



Audit Report



OIG-18-043

TERRORIST FINANCING/MONEY LAUNDERING

OFAC's Licensing Program Would Benefit From System Enhancements

April 3, 2018

Office of
Inspector General

Department of the Treasury

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Abbreviations

CWD	Closed Without Determination
OASIS	OFAC Administrative System for Investigations and Sanctions
OFAC	Office of Foreign Assets Control
OIG	Office of Inspector General
SOP	Standard Operating Procedure
TFI	Office of Terrorism and Financial Intelligence
TSRA	Trade Sanctions Reform and Export Enhancement Act of 2000
Treasury	Department of the Treasury

*The Department of the Treasury
Office of Inspector General*

April 03, 2018

John E. Smith
Director
Office of Foreign Assets Control

This report presents the results of our audit of the Department of the Treasury's (Treasury) Office of Foreign Assets Control's (OFAC) licensing programs. OFAC is responsible for administering and enforcing economic and trade sanctions to support Treasury's Office of Terrorism and Financial Intelligence's (TFI) efforts in safeguarding the financial system against illicit use and combating rogue nations, terrorist facilitators, weapons of mass destruction proliferators, money launderers, drug kingpins, and other national security threats. In this regard, OFAC has the authority to authorize by license certain activities that would otherwise be prohibited under imposed sanctions.

Our audit objectives were to assess OFAC's licensing programs to determine 1) whether OFAC's licensing database sufficiently supports its licensing programs, 2) whether OFAC's license application case files properly documented that decisions were made in accordance with applicable laws and regulations, and 3) how OFAC measures the effectiveness of its licensing programs.

In 2011, we initiated an audit of OFAC's administration of its licensing programs. We held exit conferences with OFAC officials in August 2012 and May 2013 to discuss the audit's preliminary findings and recommendations. We were informed by OFAC officials that OFAC had made significant enhancements to both its licensing process and licensing database by creating the ability for applicants to submit all license applications electronically and implementing a new version of its licensing database. We conducted additional fieldwork from November 2016 through June 2017 to assess the impact these enhancements made on OFAC's administration of its licensing programs and conduct an updated

review of OFAC's licensing function. We also conducted subsequent follow-up through January 2018 to obtain the status of OFAC's licensing division's standard operating procedures. To accomplish our objectives, we reviewed relevant licensing program documentation and conducted interviews with OFAC officials involved in the licensing process. Appendix 1 contains a more detailed description of our audit objectives, scope, and methodology.

Results in Brief

During our initial fieldwork in 2011, we found that OFAC's licensing database, known as the OFAC Administrative System for Investigations and Sanctions (OASIS), did not meet the needs of OFAC's licensing division. We identified a number of issues which impeded the efficiency of OFAC's licensing process and impacted its ability to generate reports and track the status of license applications.

Following the onset of our initial fieldwork, OFAC upgraded OASIS and made enhancements to its licensing process by providing the capability to submit all license application documentation electronically. To assess the impact of these enhancements on OFAC's licensing programs, additional fieldwork was conducted in 2016 and 2017.

Our follow-up fieldwork found that OFAC improved its oversight capabilities of license applications, its ability to generate reports, and that OASIS met the needs of OFAC's licensing division but additional enhancements could improve the licensing division's oversight of OFAC's licensing programs.

Additionally, we found that OFAC properly documented licensing decisions with its use of determination letters, but was delinquent in providing Congress mandatory reports. Subsequent to completion of our fieldwork and prior to issuance of our report, OFAC provided Congress with 8 of the 9 outstanding reports and implemented a formal written standard operating procedure (SOP) across its licensing programs to ensure license applications are consistently processed and to improve the usefulness of the data collected, but additional guidance is needed.

We also found that although OFAC has internal performance metrics to evaluate the productivity of OFAC's licensing division personnel, it has not established performance measures to evaluate the effectiveness of its licensing programs.

Accordingly, we are making four recommendations to improve OFAC's licensing programs. We recommend that the Director of OFAC (1) implement additional categories for case status and consider future enhancements to OASIS to improve the usability and quality of information stored in the system within the next year; (2) ensure the licensing division's written SOP is updated as needed including providing guidance to ensure that both acknowledgement letters are completed and Trade Sanctions Reform and Export Enhancement Act of 2000 (TSRA) reports are filed timely; (3) ensure the delinquent TSRA report is provided to Congress within 90 days of this report's issuance; and (4) develop performance measures specific to the licensing division.

In its response, which is included in its entirety as appendix 2, OFAC management generally agreed with our recommendations and has taken action to implement the recommendations. Management stated it has funded and scheduled a 2018 OASIS licensing module enhancement release. The enhancement will increase the case status categories and improve overall licensing data quality and usability. Additionally, OFAC plans to provide Congress the remaining overdue TSRA biennial report within 90 days and has updated its SOP to ensure that future congressional reports are filed in a timely manner. Also, management is currently updating its strategic plan for fiscal years 2018-2023. The updated plan will address the issues raised in this audit.

We consider management's actions taken and planned responsive to our recommendations. Management will need to record its planned and completed corrective actions in the Joint Audit Management Enterprise System, Treasury's audit recommendation tracking system.

Background

OFAC's Responsibilities and Authority

OFAC is responsible for administering and enforcing economic and trade sanctions against countries and groups of individuals based on U.S. foreign policy and national security goals. OFAC acts under the authority of presidential national emergency powers, as well as authority granted by specific legislation, to impose controls on transactions and freeze assets under U.S. jurisdiction.

The sanctions programs administered by OFAC seek to disrupt the financial and commercial networks of terrorists, narcotics traffickers, and proliferators of weapons of mass destruction, among others by publicly identifying the leadership, participants, and network of illicit organizations, thus denying them access to the U.S. and international financial systems.

OFAC's Licensing Programs

OFAC has the authority to license transactions that would otherwise be prohibited under sanctions programs. A license is either a general license or a specific license. A general license authorizes a particular type of transaction without the need to apply, and a specific license is issued to a particular person or entity and authorizes a certain transaction in response to a written license application. OFAC's licensing division reviews license applications for specific licenses on a case-by-case basis and issues or denies specific licenses based on U.S. foreign policy.

OASIS is a customized intranet-based repository in which OFAC licensing division personnel can enter, review, track and report on individual license application cases. OASIS captures and stores data and correspondence related to license application cases, including requests for new licenses, license amendments, and requests for interpretative guidance.¹ Once a case has been

¹ A request for interpretive guidance is an inquiry submitted to OFAC to provide an explanation regarding OFAC sanctions. An interpretive guidance can be used to explain how OFAC interprets and applies elements of the sanctions regulations, a policy position applicable to a particular sanctions program or activity, or OFAC practices and procedures.

created, OASIS tracks the status of the case through the vetting and review process.

OASIS Enhancement and Electronic License Application Processing

In 2011, OFAC began a system development effort to better manage licensing information for all sanctions programs. The goal of the project was to provide OFAC with an integrated, largely paperless database that would allow OFAC to better collect and manage information, conduct analysis, and improve operational efficiency. In 2012, OFAC implemented a new version of OASIS that, among other things, was aimed to improve oversight on the licensing programs. Additionally, in April 2013, in an effort to streamline its license processing procedures, OFAC provided applicants the capability of electronically submitting all applications for licenses, license amendments, and requests for interpretive guidance.

Audit Results

Finding 1 OASIS Sufficiently Supports the Licensing Programs and Enhancements Should Continue

During our initial fieldwork in 2011, we found that OASIS did not meet the needs of OFAC's licensing division. We identified a number of issues which impeded the efficiency of OFAC's licensing process and impacted its ability to generate reports and track the status of license applications.

During our most recent fieldwork, we found that OFAC upgraded OASIS and improved its licensing process by implementing electronic filing of license applications across all licensing programs. OFAC improved its oversight capability of license applications and its ability to generate reports, and ensured that OASIS met the needs of OFAC's licensing division. Additionally, OFAC officials stated that they planned to continue to make enhancements to OASIS to improve the licensing process.

The Government Accountability Office's "Standards for Internal Control in the Federal Government" states that management should design the entity's information system to obtain and process

information to meet the information requirements of each operational process, and to respond to the entity's objectives and risks.² Accordingly, OASIS should be designed to support the proper issuance of licenses in a timely manner.

Before Enhancements OASIS Did Not Adequately Support OFAC's Licensing Programs

During our initial fieldwork in 2011, we found that OASIS had limited capability in generating reports, providing timely information, accurately tracking the status of license application cases, and providing effective document control of license application case files. Additionally, during the initial fieldwork, we found a significant amount of duplicate license application cases as well as inaccurate data in OASIS. These issues hindered efficiency in processing the license applications. OFAC's licensing division personnel relied on multiple systems to perform their duties and they were unable to produce mandated reports timely. There was limited assurance that statistical reports captured complete, reliable, and timely information.

Improvements Made To OFAC's Licensing Process and OASIS

Following the onset of our initial fieldwork, OFAC upgraded OASIS and made enhancements to its licensing process. In 2012, OFAC implemented a new version of OASIS. The OASIS upgrade was intended to improve the efficiency of the licensing process through improved tracking and monitoring of licensing data. In 2013, OFAC provided the capability to electronically submit all license applications and supporting documentation which are uploaded into OASIS.³

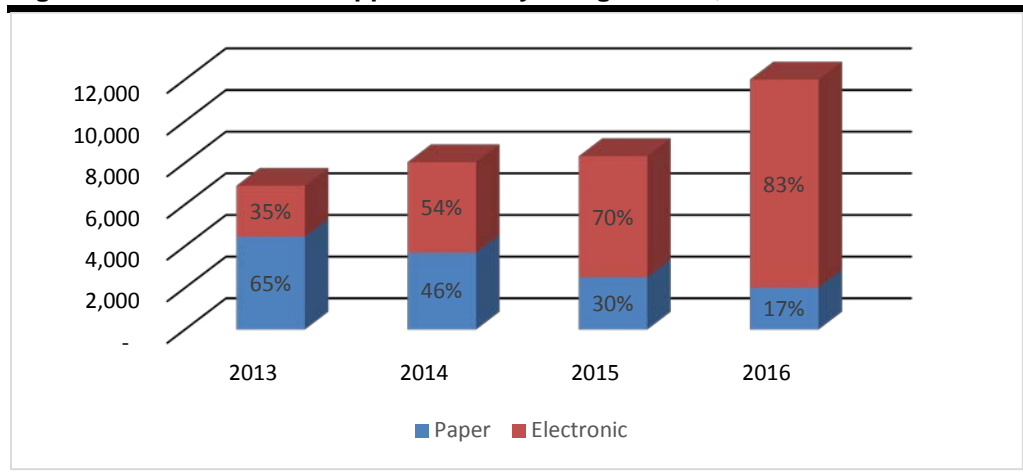
² Government Accountability Office, "Standards for Internal Control in the Federal Government" (September 2014).

³ According to 31 CFR part 501.801, original signed applications for specific licenses must be filed by mail or courier unless otherwise authorized. Prior to April 2013, only TSRA license applications were accepted online. A TSRA license is a specific license that provides authorization for a U.S. company to export certain items such as agricultural commodities, medicine, and medical devices to sanctioned countries.

In our follow-up fieldwork, we interviewed OFAC licensing division officials responsible for all licensing programs.⁴ All licensing division officials stated that OASIS met the needs of OFAC’s licensing division and that license processing is more efficient.

Figure 1 provides the totals for paper and electronic license applications submitted to OFAC since the capability to submit license applications electronically was available for all licensing programs. The figure displays that the number of license applications received by OFAC increased from approximately 7,000 to 12,000, or 71 percent, from fiscal years 2013 through fiscal year 2016. Similarly, there has been a continuous increase in the percentage of electronic license application submissions. Electronic license applications have risen from 35 percent of the total license applications received in 2013 to 83 percent of the total license applications received by OFAC in 2016.

Figure 1: Annual License Applications by Filing Method, From 2012-2016



Source: OIG review of OFAC’s historical analysis of license applications.

An OFAC official stated that before the advent of electronic filing, it would take up to 2 weeks for OFAC to scan paper applications into OASIS. For electronically-filed license applications, the applications are uploaded to OASIS and are directed to the responsible OFAC licensing division official. This allows the license application case to be assigned to OFAC personnel faster; and therefore, reduces the license review time.

⁴ During the scope of our review, OFAC was responsible for administering approximately 30 licensing programs.

Moreover, OFAC officials stated that electronic filing of license applications reduced the likelihood of having applications lost or misplaced when compared to issues that had been experienced with paper license applications.⁵ According to OFAC officials, paper applications could be misplaced or lost with turnover of OFAC's licensing division personnel. We were told that piles of paper license application cases were simply left by departing personnel on desks. The OFAC licensing staff reassigned to the license application case could not clearly understand the history and current status of the case by just reviewing the pile of paper documentation.

Additionally, OFAC officials stated that the electronic filing of license applications and upgrading of OASIS assisted in reducing the amount of duplicate license applications which should increase the reliability of statistical reporting and improve efficiency by avoiding the potential of duplication of effort.

OFAC officials stated that there is no way to prevent and eliminate duplicate applications completely because license applicants are capable of submitting multiple copies of applications. According to OFAC officials, improvements made to OASIS have made it easier to determine if a license application received is truly an initial request allowing OFAC personnel to take action to filter or void the duplicate license applications. Additionally, we were told that OFAC personnel educate license applicants that they do not have to submit a paper license application if they submit an application electronically which has also reduced duplicate license applications.

Our review confirmed that the percentage of duplicate applications in OASIS declined considerably since our initial fieldwork. We found that the percentage declined from nearly 10 percent to approximately 5 percent of the license applications received at OFAC.⁶

⁵ Paper license applications are submitted to OFAC through U.S. mail, by courier or facsimile.

⁶ In our 2011 fieldwork, we found that in 21,382 license applications received from January 1, 2008 through January 31, 2011, there were 2,115 duplicate applications, which was nearly 10 percent. In our most recent fieldwork, we found that in 27,142 license applications received from July 1, 2013 through July 31, 2016, there were 1,396 duplicate applications, which is approximately 5 percent.

Quality of License Application Data Was Improved

During our initial fieldwork, we found incorrect application information with 11 percent of the sample license applications obtained from OASIS. Incorrect application information included dates recorded in OASIS that did not match the dates recorded in correspondence files, inaccurate application statuses, and licensing determination information that differed from the case file documentation.

We found that the percentage of incorrect license application information had declined considerably from the time of our initial fieldwork. We found that 3 percent of the license applications in the follow-up fieldwork sample obtained from OASIS contained errors — far below the 11 percent found in our initial fieldwork. We believe this is indicative that OFAC had improved its processes which should positively impact the usefulness of OASIS data.

Data From OASIS was Unreliable for Reporting Purposes

Our initial fieldwork conducted prior to the OASIS upgrade found that OASIS was unreliable for generating reports due to the incorrect information and duplicate applications that were recorded in OASIS. We were also informed that OFAC personnel maintained system information outside of OASIS in order to track license applications.

According to OFAC officials, the upgraded OASIS is capable of providing reports that were not previously available. We found that OASIS was capable of tracking the status of license applications. The upgraded system identified the OFAC staff responsible for processing the license application, the license application history, and any referrals made to the United States Department of State for foreign policy guidance or to other OFAC departments for review. In addition, various reports could be generated from OASIS through its search and report functions, such as aging and turnaround time reports on license applications and quarterly or year-end reports. These reports assist in, among other things, evaluating the performance of OFAC's licensing division personnel.

In addition, in our initial fieldwork, we found that OFAC was delinquent in generating congressionally mandated TSRA reports.⁷ An OFAC senior official stated that user error when entering information into OASIS caused, among other issues, delays in providing Congress with mandated TSRA reports and with system upgrades made to OASIS, this was no longer an issue.

We found in our most recent fieldwork, however, that OFAC was still delinquent in providing the TSRA reports to Congress. According to OFAC, these reports were not submitted because new personnel did not know that these TSRA reports were required to be submitted to Congress. Subsequent to completion of our fieldwork and prior to issuance of our report, OFAC provided Congress with 8 of the 9 outstanding reports and was working to submit the overdue TSRA report.⁸

Other Improvements Are Planned

OFAC officials stated that the licensing division works with OFAC's Information Technology department to resolve issues, and to make requests for enhancements to improve the usability of OASIS. These are then prioritized and implemented when possible. For example, an OFAC official stated that one enhancement request, which is awaiting implementation, was to increase the categories for case status to show more detail, such as "post-supervisory review" and "post-Counsel review". The OFAC official explained that this would provide better oversight and allow licensing division personnel to better identify the case status with additional categories to describe the status of a license application case.

⁷ Under 22 U.S.C. §7205(b) and (c), State Sponsors of International Terrorism, the applicable department or agency shall submit to Congress on a quarterly basis a report of activities undertaken under TSRA as well as a report biennially covering the operation of the licensing system under TSRA for the preceding 2-year period.

⁸ OFAC has provided Congress with the TSRA 2016 and 2017 fiscal quarterly reports but has not provided Congress with the TSRA biennial 2014 through 2016 fiscal report.

Recommendations

We recommend that the Director of OFAC:

1. Implement additional categories for case status and consider future enhancements to OASIS to improve the usability and quality of information stored in the system within the next year.

Management Comments

OFAC management generally agreed with this recommendation and has taken action to implement the recommendation. According to OFAC, an OASIS licensing module enhancement has been funded and is scheduled to be completed by the end of 2018. The enhancement will increase the case status categories and improve overall licensing data quality and usability. In addition, OFAC will continue to regularly update OASIS to improve usability based on OFAC's licensing division feedback.

OIG Comment

OFAC's actions meet the intent of our recommendation.

2. Ensure the delinquent TSRA reports are provided to Congress within 90 days of this report being issued.

Management Comments

OFAC management generally agreed with this recommendation and has taken actions to implement the recommendation. OFAC has provided Congress the eight outstanding TSRA quarterly reports and plans to provide Congress the remaining overdue TSRA biennial 2014-2016 fiscal year report within 90 days.

OIG Comment

OFAC's actions meet the intent of our recommendation.

Finding 2

OFAC Properly Documented Decisions But Written Standard Operating Procedures Can Be Improved

We found in our most recent fieldwork that OFAC properly documented licensing decisions with its use of determination letters. We also found, subsequent to our fieldwork and prior to issuance of our report, that OFAC implemented a formal written SOP across its licensing programs to ensure license applications are consistently processed and to improve the usefulness of the data collected; however, we found the SOP could be improved.

OFAC Documented Licensing Decisions

In our sample of 151 closed license application cases, we found that OFAC had properly documented licensing decisions through the use of a determination letter. Determination letters are used to notify applicants of OFAC's licensing decisions. The determination letter may be an approved license, a license amendment, a denial letter, an interpretive letter, a general license guidance letter, or a return-without-action letter.⁹ We found that OFAC cited related laws or regulations as part of OFAC's approval or denial of an applicant's licensing request in its determination letter, and we determined this to be sufficient documentation of the licensing decision rendered.

OFAC Implemented Written Procedures

During our audit we found that OFAC still had not established formal written SOPs across its licensing programs for its licensing division personnel to follow when processing a license application. Previous OIG audit reports found that OFAC lacked written SOPs for its licensing programs and recommended OFAC establish written procedures which would strengthen the record-keeping, data-management, and processing procedures for the licensing programs.

⁹ OFAC issues return-without-action letters in cases when the license applicant could not provide sufficient information to OFAC within a set time frame to make a licensing determination or when OFAC determined it is not necessary for the applicant to obtain OFAC's permission to engage in the transaction.

All Treasury bureaus and offices are required to establish adequate and proper documentation of their functions, policy decisions, procedures, and essential transactions in a manner that promotes accountability and establishes a historical record.¹⁰ Documented procedures will provide OFAC staff with the necessary fundamental steps to ensure licenses are processed effectively, differences in staff experience and knowledge are minimized, and staff are properly developed.

According to OFAC officials, licensing division personnel were provided on-the-job training on how to process a license application in OASIS; however, they were not provided with specific written guidance on how to perform their work.

Several OFAC officials told us that SOPs are needed. At the time of our audit, we were also told that OFAC was in the process of developing written procedures with the purpose to provide guidance and improve consistency for license processing.

During our follow-up fieldwork, we found several incidents of inconsistencies in the licensing process which could be addressed through SOPs. For example, we found that OFAC did not have formal requirements for the type of documents that should be included in the OASIS license application case file. We were told by OFAC officials that the licensing officers strive to upload documents that are relevant to support licensing decisions and that part of the initial license application review process was to send an acknowledgement letter to the applicant.¹¹

The acknowledgement letter makes the applicant aware that OFAC has received the license application. Also, the applicant is provided a case number for reference if inquiries are made or additional information regarding the application is submitted to OFAC. In 16 percent of the license application case files we reviewed, we did not find evidence that an acknowledgment letter was sent to the

¹⁰ Treasury Directive 80-05, "Records and Information Management Program" (June 26, 2002).

¹¹ An acknowledgement letter could be in a form of an e-mail or regular letter sent through the U.S. mail.

applicant.¹² We believe that this could lead to duplicate license applications because if an acknowledgement letter is not received by the applicant, the applicant would not know if OFAC received the application and would possibly resubmit an application.

Furthermore, there were license application cases that were closed and recorded in OASIS using the determination code “Closed without Determination” (CWD). OFAC senior officials stated that the CWD code was seldom used and only used in instances when OFAC could not obtain a response from the applicant. We found that approximately 10 percent of all license application case files from July 2013 through July 2016 were marked with CWD.¹³

Based on our review of the 151 closed license application cases, there were 17 cases marked with CWD and only 3 of these were strictly non-responses of the applicants. In addition to this reason for coding CWD, we found instances in which CWD was applied to cases that were not feasible for OFAC to issue the license within the applicant’s proposed time frame or when OFAC licensing division personnel verbally communicated that a specific license was not necessary.

At the time of our audit, OFAC was working on developing the licensing division’s SOP to provide guidance for the processing of license applications. In January 2018, OFAC provided its new licensing division’s SOP. We believe the SOP, if followed, will provide the methodology needed to process license applications consistently and improve the quality and usefulness of OASIS data. Following the SOP should also reduce the instances where license application cases are inaccurately closed and recorded in OASIS using the determination code of CWD. However, we also believe that the SOP could be improved and include guidance to ensure acknowledgment letters are completed and TSRA reports are filed timely.

¹² There were a total of 24 from the sample of 151 (or 16 percent) license application case files that did not contain evidence that an acknowledgement letter was sent to the applicant. See appendix 1 for additional detail on our sampling methodology.

¹³ There were a total of 2,253 license applications coded as CWD out of our sample population of 22,489 or approximately 10 percent of all closed license applications.

Recommendation

We recommend that the Director of OFAC:

3. Ensure the licensing division's written SOP is updated as needed, including providing guidance to ensure that acknowledgement letters are completed and TSRA reports are filed timely.

Management Comments

OFAC management generally agreed with this recommendation and has taken action to implement the recommendation. According to OFAC, its SOP was amended to provide guidance to ensure that acknowledgement letters are completed and TSRA reports are filed in a timely manner.

OIG Comment

OFAC's action meet the intent of our recommendation.

Finding 3

OFAC Does Not Have Performance Measures for its Licensing Programs

OFAC has not established performance measures to evaluate the effectiveness of its licensing programs. Instead, it has internal performance metrics to evaluate OFAC licensing division personnel's productivity.

According to the Government Performance and Results Modernization Act of 2010, agencies need to 1) establish performance goals to define the level of performance to be achieved during the year in which the performance plan is submitted, and 2) establish performance indicators to measure and assess progress toward each agency's performance goal(s).¹⁴

Our review of TFI performance measures in Treasury's Strategic Plan for fiscal years 2014 through 2017 and TFI's Strategic Plan

¹⁴ Public Law 111-352 (January 4, 2011).

for fiscal years 2016 through 2019 did not find any measures specific to evaluating OFAC's effectiveness of its licensing programs.¹⁵

According to OFAC officials, OFAC measures the performance or productivity of the licensing division personnel based on internal metrics; however, these are only used as benchmarks to manage OFAC's expectations on the productivity of the licensing division personnel. These internal metrics include the time for OFAC licensing division personnel to initiate action on a license application and provide an initial draft of licensing response to their supervisors. Also, the time for the licensing supervisor to review the license application case is measured.

According to OFAC officials, efficient and appropriate processing of licenses is a goal of OFAC's licensing division, but the pursuit of speedy processing is not the only goal. Another goal is to make quality licensing decisions which can take longer due to legal and policy reasons. Additionally, we were told that the agency's resources necessary for the review and approval of license applications may be focused on other key functions that OFAC carries out which include formulating policy, reviewing and approving proposed new executive orders, developing administrative records supporting new designations, drafting regulations and regulatory amendments, taking enforcement actions, and providing compliance outreach.

We understand that OFAC has various responsibilities that compete for its resources and must balance its responsibilities effectively to achieve its mission of planning and execution of economic and trade sanctions in support of U.S. national security and foreign policy objectives. At the same time, we believe that establishing performance goals will improve the effectiveness, accountability and transparency of OFAC's licensing programs. For example, as stated previously in our report, OFAC officials told us that having electronic submissions of license applications had improved the quality of applications received and reduced processing time for license applications. However, performance measures were not available or used to substantiate this.

¹⁵ OFAC is an office within Treasury's TFI.

Recommendation

We recommend that the Director of OFAC:

4. Develop performance measures specific for the licensing division.

Management Comments

OFAC management generally agreed with this recommendation and has taken action to implement the recommendation. OFAC has a strategic plan in place that includes a performance measure for OFAC's Licensing Division. OFAC is currently updating its strategic plan for fiscal years 2018-2023 which will address the issues raised in this audit.

OIG Comment

OFAC's actions meet the intent of our recommendation.

* * * * *

We appreciate the cooperation and courtesies extended to our staff by OFAC personnel. If you have any questions, please contact me at (617) 223-8638 or Ken O'Loughlin, Audit Manager, at (617) 223-8624. Major contributors to this report are listed in appendix 3 and the distribution list for this report is included as appendix 4.

/s/

Sharon Torosian
Director, Manufacturing and Revenue

Our audit objectives were to assess the Office of Foreign Assets Control's (OFAC) licensing programs to determine 1) whether OFAC's licensing database sufficiently supports its licensing programs, 2) whether OFAC's license application case files properly documented that decisions were made in accordance with applicable laws and regulations, and 3) how OFAC measures the effectiveness of its licensing programs.

To accomplish our objectives, we interviewed OFAC's Deputy Director and Assistant Director for Licensing to follow up on the findings identified during our previous fieldwork for this audit and to gain an understanding of how OFAC currently administers its licensing programs. We also interviewed the supervisors from OFAC's Records Management and Licensing Division's Administrative Management, as well as licensing division officials to gain an understanding of the current procedures in place for the processing and documentation of license applications.

To determine whether licenses were granted in accordance with OFAC guidelines, during our 2011 fieldwork, we selected 452 license applications from the population of 21,382 applications received at OFAC from January 1, 2008 through January 31, 2011.

During our most recent fieldwork, to determine whether OFAC properly documented that its decisions were made in accordance with applicable laws and regulations, we selected a statistical sample of 151 license applications from the population of 22,469 applications where OFAC made a determination and the case was closed. The license application population was made up of those applications received at OFAC from July 1, 2013 through July 31, 2016 and for which OFAC made a determination by August 31, 2016. We selected this time frame to assess the enhancements OFAC had made to its licensing database, known as the OFAC Administrative System for Investigations and Sanctions, and the impact that electronic submissions of license applications had on OFAC's licensing programs. The sample size in our most recent fieldwork was statistically determined using a 95 percent confidence level, a 5 percent sample precision, and an 11 percent expected error rate. The error rate from our sample was 3 percent with a margin of error of plus or minus 2.7 percent.

We reviewed applicable laws, regulations, and government-wide guidance associated with OFAC's licensing programs. We also reviewed policies and procedures, and other applicable licensing program documentation provided by OFAC.

We performed our initial fieldwork from January 2011 through April 2012 and held exit conferences with OFAC officials in August 2012 and May 2013 to discuss the audit's preliminary findings and recommendations. To follow up on those findings and recommendations, we conducted additional fieldwork from November 2016 through June 2017, with subsequent follow-up through January 2018 to obtain the status of OFAC's licensing division's standard operating procedures.

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.

Appendix 2
Management Response



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 23, 2018

Sharon Torosian
Audit Director
Department of the Treasury
Office of Inspector General
408 Atlantic Avenue, Suite 330
Boston, MA 02110

Dear Ms. Torosian,

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 licensing programs. 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 generally agrees with the recommendations identified in the report and has already taken steps to implement the OIG's recommendations. Our position on each of the recommendations in the draft report is set out below.

As to **Finding 1** (page 4), the recommendations and our responses follow:

OIG Recommendation 1: Implement additional categories for case status and consider future enhancements to OASIS to improve the usability and quality of information stored in the system within the next year.

OFAC Response: OFAC has funded and scheduled a 2018 OASIS "Licensing module" minor enhancement release to address the recommended additional categories (Pending Internal Discussion, Post Supervisor Review, Post Interagency Review, Post Counsel Review) for case status and to take steps to improve overall Licensing data quality and usability. OFAC expects the enhancement to be completed by the end of 2018. In addition, OFAC will continue to regularly update OASIS to improve usability based on feedback from the Licensing Division.

OIG Recommendation 2: Ensure the delinquent TSRA reports are provided to Congress within 90 days of this report being issued.

OFAC Response: OFAC has provided all eight outstanding quarterly reports to Congress and only one report remains outstanding. As required by section 7205 of TSRA, OFAC has filed a request for public comments on the effectiveness of its TSRA licensing program with the Federal Register and must afford a 30-day public comment period following the date of publication. At the close of this period, OFAC will review comments received and incorporate them into the final report. OFAC intends to complete and submit the remaining overdue TSRA report (the biennial 2014-2016 fiscal year report) to Congress within 90 days. In addition, OFAC has

Appendix 2
Management Response

updated its Licensing Standard Operating Procedures (SOP) to ensure that future congressional reports are filed in a timely manner.

As to **Finding 2** (page 10), the recommendation and our response follows:

OIG Recommendation 3: Ensure the Licensing Division's written SOP is updated as needed, including providing guidance to ensure that acknowledgment letters are completed and TSRA reports are filed timely.

OFAC Response: OFAC has amended the SOP to account for the issuance of acknowledgment letters when appropriate or necessary and to ensure that congressional reports are filed in a timely manner.

As to **Finding 3** (page 13), the recommendation and our response follows:

OIG Recommendation 4: Develop performance measures specific for the Licensing Division.

OFAC Response: OFAC has had a strategic plan in place that includes a performance measure for OFAC's Licensing Division. The plan was finalized in 2010 and is currently being updated for fiscal years 2018-2023 and will address the issues raised in this audit.

Thank you for the opportunity to review the draft report. We always appreciate your role in providing appropriate oversight and we look forward to continuing to work with your office in the future.

Sincerely,

/s/

John E. Smith
Director
Office of Foreign Assets Control

Appendix 3
Major Contributors to This Report

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The 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 Foreign Assets Control

Director

Office of Management and Budget

OIG Budget Examiner

U.S. Senate

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

U.S. House of Representatives

Committee on Appropriations
Committee on Financial Services
Committee on Foreign Affairs
Committee on Oversight and Government Reform

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