

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

AND

OKLAHOMA STATE BANKING DEPARTMENT
OKLAHOMA CITY, OKLAHOMA

In the Matter of

LAKESIDE STATE BANK
OOLOGAH, OKLAHOMA

(Insured State Nonmember Bank)

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CONSENT ORDER

FDIC -18-0172b

OSBD-18-C&D-1

The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for Lakeside State Bank, Oologah, Oklahoma (“BANK”), under 12 U.S.C. § 1813(q).

The Oklahoma State Banking Department (“STATE”) is the appropriate state banking agency for the BANK, pursuant to Oklahoma law under the Oklahoma Banking Code Title 6 Okla. Stat. § 101 *et seq.* (the “CODE”).

The BANK, by and through its duly elected and acting Board of Directors (“BOARD”), has executed a STIPULATION TO THE ISSUANCE OF A CONSENT ORDER (“STIPULATION”), dated January 24, 2019 that is accepted by the FDIC and the State. With the Stipulation, the BANK has consented, without admitting or denying any charges of violations of law or regulation relating to the Bank Secrecy Act, the Information Technology program, and Internal Controls, to the issuance of this CONSENT ORDER (“ORDER”) by the FDIC and the State.

Having determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) and section 204(B) of the Code and the provisions of the Oklahoma Administrative

Procedures Act, Title 75 Okla. Stat. § 250 et seq., have been satisfied or waived, the FDIC and the State hereby orders that:

MANAGEMENT – BOARD SUPERVISION

1. Within 30 days after the effective date of this ORDER, the BOARD shall increase its participation in the affairs of the BANK by assuming full responsibility for the approval of the BANK's policies and objectives and for the supervision of the BANK's management, including all of the BANK's activities. The BOARD's participation in the BANK's affairs shall include, at a minimum, monthly meetings in which the following areas shall be reviewed and approved by the BOARD: the Bank Secrecy Act (BSA) program, the Information Technology program, and the Internal Audit program. The BOARD's minutes shall document the BOARD's reviews and approvals, including the names of any dissenting directors.

MANAGEMENT – SPECIFIC POSITIONS

2. (a) Within 90 days after the effective date of this ORDER, the BANK shall have and retain qualified management. At a minimum, such management shall include:

- (1) An Information Technology program manager with the ability to manage the Information Technology program;
- (2) A Bank Secrecy Act program manager with the ability to manage the Bank Secrecy Act and Anti-Money Laundering program; and
- (3) Such persons shall be provided the necessary written authority to implement the provisions of this ORDER.

The qualifications of management shall be assessed on its ability to:

- (1) Comply with the requirements of this ORDER; and

(2) Comply with applicable laws and regulations.

(b) While this ORDER is in effect, the BOARD shall notify the FDIC Regional Director (Regional Director) and the Oklahoma State Banking Commissioner (Commissioner) in writing of any changes in any of the BANK's Senior Executive Officers, the Information Technology program manager, and the Bank Secrecy Act program manager. For purposes of this ORDER, "Senior Executive Officer" is defined as in Section 303.101(b) of the FDIC's Rules and Regulations, 12 C.F.R. § 303.101(b).

CORRECTION OF VIOLATIONS

3. (a) Within 90 days after the effective date of this ORDER, the BOARD shall eliminate and/or correct all violations of law and regulation noted in the Report of Examination;

(b) Within 90 days after the effective date of this ORDER, the BOARD shall implement procedures to ensure future compliance with all applicable laws and regulations; and

(c) Within 90 days after the effective date of this ORDER, the BOARD shall address nonconformance with appendices A and B of FDIC Part 364, as detailed in the Report of Examination.

INTERNAL AUDIT CONTROL PROGRAM

4. (a) Within 90 days after the effective date of this ORDER, the BOARD shall revise its internal control program to address the internal control deficiencies detailed in the Report of Examination, and implement an effective program for internal audit and control. The internal auditor shall report quarterly to the BOARD. The Report and any comments made by

the directors regarding the internal auditor's report shall be noted in the minutes of the BOARD's meeting.

EXTERNAL AUDIT

5. (a) Within 90 days after the effective date of this ORDER, the BOARD shall cause an external audit of its financial statements and a review of its internal controls to be performed by an independent public accounting firm acceptable to the Regional Director and the Commissioner.

(b) The BOARD shall provide the Regional Director and the Commissioner with a copy of the proposed engagement letter with the accounting firm for review before it is executed. The engagement letter, at a minimum, should include:

- (1) A description of the work to be performed under the engagement letter;
- (2) An identification of the specific procedures to be used when carrying out the work to be performed;
- (3) The time frame for completion of the work;
- (4) Any restrictions on the use of the reported findings; and
- (5) A provision for unrestricted examiner access to work papers.

(c) While this ORDER is in effect, the BOARD shall forward copies of any external audit reports it receives to the Regional Director and the Commissioner within 10 days after the BANK's receipt of such reports.

INFORMATION TECHNOLOGY

6. (a) Within 90 days after the effective date of this ORDER, the BANK shall develop and implement a written plan for the continued administration of the BANK's IT risk management practices and controls designed to, among other things, ensure and maintain proper oversight of the IT area of the BANK ("IT Corrective Plan") by the BOARD and executive management. The BANK shall submit the IT Corrective Plan to the Regional Director and the Commissioner for review and comment. Upon receipt of comments from the Regional Director and the Commissioner, if any, the BOARD shall review and approve the IT Corrective Plan, which review and approval shall be recorded in the minutes. Thereafter, the BANK shall implement the IT Corrective Plan.

(b) At a minimum, the IT Corrective Plan shall institute procedures to ensure meeting the standards contained in Part 364, Appendix B, of the FDIC's Rules and Regulations, 12 C.F.R. Part 364, App. B, including the performance of a comprehensive information security assessment, development of a corporate information security policy, formal training for employees and management, annual audits for adherence to the standards, and regular review of the status of the IT audit program by the BOARD.

(c) Within 90 days after the effective date of this Order, the BOARD shall develop and implement an IT audit program that provides comprehensive and continuous audit coverage, the scope of which shall be based on a comprehensive risk assessment. The audit program shall include coverage of the areas recommended in the Audit Booklet of Federal Financial Institutions Examination Council's Information Technology Examination Handbook dated August 2003, and be performed by an auditor with experience and expertise in IT. Audit reports shall be presented to BOARD for review with the review noted in the BOARD minutes.

(d) Within 90 days after the effective date of this Order, the BOARD shall ensure that all other deficiencies cited in the IT Examination Report are corrected, or document its best efforts to ensure that such deficiencies are corrected.

BANK SECRECY ACT COMPLIANCE PLAN

7. Within 90 days from the effective date of this ORDER, the BOARD shall develop, adopt and implement a revised written plan ("Compliance Plan") for the continued administration of the BANK's BSA Compliance Program and the BANK's Customer Identification Program ("CIP") designed to, among other things, ensure and maintain compliance with the BSA and its implementing rules and regulations. The BANK shall submit the revised Compliance Plan to the Regional Director and the Commissioner for review and comment. Upon receipt of comments from the Regional Director and the Commissioner, if any, the BOARD shall review and approve the revised Compliance Plan. The review and approval of the revised Compliance Plan shall be recorded in the minutes of the BOARD. Thereafter, the BANK shall implement the Compliance Plan. At a minimum, the Compliance Plan shall:

(a) Provide for a system of internal controls sufficient to comply in all material respects with the BSA and its implementing rules and regulations and establish a plan for implementing such internal controls. The system of internal controls shall provide, at a minimum:

- (1) Establish and implement customer due diligence procedures, including procedures for conducting a risk-based assessment of the BANK's customer base to identify the categories of customers whose transactions and banking activities are routine and usual; and determine the appropriate level of enhanced due diligence necessary for those categories of

customers whose transactions and banking activities are not routine and/or usual (“high-risk accounts”);

- (2) Policies and procedures with respect to high-risk accounts and customers identified through the risk assessment conducted pursuant to paragraph 1(a)(1), including the adoption of adequate methods for conducting enhanced due diligence on high-risk accounts and customers at account opening and on an ongoing basis, and for monitoring high-risk client relationships on a transaction basis, as well as by account and customer;
- (3) Policies, procedures, and systems for identifying, evaluating, monitoring, investigating, and reporting suspicious activity in the BANK’s products, accounts, customers, services, and geographic areas, including:
 - a. Establishment of meaningful thresholds for identifying accounts and customers for further monitoring, review, and analyses;
 - b. Periodic testing and monitoring of such thresholds for appropriateness to the BANK’s products, customers, accounts, services, and geographic areas;
 - c. Appropriate training for the identification and timely referral of potentially suspicious activities;
 - d. Review of existing systems to ensure adequate referral of information about potentially suspicious activity through appropriate levels of management, including a policy for determining action to be taken in the event of multiple filings of Suspicious Activity Reports (“SARs”) on the same customer, or in the event a correspondent or other

- customer fails to provide due diligence information. Such procedures shall describe the circumstances under which an account should be closed and the processes and procedures to be followed in doing so;
- e. Procedures and/or systems for each business area of the BANK to produce periodic reports designed to identify unusual or suspicious activity, to monitor and evaluate unusual or suspicious activity, and to maintain accurate information needed to produce these reports with the following features:
 - (i) The BANK's procedures and/or systems should be able to identify related accounts, countries of origin, location of the customer's businesses and residences to evaluate patterns of activity;
 - (ii) The periodic reports should cover a broad range of time frames, including individual days, a number of days, and a number of months, as appropriate, and should segregate transactions that pose a greater than normal risk for non-compliance with the BSA;
 - f. Documentation of management's decisions to file or not to file an SAR; and;
 - g. Systems to ensure the timely, accurate, and complete filing of required SARs and any other similar or related reports required by law.
- (4) Procedures to ensure customers and transactions are being compared to current Office of Foreign Assets Control ("OFAC") listings, which procedures must include, at a minimum: establishment of effective

internal controls, independent testing, designation of qualified individuals for OFAC compliance, and training for all appropriate employees;

- (5) Procedures to ensure appropriate OFAC searches and 314(a) searches are performed and documented;
- (6) Policies and procedures to ensure all currency transaction reports (CTR) and SARs are filed in accordance with law;
- (7) Provide for program continuity in the event the BSA Officer is unable to coordinate and monitor day-to-day compliance with the BSA; and
- (8) Requirements to meet all regulatory recordkeeping and reporting obligations for BSA compliance and provide for timely updates in response to changes in the regulations.

INDEPENDENT TESTING

8. Within 90 days from the effective date of this ORDER, the BANK shall develop a plan for independent testing in compliance with the BSA and its implementing rules and regulations to be conducted by either a qualified outside party with the requisite ability to perform such testing and analysis, or BANK personnel independent of the BSA function. Independent testing shall be based on an adequate scope which is in accordance with the Bank Secrecy Act Anti-Money Laundering Examination Manual. Independent testing shall be done on an annual basis.

BUSINESS PLAN

9. While this ORDER is in effect, the BANK shall not enter into any new line of business without the prior written consent of the Regional Director and the Commissioner.

SHAREHOLDER NOTIFICATION

10. After the effective date of this ORDER, the BOARD shall send a copy of this ORDER, or otherwise furnish a description of this ORDER, to its shareholders (1) in conjunction with the BANK's next shareholder communication, and also (2) in conjunction with its notice or proxy statement preceding the BANK's next shareholder meeting. The description shall fully describe the ORDER in all material respects. The description and any accompanying communication, statement, or notice shall be sent to the FDIC Accounting and Securities Disclosure Section, Washington, D.C. 20429, for review at least 20 days prior to dissemination to shareholders. Any changes requested by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

PROGRESS REPORTS

11. Within 30 days after the end of the first calendar quarter following the effective date of this ORDER, and within 30 days after the end of each successive calendar quarter, the BANK shall furnish written progress reports to the Regional Director and the Commissioner detailing the form and manner of any actions taken to secure compliance with this ORDER and the results thereof. Such reports may be discontinued when the corrections required by the ORDER have been accomplished and the Regional Director and the Commissioner have released the BANK in writing from making additional reports.

The provisions of this ORDER shall not bar, stop, or otherwise prevent the FDIC or State, or any other federal or state agency or department from taking any other action against the BANK or any of the BANK's current or former institution-affiliated parties.

This ORDER shall be effective on the date of issuance.

The provisions of this ORDER shall be binding upon the BANK, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this ORDER shall remain effective and enforceable except to the extent that and until such time as any provision has been modified, terminated, suspended, or set aside by the FDIC and the State.

Issued pursuant to delegated authority this 30th day of January, 2019.

/s/

Kristie K. Elmquist
Regional Director
Dallas Region
Division of Supervision and Consumer
Protection
Federal Deposit Insurance Corporation

/s/

Mick Thompson
Commissioner
Oklahoma State Banking Department