activities and increase the likelihood of detecting operational weaknesses that may exist, allowing management the opportunity to implement corrective action before such weaknesses result in material financial losses to the institution. Examiners will thoroughly review and evaluate both internal and external audit functions at each examination.

OFI examiners have the capability of using the FDIC's Automated Loan Examination Review Tool (ALERT) program during examinations. With ALERT, examiners are able to perform various queries, which aid in detecting any unusual or potentially fraudulent activity. ALERT has been available since 1997; however, its use was optional. ALERT has been used on most examinations of larger banks but has not consistently been used on smaller banks due to the additional time necessary to initially prepare the loan data. After considerable discussion, we have determined that the potential benefits of using ALERT as a fraud detection tool far outweigh any associated costs. Therefore, effective immediately, OFI examiners will utilize the ALERT program at all examinations.

Attached is a description of the new Interagency File Format that is being requested nationwide by all bank/thrift regulators. Also enclosed are common presentation errors and common questions and answers regarding this format to help you communicate to your data provider what is needed to utilize the ALERT tool in the most efficient manner. Your prior communication of our needs to your data provider should help to ensure that the necessary revisions can be made to your data without any additional costs to your institution. If the new interagency file format cannot be achieved, our examiners may use the alternate format described on the ALERT Loan Data Request form also attached. If you have questions about our needs in this regard, please contact Review Examiner John Fields at (225) 922-0633 or [jfields@ofi.state.la.us](mailto:jfields@ofi.state.la.us).

While this increased emphasis on fraud detection will result in some changes in the examination process and may also result in a slight increase in examination hours, we trust you will agree that these additional procedures will be beneficial to management and the Board of Directors and help protect the depositors and shareholders of your institution.

This bulletin will also be posted on OFI's website [www.ofi.state.la.us](http://www.ofi.state.la.us). If you have any questions, please contact Chief Examiner Sid Seymour directly at 225/925-4675 or [sseymour@ofi.state.la.us](mailto:sseymour@ofi.state.la.us).

John D. Travis, Commissioner of Financial Institutions