



Audit Report



OIG-18-047

FOREIGN ASSETS CONTROL

OFAC's Iran Sanctions Program Processes Comply with Requirements

July 12, 2018

Office of Inspector General
Department of the Treasury

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Contents

Audit Report

Background..... 2

 OFAC’s Mission 2

 Iran Sanctions Program 4

 Joint Comprehensive Plan of Action 6

Audit Results..... 8

 OFAC’s Iran Sanctions Program Processes Comply with Requirements 9

 OFAC Formalized Standard Operating Procedures 11

Appendices

Appendix 1: Objectives, Scope, and Methodology..... 13

Appendix 2: Summary of Iran-related Executive Orders 17

Appendix 3: Management Response..... 21

Appendix 4: Major Contributors to This Report 22

Appendix 5: Report Distribution 23

Abbreviations

CISADA	Comprehensive Iran Sanctions, Accountability, and Divestment Act
EO	Executive Order
IEEPA	International Emergency Economic Powers Act
JCPOA	Joint Comprehensive Plan of Action
NSC	National Security Council
OFAC	Office of Foreign Assets Control
OIG	Treasury Office of Inspector General
SDN	Specially Designated Nationals and Blocked Persons
SOP	standard operating procedure
Treasury	U.S. Department of the Treasury
UNSCR	United Nations Security Council Resolution
WMD	weapons of mass destruction

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Audit Report

July 12, 2018

Andrea Gacki
Acting Director
Office of Foreign Assets Control

This interim report presents initial results from our ongoing audit of the Office of Foreign Assets Control (OFAC) administration of the Iran sanctions program. Our audit objectives are to determine whether (1) OFAC's Iran sanctions program was consistent with U.S. commitments under the Joint Comprehensive Plan of Action (JCPOA) and complied with applicable laws and regulations; and (2) sanctions decisions and deliberations are properly documented and approved by OFAC officials. This report discusses results related to our review of the 25 designations and 4 general licenses issued and amended by OFAC from July 1, 2016, through February 28, 2017. We plan to issue an additional audit report that assesses whether other sanctions decisions and deliberations, including specific licenses, were properly documented and approved.

In brief, OFAC (1) complied with applicable laws and regulations and acted consistent with the JCPOA, and (2) properly documented and approved sanctions decisions and deliberations. OFAC's processes for the designations and general licenses issued and amended were thorough. However, at the time of our review, OFAC lacked formalized and approved standard operating procedures (SOPs) recommended in a 2015 Department of the Treasury (Treasury) Office of Inspector General (OIG) audit.¹ In response to our previous audit, OFAC formalized SOPs as of December 28, 2017. We reviewed OFAC's SOPs related to its designation and general license processes and determined that they provide sufficient information to enable staff members to complete the fundamental steps necessary for each process. Accordingly,

¹ Treasury OIG, OIG-16-001, Libyan Sanctions Case Study, (October 26, 2015).

we make no recommendations in this report. We plan to review SOPs related to the specific license process and include the results in a subsequent report.

We conducted fieldwork for this interim report from March 2017 through January 2018. Appendix 1 provides a more detailed description of our audit objectives, scope, and methodology.

In a written response, OFAC management stated that it reviewed the report and did not have any substantive comments. Management's response, in its entirety, is included as appendix 3.

Background

OFAC's Mission

As part of Treasury's Office of Terrorism and Financial Intelligence, OFAC administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals. These sanctions target foreign countries and regimes, terrorists, international narcotics traffickers, proliferators of weapons of mass destruction (WMD), and other threats to the national security, foreign policy, or economy of the United States. OFAC acts under legislative authority and presidential wartime and national emergency powers to, among other things, impose controls on transactions and block assets² subject to U.S. jurisdiction from use by designated parties. OFAC maintains various sanctions lists, including the Specially Designated Nationals and Blocked Persons (SDN), Foreign Sanctions Evaders, and Non-SDN Iranian Sanctions Act lists. OFAC's licensing process allows OFAC to authorize individuals and entities to engage in transactions that would otherwise be prohibited.

The SDN list includes individuals and entities designated in connection with activity involving sanctioned countries, such as Iran and North Korea. It also lists individuals, groups, and entities—such as terrorists and narcotics traffickers—designated under

² Blocking, or "freezing," is a way of controlling targeted property. Title to the blocked property remains with the target, but the exercise of powers and privileges normally associated with ownership is prohibited without authorization from OFAC. Blocking immediately imposes an across-the-board prohibition against transfers or dealings of any kind with regard to the property.

sanctions programs that are not country-specific. Unless an exemption from regulation applies or OFAC authorizes a transaction under a license, all transactions by U.S. persons, including U.S. depository institutions, or transactions in or involving the United States, are prohibited if they involve an individual or entity on the SDN list. U.S. persons must also block designated persons' property and interests in property within their possession or control.

OFAC also maintains the Foreign Sanctions Evaders list. Executive Order (EO) 13608 grants Treasury the authority to target foreign individuals and entities that have violated, attempted or conspired to violate, or caused a violation of U.S. sanctions against Iran or Syria.³ This list allows Treasury to publicly identify foreign individuals and entities engaged in these activities and to impose prohibitions on transactions or dealings involving such persons in or related to goods, services, or technology in or intended for the United States or provided by or to U.S. persons, wherever located.⁴ Although the process for adding individuals to the Foreign Sanctions Evaders list is generally the same as that used to make SDN list designations, the property and interests in property of Foreign Sanctions Evaders are not blocked or frozen (these are also referred to as "non-blocking" sanctions).

OFAC also adds individuals and entities to the Non-SDN Iranian Sanctions Act list pursuant to the non-blocking provisions of the Iran Sanctions Act of 1996, as amended.⁵ This act principally sought to limit Iran's activities related to its petroleum industry. In January 2016, pursuant to the commitments made in the JCPOA, the U.S. Secretary of State determined that all individuals and entities on the Non SDN Iranian Sanctions Act list would be removed.

³ EO 13608, "Prohibiting Certain Transactions with and Suspending Entry into the United States of Foreign Sanctions Evaders with Respect to Iran and Syria" (May 1, 2012).

⁴ Although EO 13608 does not block the property of persons sanctioned under that authority, Treasury may bar their access to the U.S. financial system by prohibiting U.S. persons from engaging in transactions involving an identified Foreign Sanctions Evader, which includes requiring U.S. financial institutions to reject transactions involving such persons. The funds are returned to the originator; therefore, property is not blocked.

⁵ 50 U.S.C. 1701 note.

Occasionally, OFAC grants authorization through its licensing program for individuals and entities to engage in transactions that would otherwise be prohibited by various sanctions programs. OFAC issues (1) general licenses, for an entire class of persons, transactions, or products; or (2) specific licenses, in response to applications made by individuals or entities for specific transactions. General licenses publicly authorize broader classes of transactions without the need to apply for a specific license. Specific licenses authorize a particular individual or entity to engage in a particular transaction or set of transactions on a case by-case basis under certain limited situations and conditions. Although OFAC has the ability to issue licenses, it is generally under no obligation to do so.

Iran Sanctions Program

The Iran sanctions program is OFAC's most complex program, with authorities derived from many overlapping laws and executive orders. Eleven statutes and 27 executive orders issued since 1979⁶ relate specifically to the Iran sanctions program, providing authorities to both Treasury and the Department of State, among other agencies. Ten statutes and ten executive orders in force provide Treasury the authority to impose sanctions on Iran and Iran-related activities.⁷ In addition to the orders relating specifically to Iran, other orders have broader authorities that apply to Iran's activities, such as EO 13224,⁸ which targets persons who commit, threaten to commit, or support terrorism, and EO 13382,⁹ which targets weapons of mass destruction proliferators and their supporters. To implement Iran-related statutes and executive orders, OFAC has issued regulations, rules, and guidance. In addition to the overlapping authorities, multiple agencies within the Federal Government are responsible for implementing different aspects of Iran sanctions, further adding to the complexity.

Based on its legal authorities, OFAC primarily administers its Iran sanctions program by (1) listing and delisting individuals and

⁶ EO 12170, "Blocking Iranian Government Property" (November 14, 1979).

⁷ See appendix 2 for a summary of the executive orders in force.

⁸ EO 13224, "Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten To Commit, or Support Terrorism" (September 23, 2001).

⁹ EO 13382, "Blocking Property of Weapons of Mass Destruction Proliferators and Their Supporters" (July 1, 2005).

entities; (2) issuing regulations to implement relevant statutes and executive orders; (3) issuing, amending, and revoking general licenses; (4) approving or denying specific license applications; (5) conducting investigations of apparent sanctions violations and taking civil enforcement actions; and (6) maintaining a compliance and outreach program.

The current Iran sanctions program has evolved since 1987, when it began under EO 12613.¹⁰ The order imposed an import embargo on Iranian goods and services as a result of Iran's support for international terrorism and its aggressive actions toward shipping in the Persian Gulf. Pursuant to this order, OFAC issued the Iranian Transactions Regulations, which have been amended numerous times since then, including in 2012 when the regulations were updated and reissued as the Iranian Transactions and Sanctions Regulations¹¹ to, among other things, implement EO 13599¹² and section 1245 of the National Defense Authorization Act for Fiscal Year 2012.¹³ These regulations implement the principal U.S. primary sanctions targeting Iran as of February 2017, including many of the general licenses and statements of licensing policy.

Under the Iran sanctions program, OFAC administers primary sanctions, and OFAC and the Department of State administer secondary sanctions. Primary sanctions generally prohibit U.S. persons from engaging in specified activities, as well as transactions in or involving the United States, with certain countries, entities, and individuals. The United States began imposing primary sanctions on Iran in 1987, when EO 12613 prohibited imports of Iranian-origin goods and services into the United States. The primary sanctions were expanded in 1995, when EO 12957¹⁴ was issued pursuant to the International Emergency Economic Powers Act (IEEPA), declaring a national emergency with respect to Iran and prohibiting U.S. person

¹⁰ EO 12613, "Prohibiting Imports from Iran" (October 29, 1987).

¹¹ 31 C.F.R. Part 560 (October 22, 2012).

¹² EO 13599, "Blocking Property of the Government of Iran and Iranian Financial Institutions" (February 5, 2012).

¹³ Public Law 112-81 was enacted on December 31, 2011. The Iranian Sanctions Regulations were updated and reissued as the Iranian Transactions and Sanctions Regulations to, among other things, implement sections 1245(c) and (d)(1)(B) of this law.

¹⁴ EO 12957, "Prohibiting Certain Transactions with Respect to the Development of Iranian Petroleum Resources" (March 15, 1995).

involvement with certain petroleum development activities in Iran as a result of Iranian support of international terrorism and Iran's active pursuit of WMD. In the same year, EO 12959¹⁵ was signed, substantially tightening sanctions against Iran.¹⁶ Executive orders signed through 1997 placed further restrictions, ultimately prohibiting nearly all trade and investment activities involving Iran.

Secondary sanctions, which target non-U.S. persons for activities that occur outside of U.S. jurisdiction, escalated in 2010 pursuant to the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (CISADA).¹⁷ Subsequent laws and executive orders imposed additional secondary sanctions on Iranian persons and certain Iran-related activities, such as human rights abuses, proliferation of WMD and their means of delivery, and destabilizing activities in the Middle East.

The majority of the existing Iran designations through February 2017 were made pursuant to non-Iran-specific executive orders, such as EO 13224 relating to terrorism and EO 13382 relating to proliferation of WMD and their means of delivery.

Joint Comprehensive Plan of Action

In July 2015, the P5 + 1¹⁸ and Iran reached the JCPOA to ensure that Iran's nuclear program would be exclusively peaceful. In January 2016, the International Atomic Energy Agency verified, and the U.S. Secretary of State confirmed, that Iran had implemented its key nuclear-related measures described in the JCPOA. As a result, the United States implemented its commitments to lift nuclear-related secondary sanctions on Iran and to license three categories of activity that would otherwise be

¹⁵ EO 12959, "Prohibiting Certain Transactions With Respect to Iran" (May 6, 1995).

¹⁶ Enacted in 1977, IEEPA (50 U.S.C. 1701–1708) authorizes the President to declare national emergencies and exercise certain authorities to deal with unusual and extraordinary threats to the national security, foreign policy, or economy of the United States, where the source of the threat in whole or substantial part is outside of the country.

¹⁷ Enacted on July 1, 2010, CISADA (22 U.S.C. 8501–8551) sought to impose new sanctions on Iran in response to the illicit nuclear activities of the Government of Iran, combined with its development of unconventional weapons and ballistic missiles, as well as its support for international terrorism.

¹⁸ The P5 + 1 is an international coalition comprised of China, France, Germany, Russia, the United Kingdom, and the United States.

prohibited under primary sanctions. EO 13716¹⁹ implemented certain U.S. commitments made under the JCPOA by revoking four previous executive orders and portions of a fifth executive order implementing nuclear-related secondary sanctions on Iran. In addition, OFAC removed more than 400 individuals and entities from the SDN, Foreign Sanctions Evaders, and Non SDN Iranian Sanctions Act lists as set forth in Annex II of the JCPOA, although it added 190 individuals and entities onto a new list, the EO 13599 list.²⁰ The United States continues to administer and enforce its primary sanctions, which bar U.S. individuals and entities from most forms of investment or trade with Iran, as well as Iran-related transactions in or involving the United States. While the United States participated in the JCPOA, the United States maintained its right to impose sanctions not related to Iran's nuclear program, including in relation to Iran's human rights abuses, support for terrorism, including through designated entities such as the Islamic Revolutionary Guard Corps, interference in specified countries in the region, or missile and advanced conventional weapons programs.

OFAC officials told us they were involved with the JCPOA negotiations and drafting technical sections of the JCPOA, and worked with U.S. Department of State representatives to negotiate the terms in Annex II, which outlines the sanctions-related commitments. OFAC also participated in the technical drafting of the main text of the JCPOA, as well as Annex V, the JCPOA implementation plan. The United States endorsed the JCPOA by ratifying United Nations Security Council Resolution (UNSCR) 2231, but retained the option of sanctions "snapback"²¹ should Iran engage in activity constituting significant non-performance of its commitments under the JCPOA. The JCPOA is an

¹⁹ EO 13716, "Revocation of EOs 13574, 13590, 13622, and 13645 with Respect to Iran, Amendment of EO 13628 with Respect to Iran, and Provision of Implementation Authorities for Aspects of Certain Statutory Sanctions Outside the Scope of U.S. Commitments Under the Joint Comprehensive Plan of Action of July 14, 2015" (January 16, 2016).

²⁰ The EO 13599 list is a list of individuals and entities blocked solely pursuant to EO 13599. This list identifies Government of Iran entities and Iranian financial institutions with which U.S. persons continue to be broadly prohibited from engaging in transactions or dealings, with the exception of transactions that are exempt from regulation or authorized by OFAC. See appendix 2 for more detail regarding the Iran-related EO authorities.

²¹ OFAC officials used this term to describe provisions included in the JCPOA and UNSCR 2231 to allow for the re-imposition of sanctions lifted under the JCPOA. These provisions are included in paragraph 12 of UNSCR 2231 and paragraphs 36 and 37 of the JCPOA main text.

understanding and not an agreement or treaty. The distinction is important because the commitments made in the JCPOA are not legally binding on any of the parties. OFAC took steps in January 2016 to implement certain sanctions-related commitments the United States made under the JCPOA.

In May 2018, President Trump announced his decision to cease the United States' participation in the JCPOA and to begin re-imposing U.S. nuclear-related sanctions on Iran, following two wind-down periods. Along with this announcement, the President issued a National Security Presidential Memorandum,²² which directed the Secretaries of State and of the Treasury to immediately begin taking steps to re-impose all U.S. sanctions lifted or waived in connection with the JCPOA as expeditiously as possible, and in no case later than 180 days from the date of the memorandum. Consistent with the President's guidance, OFAC began the process of implementing 90- and 180-day wind-down periods for activities involving Iran that were consistent with the U.S. sanctions relief specified in the JCPOA. At the conclusion of those wind-down periods, the applicable sanctions will come back into full effect.

As part of this re-imposition of sanctions lifted under the JCPOA, OFAC revoked four general licenses issued in connection with the JCPOA and issued corresponding general licenses authorizing the wind-down of transactions and activities that were previously authorized.

Audit Results

In February 2017, OFAC designated 25 Iran-related individuals and entities and added them to the SDN List. Seventeen (17) of the 25 designations relate to WMD and the remaining eight relate to counterterrorism. From July 1, 2016, through February 28, 2017, OFAC issued one new general license and amended three general licenses authorizing transactions otherwise prohibited by the regulations. The general licenses relate to commercial sales and exportation of agricultural commodities, medicine, medical devices,

²² On May 8, 2018, the President issued National Security Presidential Memorandum-11 (NSPM-11), *Ceasing United States Participation in the Joint Comprehensive Plan of Action and Taking Additional Action to Counter Iran's Malign Influence and Deny Iran All Paths to a Nuclear Weapon*.

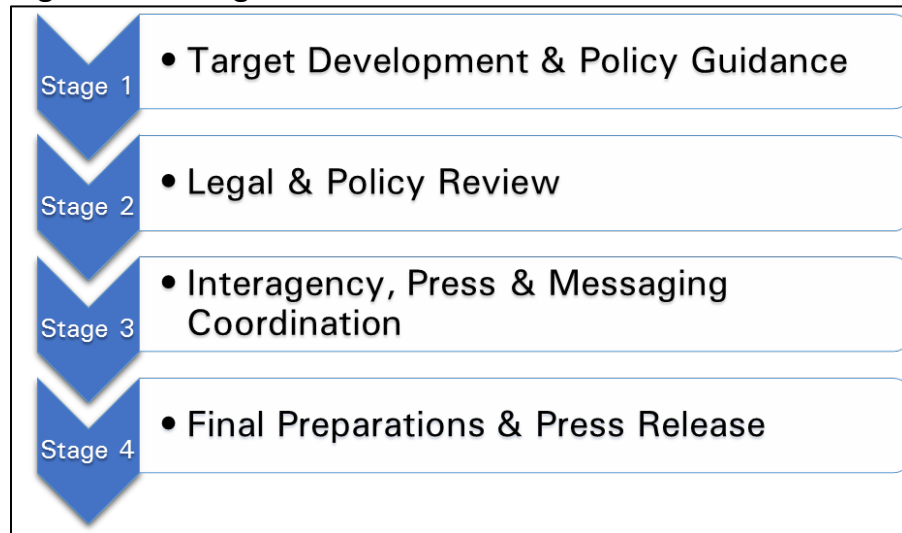
and certain software and related services, as well as the re-exportation to Iran of certain civilian aircraft on temporary sojourn.²³

OFAC’s Iran Sanctions Program Processes Comply with Requirements

OFAC actions related to these recent designations and general licenses (1) complied with applicable laws and regulations, and were consistent with U.S. commitments under the JCPOA and (2) were properly documented and approved. In addition, OFAC’s processes for designating individuals and entities under its authorities and adding them to the SDN list and issuing and amending general licenses are thorough.

The process used to make the February 2017 designations has multiple layers of review and coordination, shown in Figure 1.

Figure 1. Designation Process



Source: OIG Summary

OFAC representatives told us that the designations process is driven by U.S. policy and that frequent meetings are held with OFAC and Treasury senior leadership to prioritize targets and plan

²³ With regard to General License J-1, temporary sojourn refers to an aircraft passing through and remaining in Iran for no more than 72 hours, provided that all of the criteria set forth in the general license are satisfied.

actions. Discussions include consultation by OFAC to inform the Under Secretary for Terrorism and Financial Intelligence of designation targets and to request policy guidance. Thorough legal reviews of each designation were conducted, including reviews by OFAC counsel.

OFAC also coordinates with other Federal agencies, most frequently with the Department of State, the Department of Justice, and the National Security Council (NSC). OFAC is required to consult with the Department of State for most designations.²⁴ The U.S. Department of Justice also provides legal review of the designations. OFAC coordinates with intelligence agencies, through Treasury's Office of Intelligence and Analysis, to receive intelligence and to ensure information included with the evidentiary documents does not reveal sources and methods for gathering intelligence. Once all legal and external reviews and coordination are satisfied, the OFAC Director, acting under delegated authority, provides final review and clearance of the evidentiary record and signs a blocking memorandum. Public notice of the action is given in a press release and through the addition of the designated individuals and entities to the SDN list. A *Federal Register* notice of the designation action is then issued.

At the time of our testing, OFAC officials provided us with an understanding of their process for issuing and amending general licenses. The approval process was thorough, with multiple layers of review for both issuances and amendments. In addition to required reviews by OFAC senior management, OFAC sought insight from external agencies that handle related authorities. For example, in drafting an amendment to General License J for the re-exportation of civilian aircraft on temporary sojourn, OFAC

²⁴ Under EO 13382, the Secretary of State, in consultation with the Secretary of the Treasury and the Attorney General, has the authority to designate individuals for activity directly related to WMD proliferation (so-called "primary designation authority"). Separately, the Secretary of the Treasury, in consultation with the Attorney General and the Secretary of State, has the authority under EO 13382 to designate persons that have provided material support to, or are owned or controlled by, or are acting for or on behalf of, a person blocked under State's primary designation authority (so-called "derivative designation authority"). EO 13224 follows a similar model where the Secretary of State, in consultation with the Attorney General and the Secretary of the Treasury, exercises primary designation authority for persons that have committed, or pose a significant risk of committing, acts of terrorism and the Secretary of the Treasury, in consultation with the Attorney General and the Secretary of State, exercises derivative designation authority for persons supporting individuals and entities blocked under State's primary designation authority.

officials told us that they modeled the license on Department of Commerce policies. Once General License J was drafted, OFAC officials obtained feedback from the Departments of Commerce and State and the NSC prior to its issuance. OFAC also sought input from the Departments of State, Commerce, Justice, and the NSC when amending 31 C.F.R. 560.530²⁵ and 560.532²⁶ to provide clarity on certain provisions of general licenses, respond to public feedback, and improve the efficiency of the licensing program.

Further audit work is planned for the specific license applications within our audit scope. The results will be included in another report to be issued at a later date.

OFAC Formalized Standard Operating Procedures

During our initial fieldwork, OFAC did not have formalized and approved SOPs documenting the actions required to add designations to its SDN list or issue and amend licenses. We noted this previously in our 2015 report, *Libyan Sanctions Case Study*,²⁷ recommending that SOPs provide sufficient information to enable staff members to complete the fundamental steps for implementing and administering sanctions programs. In response to that report, OFAC formalized SOPs as of December 28, 2017. We extended our fieldwork to review OFAC's SOPs related to its designation and general license processes. The SOPs related to these two processes provide sufficient information to enable staff members to complete the fundamental steps necessary for each process. We plan to review additional SOPs related to the specific license process and include the results in a subsequent report.

We plan to monitor the implementation of the SOPs as part of our ongoing work and report on the results in a subsequent report.

* * * * *

²⁵ 31 C.F.R. 560.530 is the general license for commercial sales, exportation, and re-exportation of agricultural commodities, medicine, medical devices, and certain related software and services.

²⁶ 31 C.F.R. 560.532 is the general license for the payment for and financing of exported and re-exported items related to 31 C.F.R. 560.530.

²⁷ Treasury OIG, OIG-16-001, *Libyan Sanctions Case Study* (October 26, 2015).

We appreciate the cooperation and courtesies extended to our staff during our continuing work. For the major contributors to this report, see appendix 4, and for report distribution, see appendix 5. If you wish to discuss the report, please contact me at (202) 927-5369 or Eileen Kao, Audit Manager, at (202) 927-8759.

/s/

Gregory J. Sullivan
Audit Director

Appendix 1: Objectives, Scope, and Methodology

The objectives for this audit are to determine whether (1) the Iran sanctions program administered by the Office of Foreign Assets Control (OFAC) is consistent with U.S. commitments under the Joint Comprehensive Plan of Action (JCPOA) and complies with applicable laws and regulations; and (2) sanctions decisions and deliberations are properly documented and approved by OFAC officials.

We conducted fieldwork from March 2017 through January 2018 at OFAC's office in Washington, DC. As part of our audit, which is the basis for this interim report, we (1) reviewed the components of the Iran sanctions program, (2) reviewed applicable Federal and Department of the Treasury (Treasury) guidance, (3) interviewed OFAC officials and personnel who were involved in implementing and administering the Iran sanctions program and drafting the JCPOA, and (4) reviewed documents related to OFAC's decisions and deliberations in connection with its Iran sanctions program.

We plan to issue an additional audit report assessing whether other sanction decisions and deliberations, including specific licenses, were properly documented and approved. We reviewed the following general and Iran-specific laws, regulations, and guidance associated with the implementation and administration of the Iran sanctions program:

- Countering America's Adversaries Through Sanctions Act, Public Law 115-44 (August 2, 2017)
- Iran Nuclear Agreement Review Act of 2015, 42 U.S.C. 2160e (May 22, 2015)
- Iran Threat Reduction and Syria Human Rights Act of 2012, 22 U.S.C. 8701–8795 (August 10, 2012)
- Iran Freedom and Counter-Proliferation Act of 2012, 22 U.S.C. 8801–8811 (January 2, 2013)
- National Defense Authorization Act for Fiscal Year 2012, Public Law 112-81, Section 1245, "Imposition of Sanctions with Respect to the Financial Sector of Iran" (December 31, 2011)

- Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010, 22 U.S.C. 8501–8551 (July 1, 2010)
- Trade Sanctions Reform and Export Enhancement Act of 2000, 22 U.S.C. 7201–7211 (October 28, 2000)
- Iran Sanctions Act, as amended, 50 U.S.C. 1701 note (September 30, 2006)
- International Security and Development Cooperation Act of 1985 (ISDCA), 22 U.S.C. 2301–2349bb-6 (August 8, 1985)
- International Emergency Economic Powers Act of 1977 (IEEPA), 50 U.S.C. 1701–1708 (December 28, 1977)
- 31 C.F.R. Part 535, Iranian Assets Control Regulations
- 31 C.F.R. Part 560, The Iranian Transactions and Sanctions Regulations
- 31 C.F.R. Part 561, Iranian Financial Sanctions Regulations
- 31 C.F.R. Part 562, Iranian Human Rights Abuses Sanctions Regulations
- *Joint Comprehensive Plan of Action* (July 14, 2015)
- GAO-14-704G, *Standards for Internal Control in the Federal Government* (September 2014)
- Treasury Directive 80-05, *Records and Information Management Program* (June 26, 2002)
- Treasury Directive TDP 15-71, *Treasury Security Manual* (June 17, 2011 update)

We also reviewed Iran-related executive orders. For a summary of each, see appendix 2.

In interviews with OFAC officials and personnel responsible for implementing and administering the Iran sanctions program and drafting the JCPOA, we gained an understanding of the following:

- OFAC’s organizational structure
- background on the Iran sanctions program and associated authorities
- implementation and administration of the Iran sanctions program, including the processes for designating individuals

and adding them to the Specially Designated Nationals and Blocked Persons (SDN) list and for issuing and amending general licenses and reviewing specific license applications

- OFAC's involvement in drafting the JCPOA and its subsequent implementation

To determine whether OFAC's administration of the Iran sanctions program was consistent with U.S. commitments under the JCPOA, we reviewed Annex V of the plan, which outlines the commitments, time frames, and terms of implementation. We then compared OFAC actions taken pursuant to the JCPOA to determine whether actions had been completed by the prescribed implementation date.

To determine which sanctions decisions and deliberations are related to the Iran sanctions program, we reviewed the OFAC organizational structure and interviewed OFAC officials on the background of the Iran sanctions program. The significant activities related to the Iran sanctions program include: (1) listing and delisting individuals and entities on the SDN, Foreign Sanctions Evaders, Persons Identified as Blocked Solely Pursuant to E.O. 13599, and non-SDN Iran Sanctions Act lists; (2) issuing regulations to implement relevant statutes and executive orders; (3) issuing, amending, and revoking general licenses; (4) approving or denying specific license applications; (5) conducting investigations of apparent sanctions violations and taking civil enforcement actions; and (6) maintaining a compliance and outreach program. From July 1, 2016, through February 28, 2017, no individuals or entities were listed or delisted from the Foreign Sanctions Evaders and non-SDN Iran Sanctions Act lists. To determine whether OFAC complies with applicable laws and regulations related to sanctions decisions and deliberations, we reviewed the sanction lists and general licenses issued and amended from July 1, 2016 through February 28, 2017.

We identified 25 designations—13 individuals and 12 entities—added to the SDN list on February 3, 2017. We reviewed the designation process for the 25 entries to determine whether deliberations and decisions were properly documented and approved, including whether OFAC followed statutes, executive orders, and internal procedures.

We identified one general license issued and three existing general licenses amended from July 1, 2016 through February 28, 2017. We obtained an understanding of the process of issuing and amending general licenses and reviewed documentation related to the general licenses issued and amended to determine whether these decisions and deliberations were properly documented and approved.

Further work is planned for this audit following the release of this interim report. We plan to review a sample of Iran-related specific license applications OFAC received from July 1, 2016 through February 28, 2017. The results of this testing will be included in a final report to be issued at a later date.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions in this interim report based on our audit objectives.

Appendix 2: Summary of Iran-related Executive Orders

This appendix provides a summary of the ten executive orders still in effect in the Iran sanctions program, plus two additional orders relevant to the active authorities. The additional orders include EO 13382, which is the basis for recent designations related to weapons of mass destruction (WMD), and EO 13224, which is the basis for recent designations related to terrorism.

Table 1. Summary of Iran-related Executive Orders

<i>Executive Order (EO)</i>	<i>Title and Date</i>	<i>Summary of Authority</i>
13716	“Revocation of Executive Orders 13574, 13590, 13622, and 13645 with Respect to Iran, Amendment of Executive Order 13628 with Respect to Iran, and Provision of Implementation Authorities for Aspects of Certain Statutory Sanctions Outside the Scope of U.S. Commitments Under the Joint Comprehensive Plan of Action of July 14, 2015” (January 16, 2016)	Revoked EO 13574, 13590, 13622, and 13645 with respect to Iran, and amended EO 13628 with respect to Iran per U.S. commitments under the JCPOA. As a result of EO 13716 and JCPOA-related sanctions waivers, foreign persons (including companies in Europe, Asia, and elsewhere) were not subject to secondary sanctions for engaging in certain activities involving Iran, including facilitating transactions for the purchase of petroleum from Iran and making certain investments in Iran’s petroleum sector, provided the transactions occurred outside of U.S. jurisdiction and certain other conditions were met. EO 13716 also provides implementation authority for certain sanctions outside the scope of the JCPOA (e.g., blocking of persons who knowingly provide significant support to Iranian persons on the SDN List or engaged in other activities, such as diversion or misappropriation of agricultural or medical sales). In connection with the President’s May 8, 2018 announcement that the United States would cease its participation in the JCPOA, OFAC provided guidance indicating that it expects the U.S. government to re-impose relevant provisions of EOs 13574, 13590, 13622, 13628 and 13645 by the end of the 90- or 180-day wind-down period, as appropriate.

<i>Executive Order (EO)</i>	<i>Title and Date</i>	<i>Summary of Authority</i>
13628	"Authorizing the Implementation of Certain Sanctions Set Forth in the Iran Threat Reduction and Syria Human Rights Act of 2012 and Additional Sanctions with Respect to Iran" (October 9, 2012)	Expanded sanctions on Iran, including authorizing Treasury and State to implement certain additional sanctions outlined in the Iran Threat Reduction Act of 2012. EO 13628 also authorized Treasury, in consultation with or at the recommendation of State, to block certain persons involved in human rights abuses or censorship in Iran.
13608	"Prohibiting Certain Transactions with and Suspending Entry into the United States of Foreign Sanctions Evaders with Respect to Iran and Syria" (May 1, 2012)	Authorized Treasury, in consultation with State, to target foreign persons who, among other things, have facilitated deceptive transactions for any person subject to U.S. sanctions concerning Iran or Syria. The Foreign Sanctions Evaders list was created to identify persons sanctioned under this order.
13606	"Blocking the Property and Suspending Entry into the United States of Certain Persons with Respect to Grave Human Rights Abuses by the Governments of Iran and Syria via Information Technology" (April 22, 2012)	Authorized Treasury, in consultation with or at the recommendation of State, to block persons who have enabled the Government of Iran or the Government of Syria to commit serious human rights abuses through the use of information technology, including network monitoring, tracking, or disruption.
13599	"Blocking Property of the Government of Iran and Iranian Financial Institutions" (February 5, 2012)	Blocked all property and interests in property of the Government of Iran and Iranian financial institutions, in response to deceptive practices of Iranian banks to conceal transactions of sanctioned parties. Authorized Treasury and State to implement certain statutory sanctions on the financial sector of Iran. Persons identified as Government of Iran entities or Iranian Financial Institutions pursuant to this order are listed on the EO 13599 List.
13553	"Blocking Property of Certain Persons with Respect to Serious Human Rights Abuses by the Government of Iran and Taking Certain Other Actions" (September 28, 2010)	Authorized Treasury, in consultation with or at the recommendation of State, to block persons involved in serious human rights abuses by the Government of Iran on or after June 12, 2009, among others.

<i>Executive Order (EO)</i>	<i>Title and Date</i>	<i>Summary of Authority</i>
13382	"Blocking Property of Weapons of Mass Destruction Proliferators and Their Supporters" (June 28, 2005)	Authorized State, in consultation with Treasury and other agencies, to block proliferators of WMD and their means of delivery. Authorized Treasury, in consultation with State and other agencies, to block persons that have provided material support, are owned or controlled by, or acting for or on behalf of persons blocked under the order in connection with proliferation of WMD and their means of delivery. OFAC implements the prohibitions of this order through the Weapons of Mass Destruction Proliferators Sanctions Regulations, 31 C.F.R. Part 544. This authority has been used to target Iran's nuclear weapons program. This order implemented additional steps pursuant to the national emergency declared in EO 12938, as expanded by EO 13094, to target a broader range of activities in connection with WMD proliferation. OFAC uses this authority to designate persons on the SDN List for WMD-related reasons.
13224	"Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten To Commit, or Support Terrorism" (September 23, 2001)	Authorized State, in consultation with Treasury and Justice, to block persons that have committed, or pose a significant risk of committing, acts of terrorism. Authorized Treasury, in consultation with State and Justice, to block persons that have provided material support, are owned or controlled by, or acting for or on behalf of persons blocked under the order in connection with terrorism. It designated entities and individuals identified in an Annex and, as with all blocking programs, prohibited U.S. persons from engaging in all transactions with such designated persons. OFAC uses this authority to designate persons on the SDN List for terrorism-related reasons.

<i>Executive Order (EO)</i>	<i>Title and Date</i>	<i>Summary of Authority</i>
13059	"Prohibiting Certain Transactions with Respect to Iran" (August 19, 1997)	These orders imposed the U.S. trade embargo on Iran through an increasingly restrictive series of prohibitions on transactions involving the United States or U.S. persons. These EOs prohibit the importation into the United States of any goods or services of Iranian origin or owned or controlled by the Government of Iran, as well as the exportation, re-exportation, sale, or supply, from the United States or by a U.S. person, of any goods, technology, or services to Iran or the Government of Iran, among other things. Under certain orders, Treasury, in consultation with State and other agencies, is authorized to promulgate regulations and exercise all authorities under IEEPA to implement the order (including licensing). Certain orders also allow Treasury to authorize transactions subject to export license application requirements of another agency of the United States Government, provided that authorization from the other agency would be permitted by law.
12959	"Prohibiting Certain Transactions With Respect to Iran" (May 7, 1995)	
12957	"Prohibiting Certain Transactions With Respect to the Development of Iranian Petroleum Resources" (March 16, 1995)	
12613	"Prohibiting Imports From Iran" (October 29, 1987)	

Appendix 3: Management Response



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

June 18, 2018

Gregory Sullivan
Audit Director
Department of the Treasury
Office of Inspector General
875 15th Street, NW
Washington, DC 20005

Dear Mr. Sullivan,

Thank you for providing us with an opportunity to comment on the Office of Inspector General's (OIG) formal draft audit report pertaining to OFAC's Iran sanctions program. The Office of Foreign Assets Control (OFAC) appreciates the important work of the OIG and your team's willingness to work with OFAC informally as you prepared the draft report.

OFAC has reviewed the report and does not have any substantive comments. We appreciate the thorough review by your office and its conclusions that OFAC (1) complied with applicable laws and regulations and acted consistent with U.S. commitments under the Joint Comprehensive Plan of Action, and (2) properly documented and approved sanctions decisions and deliberations.

We always appreciate your role in providing appropriate oversight and we look forward to continuing to work with your office in the future.

Sincerely,

A handwritten signature in blue ink, appearing to read "AGacki".

Andrea Gacki
Acting Director
Office of Foreign Assets Control

Appendix 4: Major Contributors to This Report

Eileen Kao, Audit Manager
Justin Walker, Auditor
Kevin Guishard, Referencer

Appendix 5: Report Distribution

Department of the Treasury

Counselor to the Secretary
Under Secretary for Terrorism and Financial Intelligence
Office of Strategic Planning and Performance Improvement
Office of the Deputy Chief Financial Officer, Risk and Control
Group

Office of the Foreign Assets Control

Senior Advisor for Legislative Affairs

Office of Management and Budget

OIG Budget Examiner

United States Senate

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Committee on Banking, Housing, and Urban Affairs
Committee on Foreign Relations
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