



Audit Report



OIG-19-033

ANTI-MONEY LAUNDERING/TERRORIST FINANCING

Audit of the Office of Terrorism and Financial Intelligence's Report on Section 241 of the Countering America's Adversaries Through Sanctions Act

February 22, 2019

Office of Inspector General
Department of the Treasury

This Page Intentionally Left Blank

Contents

Audit Report

Background 2

 Office of Terrorism and Financial Intelligence 2

 Countering America’s Adversaries Through Sanctions Act 3

 CAATSA Section 241 Reporting 5

Audit Results..... 7

 CAATSA Section 241 Report Complies With Requirements..... 7

 Finding 1 Response to Section 241(a)(3) Lacks Detailed Analysis 7

 Recommendation 11

Appendices

Appendix 1: Objective, Scope, and Methodology 12

Appendix 2: CAATSA Sections Delegated to Treasury 15

Appendix 3: Management Response 17

Appendix 4: Major Contributors to This Report 20

Appendix 5: Report Distribution 21

Abbreviations

CAATSA	Countering America’s Adversaries Through Sanctions Act
IA	Office of International Affairs
ODNI	Office of the Director of National Intelligence
OFAC	Office of Foreign Assets Control
OIA	Office of Intelligence and Analysis
OIG	Office of Inspector General
SDN	Specially Designated Nationals and Blocked Persons
State	Department of State
TFFC	Office of Terrorist Financing and Financial Crimes
TFI	Office of Terrorism and Financial Intelligence
Treasury	Department of the Treasury

This Page Intentionally Left Blank



Audit Report

February 22, 2019

Sigal Mandelker
Under Secretary
Terrorism and Financial Intelligence

This report presents results from an audit of the Department of the Treasury (Treasury) Office of Terrorism and Financial Intelligence (TFI). This is the first of two audit reports related to TFI's compliance with Title 2, *Countering Russian Influence in Europe and Eurasia Act of 2017*, of the *Countering America's Adversaries Through Sanctions Act (CAATSA)*.¹ The objective of this audit was to determine whether TFI complied with reporting requirements stipulated in CAATSA section 241, *Report on Oligarchs and Parastatal Entities of the Russian Federation*. We plan to issue a second audit report assessing whether TFI's Ukraine-/Russia-related sanctions program complies with applicable laws and regulations, including the CAATSA Title 2 sections summarized in appendix 2.

In brief, TFI's report to Congress dated January 29, 2018, complies with the requirements listed in CAATSA section 241, but the response to one of the sections lacks detailed analysis. Specifically, TFI's response to section 241(a)(3), on the exposure of key economic sectors of the United States to Russian politically exposed persons and parastatal entities,² could be more informative. The completion of the CAATSA section 241 report represents a great undertaking among members of multiple agencies including Treasury, represented by TFI. However, TFI's prioritization of four of the five sections and a miscommunication

¹ Public Law (P.L.) 115-44, *Countering America's Adversaries Through Sanctions Act* (August 2, 2017)

² The term "parastatal entities" refers to entities which the government owns or controls, wholly or in part. For the purposes of the unclassified CAATSA section 241 report to Congress, Treasury defined the term "parastatals" as companies in which Russian Federation ownership is at least 25 percent and that had 2016 revenues of approximately \$2 billion or more.

between TFI personnel, led to a gap in project management over section 241(a)(3) and ultimately left little time for Treasury employees with requisite knowledge and experience to provide a more detailed analysis.

Accordingly, we recommend that the Under Secretary for TFI ensures TFI, in responding to new legislation and ad hoc requests from stakeholders requiring coordination among multiple components, assigns a project manager.

We conducted fieldwork for this report during March through July 2018. Appendix 1 provides a more detailed description of our audit objective, scope, and methodology.

In a written response, management agreed with the finding that section 241(a)(3) met all statutory requirements and concurred with the recommendation that project management should minimize miscommunications that are likely to arise when implementing a complex and novel statutory scheme. Accordingly, TFI will continue to assign, as appropriate, an employee with sufficient stature and authority to be responsible for overseeing and coordinating complex, multifaceted reports, such as section 241.

TFI affirmed its commitment to complying fully with Congressional reporting provisions and noted that given the increasing reliance upon TFI's economic tools and authorities across this and other programs as well as the increasing volume of reporting requirements, TFI is repeatedly in the position of making judgements with respect to how they allocate their resources.

Management's response is included in its entirety in appendix 3.

Background

Office of Terrorism and Financial Intelligence

The *Consolidated Appropriations Act of 2005*³ established TFI, headed by an Under Secretary to whom the Office of Intelligence and Analysis (OIA), Financial Crimes Enforcement Network, Office of Terrorist Financing and Financial Crimes (TFFC), Office of

³ P.L. 108-447, Consolidated Appropriations Act, 2005 (December 8, 2004)

Foreign Assets Control (OFAC), and Treasury Executive Office for Asset Forfeiture, all report. OIA is responsible for the receipt, analysis, collation, and dissemination of foreign intelligence and foreign counterintelligence information related to Treasury operations. OIA also serves as liaison to the intelligence community and represents Treasury in various intelligence-related activities. TFFC is the policy development and outreach office for TFI and works with federal agencies to develop and promote the United States' position in both international and domestic forums related to money laundering and illicit financing.

Countering America's Adversaries Through Sanctions Act

CAATSA united several existing bills directing the President to impose sanctions related to Iran, the Russian Federation, North Korea, and other cyber and terrorism-related programs. Title 2 of CAATSA, *Countering Russian Influence in Europe and Eurasia Act of 2017*, encourages the President to uphold and seek unity with European and other key partners on sanctions implemented against the Russian Federation, engage partner governments to close loopholes in multilateral and unilateral restrictive measures against the Russian Federation, and increase efforts to enforce compliance with sanctions in response to the crisis in Ukraine, cyber intrusions and attacks, and human rights violators in the Russian Federation. It also codified existing executive orders, imposes various new mandatory sanctions against the Russian Federation, and requires the Secretary of the Treasury to submit to Congress three reports related to the Russian Federation.⁴ CAATSA section 241 requires the Secretary of the Treasury, in consultation with the Secretary of State and the Director of National Intelligence, to submit to Congress within 180 days of CAATSA passage a detailed report on the following.

⁴ CAATSA Title 2 requires the Secretary of the Treasury to submit reports pursuant to sections 241, *Report on Oligarchs and Parastatal Entities of the Russian Federation*, 242, *Report on Effects of Expanding Sanctions to Include Sovereign Debt and Derivative Products*, and 243, *Report on Illicit Finance Relating to the Russian Federation*. This audit report only addresses section 241. See appendix 2 for more information regarding sections of CAATSA Title 2.

-
1. Senior foreign political figures⁵ and oligarchs⁶ in the Russian Federation, including: a) identification of the most significant senior foreign political figures and oligarchs as determined by their closeness to the Russian regime and their net worth, b) assessment of the relationship between the individuals and President Putin or other members of the Russian ruling elite, c) identification of any indices of corruption with respect to those individuals, d) the estimated net worth and known sources of income of those individuals and their family members, and e) identification of the non-Russian business affiliations of those individuals (section 241(a)(1))
 2. Russian parastatal entities, including an assessment of: a) the emergence of Russian parastatal entities and their role in the economy of the Russian Federation, b) the leadership structures and beneficial ownership of those entities, and c) the scope of the non-Russian business affiliations of those entities (section 241(a)(2))
 3. The exposure of key economic sectors of the United States to Russian politically exposed persons and parastatals, including at least the banking, securities, insurance, and real estate sectors (section 241(a)(3))
 4. The likely effects of imposing debt and equity restrictions on Russian parastatal entities and of adding Russian parastatals to the Specifically Designated Nationals and Blocked Persons (SDN) list⁷ (section 241(a)(4))
 5. The potential impacts of imposing secondary sanctions on Russian oligarchs, Russian state-owned enterprises, and Russian parastatal entities (section 241(a)(5))

⁵ For the purposes of the unclassified CAATSA section 241 report to Congress, the term “senior foreign political figures” are 1) senior members of the Russian Presidential Administration; 2) members of the Russian Cabinet, Cabinet-rank ministers, and heads of other major executive agencies; and 3) other senior political leaders (including the leadership of the State Duma and Federation Council), other members of the Russian Security Council, and senior executives at state-owned enterprises.

⁶ For the purposes of the unclassified CAATSA section 241 report to Congress, the term “oligarch” refers to individuals who, according to reliable public sources, have an estimated net worth of \$1 billion or more.

⁷ OFAC’s SDN list shows designated individuals and entities in connection with activity involving sanctioned countries or individuals, groups, and entities designated under sanctions programs that are not country-specific, such as terrorists and narcotics traffickers.

CAATSA Section 241 Reporting

The Secretary of the Treasury delegated the responsibility of drafting the section 241 report, to the Under Secretary for TFI, who held meetings with TFI components to discuss the reporting requirements. Participants agreed that two of OIA's components would respond to the majority of the section 241 requirements and TFFC would assist in coordinating and packaging the report. Treasury employees told us the individuals who drafted the section 241 report were also involved in discharging other national security missions of TFI.

During September and October 2017, one OIA component actively collaborated with the Office of the Director of National Intelligence (ODNI) and other agencies to plan, scope, and collect information for section 241(a)(1), the Russian oligarchs and senior political officials lists. Throughout November and December 2017, OIA and ODNI drafted the report section on 241(a)(1). During November and December 2017, the second OIA component collected information and drafted the sections on 241(a)(2), (a)(4), and (a)(5). Working drafts were provided to TFFC. In January 2018, TFFC drafted section 241(a)(3).

Section 241(b) required that an unclassified report be submitted, but added that it may contain a classified annex. Because of this requirement, Treasury officials had to decide what to include in the unclassified report since the majority of the information developed in response to section 241 of CAATSA was deemed classified.

TFFC and OIA briefed the Under Secretary for TFI and the Secretary of the Treasury on the report contents and recommended what information be disclosed in an unclassified report. TFI officials told us Treasury leadership considered two potential methodologies for the unclassified report to Congress. The first methodology was to provide a list of oligarchs and senior political figures, mirroring the classified annex, that would list the Russian malign actors as described in greater detail in the classified report. Treasury officials told us this approach risked telegraphing to the world, as well as Russian oligarchs and senior political figures, potential targets for future sanctions. Because section 241 only required Treasury to develop a report, and not to issue sanctions, the threshold for inclusion in this report alone would not meet the legal threshold for

sanctionable activity or create the legal ramifications of a sanction, most notably, blocking assets. Therefore, this methodology also presented the risk of asset flight, offering individuals on the list an opportunity to move and conceal assets, potentially reducing the impact of future sanctions. With this methodology, the unclassified report would address the section 241(b) requirement and the report would mirror the classified list of oligarchs and senior political figures with the classified list providing more details and addressing the remaining requirements in section 241.

A second methodology for the unclassified report was to draw on public sources, such as the Forbes' ranking of the "200 richest businessmen in Russia 2017," to assemble a list of wealthy Russians and senior political figures. This methodology would further distinguish this from a sanctions list and make clear that inclusion on the list does not imply Treasury is considering future action against these individuals. Department of State (State) officials told us the risk in using this approach was that the public might wrongly identify wealthy individuals on the list, with no connection to the Russian regime, as malign actors. In addition, the classified information would not be available to the public, which could lead to scrutiny over the efforts of the report drafters. With this methodology, the classified annex would answer most section 241 reporting requirements and the unclassified report would serve to address section 241(b).

Treasury opted for the second approach and determined that the unclassified report to Congress would follow the public-source methodology to reduce the possibility for asset flight. By the deadline of January 29, 2018, Treasury submitted the final report to the appropriate congressional committees along with an explanation of the methodology.⁸

⁸ CAATSA section 241(c) defines the term "appropriate congressional committees" as (A) the Committee on Banking, Housing, and Urban Affairs, the Committee on Foreign Relations, and the Committee on Finance of the Senate; and (B) the Committee on Foreign Affairs, the Committee on Financial Services, and the Committee on Ways and Means of the House of Representatives.

Audit Results

TFI's report pursuant to section 241 complies with CAATSA requirements, but the response to section 241(a)(3) lacks detailed analysis.

CAATSA Section 241 Report Complies With Requirements

In accordance with CAATSA section 241, the Secretary of the Treasury, in consultation with the Secretary of State and the Director of National Intelligence, met the 180 day deadline for submitting the unclassified report and classified annex to the appropriate congressional committees. We determined that the unclassified report complies with section 241(b) and the classified annex complies with reporting requirements specified in sections 241(a)(1) through (a)(5). The unclassified report responded only to section 241(b), which required that a report be submitted in an unclassified form. This report included a list of Russian oligarchs and senior political officials identified through public sources. The classified annex provided responses to sections 241(a)(1) through (a)(5) requirements, and section 241(a)(3) was the only part of the response that lacked detailed analysis. Our review of correspondence, drafts, and briefing documents showed evidence of substantial coordination and consultation with ODNI and State officials, as required. Also, Treasury officials told us section 241(a)(1) took over 2,500 hours for interagency components to draft. Given the extensive collaboration among interagency components, the in-depth analysis conducted, and the short reporting period of six months, TFI, in consultation with ODNI and State, produced an informative report, except for section 241(a)(3).

Finding 1

Response to Section 241(a)(3) Lacks Detailed Analysis

Although Treasury provided a response to section 241(a)(3) that meets statutory requirements, its response could have been more detailed and informative. TFI's prioritization of the other four sections and a miscommunication between TFI personnel led to a gap in project management over section 241(a)(3) and ultimately left little time for Treasury employees with requisite knowledge and experience to provide a more detailed analysis.

Project management is defined as the application of knowledge, skills, tools, and techniques to project activities to meet project requirements. Project management incorporates processes such as initiating, planning, executing, controlling, and closing to ensure that the various elements of the project are properly coordinated and completed on time. Proper coordination of a project includes the development of a project plan and proper execution of that plan. Timely completion of a project depends on activity definition, schedule development, and schedule control. A project manager is responsible for all aspects of the project, including 1) developing the project management plan; 2) keeping the project on schedule and within budget; 3) identifying, monitoring, and responding to risk; and 4) providing accurate and timely reporting of project metrics. The project manager is the lead person responsible for communicating with all stakeholders, particularly the project sponsor and project team.

According to the Government Accountability Office's *Standards for Internal Control in the Federal Government*,⁹ management is responsible for developing an organizational structure with an understanding of the overall responsibilities. It assigns these responsibilities to discrete units to enable the organization to operate efficiently and effectively, comply with applicable laws and regulations, and reliably report quality information. As part of establishing an organizational structure, management must consider the entity's overall responsibilities to external stakeholders and also how units interact to fulfill their individual responsibilities. Management is also responsible for using quality information—meaning appropriate, current, complete, accurate, accessible, and timely—to achieve the entity's objectives.

CAATSA section 241(a)(3) requires the Secretary of the Treasury to submit an analysis on the exposure of key economic sectors of the United States to Russian politically exposed persons and parastatal entities, including, at a minimum, the banking, securities, insurance, and real estate sectors. Treasury's response to this section consists of five sentences, including one sentence for each of the four economic sectors specified in the act. Although each

⁹ The Government Accountability Office's *Standards for Internal Control in the Federal Government* (September 2014), also known as the Green Book and issued by the Comptroller General of the United States, provides the overall framework for establishing and maintaining an effective internal control system.

sentence makes reference to a specified economic sector, the analysis is lacking. The response offers qualitative terms with no defined thresholds and only vague qualifications about the ability to estimate possible effects. Unlike other sections of the report, draft and final versions of section 241(a)(3) do not contain any citations to support the information and analysis presented.

OIA was responsible for drafting most of the responses to section 241, however it is unclear what group within TFI was responsible for the response to section 241(a)(3). Assignments of responsibility were not documented and we received conflicting information about the responsibility for section 241(a)(3). We were told that OIA personnel determined that OIA could not respond to 241(a)(3), as officials were cautious in exercising their authorities to collect information on U.S. persons.¹⁰ Additionally, an OIA employee told us that OIA analysts do not have the expertise to complete a domestic economic analysis as their analytical focus, in their normal course of business, is outside of the United States. OIA employees and analysts told us that they raised this concern in meetings with TFFC and the Office of International Affairs (IA) early in the planning process, but they were unaware if or how this issue was being addressed. On December 22, 2017, OIA emailed a draft of its completed sections to the TFFC employee responsible for coordinating Treasury's response. In the attached draft, OIA left a placeholder for section 241(a)(3) and, in the body of the email addressed to the TFFC employee, identified OIA's inability to respond to the area as an open item. According to the TFFC employee, other sections of the report received higher priority during the drafting process, and the issue of OIA's inability to draft the section escaped his attention until it was raised one week before the report was due. However, the employee acknowledged that the issue may have been raised earlier.

Neither the TFFC employee nor OIA formally requested assistance from other Treasury offices with economic expertise, such as IA or the Office of Domestic Finance, to address section 241(a)(3) until January 23, 2018, less than a week before the report was due. An

¹⁰ Executive Order 12333 section 2.3 governs the collection of U.S. person information by intelligence community members. Pursuant to that Executive Order, OIA may intentionally collect (overtly or through publicly available sources) information about a U.S. person if the information sought is reasonably believed to be necessary for an authorized mission or OIA function, and if the information falls within one of the section 2.3 categories.

IA official told us that IA officials declined to complete the section with so little time left in the reporting process but did consult with TFFC on how to approach the response. However, OIA and TFFC employees told us that during the drafting process they informally discussed with IA that completing a response to section 241 (a)(3) was an open item. Ultimately, the TFFC employee assisting with the report's coordination, drafted a response to section 241(a)(3) on January 27, 2018, two days before the report was due to Congress.

The TFFC employee told us that the section 241(a)(3) response contained information compiled from open sources available on the Internet and not from any analytical body of work within Treasury. Treasury employees with economic expertise identified this section as a weak point in the report and told us it could have been more detailed.

We believe the gap in project management that resulted from TFI's prioritization of the other sections and a miscommunication between TFI personnel were significant factors in the response to section 241(a)(3) lacking detailed analysis. The section 241 reporting effort involved multiple TFI components and external agencies as well as several mid-project changes to component task assignments. Effective project planning is critical to control the project scope, schedule, quality, and deliverables. Treasury officials told us that tasks such as the section 241 report are not specifically and formally assigned, and each office understands which requirements would be within their purview. While a TFFC employee coordinated Treasury's overall response to section 241, each component was responsible for the management and completion of their respective sections. No individual was formally placed in a lead role for section 241 and given authority to assign tasks and coordinate activities or require status updates from different work groups. In many interviews with individuals responsible for drafting the report, we were told that it is common practice for various offices to collaborate on tasks and informally volunteer to meet requirements. OIA officials and analysts stated that it would have been helpful to have a centralized project manager for this report.

We recognize that time and resource constraints may have been a challenge in completing the section 241 report. Nevertheless, in

the absence of other informative sources of information it may limit policy and decision makers' understanding of the exposure of key economic sectors of the United States to Russian politically exposed persons and parastatal entities and may not provide the stakeholders with sufficient information to make key decisions and develop future legislation to help counter aggression by the Russian Federation. As such, we believe it is prudent for TFI to complete further analysis pursuant to section 241(a)(3) and consider submitting the more detailed information to the appropriate congressional committees.

Recommendation

We recommend that the Under Secretary for TFI ensures TFI, in responding to new legislation and ad hoc requests from stakeholders requiring coordination among multiple components, assigns a project manager.

Management Response

TFI management agrees with the recommendation and will continue its practice to assign, where appropriate, an employee with sufficient stature and authority to be responsible for overseeing and coordinating complex, multifaceted reports.

OIG Comment

Management's response meets the intent of our recommendation.

* * * * *

We appreciate the cooperation and courtesies extended to our staff during this audit. 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) 927-5400 or Greg Sullivan, Audit Director, at (202) 927-5369.

/s/

Deborah L. Harker
Assistant Inspector General for Audit

Appendix 1: Objective, Scope, and Methodology

Our audit objective was to determine whether the Office of Terrorism and Financial Intelligence (TFI) complied with section 241 of the Countering America's Adversaries Through Sanctions Act of 2017 (CAATSA). The audit scope included actions taken by TFI from July 1, 2017 through February 28, 2018, to meet the requirements of section 241, *Report on Oligarchs and Parastatal Entities of the Russian Federation*. We conducted our fieldwork at TFI component offices, the Office of the Director of National Intelligence, and U.S. Department of State offices located in Washington, D.C.

To accomplish our objective, we identified the requirements of CAATSA section 241 and other laws, regulations, and guidance associated with congressional reporting and intelligence activities, including:

- Public Law 115-44, Countering America's Adversaries Through Sanctions Act (August 2, 2017)
- GAO-14-704G, *Standards for Internal Control in the Federal Government* (September 2014)
- 31 U.S.C. 311, *Office of Intelligence and Analysis* (December 8, 2004)
- 31 U.S.C. 312, *Terrorism and Financial Intelligence* (May 29, 2015)
- Executive Order 12333, as amended, *United States Intelligence Activities* (July 30, 2008)
- Intelligence Community Directive 203, *Analytic Standards* (January 2, 2015)
- *Procedures for U.S. Department of the Treasury Intelligence Activities* (July 6, 2017)
- Treasury Order 109-01, *Authority for Congressional Relations Activities* (January 13, 1977)
- Treasury Order 113-02, *Legislative Procedures* (July 25, 1990)
- Project Management Institute, *A Guide to the Project Management Body of Knowledge, Sixth Edition* (2017).

Appendix 1: Objective, Scope, and Methodology

We reviewed the CAATSA report submitted to Congress and assessed compliance with the requirements of section 241. We reviewed CAATSA section 241 and determined whether all requirements were answered in the submitted report. We also considered interpretive definitions for terms in the report that were not defined in section 241.

To assess the completeness of the response to section 241 requirements, we used our professional judgment to determine whether the answers provided in the submitted report fully addressed the requirements for each subsection and provided quality information for both internal and external users per federal internal control standards.¹¹ We then corroborated our judgment with testimonial and documentary evidence.

We requested and reviewed documentation of the planning, drafting, review, and transmittal of the report pursuant to CAATSA section 241. This included a review of draft iterations and correspondence, which helped us to build a timeline of coordination activities undertaken during report development.

We interviewed Treasury management and staff involved in developing the section 241 CAATSA report, including staff from the Office of Terrorist Financing and Financial Crimes, Office of Intelligence and Analysis, Office of Foreign Assets Control, Office of Legislative Affairs, and Office of International Affairs. Because the report required the Secretary of the Treasury to coordinate with the Secretary of State and the Director of National Intelligence, we also interviewed officials from those agencies. During these interviews, we obtained an understanding of the division of reporting responsibilities and the coordination process that brought all efforts together in the final report. We also sought feedback from interviewees on their perceptions of the value, quality, and completeness of various report sections.

We performed our fieldwork during March through July 2018. This audit was performed concurrently with the Audit of TFI's Ukraine-/Russia-related Sanctions Program. Our conclusions on

¹¹ GAO-14-704G, *Standards for Internal Control in the Federal Government* (September 2014), Principle 13, *Use of Quality Information*

Appendix 1: Objective, Scope, and Methodology

TFI's compliance with the remaining Title 2 CAATSA sections will be included in a subsequent report.¹²

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 based on our audit objectives.

¹² Our overall assessment of TFI's compliance will include the remaining Title 2 sections of CAATSA, as delegated to the Treasury by the President, except sections 242 and 243. See appendix 2 for discussion of the sections of CAATSA.

Appendix 2: CAATSA Sections Delegated to Treasury

On September 29, 2017, the President delegated certain functions and authorities under the Countering America’s Adversaries Through Sanctions Act (CAATSA) of 2017. Table 1 summarizes, by section, those delegated to the Secretary of the Treasury. The scope of our second audit report will include all of the sections listed in Table 1, except 241–243.

Table 1. CAATSA Authorities and Functions Delegated to the Secretary of the Treasury

Section Number	Section Title	Delegated Authority¹³
216	<i>Congressional Review of Certain Actions Relating to Sanctions Imposed with Respect to the Russian Federation</i>	Department of the State (State) and Department of the Treasury (Treasury)
222(b)	<i>Codification of Sanctions Relating to the Russian Federation</i>	Treasury in consultation with State
223	<i>Modification of Implementation of Executive Order 13662</i>	Treasury
224(a) and (b)(1)	<i>Imposition of Sanctions with Respect to Activities of the Russian Federation Undermining Cybersecurity</i>	Treasury in consultation with State
226	<i>Imposition of Sanctions with Respect to Russian and Other Foreign Financial Institutions</i>	Treasury in consultation with State
227	<i>Mandatory Imposition of Sanctions with Respect to Significant Corruption in the Russian Federation</i>	Treasury in consultation with State
228	<i>Mandatory Imposition of Sanctions with Respect to Certain Transactions with Foreign Sanctions Evaders and Serious Human Rights Abusers in the Russian Federation</i> (amended sections 10(a)–(c) and (e) and 11(a), (b)(1), (d), and (e) of the Support for the Sovereignty, Integrity, Democracy, and Economic Stability of Ukraine Act of 2014)	Treasury in consultation with State

¹³ The President of the United States delegated the functions and authorities under CAATSA for each section to agency heads listed in appendix 2. For Treasury and State, delegation was to the Secretary of each agency and for ODNI, delegation was to the Director.

Appendix 2: CAATSA Sections Delegated to Treasury

229 (b)	<i>Notifications to Congress Under Ukraine Freedom Support Act of 2014</i>	Treasury in consultation with State
230	<i>Standards for Termination of Certain Sanctions with Respect to the Russian Federation</i>	Treasury in consultation with State
233 (a)	<i>Sanctions with Respect to Investment in or Facilitation of Privatization of State-owned Assets by the Russian Federation</i>	Treasury in consultation with State
234 (b)(1)	<i>Sanctions with Respect to the Transfer of Arms and Related Materiel to Syria</i>	Treasury in consultation with State
241	<i>Report on Oligarchs and Parastatal Entities of the Russian Federation</i>	Treasury in consultation with the Office of the Director of National Intelligence (ODNI) and State
242 ¹⁴	<i>Report on Effects of Expanding Sanctions to Include Sovereign Debt and Derivative Products</i>	Treasury in consultation with ODNI and State
243 ¹⁵	<i>Report on Illicit Finance Relating to the Russian Federation</i>	Treasury in consultation with ODNI and State

Sources: *Delegation of Certain Functions and Authorities under the Countering America's Adversaries Through Sanctions Act of 2017, the Ukraine Freedom Support Act of 2014, and the Support for the Sovereignty and Integrity, Democracy, and Economic Stability of Ukraine Act of 2014 and OFAC Cheat Sheet—Russian Sanctions-Related Authorities in CAATSA*

¹⁴ The section 242 report was submitted by International Affairs, which does not fall under TFI. As our audit pertains to TFI's compliance with applicable laws and regulations, this section is outside of our audit scope.

¹⁵ The section 243 report is an annual report to be filed through 2021. The first such report was issued on August 6, 2018. Because our overall assessment of TFI's compliance with applicable laws and regulations includes actions taken from July 1, 2017 through April 20, 2018, this report is outside of our audit scope.

Appendix 3: Management Response



UNDER SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

December 19, 2018

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL DEBORAH L. HARKER

FROM: Sigal P. Mandelker
Under Secretary
Office of Terrorism and Financial Intelligence

SUBJECT: Management Response to the Audit of the Office of Terrorism and Financial Intelligence's Report on Section 241 of the Countering America's Adversaries Through Sanctions Act

Thank you for providing the Office of Terrorism and Financial Intelligence (TFI) with an opportunity to review the Office of the Inspector General's (OIG) formal draft audit report on TFI's report on Section 241 of the Countering America's Adversaries Through Sanctions Act (CAATSA). TFI is committed to complying fully with Congressional reporting provisions, including by providing informative and responsive submissions to Congress pursuant to legislative directives such as Section 241.

TFI prides itself on the high quality and timely submission of the large number of Congressional reports for which it is responsible, and devotes considerable resources to their preparation despite the relatively small number of personnel available. In 2018 alone, TFI has been responsible for more than 100 such reports. We thus greatly appreciate OIG's finding that TFI's report pursuant to Section 241 complies with the requirements in Section 241 and the recognition of the "great undertaking" that the Section 241 report represents, including the more than 2,500 hours it took for interagency components to draft.

We agree with the OIG's finding that subsection 241(a)(3) met all statutory requirements. TFI concurs with the recommendation that project management should minimize miscommunications that are likely to arise when implementing a complex and novel statutory scheme. Accordingly, TFI will continue to assign as appropriate an employee with sufficient stature and authority to be responsible for overseeing and coordinating complex, multifaceted reports such as Section 241. In the case of CAATSA, in fact, a senior TFI employee extensively tracked and managed Treasury's implementation of all three titles across the entirety of CAATSA, including this report.

With regards to the OIG's observation that time and resource constraints may have been a challenge in completing the Section 241(a)(3) report, TFI notes that the team who drafted the Section 241 report was also involved in discharging other national security missions of TFI, to include implementing all three titles of CAATSA. Among the other statutory responsibilities with deadlines within the 180-day period following CAATSA's passage were thirteen separate provisions in the three titles of CAATSA for which Treasury served as the lead agency. In addition to the CAATSA Section 241 report, these included modifying three directives imposing

Appendix 3: Management Response



UNDER SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

sanctions on Russia's energy and financial services sectors; reviewing potential sanctions against foreign financial institutions facilitating transactions on behalf of designated Russian persons; identifying targets involved in illicit cyber activities; imposing terrorism-related sanctions on Iran's Islamic Revolutionary Guard Corps; drafting a report on persons involved in Iran's ballistic missile program; addressing regulatory provisions with respect to sanctions on North Korea; and providing a briefing on persons providing financial messaging services to North Korea. In addition to our myriad other responsibilities, Treasury played a formal consultative role for an additional seven provisions for which other U.S. government agencies were the lead and informal role in a number of others. These responsibilities were on top of an already unprecedented workload implementing existing authorities as the Administration sought to impose maximum economic pressure on North Korea, confront Iran's malign activities, respond to Russian aggression, and counter illicit financial activity the world over. Given the increasing reliance upon TFI's economic tools and authorities across this and other programs as well as the increasing volume of reporting requirements, TFI is repeatedly in the position of making judgements with respect to how we allocate our resources.

We appreciate OIG's role in providing oversight of and suggesting improvements to our programs and processes. TFI looks forward to continuing our close collaboration with your office in the future.

Appendix 3: Management Response

Recommendation: TFI agrees and will continue its practice to assign where appropriate an employee with sufficient stature and authority to be responsible for overseeing and coordinating complex, multifaceted reports.

Appendix 4: Major Contributors to This Report

Gregory Sullivan, Audit Director
Eileen Kao, Audit Manager
Justin Walker, Auditor-in-charge
John Snyder, Auditor
David Hash, Referencer

Appendix 5: Report Distribution

Department of the Treasury

- Deputy Secretary
- Office of Legislative Affairs
- Office of Strategic Planning and Performance Improvement
- Office of the Deputy Chief Financial Officer, Risk and Control Group

Office of Terrorism and Financial Intelligence

- Assistant Secretary for Terrorist Financing and Financial Crimes
- Assistant Secretary for Intelligence and Analysis

Office of Management and Budget

- OIG Budget Examiner

United States Senate

- Committee on Appropriations
- Committee on Banking, Housing, and Urban Affairs
- Committee on Foreign Relations
- Committee on Finance
- Committee on Homeland Security and Governmental Affairs
- Committee on Intelligence

U.S. House of Representatives

- Committee on Appropriations
- Committee on Financial Services
- Committee on Foreign Affairs
- Committee on Homeland Security
- Committee on Intelligence
- Committee on Oversight and Reform
- Committee on Ways and Means

This Page Intentionally Left Blank



REPORT WASTE, FRAUD, AND ABUSE

Treasury OIG Hotline: 1-800-359-3898
Hotline@oig.treas.gov

Gulf Coast Restoration Hotline: 1-855-584.GULF (4853)
gulfcoastrestorationhotline@oig.treas.gov

Access Treasury OIG reports and other information online:
www.treasury.gov/about/organizational-structure/ig