



September 28, 2017

Congressional Requesters

Iran Sanctions: U.S. Agencies Continue to Implement Processes for Identifying Potentially Sanctionable Entities

Iran's efforts to develop a nuclear weapons program have threatened regional and global security and presented significant challenges to the United States. In response to these and other actions, the United States and other nations imposed sanctions on Iran that have adversely affected the Iranian economy. In July 2015, multilateral talks with Iran culminated in the Joint Comprehensive Plan of Action (JCPOA), in which the United States and several other countries agreed to ease certain sanctions on Iran in exchange for Iran's commitment to limit its nuclear program as detailed in JCPOA. Also in July 2015, the United Nations called upon Iran not to undertake any activity related to ballistic missiles designed to be capable of delivering nuclear weapons—including launches using such ballistic missile technology—until 8 years after October 18, 2015.¹ On January 16, 2016—JCPOA's Implementation Day (Implementation Day)—the International Atomic Energy Agency verified that Iran had implemented certain commitments under JCPOA. Also on that day, U.S., European Union, and United Nations nuclear-related sanctions on Iran specified in JCPOA were lifted, but U.S. sanctions on ballistic missile procurement and transfers—including those that can be imposed pursuant to Executive Orders (EO) 12938 and 13382 and the Iran, North Korea, and Syria Nonproliferation Act (INKSNA)—were not.² The Departments of State (State) and the Treasury (Treasury) implement and enforce U.S. sanctions on Iran. In 2015, we reported on State's and Treasury's processes for imposing sanctions on entities involved in activities related to ballistic missiles.³

¹S.C. Res. 2231, U.N. Doc. S/RES/2231 (July 20, 2015). This provision applies until the earlier of 8 years from the JCPOA Adoption Day (October 2015) or until the date the International Atomic Energy Agency submits a report confirming the Broader Conclusion that for a given year all nuclear material in Iran remained in peaceful activities.

²Exec. Order No. 13,382, 70 Fed. Reg. 38,567 (June 28, 2005), *reprinted as amended in* 50 U.S.C. § 1701 note; Exec. Order No. 12,938, 59 Fed. Reg. 59,099 (Nov. 14, 1994), *reprinted as amended in* 50 U.S.C. § 1701 note; and Iran, North Korea, and Syria Nonproliferation Act, Pub. L. No. 106-178, §§ 1-7, 114 Stat. 38 (Mar. 14, 2000), *codified as amended at* 50 U.S.C. § 1701 note (this law was originally enacted as the Iran Nonproliferation Act of 2000; Syria was added to the act by the Iran Nonproliferation Amendments Act of 2005, Pub. L. No. 109-112, § 4, 119 Stat. 2366, 2369 (Nov. 22, 2005); and North Korea was added by the North Korea Nonproliferation Act of 2006, Pub. L. No. 109-2353, 120 Stat. 2015 (Oct. 13, 2006)).

³GAO, *Nonproliferation: State Should Minimize Reporting Delays That May Affect Sanctions on Trade with Iran, North Korea, and Syria*, [GAO-15-519](#) (Washington, D.C.: May 22, 2015) and *North Korea Sanctions: United States Has Increased Flexibility to Impose Sanctions, but United Nations Is Impeded by a Lack of Member State Reports*, [GAO-15-485](#) (Washington, D.C.: May 13, 2015).

In response to a congressional request, we reviewed State's and Treasury's processes for identifying such entities. Specifically, we examined (1) the extent to which State and Treasury have continued to implement, since January 2016, the executive branch process for identifying (a) entities that are potentially sanctionable under the provisions of EOs 12938 and 13382 for engaging in activities with Iranian sectors connected to space launch vehicles and missiles capable of delivering nuclear weapons, and (b) entities sanctioned since January 2016 under these EOs for such activities; and (2) the extent to which State has continued to implement, since January 2016, the executive branch process for identifying (a) entities that are potentially sanctionable under the provisions of INKSNA for engaging in activities with Iranian sectors connected to space launch vehicles and missiles capable of delivering nuclear weapons, and (b) entities sanctioned since January 2016 under the provisions of INKSNA for such activities.

To review the executive branch process for EO sanctions, we analyzed documents and interviewed officials from State, Treasury, and the intelligence community. We reviewed with them the process depicted in our 2015 report that addressed the EO sanctions process and the status of the process after JCPOA's Implementation Day. To review the executive branch process for INKSNA sanctions, we analyzed documents and interviewed officials from State and the intelligence community. We reviewed with them the process as depicted in our 2015 INKSNA report and the status of the process after JCPOA's Implementation Day. To identify entities sanctioned under the EOs and INKSNA for supporting Iran's ballistic missile program, we analyzed publicly available documents, including State and Treasury documents, and interviewed State and Treasury officials.

We conducted this performance audit from November 2016 to September 2017 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.

Background

Generally, EOs 12938 and 13382 target individuals and entities that conduct specific activities related to the proliferation of weapons of mass destruction (WMD) or their means of delivery (including missiles capable of delivering such weapons).⁴ According to Treasury, such items may include space launch vehicles that use technologies that are closely related to those of ballistic missiles. INKSNA targets transfers to, or acquisitions from, Iran, North Korea, or Syria of certain WMD or conventional or missile-related items.

⁴With respect to sanctions against foreign persons, EO 12938 authorizes State to impose sanctions when it determines, in consultation with Treasury, that the person has engaged, or attempted to engage, in activities or transactions that have materially contributed to, or pose a risk of materially contributing to, the proliferation of weapons of mass destruction or their means of delivery (including missiles capable of delivering such weapons). Under EO 13382, these sanctions determinations are led by State, in consultation with Treasury, the Attorney General, and other relevant agencies. Furthermore, EO 13382 authorizes Treasury to impose sanctions after Treasury determines, in consultation with State, the Attorney General, and other relevant agencies, (1) that a person has provided, or attempted to provide, support for sanctionable activities detailed in the order or any person whose property and interest in property is blocked pursuant to this order; or (2) that a person is owned or controlled by, or acting or purporting to act for or on behalf of, directly or indirectly, any person whose property and interests in property are blocked pursuant to this order.

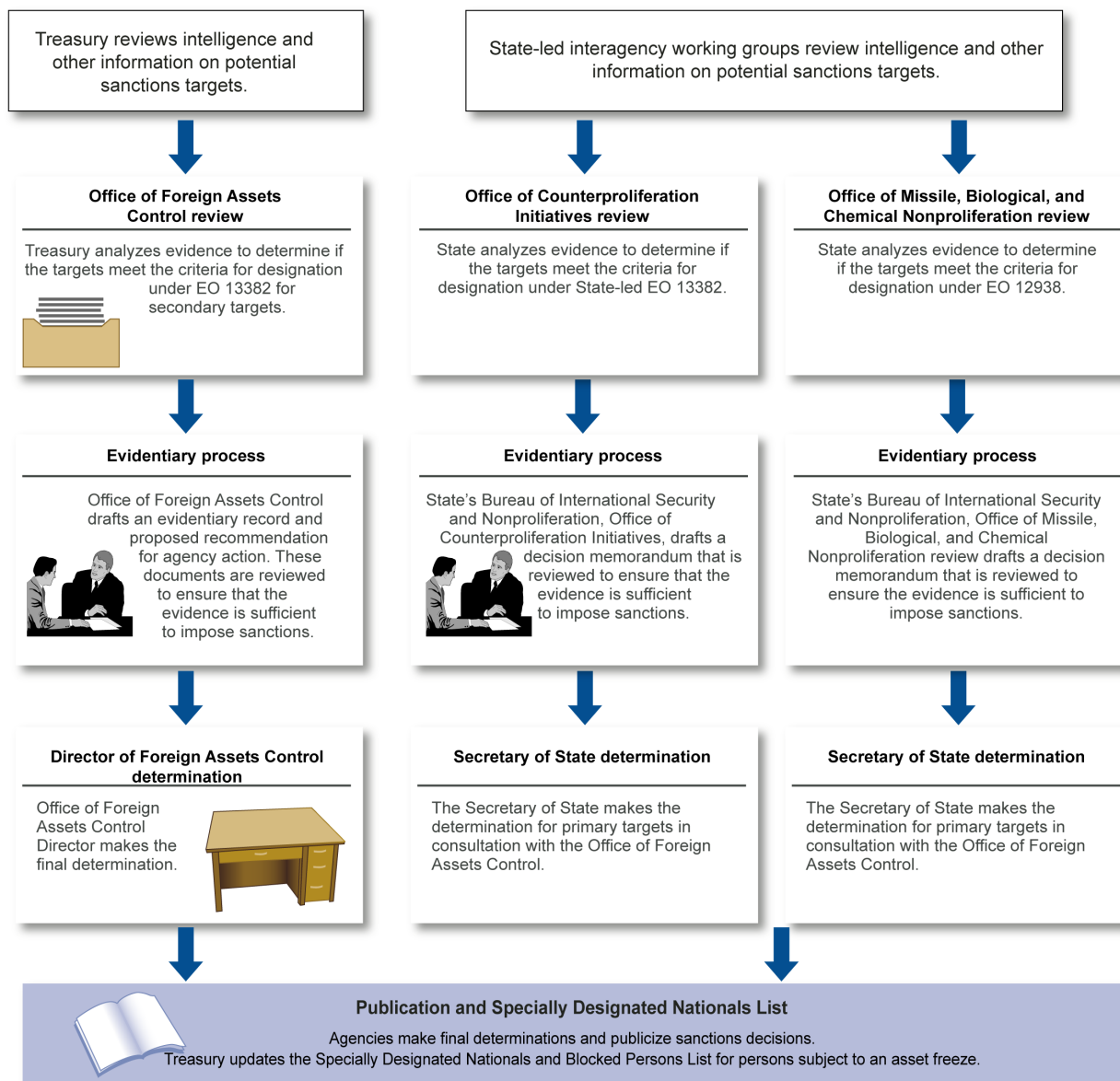
Space launch vehicles are missiles that are used to launch items from Earth's surface into outer space and can be used to test technologies that are nearly identical to and interchangeable with ballistic missiles. In a 1999 testimony before the Senate Foreign Relations Committee, a representative of the Central Intelligence Agency stated that countries practice deception by testing ballistic missiles, which can carry weapons of mass destruction, as space launch vehicles.

Pursuant to EO 13382, a sanctions determination by State will result in the blocking of property and interests in property in the United States of the person or entity that is determined to have conducted activities specified in the order. As authorized by EO 12938 and INKSNA, a determination to impose sanctions under either of those authorities can result in sanctions such as a prohibition on U.S. government procurement of goods or services from the person or entity determined to have conducted activities specified in the order or law.

State and Treasury Have Continued to Implement Their Process for Identifying Sanctionable Entities under EOs 12938 and 13382 and Have Imposed Sanctions on Individuals and Entities Pursuant to EO 13382

Since JCPOA's Implementation Day in January 2016, State and Treasury have continued to implement their process for imposing sanctions under EOs 12938 and 13382. According to Treasury and State, the agencies designated 33 entities and 25 individuals for the application of sanctions pursuant to EO 13382. State and Treasury impose sanctions following an interagency process that involves reviewing intelligence and other information to develop evidence needed to meet standards set by U.S. laws and executive orders, vetting possible actions within the U.S. government, determining whether and when to sanction, and announcing sanctions decisions. Figure 1 shows the process that State and Treasury use to impose sanctions on entities under EOs 12938 and 13382.

Figure 1: Process that State and Treasury Use to Impose Sanctions on Entities under Executive Orders (EO) 12938 and 13382



Source: GAO analysis based on interviews with officials from the Departments of State (State) and the Treasury (Treasury). | GAO-17-779R

According to the Office of the Director of National Intelligence (ODNI), ODNI facilitates coordination between intelligence community agencies and advocates for collection and analysis tools that inform the designation process for EOs 12938 and 13382. ODNI has continued to support State and Treasury in this manner since the implementation of JCPOA.

According to State and Treasury officials and press releases, State and Treasury have designated the following individuals and entities for sanctions since Implementation Day:

- In January 2016, Treasury designated eight individuals and three entities pursuant to EO 13382 for procurement on behalf of Iran’s ballistic missile program. These entities included a United Arab Emirates company and its network of United Arab Emirates and Chinese-based companies and individuals who were involved in procuring goods for Iran’s ballistic missiles program.⁵
- In March 2016, Treasury designated two Iran-based entities directly involved with Iran’s ballistic missile program, and updated the entry on the Office for Foreign Assets Control’s Specially Designated Nationals and Blocked Persons List for an entity that, according to Treasury, exercises operational control over Iran’s ballistic missiles.⁶
- In February 2017, Treasury designated nine individuals and eight entities pursuant to EO 13382, which, according to Treasury’s press release, included networks and supporters of Iran’s ballistic missile procurement, individuals and entities in an Iran- and China-based network, an Iranian procurement company and its Persian Gulf-based network, and individuals and entities connected to a United Arab Emirates company.⁷
- In May 2017, Treasury designated three individuals and four entities pursuant to EO 13382 in connection with Iran’s ballistic missile program; according to Treasury’s press release, these included senior Iranian defense officials, a China-based network that is supporting Iran’s military by supplying millions of dollars’ worth of missile-applicable items, and an Iran-based entity that is assisting Iran’s ballistic missiles program.⁸
- On July 18, 2017, Treasury designated five individuals and seven entities pursuant to EO 13382 for engaging in activities in support of Iran’s military or the Islamic Revolutionary Guard Corps.⁹
- On July 18, 2017, State designated two entities involved in Iran’s ballistic missiles program, pursuant to EO 13382.¹⁰
- On July 28, 2017, Treasury designated six Iran-based entities pursuant to EO 13382 following Iran’s July 27, 2017, launch of its Simorgh Space Launch Vehicle. According to Treasury, this vehicle uses technologies that are clearly related to those of an intercontinental ballistic missile.¹¹

⁵See Treasury press release: <https://www.treasury.gov/press-center/press-releases/Pages/jl0322.aspx>

⁶See Treasury press release: <https://www.treasury.gov/press-center/press-releases/Pages/jl0395.aspx>

⁷See Treasury press release: <https://www.treasury.gov/press-center/press-releases/Pages/as0004.aspx>

⁸See Treasury press release: <https://www.treasury.gov/press-center/press-releases/Pages/sm0088.aspx>

⁹See Treasury press release: <https://www.treasury.gov/press-center/press-releases/Pages/sm0125.aspx>

¹⁰See State press release: <https://www.state.gov/r/pa/prs/ps/2017/07/272635.htm>

¹¹See Treasury press release: <https://www.treasury.gov/press-center/press-releases/Pages/sm0136.aspx>

- On September 14, 2017, Treasury designated an entity pursuant to EO 13382 for engaging in activities in support of Iran’s Islamic Revolutionary Guard Corps ballistic missile program.¹²

State has not sanctioned any entities pursuant to EO 12938 since January 2016.

State Has Continued to Implement Its Process for Identifying Sanctionable Entities under INKSNA and Has Imposed Sanctions on Entities under the Provisions of This Law

Since JCPOA’s Implementation Day in January 2016, State has continued its process for imposing sanctions under INKSNA and has imposed sanctions under the provisions of INKSNA. State uses a complex and lengthy process for imposing INKSNA sanctions that involves multiple interagency and internal reviews.

According to ODNI, ODNI facilitates coordination between intelligence community agencies and advocates for collection and analysis tools that inform the State designation process for INKSNA. As noted above, ODNI has continued to support State in this manner since the implementation of JCPOA.

The INKSNA process differs from the EO process in that INKSNA includes the additional requirement that State provide reports every 6 months to congressional committees identifying foreign persons for which there is credible information indicating that they have transferred to, or acquired from, Iran, North Korea, or Syria certain WMD or conventional or missile-related items.¹³ INKSNA does not allow State to impose INKSNA sanctions on entities until State has identified them in a report to congressional committees. An interactive graphic accompanying this report illustrates the process that State uses to impose sanctions under INKSNA.¹⁴

¹²See Treasury press release: <https://www.treasury.gov/press-center/press-releases/Pages/sm0158.asp>

¹³Pub. L. No. 106-178, § 2, *codified as amended at* 50 U.S.C. § 1701 note.

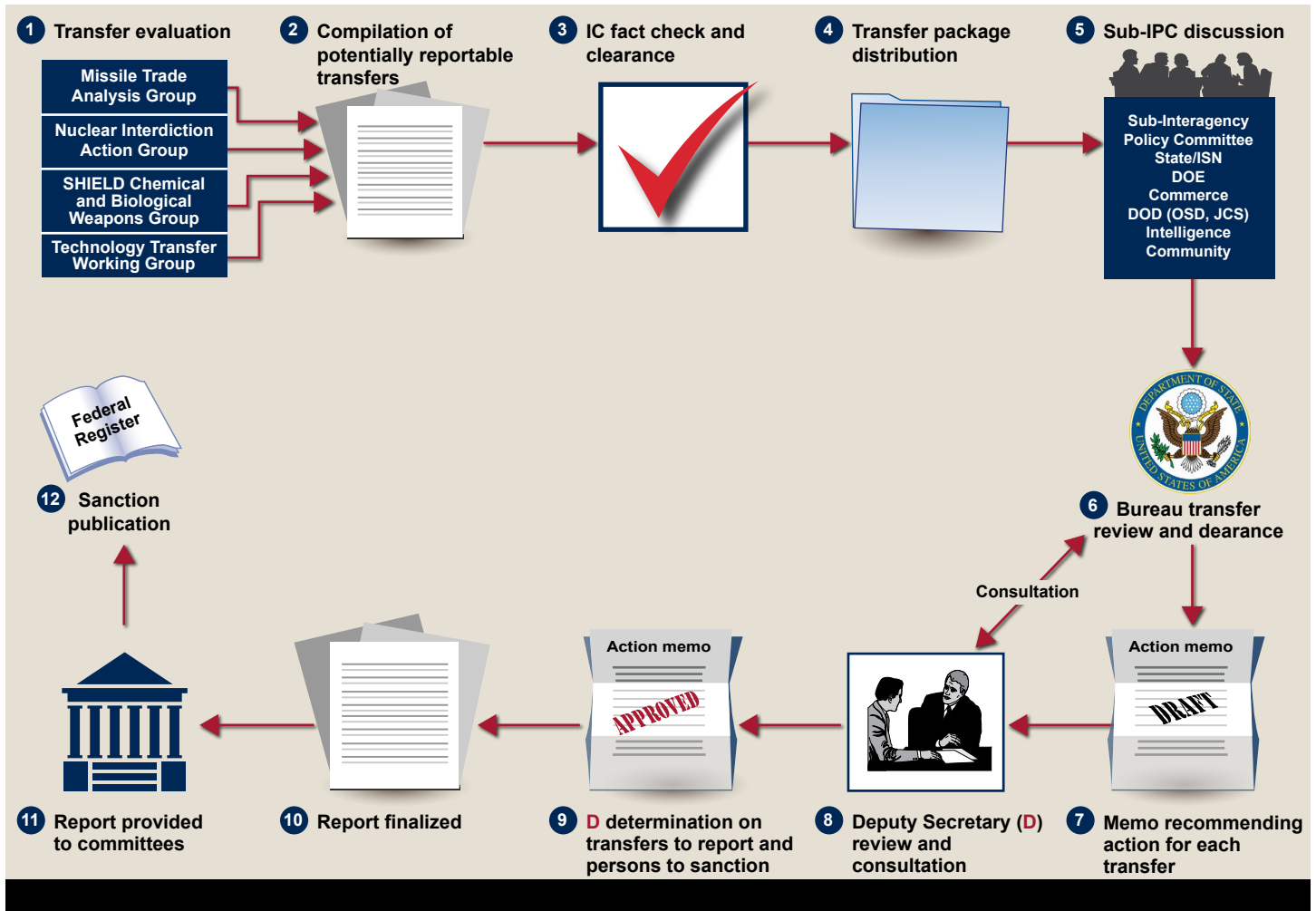
¹⁴ The interactive graphic can be viewed at <http://www.gao.gov/products/GAO-17-779R>.

Interactive graphic

Figure 2: State's INKSNA Process

Directions:

Roll over each step to view more information.



- D** Office of the Deputy Secretary of State
- Commerce** Department of Commerce
- DOD (JCS)** Department of Defense (Joint Chiefs of Staff)
- DOD (OSD)** Department of Defense (Office of the Secretary of Defense)
- DOE** Department of Energy
- H** State Bureau of Legislative Affairs
- HFAC** House Committee on Foreign Affairs

- IC** Intelligence Community
- INKSNA** Iran, North Korea, Syria Nonproliferation Act
- ISN** State Bureau of International Security and Nonproliferation
- IPC** Interagency Policy Committee
- MBC** State Office of Missile, Biological, and Chemical Nonproliferation
- NSC** National Security Council
- SFRC** Senate Committee on Foreign Relations

Source: GAO analysis of State information. | GAO-17-779R

Since Implementation Day in January 2016, State has imposed sanctions on entities under the provisions of INKSNA. The most recent INKSNA reports to congressional committees, delivered in June 2016 and March 2017, covered activities in calendar years 2013 and 2014, respectively. However, State has yet to provide the committees with reports covering the period after January 16, 2016, as required by INKSNA's reporting deadlines.¹⁵ State informed us that the most recent INKSNA reports contain references to, or consideration of, information subsequent to the implementation of JCPOA and that it used this information to inform some decisions that led to the imposition of sanctions against entities and individuals for transfers of items to Iran's missile program.

In 2015, we reported that State was not providing reports to congressional committees in accordance with the 6-month INKSNA reporting requirements established by INKSNA and that it had not established a process that would allow it to comply with that requirement. We recommended that the Secretary of State reconsider State's INKSNA process to ensure that State (1) complies with INKSNA's 6-month reporting cycle and (2) minimizes delays in State's ability to opt to impose sanctions. State officials told us that the delivery of three INKSNA reports (covering 3 years) in the last 18 months had helped to reduce their backlog. However, as of September 2017, State had not implemented our recommendations and had not provided the committees with an INKSNA report that covers the period after January 16, 2016, as required by INKSNA's reporting deadlines.

According to State officials, the June 2016 INKSNA report—which addressed calendar year 2013—included 11 individuals and entities sanctioned for their support to Iran's ballistic missiles program. According to a March 2017 State press release, the 2017 INKSNA report—which addressed calendar year 2014—also included 11 individuals and entities sanctioned for their support to Iran's ballistic missiles program.

Agency Comments

We provided a draft of this report for advance review and comment to State, Treasury, and ODNI. State provided written comments, which we have reprinted in their entirety in the enclosure. Treasury and ODNI declined to provide written comments. Treasury provided technical comments, which we have incorporated as appropriate.


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We are sending copies of this report to the appropriate congressional committees; the Secretaries of State and the Treasury; the Director of National Intelligence; and other interested parties. In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

If you and your staff have any questions, please contact me at (202) 512-9601 or melitot@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs

¹⁵INKSNA requires the President to provide reports on March 14 and September 14 of each year. Pub. L. No. 106-178, § 2(b), *codified as amended at* 50 U.S.C. § 1701 note.

may be found on the last page of this report. Major contributors to this report were Pierre Toureille (Assistant Director), Leah DeWolf (Analyst-in-Charge), Debbie Chung, Martin De Alteriis, Neil Doherty, Mattias Fenton, R. Scott Fletcher, Grace Lui, and Kendal Robinson.

A handwritten signature in black ink that reads "Thomas M" followed by a long horizontal line.

Thomas Melito
Director, International Affairs and Trade

Enclosure

List of Requesters

The Honorable Ted Poe
Chairman
Subcommittee on Terrorism, Nonproliferation and Trade
Committee on Foreign Affairs
House of Representatives

The Honorable Ryan Costello
House of Representatives

The Honorable Doug Lamborn
House of Representatives

The Honorable Michael McCaul
House of Representatives

The Honorable Robert Pittenger
House of Representatives

The Honorable David Rouzer
House of Representatives

The Honorable Randy Weber
House of Representatives

The Honorable Lee Zeldin
House of Representatives

Enclosure: Comments from the Department of State



United States Department of State

Washington, D.C. 20520

SEP 14 2017

Charles M. Johnson, Jr.
Managing Director
International Affairs and Trade
Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548-0001

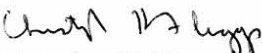
Dear Mr. Johnson:

We appreciate the opportunity to review your draft report, “Iran Sanctions: U.S. Agencies Continue to Implement Their Processes for Identifying Entities Engaging in Certain Activities Related to Iran’s Ballistic Missiles” GAO Job Code 101169.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

If you have any questions concerning this response, please contact Timothy Watkins, Foreign Affairs Officer, Office of Non-Nuclear and Counter-Proliferation, Bureau of International Security and Nonproliferation at (202) 647-1142.

Sincerely,


Christopher H. Flagg

Enclosure:
As stated

cc: GAO – Thomas Melito
ISN – Eliot Kang (Acting)
State/OIG - Norman Brown

Department of State Comments on GAO Draft Report

Iran Sanctions: U.S. Agencies Continue to Implement Their Processes for Identifying Entities Engaging in Certain Activities Related to Iran's Ballistic Missiles
(GAO-17-779R, GAO Code 101169)

Thank you for the opportunity to comment on the GAO draft report, entitled "*Iran Sanctions: U.S. Agencies Continue to Implement Their Processes for Identifying Entities Engaging in Certain Activities Related to Iran's Ballistic Missiles.*"

As we noted in our recent discussions with GAO staff, the Department of State has worked to minimize delays in its ability to impose sanctions pursuant to INKSNA reports and aims to eventually comply with INKSNA's six-month reporting cycle as we clear the existing backlog. The Department has transmitted three INKSNA reports covering three years of activity within the last 18 months (delivering the latest INKSNA report, covering CY 2014 activity, on March 21, 2017). This is a strong indicator that the Department is making progress towards meeting the GAO's recommendation.

In terms of specific steps we have taken to improve the process, we regularly review lessons learned from previous reports and incorporate these best practices into follow-on iterations of INKSNA reports. For example, we have now streamlined the decision-making process to reduce the workload in making sanctions determinations by modifying the INKSNA decision and background memo to consolidate certain cases on which the interagency has achieved consensus recommendations, thereby simplifying the review and approval process.

We continue to note the inherent difficulties in meeting the INKSNA timelines. When the Iran Nonproliferation Act (INPA) went into effect in 2000, it included only transfers to Iran. The reporting requirements of the law have been expanded over time to include transfers from Iran (2005), to or from Syria (2005), and to or from North Korea (2006). While these reporting requirements have increased over time – significantly expanding the amount of information to review, vet and, where appropriate, discuss with foreign countries – the statutory timeframes for reporting have not correspondingly expanded. These additional requirements are coupled with the Department's need to carefully weigh decisions that carry significant foreign policy implications, posing challenges for meeting the statutory timeframes. Finally, the decisions made on one report, such as approval to add new items to INKSNA reportability and/or to defer sanctions in order to

permit more time for foreign governments to investigate relevant activity, affect the contents of the next report so we have to prepare and submit them in sequence. Nevertheless, we endeavor to meet the deadlines set and we appreciate the opportunity to engage with members of your staff.

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