




OFFICE OF THE SPECIAL INSPECTOR GENERAL
FOR THE TROUBLED ASSET RELIEF PROGRAM

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WASHINGTON, D.C. 20220

MAR 24 2011

MEMORANDUM FOR: Timothy Massad – Acting Assistant Secretary for Financial Stability, Department of the Treasury

FROM: Neil M. Barofsky – Special Inspector General for the Troubled Asset Relief Program 

SUBJECT: Engagement Memo – Review of Treasury’s Investment under the TARP Capital Purchase Program

As part of our continuing oversight of the Troubled Asset Relief Program (“TARP”), we are initiating an audit of how selected financial institutions used funds provided under Treasury’s Capital Purchase Program (“CPP”), and the effectiveness of management controls over their use. More specifically, we will examine whether expenses incurred with CPP funds were reasonable and consistent with law, including restrictions on executive compensation, and the effectiveness of risk management of loans made with CPP funds. We will also examine Treasury’s oversight of financial institutions’ management of CPP funds, to include whether allowing CPP-recipient banks to purchase failed banks meet the objectives of CPP, and whether financial restructuring agreements were in the governments best interest. Additional audit objectives may emerge as the audit progresses, and we will keep you informed of any material additions.

We plan to start work on this engagement immediately. We will perform this work under engagement code 027. We expect to perform our fieldwork at the Office of Financial Stability, bank regulators (headquarters and field offices), and individual financial institutions that received CPP funds. We have not yet selected the institutions to be audited. However, we expect that the financial institutions selected will cut across a number of Federal regulators. A member of my staff will contact you shortly to arrange an entrance conference. At that time, we will discuss our scope, methodology, and time frames in more detail. In the meantime, if you have any questions, please contact Kurt Hyde, Deputy Special Inspector General for Audit, at kurt.hyde@treasury.gov or (202) 622-4633.

cc: Sheila C. Bair, Chairman, Federal Deposit Insurance Corporation
John Walsh, Acting Comptroller of the Currency
Ben S. Bernanke, Chairman, Federal Reserve Board
John E. Bowman, Acting Director, Office of Thrift Supervision