What Is OFAC, and Why Does It Matter?

The Office of Foreign Assets Control (OFAC), part of the U.S. Department of the Treasury, administers and enforces economic and trade sanctions against designated countries, individuals, and organizations. These sanctions are intended to advance U.S. foreign policy and national security objectives by restricting financial transactions and other dealings with sanctioned parties. Although OFAC regulations have existed for decades, recent enforcement actions involving independent schools have brought renewed attention to the issue. Schools may encounter OFAC risks through tuition payments, application fees, donations, vendor relationships, international programs, and other financial transactions.

OFAC maintains a list of *Specially Designated Nationals* (SDNs), identifying individuals and organizations subject to sanctions. Schools must also be aware of the **50% Rule**, under which an entity may be considered sanctioned if one or more sanctioned parties collectively own 50% or more of it, even when the entity itself does not appear on the sanctions list.

Importantly, OFAC operates under a **strict liability standard**. A school can violate sanctions regulations without knowing that a transaction was prohibited. The 2026 NAIS legal presentation identified potential civil penalties of $377,700 per violation or twice the transaction amount. Actual penalties depend on the circumstances, including whether the school maintained a reasonable compliance program and took appropriate corrective action.

The good news is that OFAC recognizes that compliance programs should be proportionate to an organization's risk. A small day school with limited international transactions does not necessarily need the same screening infrastructure as a large boarding school with extensive international enrollment. The objective is a reasonable, documented, risk-based approach.

Recap of the October 15 CFO Roundtable

MISBO's October CFO Roundtable brought together business officers to discuss how independent schools are responding to OFAC requirements. The conversation focused on practical implementation, available technologies, institutional responsibilities, and the challenges of developing compliance procedures without creating an unreasonable administrative burden.

1. Establishing a Screening Process

Participants discussed the importance of establishing a formal OFAC compliance policy and procedures for screening individuals and organizations with whom schools conduct business. One approach shared during the discussion involved downloading federal sanctions lists, exporting records of families, donors, and vendors, and using technology to identify potential matches. Flagged names were then reviewed manually against official Treasury Department records, with the results documented and retained.

This approach provides an initial baseline screening and a record of the school's efforts to comply. A significant question concerned **how frequently screening should occur**. Participants discussed monthly reviews and automated monitoring, but no universally prescribed screening frequency was established. Schools must consider their individual risk exposure, the frequency of transactions, and the possibility that sanctions lists may change between screenings. NAIS guidance also emphasizes retaining screening and due diligence records for ten years.

2. Technology, Automation, and Artificial Intelligence

A substantial portion of the conversation explored opportunities to automate OFAC screening and reduce the burden on school personnel. Participants identified several possible approaches, including specialized compliance vendors, screening capabilities integrated into existing financial systems, and artificial intelligence tools that compare school records against government sanctions lists.

One particularly promising approach involved using enterprise AI systems to perform initial comparisons, identify potential matches, and generate documentation for subsequent human review. Participants also discussed locally hosted AI tools that could perform comparisons without transmitting confidential information to an external service. However, questions emerged regarding **data privacy and security**, particularly when sharing student, family, and donor information with AI platforms. Schools considering these approaches should evaluate their technology agreements, privacy protections, and internal policies before uploading sensitive information.

The discussion suggested that automation could significantly reduce administrative work, but technology should support rather than replace human oversight.

3. What Are Financial Software Providers Already Doing?

An important discussion centered on whether schools' existing financial software providers, banks, and payment processors already perform sanctions screening.

Several participants reported finding that certain financial service providers conduct OFAC screening as part of their operations. Others discovered that screening capabilities varied among platforms or were available through third-party integrations.

A critical distinction emerged: **a payment processor may screen transactions to satisfy its own regulatory obligations without necessarily fulfilling all of the school's compliance responsibilities.** Consequently, schools should not assume that using a major payment processor automatically satisfies their OFAC obligations.

Participants suggested that MISBO and other independent school associations might collectively engage major school software providers to encourage integrated screening capabilities. Such an approach could improve efficiency, reduce duplicated effort, and make compliance more manageable across the industry.

4. Outsourcing Compliance Versus Managing It Internally

Participants considered the relative advantages of conducting screening internally versus engaging specialized compliance firms. Third-party services may offer continuous monitoring, updated sanctions databases, more sophisticated matching capabilities, and automated reporting. However, these benefits come with additional costs.

Schools with fewer financial and personnel resources may find that an appropriately designed internal process, supported by free government tools and existing technology, provides a reasonable starting point.

An important clarification is that **outsourcing screening does not eliminate the school's ultimate responsibility for compliance**. Schools remain responsible for investigating potential matches and determining whether transactions may proceed.

5. What Happens When a Potential Match Is Found?

One of the most consequential questions raised during the roundtable was what a school should do when screening identifies a potentially sanctioned individual or organization. A potential match is not necessarily a violation. Similar names and incomplete information can produce false positives, requiring additional investigation. However, if a transaction appears to involve a sanctioned party, the school should stop and seek legal guidance before proceeding.

A particularly important caution concerns returning payments. If a school has inadvertently accepted prohibited funds, simply refunding the payment may constitute another prohibited transaction. Legal counsel should guide the appropriate handling of funds, reporting requirements, and any potential voluntary disclosure to OFAC.

Participants also considered whether families and donors should be notified that their information may be screened against sanctions databases. Possible disclosures in enrollment agreements and other institutional documents were discussed, although no consensus emerged regarding specific notification requirements.

Key Takeaways and Next Steps

The roundtable reinforced that OFAC compliance is a legitimate responsibility for independent schools, but one that should be approached thoughtfully and proportionately.

Several practical priorities emerged:

1. **Assess institutional risk.** Identify financial transactions and relationships that create potential sanctions exposure, particularly international enrollment, third-party payments, donations, and vendor relationships.
2. **Develop written procedures.** Establish a risk-based screening policy, assign responsibilities, and document how potential matches will be investigated and resolved.
3. **Investigate existing technology.** Determine what screening capabilities are already available through financial systems, banks, and payment processors.
4. **Consider automation.** Explore appropriate uses of AI, integrated software, and third-party services while protecting confidential information.
5. **Maintain documentation.** Preserve records of screening, due diligence, and decisions for the required retention period.
6. **Consult legal counsel.** Obtain guidance when developing procedures and whenever a potential violation is identified.

Perhaps the most important conclusion was that **effective compliance need not mean creating an entirely new administrative department or purchasing expensive software.** Schools should understand their risks, use appropriate available tools, establish reasonable procedures, and document their efforts. The discussion also highlighted an opportunity for greater collaboration among independent school associations and technology providers. Rather than requiring every school to solve the same problem independently, collective efforts may lead to more efficient and affordable compliance solutions.

MISBO will continue sharing resources and information to help member schools navigate these requirements.

This summary reflects discussion among independent school business officers and incorporates guidance from NAIS legal resources. It is provided for informational purposes and does not constitute legal advice. Schools should consult qualified legal counsel regarding their specific compliance obligations.