

# Annual Plan Fiscal Year 2011

OIG-CA-11-003

Office of Inspector General  
Department of the Treasury



## Foreword

This annual plan outlines the major initiatives, priorities, and challenges of the Department of the Treasury's Office of Inspector General (OIG) for fiscal year 2011.

As we enter fiscal year 2011, the most significant new factors affecting our office are our increased oversight responsibilities under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) and the Small Business Jobs Act of 2010.

- **Dodd-Frank.** Among other things, Dodd-Frank establishes a Council of Inspectors General on Financial Oversight chaired by the Treasury Inspector General. The council meets at least quarterly to share ideas and discuss work of the member inspectors general offices as it applies to the broader financial sector and ways to improve financial oversight. The council is required to submit an annual report to the Financial Stability Oversight Council, also established by Dodd-Frank and chaired by the Treasury Secretary, and Congress. The Council of Inspectors General on Financial Oversight may also vote to convene working groups to evaluate the effectiveness and internal operations of the council.

Another provision of Dodd-Frank is the transfer of Office of Thrift Supervision functions to the Office of the Comptroller of the Currency and non-Treasury regulators. Our office and the OIGs of the Federal Deposit Insurance Corporation and the Board of Governors for the Federal Reserve System and Bureau of Consumer Financial Protection (Board of Governors) have been tasked to jointly oversee the transfer.

Dodd-Frank also establishes the Bureau of Consumer Financial Protection as an independent bureau within the Board of Governors to be headed by a director appointed by the President and confirmed by the Senate. However, a transition period is provided for where the Treasury Department has the authority to stand up the bureau, and the Treasury Secretary is authorized to perform the bureau functions until a director is confirmed. The Treasury Secretary, in consultation with other impacted regulatory agencies, also designates a transfer date of the bureau to the Board of Governors. The designated transfer date cannot be sooner than January 2011 or later than January 2012. In this regard, the bureau will be under our jurisdictional oversight until it is transferred to the Board of Governors, at which time it will come under the jurisdictional oversight of the Board of Governors OIG. Our respective offices (Treasury OIG and the Board of Governors OIG) are already coordinating on oversight matters involving this important new consumer protection agency. As of this writing, a director has not been nominated. On September 17, 2010, the President appointed Elizabeth Warren to serve as Assistant to the President and Special Advisor to the Treasury Secretary on the Bureau of Consumer Financial Protection.

- **Small Business Jobs Act of 2010.** Enacted on September 27, 2010, the act designated our office to provide oversight over two new Treasury programs—(1) the Small Business Lending Fund which provides \$30 billion for capital investments to eligible institutions in order to increase the availability of credit for small businesses, and (2) the State Small Business Credit Initiative which provides up to \$1.5 billion allocable to participating states to fund a variety of programs to encourage lending. As is also required, the Treasury Inspector General established within Treasury OIG an Office of Small

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Business Lending Fund Oversight headed by a Special Deputy Inspector General who reports directly to the Inspector General. Oversight plans for these two Treasury programs will be developed early in fiscal year 2011.

Two other areas of continuing emphasis by our office in fiscal year 2011 are (1) the requirement that we perform reviews of failed Treasury-regulated financial institutions that result in losses to the Deposit Insurance Fund, and (2) our oversight of Treasury's non-Internal Revenue Service programs and funds authorized by the American Recovery and Reinvestment Act of 2009 (Recovery Act).

- **Failed Banks.** Since September 2007 and as of September 30, 2010, 89 Treasury-regulated financial institutions have failed. Our office was required to conduct material loss reviews on 52 of those failures, due to the magnitude of their losses to the Deposit Insurance Fund. To that end, we have completed 21 such reviews and are engaged in 31 others. Over the past 2 fiscal years, we have ceased practically all self-directed work except that associated with the Recovery Act to staff our material loss review mandate. Going forward however, while we anticipate little let up from the pace of bank failures in 2011, they will not impact our resources as greatly because Dodd-Frank raised the threshold amount triggering a material loss review. Specifically, the review triggering loss threshold was increased to \$200 million for calendar years 2010 and 2011 from the prior triggering loss threshold of \$25 million. This change will provide our office with greater flexibility to undertake other mandated and important oversight work.
- **Recovery Act.** Treasury is responsible for overseeing an estimated \$150 billion of Recovery Act funding and tax relief. Treasury's oversight responsibilities include payments for specified energy property in lieu of tax credits, payments to states for low-income housing projects in lieu of tax credits, increased Community Development Financial Institution Fund grants and tax credits, economic recovery payments to social security beneficiaries and others, and payments to U.S. territories for distribution to their citizens. Programs under our jurisdiction include, but are not limited to, approximately \$22 billion for the grants in lieu of tax credits programs and the additional fund grants and tax credits. We are continuing to evaluate Treasury's administration of these programs to include auditing a number of selected recipients.

The Recovery Act also established the Recovery Act Accountability and Transparency Board. The board comprises 12 inspectors general, of which the Treasury Inspector General is one. The board is responsible for maintaining [Recovery.gov](http://Recovery.gov) as well as coordinating oversight of the \$787 billion in Recovery Act funding. While not specifically identified in this annual plan, we do anticipate participating on board-directed reviews during the year.

The projects described in this plan represent, in our judgment, areas of known or emerging risks and vulnerabilities in the Department. As before, we encourage Treasury and bureau management to use this plan to identify areas for self-assessment and to take corrective measures when vulnerabilities and control weaknesses are identified.

December 2010

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## Overview

This planning document outlines the Office of Inspector General's (OIG) priorities and initiatives for fiscal year 2011 and beyond.

## Background

In 1989, the Secretary of the Treasury established OIG in accordance with the 1988 amendments to the Inspector General Act. The act sets out OIG's major duties and responsibilities:

- Conducting and supervising audits and investigations
- Providing leadership and coordination of policies that (1) promote economy, efficiency, and effectiveness in Treasury programs and operations and (2) prevent and detect fraud and abuse in Treasury programs and operations
- Providing a means for keeping the Secretary of the Treasury and Congress fully and currently informed about problems and deficiencies in Treasury programs and operations
- Submitting semiannual reports to Congress, through the Secretary, that (1) summarize OIG activities during the preceding period that disclose problems, abuses, or deficiencies in the administration of Treasury programs and operations and (2) contain and discuss OIG recommendations for corrective action

## Organizational Structure and Fiscal Resources

OIG is headed by an Inspector General, who is appointed by the President with the advice and consent of the Senate. The Inspector General exercises his or her duties and responsibilities on behalf of all Treasury programs and operations except those of the Internal Revenue Service (IRS) and Troubled Asset Relief Program (TARP). (In 1998, Congress established the Treasury Inspector General for Tax Administration [TIGTA], which exercises authority over IRS under the Inspector General Act. The Office of the Special Inspector General for TARP, which has cognizance over TARP, was established by the Emergency Economic Stabilization Act of 2008.)

OIG has five components, which are headquartered in Washington, D.C.:

- Office of Audit
- Office of Investigations
- Office of Small Business Oversight
- Office of Counsel
- Office of Management



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The Office of Small Business Lending Fund Oversight was established pursuant to Title IV of the Small Business Jobs Act of 2010.

For fiscal year 2011, the President's budget request for direct appropriations for OIG was \$30.3 million.

## Performance Measures

OIG established performance measures for fiscal year 2011 for the Office of Audit and the Office of Investigations.

### Office of Audit Performance Measures

For the Office of Audit, OIG established the following performance and audit reporting measures.

- Complete 70 audits and evaluations.
- Complete 100 percent of mandated audits by the required date.
- Identify monetary benefits where appropriate.

### Office of Investigations Performance Measures

For the Office of Investigations, OIG established the following investigative performance measures.

- Complete investigations within the timeframes assigned by Office of Investigations supervisors and managers 85 percent of the time.
- Ensure that 100 percent of investigations are well-planned, well-executed, objective, thorough, accurately reported, and concluded in accordance with established Council of the Inspectors General on Integrity and Efficiency and OIG standards to resolve the allegation received and any additional issues revealed during the investigation.

# Fiscal Year 2011 Priorities and Initiatives

## Audit Priorities and Initiatives

### Audit Priorities

The Office of Audit established three audit priorities for fiscal year 2011.

#### Priority 1—Audit Products Mandated by Law

The Office of Audit allocates significant resources to meet legislative requirements related to (1) audited financial statements and financial-related review work, (2) information security, and (3) our increased oversight responsibilities under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank). With respect to Dodd-Frank, during fiscal year 2011, we expect to devote a significant portion of our audit resources to reviews of Treasury-regulated failed financial institutions and new requirements such as oversight of the transfer of Office of Thrift Supervision (OTS) functions to the Office of the Comptroller of the Currency (OCC) and other federal financial regulators. We will also devote resources to audits of Treasury's non-IRS programs and funds authorized by the American Recovery and Reinvestment Act of 2009 (Recovery Act) in support of work directed or requested by the Recovery Accountability and Transparency Board. The board comprises 12 inspectors general, including the Treasury Inspector General. Another area of emphasis will be audits of Treasury programs authorized by the Small Business Jobs Act of 2010.

#### Priority 2—Work Requested by Treasury Management, Congress, or Other External Source

The Office of Audit typically receives two to three requests a year by Treasury management or Congress for specific work. The requested work is often already in our plan and requires only that we change the timing of the work or modify its scope. If the requested work is in a new area, we assess whether the work should be undertaken.

#### Priority 3—Self-Directed Work in Treasury's Highest-Risk Areas

If resources are available after we address mandated audit and requested work, we undertake audits to assess the Department's progress in addressing serious deficiencies and emerging risks. For fiscal year 2011, the major emphasis of our self-directed work, to the extent resources are available, will be on audits of the Department's non-IRS Recovery Act programs, anti-money laundering/terrorist financing programs, and major information technology (IT) capital investments.

### Relationships of Audit Plan to Treasury Strategic Plan

Treasury’s mission, as stated in its strategic plan for fiscal years 2007-2012, is to serve the American people and strengthen national security by managing the U.S. government’s finances effectively; promoting economic growth and stability; and ensuring the safety, soundness, and security of U.S. and international financial systems. To accomplish this mission, the Department identified four strategic goals. As part of our planning process, the Office of Audit identified seven core issue areas that address one or more of Treasury’s strategic goals.

The following table shows the link between specific Treasury strategic goals and OIG issue areas:

Treasury Strategic Goal	OIG Issue Area(s)
Manage U.S. government finances effectively	<ul style="list-style-type: none"> <li>• Governmentwide financial services and debt management</li> <li>• Revenue collection and industry regulation</li> </ul>
Promote growth and stability of U.S. and world economies	<ul style="list-style-type: none"> <li>• Safety, soundness, and accessibility of financial services</li> <li>• Domestic and international assistance programs</li> <li>• Bill and coin manufacturing, marketing, and distribution operations</li> </ul>
Prevent terrorism and strengthen the security of U.S. and international financial systems	<ul style="list-style-type: none"> <li>• Terrorist financing, money laundering, and foreign assets control</li> </ul>
Achieve managerial and organizational excellence	<ul style="list-style-type: none"> <li>• Treasury general management and infrastructure support (financial management, information systems security, and general management)</li> </ul>

The Treasury general management and infrastructure support issue area cuts across all four of the Department’s strategic goals. It encompasses such activities as financial management, IT security, capital investments, human capital, initiatives to identify and reduce improper payments, and procurement.

### Audit Initiatives

The Office of Audit plans to start 60 projects in fiscal year 2011 and to complete 70 projects started in fiscal year 2010. Our ability to undertake new self-directed audits and complete those in progress

will be affected by mandated work. We have identified 96 high-priority projects that must be deferred beyond 2011. Our in-process and planned work and projects for future consideration are described in the Planned Projects by OIG Issue Area section of this document.

## Investigative Priorities

The Office of Investigations established four investigative priorities for fiscal year 2011.

### Priority 1—Criminal and Serious Employee Misconduct

Our highest priority is investigating complaints involving alleged criminal and other serious misconduct by employees of the Department. OIG investigates allegations of the general crimes enumerated in Title 18 of the U.S. Code, other federal crimes, alleged violations of the Ethics in Government Act, and allegations of serious misconduct prohibited by the Standards of Ethical Conduct for Employees of the Executive Branch. Several Treasury bureaus and offices have additional rules and regulations relating to ethical standards for their own employees, and OIG also investigates complaints of alleged violations of these rules and regulations.

### Priority 2—Fraud Involving Contracts, Grants, Guarantees, and Funds

We conduct investigations into allegations of fraud and other crimes involving Treasury contracts, grants, loan guarantees, and federal funds. Such allegations often involve contractors who are providing or seeking to provide goods or services to the Department. We receive complaints alleging criminal or other misconduct from employees, contractors, members of the public, and Congress.

### Priority 3—Financial Programs and Operations Crime

We conduct and supervise investigations relating to the financial programs and operations of the Department. These programs and operations involve issuing licenses, providing benefits, and exercising oversight of U.S. financial institutions.

### Priority 4—Critical Infrastructure and Fiscal Protection

Our efforts in the area of critical infrastructure and fiscal protection focus on detecting, investigating, and deterring electronic crimes and addressing threats to the Department's critical infrastructure.

## Relationship Between Investigative Priorities and Treasury Strategic Goals

OIG's four investigative priorities are intended to detect and prevent fraud and other crimes against the Department's programs and operations.

## Overview

The following table shows the relationship between Treasury strategic goals and OIG investigative priorities.

Treasury Strategic Goal	OIG Investigative Priorities			
	Criminal and serious employee misconduct	Contracts, grants, guarantees, and funds fraud	Financial programs and operations crimes	Critical infrastructure and fiscal protection
Manage U.S. government finances effectively				√
Promote growth and stability of U.S. and world economies		√	√	
Prevent terrorism and strengthen the security of U.S. and international financial systems		√	√	√
Achieve managerial and organizational excellence	√	√		

## Counsel Initiatives

The Office of Counsel will support OIG investigative, oversight, and audit activities by responding to requests for legal advice and reviewing and processing requests for the issuance of Inspector General subpoenas. In the area of disclosure, the Office of Counsel will provide timely responses to Freedom of Information Act and Privacy Act requests and carry out its litigation responsibilities in Merit Systems Protection Board and Equal Employment Opportunity Commission cases. Based on experience, we expect to process 40 initial Freedom of Information Act/Privacy Act requests and 5 appeals from those initial responses. In the area of electronic Freedom of Information Act, we expect to review approximately 70 audit, evaluation, and oversight reports for posting on OIG's website. The Office of Counsel will also

- continue to review the Privacy Act systems of records notices for OIG's investigative and administrative records systems, with a view to possible revision;
- complete Privacy Impact Assessments for all OIG operations and provide procedural review and training services as the OIG senior agency official for privacy;

## Overview

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- coordinate with the Department in updating Treasury orders and directives that establish and define OIG's authority, responsibility, and organization;
- respond to *Giglio* requests, coordinate responses to document requests from Congress, and respond to discovery requests arising from litigation involving the Department and its bureaus;
- provide training on the Inspector General Act and other subjects in connection with new employee orientation and in-service training; and
- review, as statutorily mandated, legislative and regulatory proposals and, where appropriate, coordinate comments.

## Management Initiatives

The Office of Management will continue to identify operational efficiencies to improve management support while identifying opportunities to reduce costs. It will continue to enable OIG to maintain its independence from Treasury programs and policies and to provide OIG offices with required administrative support.

For the administrative services function, OIG has a working agreement with the Bureau of the Public Debt's (BPD) Administrative Resource Center for procurement, travel, and permanent change-of-station services on an annual and individual service basis. Additionally, the administrative services function continues to coordinate efforts for the published policy directives issuance using plain language, to-the-point style, photos, and graphics and to conduct an annual physical inventory of certain property.

For the budget and finance function, OIG has a working agreement with the Administrative Resource Center for budget execution and accounting services. The function oversees the use of the center's Oracle financial system for OIG, increasing the timeliness of financial information and providing for reconciling transactions more efficiently and effectively.

For the human resources function, OIG has a working agreement with the center for a portion of its staffing and classification servicing. OIG and the center use Career Connector, the Department's automated recruitment system, which facilitates the hiring of employees within 30 days after closing of vacancy announcements. The Administrative Resource Center also processes OIG payroll and routine personnel actions and provides benefits and performance management services.

For the IT function, OIG has streamlined operations. Efforts continue to support the implementation of new management information systems; improve the implementation and quality of mobile communications; and ensure that automated systems are fully maintained, up-to-date, operational, and in compliance with all information security requirements.

# Treasury Management and Performance Challenges

In accordance with the Reports Consolidation Act of 2000, the Treasury Inspector General annually provides the Secretary of the Treasury with his perspective on the most serious management and performance challenges facing the Department. The Secretary includes these challenges in Treasury's annual agency financial report. In a memorandum to Secretary Geithner dated October 22, 2010, Inspector General Thorson reported four management and performance challenges. The following is an abridged description of the challenges.

## Transformation of Financial Regulation

In response to the need for stronger financial regulation and reform, Congress passed Dodd-Frank in July 2010. Dodd-Frank established new responsibilities for Treasury and created new offices to fulfill those responsibilities.

A critical challenge in the near term is Treasury's role in standing up the Bureau of Consumer Financial Protection. When a Director is confirmed, the bureau will become an independent bureau of the Board of Governors of the Federal Reserve System (Board of Governors). In the interim, Treasury is charged with supporting the creation and management of the Bureau of Consumer Financial Protection and, to that end, much needs to be done. While the bureau remains in Treasury, it will be subject to our audit and investigative oversight. We are, however, coordinating those oversight efforts with the Board of Governors OIG.

Dodd-Frank also established the Financial Stability Oversight Council, and the Council of Inspectors General on Financial Oversight. The mission of the Financial Stability Oversight Council, which is chaired by the Treasury Secretary, is to identify risks to financial stability that could arise from the activities of large, interconnected financial companies; respond to any emerging threats to the financial system; and promote market discipline. The Council of Inspectors General on Financial Oversight, which is chaired by the Treasury Inspector General, facilitates information sharing among inspectors general with a focus on concerns that may apply to the broader financial sector and ways to improve financial oversight. Accordingly, the Council of Inspectors General on Financial Oversight will be an important source of independent, unbiased oversight to the Financial Stability Oversight Council. The Council of Inspectors General on Financial Oversight may also vote to convene working groups to evaluate the effectiveness and internal operations of the Financial Stability Oversight Council.

Dodd-Frank established two new offices within Treasury: the Office of Financial Research and the Federal Insurance Office. The Office of Financial Research is to be a data collection, research, and analysis arm of the Financial Stability Oversight Council. The Federal Insurance Office is to monitor the insurance industry, including identifying gaps or issues in the regulation of insurance that could contribute to a systemic crisis in the insurance industry or financial system.

## Treasury Management and Performance Challenges

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Intended to streamline the supervision of depository institutions and holding companies, Dodd-Frank requires the transfer of the powers and duties of OTS to the OCC, the Board of Governors, and Federal Deposit Insurance Corporation (FDIC) no later than July 2011. Our office, the FDIC OIG, and the Board of Governors OIG are required by Dodd-Frank to jointly oversee and periodically report on the transfer of OTS functions.

Clearly, the intention of Dodd-Frank is most notably to prevent, or at least minimize, the impact of a future financial sector crisis on the U.S. economy. In order to accomplish this, Dodd-Frank has placed a great deal of responsibility within Treasury and on the Treasury Secretary. The management challenge from our perspective is to implement an effective Financial Stability Oversight Council process supported by the newly created offices within Treasury and the streamlined banking regulatory structure that timely identifies and strongly responds to emerging risks. This is especially important in times of economic growth and financial institution profitability when such government action is likely to be unpopular. Our work plans will include reviews of Treasury's effectiveness in establishing the new offices and undertaking its other critical roles.

Recently, the unprecedented speed at which servicers were foreclosing on defaulted mortgages has revealed flaws in the processing of those foreclosures. A number of the largest banks with servicing functions have voluntarily placed moratoriums on foreclosures either in certain states or nationwide until these matters are resolved. While the depth and extent of these problems are not yet fully known, this is yet another troubling development in the manner in which financial institutions have been operating. Addressing this issue could be the first major challenge for the Financial Stability Oversight Council.

The other regulatory challenges that we previously reported remain. Specifically, since September 2007 through the date of the Inspector General's Management and Performance Challenges memorandum, 90 Treasury-regulated financial institutions have failed, with estimated losses to the Deposit Insurance Fund of approximately \$36 billion. Although many factors contributed to the turmoil in the financial markets, our work found that OCC and OTS did not identify early or force timely correction of unsafe and unsound practices by numerous institutions under their supervision. The irresponsible lending practices of many institutions are now well-recognized—including reliance on risky products, such as option adjustable rate mortgages and degradation of underwriting standards. At the same time, financial institutions engaged in other high-risk activities, including high asset concentrations in commercial real estate and overreliance on unpredictable brokered deposits to fund rapid growth.

### Management of Treasury's Authorities Intended to Support and Improve the Economy

Congress provided Treasury with broad authorities to address the financial crisis under the Housing and Economic Recovery Act and the Emergency Economic Stabilization Act, both enacted in 2008, the Recovery Act of 2009, and the Small Business Jobs Act of 2010. Certain authorities in the



## Treasury Management and Performance Challenges

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Housing and Economic Recovery Act and the Emergency Economic Stabilization Act have now expired, but challenges still remain in managing Treasury's outstanding investments. To an extent, Treasury's program administration under these two acts has matured. In contrast, program administration for the Recovery Act is still evolving, and the Small Business Jobs Act programs must be stood up. The following discussion begins with the most recent act passed to support and improve the economy and moves on to the other new programs for which Treasury is responsible.

### Management of the Small Business Lending Fund and State Small Business Credit Initiative

In late September 2010, Congress enacted the Small Business Jobs Act. It created within Treasury a \$30 billion Small Business Lending Fund and provided \$1.5 billion to be allocated by Treasury to states for eligible state programs through the State Small Business Credit Initiative. The act is intended to increase lending to small business and thereby support job creation. The challenge for Treasury will be to get these two programs up and running quickly while maintaining proper control to ensure transparency, equitable treatment of all participants, and program results.

Under the Small Business Lending Fund, Treasury will make capital investments in eligible financial institutions after consultation with the institution's regulator. Eligible institutions are permitted to refinance securities issued to Treasury under TARP's Capital Purchase Program as long as they are current on their purchase program obligations. During the first 4½ years of Treasury's investment, participating institutions initially pay dividends to Treasury of 5 percent, but that rate may be reduced to as low as 1 percent (after 4½ years, the dividend rate increases to 9 percent and Treasury's investment is expected to be repaid within 10 years).

It is important that a strong control structure along with commensurate staffing be provided on the front end of this effort. It is also critical in setting up this program that Treasury build on its experience with the Capital Purchase Program. Furthermore, Treasury and regulators must coordinate to ensure that participating institutions comply with the terms and conditions of the investments, to include validation of increased small business lending in return for reduced dividend rates on Treasury investments.

Treasury has announced individual State Small Business Credit Initiative funding allocations totaling \$1.5 billion for the 50 states, the District of Columbia, and U.S. territories, intended to support new small business lending through local programs. A key feature of the State Small Business Credit Initiative is that participating states receive their allocations in increments of one-third each. Treasury may withhold a successive increment to a state pending the results of an audit by our office.

### Management of Recovery Act Programs

Treasury is responsible for overseeing an estimated \$150 billion of Recovery Act funding and tax relief. Treasury's oversight responsibilities include grants for specified energy property in lieu of tax credits, grants to states for low-income housing projects in lieu of tax credits, increased Community

## Treasury Management and Performance Challenges

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Development Financial Institutions (CDFI) Fund grants and tax credits, economic recovery payments to social security beneficiaries and others, and payments to U.S. territories for distribution to their citizens.

Many of these programs were new to Treasury in 2009 and involve very large dollar amounts. It is estimated that Treasury's Recovery Act payments in lieu of tax credit programs—for specified energy property and to states for low-income housing projects—will cost more than \$20 billion. As of the date of the Inspector General's Management and Performance Challenges memorandum, Treasury has awarded more than \$6 billion under these programs and has yet to implement comprehensive monitoring procedures. In 2009, we reported that Treasury had dedicated only a small number of staff to award and monitor these funds. That has not changed, and we continue to have concerns that the current staffing level is not commensurate with the size of these programs. Payments made to recipients under the specified energy property program alone represent more than \$5 billion of the funds awarded to date, and the number of applicants continues to grow.

### Management of the Housing and Economic Recovery Act and the Emergency Economic Stabilization Act

Under the Housing and Economic Recovery Act, Treasury continues to address the distressed financial condition of Fannie Mae and Freddie Mac which are under the conservatorship of the Federal Housing Finance Agency. To cover the continuing losses of the two entities and to maintain their positive net worth, Treasury agreed to purchase senior preferred stock in Fannie Mae and Freddie Mac. As of June 30, 2010, Treasury had purchased \$145 billion of senior preferred stock in the two entities. Treasury also purchased and is still holding \$184 billion of mortgage-backed securities issued by Fannie Mae and Freddie Mac under a temporary purchase program that expired in December 2009. Even with this assistance, both entities remain in a weakened financial condition and may require prolonged assistance. Dodd-Frank requires the Secretary of the Treasury to conduct a study on ending the conservatorship of Fannie Mae and Freddie Mac and minimizing the cost to taxpayers. This study is to be presented to Congress no later than January 31, 2011.

TARP, established under the Emergency Economic Stabilization Act, gave Treasury the authorities necessary to bolster credit availability and address other serious problems in the domestic and world financial markets. Treasury's Office of Financial Stability administers TARP and through several of its programs purchased direct loans and equity investments in many large financial institutions and other businesses and, guaranteed other troubled mortgage-related and financial assets. On October 3, 2010, the authority to make new investments under the TARP program expired. Treasury will, however, continue making payments for programs with existing contracts and commitments. TARP is expected to be less costly than first thought. Treasury has recently estimated that the total cost of TARP will be about \$50 billion. As the life-cycle of TARP matures, Treasury's challenge in this area is morphed from standing up and running TARP programs to winding them down. Therefore, Treasury must now focus on managing and exiting from its current TARP investments.

### Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement

Treasury faces unique challenges in carrying out its responsibilities under the Bank Secrecy Act (BSA) and USA PATRIOT Act to prevent and detect money laundering and terrorist financing. The Financial Crimes Enforcement Network (FinCEN) is the Treasury bureau responsible for administering BSA. However, a large number of other federal and state entities participate in efforts to ensure compliance with BSA, including the five federal banking regulators, the IRS, the Securities and Exchange Commission, the Department of Justice, and state regulators. Many of these entities also participate in efforts to ensure compliance with U.S. foreign sanctions programs administered by Treasury's Office of Foreign Assets Control (OFAC).

Treasury must coordinate the efforts of these multiple entities. To this end, FinCEN and OFAC have entered into memoranda of understanding with many federal and state regulators in an attempt to build a consistent and effective process. While they are important to promote coordination and cooperation, these instruments are nonbinding and carry no penalties for violations, and their overall effectiveness has not been independently assessed. Furthermore, the USA PATRIOT Act has increased the types of financial institutions required to file BSA reports. In fiscal year 2009, financial institutions filed approximately 15 million BSA reports. FinCEN needs to work with regulators to ensure that financial institutions establish effective BSA compliance programs and file BSA reports, as required.

Adding to this risk in the current environment is that financial institutions and their regulators may have decreased their attention to BSA and OFAC program compliance as they address safety and soundness concerns during the current economic crisis.

FinCEN also has a particularly difficult challenge in dealing with money services businesses. FinCEN has been working with IRS to ensure that these businesses comply with BSA registration and reporting requirements. IRS serves as the examining agency for these businesses but does not have the resources necessary to annually inspect all money services businesses or even identify unregistered money services businesses, estimated to be in the tens of thousands. Within this framework, FinCEN has been concerned with money services businesses that use informal value transfer systems and with money services businesses that issue, redeem, or sell prepaid (or stored value) cards.

In September 2010, to add transparency to possible illicit wire transfer use of the financial system, FinCEN proposed a regulatory requirement for certain depository institutions and money services businesses to report cross-border electronic transmittals of funds. The purpose of this proposal is to establish a centralized database that will assist law enforcement in detecting and ferreting out transnational organized crime, multinational drug cartels, terrorist financing, and international tax evasion. If this proposal is implemented, ensuring that financial institutions comply with the cross-border electronic transmittals of funds reporting requirements and managing the database will be significant challenges.

### Management of Capital Investments

Managing large capital investments, particularly IT investments, is a difficult challenge for any organization, public or private. In prior years, we reported on a number of capital investment projects that had either failed or had serious problems. This year, we identified challenges in four ongoing investments, two of which were identified by the Office of Management and Budget (OMB) as high-risk projects.

#### Replacement Telecommunications Platform

OMB rated Treasury's Information Technology Infrastructure Telecommunications investment, with an overall value of \$3.7 billion, as high-risk. Treasury's Acting Chief Information Officer rated it as poorly performing.

#### Common Identity Management System

OMB identified Treasury's Consolidated Enterprise Identity Management system as a high-risk project. This system is a \$147 million effort to implement the requirements of Homeland Security Presidential Directive 12. The system has also been identified as being more than \$40 million over budget and significantly behind schedule.

#### Data Center Consolidation

OMB began the Federal Data Center Consolidation Initiative to consolidate the number of federal data centers. Treasury has over 60 data centers around the country. Treasury plans to ultimately reduce the number of its data centers by 2015. This reduction would require Treasury to restructure its IT infrastructure over a relatively short time.

#### BSA IT Modernization

Treasury, through FinCEN, is undertaking a major project known as BSA IT Modernization. Already underway, the project is expected to cost about \$120 million. A prior attempt, from 2004 to 2006, to develop a new BSA system ended in failure with over \$17 million wasted because of shortcomings in project planning, management, and oversight.

Treasury's decentralized management of IT investments presents a significant hurdle to the successful implementation of major Department-wide and governmentwide initiatives.

# Planned Projects by OIG Issue Area

## Treasury General Management and Infrastructure Support: Financial Management

### Issue Area Discussion

#### Legislative Mandates

Financial audits are required for the Department and certain component entities pursuant to various statutes and other reporting requirements. The annual audit of Treasury's consolidated financial statements is performed pursuant to the requirements of the Government Management Reform Act. OMB designated IRS as a Treasury component entity required to issue stand-alone audited financial statements under the act. Other Treasury component entities required to have stand-alone audited financial statements are the Bureau of Engraving and Printing (BEP), the Exchange Stabilization Fund, the Federal Financing Bank, the Mint, the Treasury Forfeiture Fund, the Office of D.C. Pensions, the CDFI Fund, OCC, OTS, and the Office of Financial Stability which has responsibility over TARP. The Alcohol and Tobacco Tax and Trade Bureau (TTB) and FinCEN financial statements are audited as a management initiative. In addition, certain accounts and activities of BPD and the Financial Management Service (FMS) that are material to the Department's financial statements are also audited.

Independent public accounting firms, under OIG supervision, audit the Department's consolidated financial statements and the financial statements of component entities, with the following exceptions: the Government Accountability Office (GAO) audits IRS's and the Office of Financial Stability's financial statements and BPD's Schedule of Federal Debt and OIG staff audit the Mint's Schedule of Custodial Deep Gold and Silver Reserves.

#### Program Responsibilities

Treasury also has responsibility for certain recently enacted government programs. These programs may generate complex accounting and auditing issues that must be closely monitored and ultimately resolved as part of the audit of Treasury's consolidated financial statements. Programs that will be reviewed as part of the audit of the fiscal year 2011 Department-wide financial statements include the following:

- **Programs enacted under the Housing and Economic Recovery Act of 2008.** The act gave Treasury broad authorities to address the troubled government-sponsored housing enterprises, Fannie Mae and Freddie Mac. Treasury has taken on an important role to complement the Federal Housing Finance Agency's decision to place Fannie Mae and Freddie

Mac into conservatorship. First, Treasury agreed to purchase senior preferred stock in the government-sponsored housing enterprises, as necessary, to ensure that each company maintains a positive net worth. Second, it established a secured lending credit facility that was available to the enterprises and the Federal Home Loan Banks for short-term loans. Third, to further support the availability of mortgage financing, Treasury initiated a temporary program to purchase new mortgage-backed securities. As of September 30, 2010, Treasury had investments of \$107.7 billion, \$0, and \$172.2 billion, respectively, in these activities. The secured lending facility and the authority for the mortgage-backed security purchase program expired December 31, 2009. From a financial accounting standpoint, Treasury determined that the business operations assets and liabilities of Fannie Mae and Freddie Mac (also referred to as government-sponsored enterprises) are not to be included in the budget and the federal government's financial statements in accordance with generally accepted accounting principles. However, all current and projected liabilities and cash flows between the government-sponsored enterprises and the government are fully reflected and explained.

- **Programs authorized by the Emergency Economic Stabilization Act of 2008.** The act originally gave Treasury \$700 billion in authority to, among other things, establish TARP to (1) purchase capital in qualifying U.S.-controlled financial institutions; (2) buy, maintain, and sell toxic mortgage-related assets from financial institutions; and (3) develop a program to guarantee troubled assets originated or issued prior to March 14, 2008, including mortgage-backed securities. However, the program's scope, size, and complexity have increased and changed in nature. As of September 30, 2010, the program included 13 separate, but often interrelated, programs involving government and private funds. These programs range from large capital infusions into banks and other financial institutions, to automotive industry financing, to a mortgage modification program, and to public-private partnerships purchasing "toxic" assets from banks using significant leverage provided by government loans or guarantees. As of September 30, 2010, \$179.2 billion of the \$474.8 billion planned TARP expenditures were outstanding (i.e., had not been repaid or repurchased). The act requires that TARP prepare financial statements annually to be audited by GAO. Treasury's authorities under the act expired October 3, 2010.<sup>1</sup>
- **Programs established under the Recovery Act of 2009.** The Recovery Act is designed to create and save jobs, provide direct tax relief, increase U.S. renewable-energy-generating capacity, stimulate private investment in renewable energy through tax credits and loan guarantees, invest in U.S. infrastructure projects, and provide funds to state and local governments to support health and education programs. Treasury has significant responsibilities related to the Recovery Act. Ongoing Recovery Act programs administered by

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<sup>1</sup> Dodd-Frank, enacted in July 2010, reduced the amount of the authority for TARP to \$475 billion, removed the ability to reuse TARP funds that had been repaid, and removed the authority to create new TARP programs or initiatives.

## Planned Projects by OIG Issue Area

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Treasury and their total estimated cost/impact include (1) Cash Assistance to States for Low-Income Housing Projects in Lieu of Tax Credits (\$5.4 billion), (2) Cash Assistance for Specified Energy Property in Lieu of Tax Credits (\$16.5 billion), and (3) Tax Provision Implementation (\$108 billion).

- **Programs implemented under the Terrorism Risk Insurance Act of 2002, Terrorism Risk Insurance Extension Act of 2005, and Terrorism Risk Insurance Reauthorization Act of 2007.** The purpose of the program enacted under the Terrorism Risk Insurance Act is to stabilize market disruptions that result from acts of terrorism. The program, which expires December 31, 2014, and has a cap on annual liability for insured losses of \$100 billion, is in place to pay 85 percent of the insured losses arising from acts of terrorism above insurers' deductibles.
- **Programs established by Dodd-Frank.** Dodd-Frank transfers the powers, duties, and functions of OTS to OCC, FDIC, and the Board of Governors. Section 327 requires that these agencies jointly submit a plan by mid-January 2011 to their respective Inspector General and Congress detailing the steps they will take to implement the applicable provisions of the law.

### Working Capital Fund

The Department maintains the Working Capital Fund to centrally provide common administrative services across the Department and thereby achieve economies of scale and eliminate duplication of effort. These services are provided on a reimbursable basis to Treasury components at rates that recover the fund's operating expenses. For fiscal year 2010, Working Capital Fund expenses were approximately \$197.3 million.

### Improper Payments

The Improper Payments Elimination and Recovery Act of 2010 was signed into law on July 22, 2010. This law superseded the Improper Payments Information Act of 2002. The act requires each agency to periodically review all programs and activities that may be susceptible to significant improper payments. If a determination is made that a program is susceptible to significant improper payments, the agency must (1) estimate the amount of the improper payments, (2) report on actions that the agency is taking to reduce improper payments, (3) report on actions the agency is taking to recover improper payments, and (4) include this information in the accompanying materials to the annual financial statement. The act also requires agencies to conduct recovery audits with respect to each program that expends more than \$1 million annually, if not prohibited by law and if it would be cost effective. OMB plans to amend Circular A-123, Appendix C, to provide guidance to agencies on the implementation of the act by January 2011.

The inspector general of each agency is required to annually determine if the agency is in compliance with the act and submit a report to the agency head, several Congressional committees, and the Comptroller General of the United States.

## Planned Projects by OIG Issue Area

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### Managerial Cost Accounting

Managerial cost accounting involves the accumulation and analysis of financial and nonfinancial data, resulting in the allocation of costs to organizational pursuits such as performance goals, programs, activities, and outputs, and should be a fundamental part of a financial performance management system. Both our office and GAO have reported the need for Treasury to implement managerial cost accounting more effectively. The Department developed a high-level managerial cost accounting implementation plan and has revised its managerial cost accounting policy to improve managerial cost accounting practices throughout Treasury, promote consistency wherever possible, and address OIG and GAO concerns.

### Known Weaknesses

The Department received an unqualified audit opinion on its fiscal year 2010 consolidated financial statements. The independent public accounting firm's audit report disclosed the following material weakness, other significant deficiencies, and instances of noncompliance with laws and regulations exclusive of the Federal Financial Management Improvement Act.

- Material weakness—financial systems and reporting at IRS (repeat condition)
- Other significant deficiencies—financial management practices at the Department level (repeat condition), financial accounting and reporting at the Office of Financial Stability (repeat condition), and information systems controls at FMS (repeat condition)
- Instances of noncompliance with laws and regulations exclusive of the Federal Financial Management Improvement Act— noncompliance with Internal Revenue Code section 6325 related to untimely release of federal tax liens (repeat condition)

The firm also reported that the Department's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act related to federal financial management system requirements and applicable federal accounting standards.

## In-Progress and Planned Fiscal Year 2011 Projects

### Audits of Treasury Financial Statements and of Financial Statements or Schedules for Component Entities and Activities (In Progress)

During fiscal year 2011, we will complete audit work for the fiscal year 2010 financial statements and schedules and begin audit work for the fiscal year 2011 financial statements and schedules. These audits will determine whether the financial statements and schedules are fairly presented in all material respects and will report on internal control, compliance with laws and regulations, and compliance with the Federal Financial Management Improvement Act.



## Planned Projects by OIG Issue Area

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### Improper Payments Elimination and Recovery Act of 2010

The Improper Payments Elimination and Recovery Act of 2010 requires that OIG determine Treasury's compliance with the law and annually report on Treasury's compliance to the Secretary of the Treasury, the Comptroller General of the United States, the Senate Committee on Homeland Security and Governmental Affairs, and the House Committee on Oversight and Governmental Reform.

We plan to assess Treasury's compliance with the law.

### Single Audit Act Activities (Ongoing)

We plan to ensure that action is taken on findings related to Treasury programs identified by Single Audits of state and local governments.

## Projects Under Consideration for Future Fiscal Years

### Working Capital Fund

We plan to determine whether adequate controls over the Working Capital Fund were established. As specific phases/objectives of the audit, we plan to determine whether: (1) fund activities and programs are appropriate for inclusion in the fund; (2) reconciliations between actual costs incurred by the fund and costs billed to participating Treasury bureaus exist, are timely prepared, and consistent; (3) costs charged by the fund are appropriate; (4) costs charged by the fund to specific bureaus are supported by appropriate documentation; and (5) assumptions, data, processes, and models used by the fund to estimate its annual costs are reasonable. We will coordinate our work as necessary with TIGTA.

During fiscal year 2008, we did issue a report addressing the third and fourth phases/objectives. However, because of other high-priority work, we suspended this project in fiscal year 2009 and do not expect to resume our review of the Working Capital Fund in fiscal year 2011.

### Implementation of Managerial Cost Accounting

We plan to assess whether Treasury has implemented managerial cost accounting comprehensively and effectively.

### Survey of XBRL

XBRL (eXtensible Business Reporting Language) is a standards-based way to communicate and exchange business information between business systems. These communications are defined by metadata set out in XBRL taxonomies, which capture the definition of individual reporting concepts as well as the relationships between concepts and other semantic meanings commonly required in business reporting. Information being communicated or exchanged is provided within an XBRL

## Planned Projects by OIG Issue Area

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instance. It can offer cost savings, greater efficiency and improved accuracy, and reliability to those involved in supplying or using financial data.

We plan to assess whether XBRL can offer Treasury improved business capabilities for managing its programs and operations.

# Treasury General Management and Infrastructure Support: Information Systems Security

## Issue Area Discussion

Threats to Treasury's information systems include terrorists, criminals, and computer hackers. Such external threats are likely to increase, given that hacking tools are becoming more readily available and relatively easy to use. In addition, information security systems face potential threats from insiders (authorized users) who have significant knowledge of Treasury's systems and their operations. Because of the nature of Treasury's missions, top-notch information security is paramount to prevent malicious outsiders or insiders from doing the following:

- disrupting key Treasury functions (e.g., collection of revenues, issuing payments, managing the government's cash, making money, preventing financial crimes)
- compromising classified or sensitive Treasury information
- obtaining or disclosing private citizen information
- destroying or altering information needed to accomplish Treasury's missions
- stealing valuable equipment or technology
- inappropriately using Treasury resources

In addition, certain technologies (e.g., e-commerce and wireless networks) that have provided greater convenience and accessibility to Treasury users have also increased the vulnerability of Treasury information and resources. Because IT plays a crucial role in accomplishing all of Treasury's strategic objectives and activities, it is vital for Treasury to have an information security program that ensures the integrity of Treasury's information systems and the reliability and confidentiality of its data.

### Legislative Mandates

The Federal Information Security Management Act (FISMA) requires Treasury to have an annual independent evaluation of its information security program and practices to determine their effectiveness. TIGTA conducts the evaluation of IRS's information security program and practices. A contractor under our supervision conducts the evaluation of Treasury's remaining unclassified security systems, incorporating TIGTA's evaluation into Treasury's overall results. We may from year-to-year exercise a contract option to conduct the unclassified security systems evaluation as an audit. In addition to the FISMA evaluation covering Treasury's unclassified systems, we conduct FISMA audits of Treasury's national security systems, including collateral systems and intelligence systems.

## Planned Projects by OIG Issue Area

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### Areas of Concern

Based on the results of the fiscal year 2010 FISMA audit of Treasury, we reported that Treasury's information security program for unclassified systems was in place and generally consistent with FISMA. However, we identified areas where Treasury's non-IRS unclassified systems required additional steps to ensure that Treasury's information security risk management program and practices fully comply with applicable National Institute of Standards and Technology standards and guidelines and FISMA requirements. Specifically, we identified weaknesses in implementation of logical and physical access management, information systems security office outsourcing, plans of action and milestones, security incident reporting, and audit log review. Also, in a separate audit report, we noted areas where Treasury's information security program for its intelligence systems needs significant improvement.

In February 2010, OMB launched the Federal Data Center Consolidation Initiative to assist agencies in identifying their existing data center assets and to formulate consolidation plans that include a technical roadmap and consolidation targets. The initiative aims to address the growth of data centers and assist agencies in leveraging best practices from the public and private sector to

- promote the use of green IT by reducing the overall energy and real estate footprint of government data centers;
- reduce the cost of data center hardware, software, and operations;
- increase the overall IT security posture of the government; and
- shift IT investments to more efficient computing platforms and technologies.

In July 2010, OMB issued a memorandum reporting that federal agencies currently maintained 2,094 federal data centers. OMB noted that final agency consolidation plans have been submitted and are pending approval. The approval phase of the initiative is slated for completion at the end of this calendar year, 2010. Treasury currently has 64 different facilities around the country that store and process mission-related data. By reducing the number of data centers, Treasury would realize considerable savings. The cost of operating a single data center is significant and includes hardware, software, real estate, and cooling costs. Treasury is currently in the planning phase of a significant effort to reduce the number of data centers by 2015. Treasury's data center consolidation effort would require a restructure of Treasury's IT infrastructure in a relatively short timeframe. Relocating and consolidating data centers is a major investment that requires careful planning to address security concerns, disaster recovery, and infrastructure support. In addition, Treasury is required to meet reduction targets OMB set for agencies as part of the fiscal year 2012 budget.

### In-Progress and Planned Fiscal Year 2011 Projects

#### FISMA Independent Review—Unclassified Systems (Ongoing)

We will determine whether Treasury's information security program and practices, as they relate to Treasury's unclassified security systems, are adequate and assess progress made in resolving previously reported FISMA weaknesses.

#### FISMA Independent Audit—Collateral National Security Systems (Ongoing)

We will determine whether Treasury's information security program and practices, as they relate to collateral national security systems, are adequate and assess progress made in resolving previously reported FISMA weaknesses.

#### FISMA Independent Audit—Intelligence National Security Systems (Ongoing)

We will determine whether Treasury's information security program and practices, as they relate to Treasury's intelligence national security systems, are adequate and assess progress made in resolving previously reported FISMA weaknesses.

#### Network and System Security Assessments (Ongoing)

We plan to determine whether sufficient protections exist to prevent intrusions into Treasury bureaus' networks, systems, and computer equipment. To accomplish this objective, we plan to identify and exploit existing vulnerabilities in IT infrastructure to determine whether network-connected systems are (1) secure from unauthorized intrusion and misuse, (2) vulnerable to malicious security attacks, or (3) accessible through unauthorized or misconfigured paths (e.g., back doors into the network from the Internet or adjacent networks). Specifically, we will perform a coordinated network security test by conducting automated and manual vulnerability assessments and exploitation. For fiscal year 2011, we plan to complete an audit of BEP and conduct audits of BPD and OCC.

#### TNet Implementation (In Progress)

The Treasury Communications System and the Digital Telecommunications System currently provide Treasury; its bureaus; other non-Treasury financial, enforcement and economic organizations; and on-site contractors with telecommunication services. Treasury procured Treasury Network (TNet) as a successor to these systems through the General Service Administration's Network Universal Contract and selected AT&T as the vendor. Transition from the Treasury Communications System was scheduled to begin in November 2007, but was delayed until August 2009 and is still in progress.

We are determining whether Treasury's implementation of TNet is based on sound and effective contract management, project management, security management, and transition management.

## Planned Projects by OIG Issue Area

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### Disaster Recovery Exercises (Ongoing)

We plan to determine whether Treasury and its components can recover their operations in the event of a disaster (e.g., terrorist attack, severe weather event). We will observe scheduled disaster recovery exercises on a selective basis. In fiscal year 2011, we plan to observe two exercises.

### Compliance With Executive Order 13103 on Computer Software Piracy (In Progress)

We plan to determine whether Treasury is complying with Executive Order 13103, which directs federal agencies, federal contractors, and recipients of federal financial assistance to adopt procedures to ensure that their acquisition or use of software does not violate copyright laws. Specifically, we plan to review existing Treasury policies and procedures promoting legal software use and proper software management.

### Securing Treasury Websites Hosted by Third Parties

We plan to determine whether Treasury has adequate policies and procedures in place to safeguard Treasury websites hosted on third-party servers and to review existing statements of work and service level agreements to determine whether they adequately protect Treasury interests.

### Malware Incident Prevention and Handling

We plan to determine, through reviews of incidents identified by the Treasury Computer Security Incident Response Center, whether non-IRS Treasury bureaus' and offices' security controls are adequate to prevent and respond to malware attacks. Malware is software that has a malicious purpose.

### Oversight of Treasury Web Application Infrastructure

FMS maintains multiple financial and information systems to help it process and reconcile monies disbursed and collected by government agencies. These systems are also used to process agency transactions, record relevant data, transfer funds to and from Treasury, and facilitate reconciliation of those transactions. FMS relies on contractors and the Board of Governors to help carry out its financial management services. One such system, the Treasury Web Application Infrastructure—a secure infrastructure with Internet and dedicated telecommunications connectivity—is operated by the Board of Governors. The system is supposed to be completely separate from the Board of Governors' own payment systems and computing infrastructure.

We plan to determine whether FMS exercises adequate oversight of the Treasury Web Application Infrastructure.

### Treasury's Data Center Consolidation

We plan to determine whether Treasury has met OMB requirements for the federal data center consolidation initiative.

## Planned Projects by OIG Issue Area

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### Privacy/Personally Identifiable Information Protection

Section 522 of the Consolidated Appropriation Act of 2005 requires agency inspectors general to perform a periodic assessment of implementation of this section of the act.

We plan to determine Treasury's compliance with Section 522 and OMB requirements for privacy and personally identifiable information.

### Security Controls Over TreasuryDirect

We plan to determine whether BPD has adequate security controls to safeguard data and information processed on TreasuryDirect.

## Projects Under Consideration for Future Fiscal Years

### Application Vulnerability Assessments

We plan to determine whether specific Treasury applications are vulnerable to attacks and exploits. Specifically, we will assess a selection of applications created by or on behalf of Treasury bureaus and offices for security vulnerabilities.

### Equipment Disposal Process

We plan to assess Treasury's process for media sanitation and disposal decisions, considering the security category of the associated system.

### Security Controls Over BEP Manufacturing Systems

We plan to determine whether BEP maintains sufficient security controls to protect the control systems that operate its currency manufacturing equipment.

### Configuration Management Practices

We plan to determine whether Treasury bureaus have developed, tested, implemented, maintained, and monitored standard baseline configurations for IT assets under their control.

# Treasury General Management and Infrastructure Support: General Management

## Issue Area Discussion

In addition to financial management and information systems security, the Treasury General Management and Infrastructure Support issue area encompasses other management activities to ensure that the Department's resources are used efficiently and effectively to carry out Treasury programs and operations. Examples of broad management activities that warrant audit coverage are discussed below.

### IT Capital Investments

Sound business practices for the acquisition and maintenance of information systems (including hardware and software) are necessary to support Treasury's mission to manage resources effectively. Absent such practices, Treasury may

- develop or inadvertently acquire duplicate systems;
- pay higher prices for commercial off-the-shelf products by not obtaining volume discounts;
- develop systems that do not adequately address Treasury's needs or provide management with information needed to accomplish key missions;
- exceed projected or reasonable costs to develop, acquire, or maintain systems;
- acquire or develop systems that do not adequately secure and protect Treasury's classified, confidential, or sensitive information; or
- implement systems that do not readily integrate with existing systems.

Under the Clinger-Cohen Act of 1996, agencies are required to submit business plans for IT investments to OMB. In 2009, OMB replaced its Management Watch List with the IT Dashboard website, where agencies report details of their IT investments. The site allows users to track the projects' progress over time. To identify IT projects at risk for excess costs or schedule delays, the dashboard rates investments for cost and scheduling compared to Treasury's plan. For 2010, Treasury non-IRS bureaus reported 34 major IT investments. As of September 1, 2010, the Treasury Acting Chief Information Officer assigned one project, the Consolidated Enterprise Identity Management project, a "moderately high-risk" rating, indicating a "significant concern" about the project's ability to meet its intended goals and achieve its intended results. OMB included this project on its list of 26 high-risk projects. The Consolidated Enterprise Identity Management project has experienced cost and schedule problems. Projects identified as high-risk require special attention from the highest level of agency management but are not necessarily at risk of failure.



## Planned Projects by OIG Issue Area

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### Human Capital

The Department implemented an automated integrated human resources system called HR Connect. Funding to support this system is maintained through the Working Capital Fund. In its fiscal year 2010 congressional budget justification, the Department identified \$25.8 million and 33 full-time equivalent staff as the resources needed for HR Connect. These costs are billed to customers.

### Procurement

As of September 2010, Treasury has contracts valued at \$19 billion dollars issued by non-IRS bureaus. In fiscal year 2010, Treasury obligated approximately \$4 billion for contracts. Use of government credit cards for micropurchases (generally goods and services under \$3,000) is also extensive, and strong control over this activity is essential to prevent abuse. Approximately 70 percent of Treasury's purchases above the micropurchase level are through fixed-price contracts.

OIG is the Department's focal point for obtaining pre-award, costs incurred, and other contract audits requested by Treasury's Departmental Offices and the bureaus. These audits are typically performed by the Defense Contract Audit Agency and coordinated through our office.

### Nonappropriated Activities

Four Treasury bureaus (BEP, the Mint, OCC, and OTS) do not receive appropriated funds; instead, they operate with revolving funds. BEP and the Mint assess charges for manufactured goods, while OCC and OTS assess fees for regulatory activities. These four bureaus generally have greater latitude than Treasury's appropriated bureaus in how they conduct their operations.

### Potential Integrity Risks

Potential integrity risks may result from the actions of external parties (contractors, terrorists, drug lords, and hackers) or internal personnel (disgruntled or unethical employees). Internal personnel, for example, can disrupt Treasury functions, violate laws, award contracts for less than best value, receive bribes or kickbacks, steal or reveal sensitive data, and cost the taxpayer money through the theft of materials and machinery, finished products, and mutilated products.

In recent years, Treasury has experienced many operational changes that could affect its susceptibility to potential integrity risks. For example, during fiscal year 2010, Treasury was challenged with setting up the infrastructure to carry out Recovery Act programs, and in fiscal year 2011 will need to implement two new programs established by the Small Business Jobs Act of 2010 and stand up the Bureau of Consumer Financial Protection.

In addition, past audits have indicated that the Department has not effectively managed its capital investments (e.g., Treasury Building and Annex Repair and Restoration, the cancelled Treasury Communication Environment program, HR Connect). Certain capital investments, such as those for

## Planned Projects by OIG Issue Area

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telecommunications, are funded through the Department's Working Capital Fund. Such projects do not receive the same scrutiny by OMB and Congress as directly appropriated projects.

### In-Progress and Planned Fiscal Year 2011 Projects

#### Contract Audit Oversight Activities (Ongoing)

We will oversee and coordinate Defense Contract Audit Agency contract audit services requested by Treasury procurement officers.

#### Corrective Action Verification (Ongoing)

Treasury and bureau management are responsible for implementing agreed-to audit recommendations made by OIG. Management records its planned corrective actions in response to audit recommendations and the completion of those actions in the Joint Audit Management Enterprise System, a Treasury tracking system.

We will determine whether management has taken corrective action responsive to the intent of selected recommendations from prior OIG audit reports. In selecting recommendations for verification, we will also consider recommendations that have been open more than a year to assess progress made toward implementing planned actions. We plan to complete two corrective action verifications during fiscal year 2011.

#### Financial Innovation and Transformation Program (In Progress)

For fiscal year 2011, Treasury's budget includes \$17 million to develop and expand efforts to support shared, governmentwide financial solutions associated with agency financial management services (e.g., invoice processing, cash collections, interagency agreement management) in partnership with OMB. The Department's plan is to develop innovative solutions for transaction processing and financial report production that could offer efficiencies to agencies that include web-based access, automated data processing, readily available management reports, and public access to information.

We plan to determine whether (1) the pilot financial innovation and transformation project business case is based on appropriate and supportable assumptions and cost/benefit estimates, (2) sound project management principles are followed in carrying out the project, and (3) efforts are coordinated with the Chief Financial Officers Council to identify and facilitate the acquisition or development of systems governmentwide.

#### Enterprise Content Management System

For fiscal year 2011, Treasury's budget includes \$5 million to develop an enterprise content management system. The Department expects the system to provide organizations the capability to

## Planned Projects by OIG Issue Area

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capture, store, search, analyze, and share documents from internal and external sources, including citizens, corporations, intelligence, law enforcement, and financial communities.

We plan to determine whether (1) the pilot enterprise content management project business case is based on appropriate and supportable assumptions and cost/benefit estimates, (2) sound project management principles are followed in carrying out the project, and (3) efforts are coordinated with the Department's planning for document management systems Treasury-wide.

### Annex Repair and Maintenance Project

We plan to determine whether Treasury is following sound planning and other project management principles for the Annex Repair and Maintenance project. Treasury received \$11.5 million in 2009 and \$4.5 million in 2010 to make repairs to the building. Treasury's fiscal year 2011 budget does not include a request for additional funds for the repair and maintenance project.

### Consolidated Enterprise Identity Management

OMB identified Treasury's Consolidated Enterprise Identity Management system as a high-risk project. This system is a \$147 million effort to implement the requirements of Homeland Security Presidential Directive 12. The system has also been identified as being more than \$40 million over budget and significantly behind schedule.

We plan to determine whether sound project management principles are being followed in carrying out the project.

## Projects Under Consideration for Future Fiscal Years

### Classification of Treasury Information

The 9/11 Commission and others have observed that the over-classification of information interferes with accurate, actionable, and timely information sharing, increases the cost of information security, and needlessly limits stakeholder and public access to information. Over-classification of information causes considerable confusion over what information may be shared and with whom, and negatively affects the dissemination of information within the federal government and others. The recently enacted Reducing Over-Classification Act is intended to promote the proper classification of information. The act requires the inspector general of each department or agency with an officer or employee who is authorized to make original classifications, in consultation with the Information Security Oversight Office, to carry out no less than two evaluations of that department or agency's classification policies, procedures, rules, and regulations by September 30, 2016. The first such evaluation is required by September 30, 2013.

Consistent with the act, we plan to (1) assess whether applicable classification policies, procedures, rules, and regulations have been adopted, followed, and effectively administered within Treasury and

## Planned Projects by OIG Issue Area

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(2) identify policies, procedures, rules, regulations, or management practices that may be contributing to persistent misclassification of material within Treasury.

### Management of the National Seized Property Contract

The Treasury Executive Office for Asset Forfeiture administers the Treasury Forfeiture Fund, the receipt account for the deposit of nontax forfeitures made by IRS, FinCEN, TTB, other law enforcement components of Treasury so designated by the Secretary, Immigration and Customs Enforcement, Customs and Border Protection, Secret Service, Coast Guard, and Federal Law Enforcement Training Center. In 2007, the Treasury Executive Office for Asset Forfeiture contracted with VSE Corporation for general property services in support of the Treasury Forfeiture Fund's mission.

We plan to determine whether the contracting actions and practices for the national seized property contract were in compliance with policies, procedures, and guidelines established under the Federal Acquisition Regulation and with other applicable laws and regulations. Treasury Executive Office for Asset Forfeiture management requested this project.

We started this audit in fiscal year 2008 but suspended it to accommodate mandated work.

### Departmental Offices Procurement Activities

We plan to determine whether Departmental Offices follow logical and prudent business practices that comply with laws and regulations and Treasury policies and procedures when procuring goods and services.

### Treasury Secure Data Network

We plan to determine whether (1) the project business case for upgrading and enhancing the Treasury Secure Data Network, a classified communications system, is based on appropriate assumptions and cost/benefit estimates and (2) sound project management principles are followed in carrying out the project.

### Employee Bonus Policies at Nonappropriated Bureaus

We plan to determine whether (1) policies for employee bonuses at nonappropriated bureaus are in accordance with law and (2) bonuses paid conform to established policies. Separate audits are planned at each nonappropriated bureau.

### HR Connect Processing Controls

We plan to determine whether appropriate controls were implemented over the processing of personnel actions and over access to employee information in HR Connect, Treasury's human resources management system.

## Planned Projects by OIG Issue Area

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### IT Capital Planning and Investment Control Process

We plan to determine whether Treasury is appropriately managing its capital planning and investment process for IT projects. To address this objective, we will determine whether the Department is effectively focusing on system life-cycle security needs and can support its request for funding to address IT security considerations.

### Monitoring of Mandated Reports

We plan to determine whether Treasury has adequate monitoring controls in place to ensure the completion of presidentially and congressionally mandated reports.

### Audit Follow-up System

We plan to determine whether Treasury's audit follow-up system is effective to ensure that audit recommendations are promptly and properly acted upon and that progress on corrective actions is adequately monitored. This project is intended to complement our corrective action verifications on specific audits. As part of this audit, we plan to follow up on our recommendations in *General Management: Office of Management Needs to Improve Its Monitoring of the Department's Audit Follow-up Process*, OIG-08-037, (June 23, 2008).

### Resolution of Accountable Officer Irregularities

Accountable officers include certifying officers, disbursing officers, collecting officials, cashiers, and other officers or employees who are responsible for or have custody of public funds. Treasury Directive 32-04, Settlement of Accounts and Relief of Accountable Officers, establishes the policy and procedures to settle irregularities (erroneous or improper payments) in the accounts of accountable officers. Requests for relief of accountable officers from liability for irregularities exceeding established thresholds must be referred to GAO for resolution. The resolution of irregularities under these thresholds has been delegated to certain Treasury officials.

We plan to determine whether irregularities in the accounts of Treasury accountable officers are resolved in accordance with Treasury Directive 32-04.

### Responsiveness to Freedom of Information Act Requests

We plan to determine whether the Department and non-IRS bureaus (1) have adequate systems to record, track, and complete Freedom of Information Act requests in a timely manner; (2) provide points of contact and monitoring systems to ensure that inquiries regarding existing Freedom of Information Act requests have been properly addressed with the requesters; and (3) are compliant with the 1996 electronic Freedom of Information Act amendments to the act.

## Planned Projects by OIG Issue Area

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### Controls Over Purchase and Travel Cards

We plan to (1) identify weaknesses in internal controls over purchase and travel cards that could lead to fraud, waste, and abuse and (2) detect transactions that were prohibited or inadequately controlled.

### Telework Controls

We plan to determine whether Treasury and non-IRS bureaus have adequate policies, procedures, and controls over employee teleworking.

### Terrorist Financing, Money Laundering, and Foreign Assets Control

#### Issue Area Discussion

The Office of Terrorism and Financial Intelligence strives to safeguard the financial system against illicit use and combat rogue nations, terrorist facilitators, weapons of mass destruction proliferators, money launderers, drug traffickers, and other national security threats. The office oversees the Office of Terrorist Financing, Office of Intelligence and Analysis, FinCEN, and OFAC. The Office of Terrorist Financing handles the Office of Terrorism and Financial Intelligence policy and outreach. The Office of Intelligence and Analysis is responsible for the office's intelligence functions, integrating the Treasury Department into the larger intelligence community, and providing support to Treasury leadership. FinCEN is responsible for Treasury's effort to enforce BSA and the USA PATRIOT Act. OFAC administers laws that impose economic sanctions against hostile targets to further U.S. foreign policy and national security objectives.

BSA requires financial institutions to file Currency Transaction Reports for cash transactions exceeding \$10,000 and Suspicious Activity Reports for transactions that are suspicious in nature. Law enforcement uses these reports to identify and guard against fraud, money laundering, terrorist financing, and other types of illicit finance. FinCEN has focused its efforts in recent years on improving and increasing electronic filing of these reports. FinCEN is also in the process of implementing a BSA IT Modernization program that will reengineer BSA data architecture, update the infrastructure, implement more innovative web services and enhanced e-filing, and provide analytical tools.

Title III of the USA PATRIOT Act, among other things, requires each financial institution to establish an anti-money laundering program, extends the Suspicious Activity Report filing requirement to broker-dealers, requires financial institutions to establish procedures to verify the identities and addresses of customers seeking to open accounts, and requires FinCEN to maintain a highly secure network that allows financial institutions to file BSA reports electronically.

To better share information and improve coordination in ensuring that BSA is effectively implemented, FinCEN has a memorandum of understanding with the five federal banking agencies—OCC, OTS, FDIC, Board of Governors, and the National Credit Union Administration—and similar memoranda of understanding with IRS and most states and territories. FinCEN also has memoranda of understanding with the Securities and Exchange Commission and the Commodity Futures Trading Commission to enhance BSA compliance oversight in the nonbank financial sectors.

OFAC's authority to impose controls on transactions and to freeze foreign assets is derived from the President's constitutional and statutory wartime and national emergency powers. OFAC relies principally on authority under the Trading With the Enemy Act, International Emergency Economic Powers Act, and the United Nations Participation Act to prohibit or regulate commercial or financial

## Planned Projects by OIG Issue Area

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transactions involving specific foreign countries, entities, or individuals. OFAC maintains a close working relationship with other federal agencies to ensure that these programs are implemented properly and enforced effectively. Like FinCEN, OFAC has executed a memorandum of understanding with the five federal banking agencies to share information and improve coordination.

In September 2010, FinCEN proposed a regulatory requirement for financial institutions to report cross-border electronic transmittals of funds. If implemented, such a requirement will greatly assist law enforcement in detecting transnational organized crime, multinational drug cartels, terrorist financing, and international tax evasion according to FinCEN. While we do not have any specific proposals related to this initiative in this annual plan, we will monitor the area for planning future work.

### Potential Weaknesses

Prior OIG audits have found problems in either the detection of BSA violations or timely enforcement of BSA. In addition, recent market turmoil and strained financial markets may have diverted regulator and financial institution attention away from compliance with BSA requirements and OFAC controls. Also, attention to mortgage fraud may have taken some of law enforcement's attention away from possible terrorist financing and money laundering. During the last 2 years, our resources have also been significantly diverted to mandated reviews of Treasury-regulated failed banks and thrifts, and we have not been able to devote the attention to the Terrorist Financing, Money Laundering, and Foreign Assets Control issue area that we believe is necessary. With the recent increase to the threshold triggering a required material loss review (MLR) of a failed Treasury-regulated bank, we anticipate devoting a greater level of resources to the issue area in fiscal year 2011.

### Potential Integrity Risks

Treasury efforts to support law enforcement in the fight against terrorist financing, money laundering, and other financial crime are dependent on honest and complete reporting of currency transactions and suspicious financial activity. Potential integrity risks include (1) the failure by financial institutions to file required BSA reports; (2) filing of false or fraudulent BSA reports; (3) internal and external misuse or disclosure of sensitive BSA information contrary to law; (4) inappropriate handling or use of sensitive but unclassified, law enforcement-sensitive, or classified information; and (5) criminal violations of the foreign sanctions program. These risks are potentially exacerbated by the crisis in the financial markets.

## In-Progress and Planned Fiscal Year 2011 Projects

### FinCEN BSA Direct System (In Progress)

BSA Direct was to have been a data warehouse and retrieval system for BSA information. Its purpose was to improve authorized users' ability to access that information. The project repeatedly



## Planned Projects by OIG Issue Area

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missed program milestones and performance objectives and was terminated by FinCEN in 2006. The lessons learned from this project failure are important as FinCEN proceeds with its modernization of the BSA technical environment.

We are assessing FinCEN's efforts in planning, awarding, monitoring, resolving disparities, and reporting performance for the retrieval and sharing component of the BSA Direct contract. This project has been delayed to accommodate mandated MLR work.

### BSA IT Modernization Program (In Progress)

We plan to determine whether FinCEN has established an effective governance structure and process to manage its current IT modernization effort, a \$120 million initiative. Specifically, we plan to determine whether (1) the office or governing body responsible for making policy decisions, developing and approving requirements, and assigning responsibilities for the success of the project is complying with Treasury policies and procedures and (2) the office responsible for coordinating, evaluating, and prioritizing initiatives to monitor progress is ensuring that the work required by the modernization effort is properly communicated, has the proper resources committed, and has appropriate personnel accountable to manage its initiatives.

### Oversight of Terrorist Finance Tracking Program

After the terrorist attacks on September 11, 2001, Treasury initiated the Terrorist Finance Tracking Program to identify, track, and pursue terrorists and their networks. The European Union and the United States concluded negotiations in mid-2010 toward a new agreement on the transfer and processing of data in the Terrorist Finance Tracking Program to provide leads to prevent terrorist attacks and investigate many of the most visible and violent terrorist attacks and attempted attacks throughout the world.

We will determine whether the data on the Terrorist Finance Tracking Program are safeguarded and used in accordance with the intent of the program and the agreement. This is a continuous review.

### FinCEN Efforts to Ensure Compliance By Money Services Businesses With BSA Requirements (In Progress)

In 2005, our office issued an audit report recommending that FinCEN take actions to improve the registration program for money services businesses. Registration is the first and vital step in (1) identifying possible money laundering and terrorist financing, often perpetrated by unlicensed and unregistered money services businesses, (2) performing appropriate BSA examinations and monitoring filings of Suspicious Activity Reports, (3) monitoring compliance with OFAC sanctions, and (4) taking enforcement actions for BSA or OFAC violations. In 2009 and 2010, FinCEN issued proposed rules to tighten emerging threats associated with activities that often involve money services businesses. These include rules to more clearly delineate the scope of entities regulated as money services businesses and tightening rules associated with money services businesses that are

## Planned Projects by OIG Issue Area

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difficult to enforce, including the use of prepaid access cards (i.e., stored value cards) and the reporting of cross-border wire transfers. FinCEN also issued an advisory regarding the use of informal value transfer systems by unlicensed and unregistered money services businesses, citing several which had been involved in money laundering or violations of OFAC sanctions.

We plan to assess the effectiveness of FinCEN's actions to ensure compliance by money services businesses with BSA requirements and assess Treasury's efforts to ensure money services businesses have appropriate access to banking services.

### FinCEN Targeting of Fraudulent Loan Modification Schemes

We plan to review FinCEN's efforts and results under a multi-agency effort to target foreclosure rescue scams and loan modification fraud and identify possible areas for improving the program.

### Examination of Private Banking for Compliance With BSA

We plan to determine whether OCC's examination coverage of BSA compliance by national bank trust departments and banks offering private banking services is adequate.

We started this audit in fiscal year 2008 but suspended it to accommodate mandated work.

### FinCEN Monitoring of and Controls Over BSA Data

FinCEN shares BSA data, which is sensitive financial information, with a variety of law enforcement customers. One means of accessing the data is through the Gateway program, which allows users to access the IRS Currency and Banking Retrieval System, using a secure web application known as Secure Outreach. Over 4,600 users accessed the database in 2006, and the number of annual users has now climbed to over 10,000. FinCEN needs to ensure that the data are protected and not inappropriately accessed through browsing or other means. FinCEN's policy is to inspect users of BSA data every 3 years to ensure that security controls are adequate.

We plan to determine whether FinCEN is properly controlling and monitoring external access to BSA data.

## Projects Under Consideration for Future Fiscal Years

### FinCEN Memorandum of Understanding With Financial Institution Regulators

We plan to determine whether (1) FinCEN is receiving timely, complete, and reliable information under the memorandum of understanding and (2) the purpose of the memorandum of understanding (enhanced communication and coordination to help financial institutions identify, deter, and interdict terrorist financing and money laundering) is being achieved. To address these objectives, we plan to conduct audits at FinCEN and OCC.

## Planned Projects by OIG Issue Area

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### Security Clearances of Individuals Handling Sensitive Office of Terrorism and Financial Intelligence Information

We plan to determine whether adequate controls are in place to ensure that the Office of Terrorism and Financial Intelligence employees and contractor personnel with access to sensitive intelligence and other information have current and appropriate security clearances. We will coordinate this initiative with TIGTA because IRS maintains BSA data.

### OCC Implementation of Interagency Statement on Enforcement of BSA/Anti-Money Laundering Requirements

We plan to determine whether (1) OCC is using the guidance provided in the interagency statement to cite institutions with violations for not establishing or maintaining a BSA compliance program, (2) OCC is issuing cease and desist orders when warranted, (3) interagency guidance provides adequate detail, and (4) additional guidance is needed.

### FinCEN Information-Sharing Procedures (Section 314 of the USA PATRIOT Act)

The USA PATRIOT Act provides for the sharing of information between the government and financial institutions and among financial institutions regarding individuals, entities, and organizations engaged in or reasonably suspected of engaging in terrorist acts or money laundering activities. Effective March 1, 2005, FinCEN implemented a web-based secure communications system to expedite sharing of this information.

We plan to determine whether FinCEN has implemented an effective system to provide for the sharing of information in accordance with the USA PATRIOT Act.

### Financial Industry Use of Interdiction Software to Comply With OFAC Sanctions

To help financial institutions comply with its economic and trade sanctions, OFAC maintains a public list of targeted foreign countries, terrorists, international narcotics traffickers, and those engaged in activities related to the proliferation of weapons of mass destruction. While not required to do so by law, many financial institutions use commercial interdiction software to compare customers against the OFAC list. Although OFAC is aware that software is the main method that financial institutions use to identify and report OFAC-related violations, OFAC does not approve any particular packages for use.

We plan to determine what best practices exist in the federal government to manage risks associated with software packages sold by the private sector for use by federal agencies to comply with laws and regulations.

## Planned Projects by OIG Issue Area

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### Timely Filing of Currency Transaction Reports

We plan to determine whether effective controls are in place to (1) monitor the timeliness of covered institutions' filing of Currency Transaction Reports and (2) ensure that appropriate enforcement action is taken when warranted.

### FinCEN Civil Penalties for BSA Program Violations

We plan to determine (1) whether FinCEN is assessing civil penalties for BSA violations when appropriate, (2) how the penalties are coordinated with the regulatory agencies, and (3) how the amounts of the penalties are established.

### OCC's BSA and USA PATRIOT Act Compliance Examinations and Enforcement Actions

Our most recent comprehensive review of OCC's BSA compliance examination program was in fiscal year 2000.

We plan to determine the effectiveness of OCC's programs to conduct supervisory activities and, when necessary, take enforcement actions to ensure that national banks have controls in place and provide the requisite notices to law enforcement to deter and detect money laundering, terrorist financing, and other related criminal acts.

### Treasury Executive Office of Asset Forfeiture's Use of Treasury Forfeiture Fund Receipts to Support Law Enforcement

Our most recent audit of the use of equitable sharing funds by local government agencies was in fiscal year 1996, when we found significant instances of misuse of or poor accountability over these funds.

We plan to determine whether the Treasury Executive Office of Asset Forfeiture has appropriate controls to (1) distribute funds to eligible law enforcement agencies in accordance with applicable laws, regulations, and policies and (2) ensure that distributed receipts are used for intended purposes. As part of this work, we plan to determine whether selected state and local government agencies use equitable sharing of funds in accordance with Treasury guidelines.

### Anti-Money Laundering Regulations for the Real Estate Industry

The USA PATRIOT Act includes entities involved in real estate closings and settlements within its definition of financial institutions and requires those entities to comply with anti-money laundering requirements unless Treasury specifically exempts them. In 2003, FinCEN issued an advance notice of proposed rulemaking and asked the real estate industry for help in assessing risks and defining who is involved in transactions. FinCEN has not yet issued regulations.

We plan to assess the progress of FinCEN's efforts to issue anti-money laundering regulations for the real estate industry.

## Planned Projects by OIG Issue Area

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### Compliance by Money Services Business Industry With Sanction Programs

We plan to determine whether OFAC is effectively coordinating with IRS, the regulator of the money services business industry, to ensure its compliance with OFAC requirements.

### Adequacy of Modified Currency Transaction Report Exemption Procedures

We plan to determine whether FinCEN's modified regulatory requirements for Currency Transaction Report exemption reporting by depository institutions has increased the efficiency and effectiveness of Currency Transaction Report reporting.

### Electronic Banking and BSA Compliance

Most online banking involves traditional financial institutions that have typical walk-in banking but also offers customers the ability to conduct business online. These traditional banks require customers to open accounts in person and prove their identity using a government-issued identification card, such as a driver's license. However, certain financial institutions conduct all of their business online, allowing customers to open accounts without ever setting foot in a "storefront" location.

We plan to determine how OCC ensures that adequate customer identification and customer due diligence controls are in place for financial institutions that conduct business extensively or exclusively online.

### Financial Institution Filing of Reports to OFAC and FinCEN on Blocked Transactions

In December 2004, FinCEN advised institutions subject to suspicious activity reporting under BSA that under certain circumstances, reports filed with OFAC of blocked transactions with designated terrorists, foreign terrorist organizations, and narcotics traffickers and trafficker kingpins would also fulfill the requirement to file Suspicious Activity Reports with FinCEN for such transactions. (i.e., a separate Suspicious Activity Report to FinCEN on the same blocked transaction would no longer be required). If the institution has information not included on the blocking report filed with OFAC, however, a Suspicious Activity Report containing that information must still be filed with FinCEN.

We plan to determine whether OFAC and FinCEN have implemented adequate controls to ensure that the information in reports filed with OFAC on blocked transactions is made available to law enforcement through FinCEN databases as appropriate.

### Reporting of Suspicious Transactions by Insurance Companies

We plan to determine what steps FinCEN has taken to assess initial insurance industry compliance with BSA.

## Planned Projects by OIG Issue Area

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### Intelligence Support Provided by the Office of Intelligence and Analysis

The Intelligence Authorization Act for fiscal year 2004 established the Office of Intelligence and Analysis and assigned it responsibility for receiving, analyzing, collating, and disseminating foreign intelligence and foreign counterintelligence information related to Treasury operations and responsibilities.

We plan to assess progress by the Office of Intelligence and Analysis in meeting its responsibilities under the Intelligence Authorization Act.

### OFAC Memorandum of Understanding With Financial Institution Regulators

OFAC has executed a memorandum of understanding with the five federal banking agencies to better share information and improve coordination. The purpose of the memorandum of understanding was to help OFAC fulfill its role as administrator and enforcer of economic sanctions and to help the regulators fulfill their roles as banking organization supervisors.

We plan to determine whether (1) OFAC is receiving timely, complete, and reliable information under the April 2006 memorandum of understanding with the federal banking regulators and (2) whether the memorandum of understanding is achieving its purpose of helping OFAC administer and enforce economic sanctions and helping banking regulators fulfill their roles as banking organization supervisors. We plan to conduct audit work at OFAC and OCC.

### OFAC Policies and Procedures

We plan to determine whether OFAC has adequately documented its current policies, procedures, and practices.

### OCC BSA Enforcement

The recent banking crisis has raised concerns that banks, focused on safety and soundness concerns, may not have paid sufficient attention in recent years to BSA compliance.

We plan to determine whether OCC is performing adequate BSA examinations and is taking timely and sufficient enforcement action against banks when substantive violations of BSA requirements are found. As part of this audit, we plan to follow up on corrective actions taken in response to our prior audit reports, *Office of the Comptroller of the Currency Bank Secrecy Act Examinations Did Not Always Meet Requirements*, OIG-00-027, (Jan. 3, 2000) and *Bank Secrecy Act-OCC Did Not Take Formal Enforcement Action Against Wells Fargo Bank for Significant BSA Deficiencies*, OIG-06-034, (Aug. 18, 2006).

### Securities Industry Reporting of Suspicious Transactions

We plan to determine whether FinCEN has taken adequate steps to ensure that securities industry companies comply with BSA reporting requirements.

## Planned Projects by OIG Issue Area

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### Status of FinCEN Efforts to Address Risks Associated With Use of Stored Value and Prepaid Cards

Recent estimates suggest that consumer spending using stored value and prepaid cards is now more than \$250 billion. Because these cards can be carried in wallets with credit cards, are often indistinguishable from credit cards, and can often be used anonymously, they are a potential vehicle for money launderers or terrorists. In fact, law enforcement officials have expressed concern that prepaid cards are being increasingly used and estimate \$50-100 billion is being annually laundered across the border by Latin American and Canadian drug cartels from U.S. illegal drug sales.

We plan to evaluate FinCEN's progress in identifying and addressing money-laundering and terrorist-financing risks associated with the use of stored value and prepaid cards.

### Controls Over Intelligence Sharing

During fiscal year 2004, we completed an evaluation requested by the Treasury General Counsel that found issues in the process by which certain Treasury bureaus and offices obtained intelligence information. Our evaluation report on these matters, OIG-CA-04-003, is classified.

We plan to assess the current state of intelligence sharing within Treasury.

### Intelligence Oversight Board Reporting

The Intelligence Oversight Board of the President's Foreign Intelligence Advisory Board has an important role in keeping the President informed of issues arising from intelligence activities, as provided in Executive Order 12863. This order requires each intelligence community General Counsel and Inspector General to report to the board regarding intelligence activities they may have reason to believe may be unlawful or contrary to executive order or any other presidential directive. The board, in turn, reports any such activities to the President. We plan to determine whether Treasury has established internal guidelines, practices, and procedures for complying with the requirements of Executive Order 12863.

### Governmentwide Financial Services and Debt Management

#### Issue Area Discussion

FMS provides central payment services to federal agencies, operates the federal government's collections and deposit systems, provides governmentwide accounting and reporting services, including preparation of the Financial Report of the United States Government, and manages collection of delinquent debt owed the federal government.

FMS's goal is to provide reliable and accurate processing of federal payments, which is an essential part of supporting the U.S. economy. These payments total approximately \$2.3 trillion annually. FMS issues nearly a billion payments a year by paper check and electronic funds transfer. FMS also collects approximately \$2.9 trillion in payments to the government through approximately 9,000 financial institutions annually. Nearly \$2.5 trillion of this amount is collected electronically. Since enactment of the Debt Collection Improvement Act of 1996, FMS has collected over \$47.9 billion in delinquent debt. Prompt referral of eligible delinquent debts to Treasury by federal program agencies is critical to the success of collection efforts. In fiscal year 2010, FMS collected \$5.5 billion of delinquent debt, including economic recovery payments. Due to competing priorities in our office, FMS programs have received little performance audit coverage during recent years.

BPD borrows the money needed to operate the federal government, accounts for the resulting debt, and provides reimbursable support services to federal agencies. The goal of Treasury debt management is to achieve the lowest borrowing costs over time, and Treasury debt managers commit to regular and predictable debt issuance in pursuing this goal. Treasury debt management decisions are made through deliberate and distinct processes, taking into account new information as it may become available.

The federal debt has two major components; Debt Held by the Public and Intragovernmental Holdings. Debt Held by the Public is the federal debt held by individuals, corporations, state or local governments, foreign governments, and other entities outside the U.S. government. Types of securities held by the public include Treasury Bills, Treasury Notes, Treasury Bonds, Treasury Inflation-Protected Securities, U.S. Savings Bonds, State and Local Government Series securities, Foreign Series securities, and Domestic Series securities. Intragovernmental Holdings are primarily Government Account Series securities held by federal government trust funds, revolving funds, and special funds. As of September 30, 2010, the total federal debt outstanding was \$13.6 trillion, of which \$9 trillion was Debt Held by the Public and \$4.6 trillion was Intragovernmental Holdings. The interest expense on the federal debt for fiscal year 2009 was \$381 billion and \$414 billion for fiscal year 2010.

Like FMS, BPD's operations demand modernized electronic and information system technology. BPD implemented the TreasuryDirect system in 2002. TreasuryDirect holds more than 600,000



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accounts. We have not performed any recent performance audits of BPD's programs for managing the public debt.

### Potential Integrity Risks

Integrity risks associated with governmentwide financial services and debt management, affecting either FMS or BPD or both agencies, include fraud and abuse by means of (1) unauthorized access to sensitive information, (2) filing false applications and claims, (3) providing false statements to obtain federal assistance or funds, (4) diversion of benefit proceeds, (5) check forgery, (6) promised services not delivered, and (7) misuse and mismanagement of federal funds. Furthermore, program risks related to this issue area include the inability to collect debt, inability to recover in a disaster, misallocation of program costs, and disruption of the federal payment function and service to the public. The changing nature of crime and recent technological innovations require that law enforcement look for and implement new ways to identify and prevent future criminal activity.

To minimize potential integrity risks, OIG plans to explore the use of data-mining methods to analyze FMS payments to reveal hidden patterns relating to trends, relationships, and correlations between the data. These data have the potential to reveal trends and patterns that could identify ongoing fraud and abuse directed against or occurring within FMS.

## In-Progress and Planned Fiscal Year 2011 Projects

### FMS Controls Over Disbursement Activities (In Progress)

We plan to determine, through a series of audits involving both electronic funds transfers and check payments, whether FMS has adequate internal controls over its disbursement process to ensure the integrity of payments.

### FMS Controls Over Routing Transit Numbers

The Board of Governors establishes and assigns routing transit numbers to federal agencies, including Treasury.

We plan to conduct a review to (1) determine whether internal controls over access to routing transit numbers assigned to Treasury are adequate; (2) identify possibly abusive, inappropriate, or fraudulent transactions for further inquiry; and (3) assess, in coordination with the Board of Governors OIG, whether any weaknesses found have governmentwide implications.

### FMS Debit Card Program for Social Security Benefits

U.S. Debit Card is an FMS program managed by JPMorgan Chase that lets federal agencies deliver funds through debit cards, providing an electronic alternative to checks, drafts, and imprest funds. A

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subset of the program, Direct Express Card, is managed by Comerica and provides an electronic funds transfer alternative for unbanked Social Security and Supplemental Security Income recipients.

We plan to determine whether controls over information about debit card recipients are adequate and whether sound acquisition practices were followed in the selection of the financial agents.

### Administrative Resource Center User Fee Collection and Reimbursable Agreements

The Administrative Resource Center is an office within BPD. Its mission is to provide administrative support—including accounting, travel, personnel management, and procurement services—to various federal agencies. The Administrative Resource Center operates as a franchise fund and therefore does not receive appropriated funds, relying instead on reimbursable revenue from its customers. It has 19 Treasury customers and 49 non-Treasury customers.

We plan to determine whether the Administrative Resource Center has appropriate agreements for its services and a proper accounting system to (1) operate independent of BPD funding; (2) ensure proper, timely reimbursement by federal agencies for its services; and (3) account for the full costs it incurs for providing services.

## Projects Under Consideration for Future Fiscal Years

### Acquisition of Banking Services by FMS

The Consolidated Appropriations Act of 2004 authorized a permanent, indefinite appropriation for FMS to use to acquire banking services. Previously, these services were paid for through compensating balances maintained with financial institutions.

We plan to determine whether FMS followed sound business practices and applicable law in acquiring banking services.

### FMS Oversight of Lockbox Operations

FMS selects financial institutions to provide lockbox remittance services for federal agencies. Lockbox processing was adopted to accelerate deposits to Treasury's General Account at the Federal Reserve Bank of New York. Agencies instruct remitters to mail payments directly to a Treasury-designated lockbox bank. The bank processes remittance advices according to FMS and agency instructions and transfers deposits daily to the Board of Governors for credit to agency accounts. Treasury compensates lockbox banks for their services. For fiscal year 2010, total lockbox collections were approximately \$295 billion, of which nontax collection was almost \$27 billion.

We plan to determine whether FMS oversight of lockbox financial agents is effective.

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### Debt Check

FMS's Debt Check is an Internet-based system intended to help agencies bar delinquent debtors from obtaining new loans, loan guarantees, or loan insurance. Agencies can search the Debt Check database to confirm whether assistance applicants owe delinquent nontax debt to the federal government or delinquent child support. Rollout of Debt Check was completed in 2004, and three agencies are using the system.

We plan to determine whether FMS has implemented the Debt Check program effectively. As part of this audit, we plan to assess the controls over the accuracy and completeness of Debt Check data.

### Implementation Strategy for Revenue Collection

Merchants, including federal entities that accept payments by credit or debit card, incur fees that are paid to banks to process the transactions. To identify potential savings from cards and other collection mechanisms, FMS initiated a pilot program in 2007 to review each federal entity's overall revenue collections. According to a 2008 GAO report, *Credit and Debit Cards: Federal Entities Are Taking Actions to Limit Their Interchange Fees, but Additional Revenue Collection Cost Savings May Exist*, GAO-08-558 (May 15, 2008), FMS had reviewed and identified potential improvements at eight entities as of March 2008 but had not developed a full implementation strategy to expeditiously achieve the goals of the program. GAO recommended that FMS develop such a strategy, including timelines for completion, cost savings estimates, and assessment of needed resources.

We plan to determine whether FMS has taken action to develop a full implementation strategy for its revenue collection review program and evaluate its effectiveness.

### FMS Control of Its Card-acquiring Bank's Interchange Management

In fiscal year 2010, FMS collected approximately \$9.1 billion in revenue through credit and debit cards and paid interchange fees of approximately \$122.7 million. Interchange fees are payments that card-acquiring banks—banks that have a contract with a merchant to provide processing services for card payments—make to banks that issued the cards. In August 2006, FMS designated one bank as the sole provider of card-acquiring services for card payments it receives.

We plan to determine whether FMS is monitoring its card-acquiring bank's interchange management adequately. As part of this audit, we plan to follow up on findings from GAO's 2008 report on federal agencies' actions to limit the interchange fees they pay, GAO-08-558.

### Treasury Check Information System

The Treasury Check Information System records and reconciles the worldwide issuance and payment of Treasury checks and allows end users to query Treasury's Payments, Claims and Enhanced Reconciliation system for claim status on Automated Clearing House payments. The system enables

## Planned Projects by OIG Issue Area

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agencies to access all claim information in one system and is accessible through a standard web browser. The Treasury Check Information System was fully implemented in June 2006.

We plan to determine whether (1) FMS has implemented appropriate security controls over the Treasury Check Information System and (2) the system is achieving its intended purposes.

### Delinquent Debt Referrals to FMS

Prompt referral of eligible debt to FMS by federal program agencies is critical to the success of collection efforts.

We plan to evaluate FMS's efforts to work with creditor federal agencies to ensure that they refer delinquent nontax debt in accordance with the Debt Collection Improvement Act.

### Internet Payment Platform

The Internet Payment Platform is an Internet-based payment information portal provided by FMS for use, free of charge, to federal agencies and their vendors. It was established to improve the flow of information between federal agencies and suppliers by providing a centralized location to exchange electronic purchase orders, invoices, and related payment information. The system is available to all federal agencies and their suppliers.

We plan to determine whether FMS implemented proper security measures and controls for the portal.

### Survey of Treasury Securities Programs

BPD uses public auctions to sell marketable Treasury-issued securities to institutional and individual investors. The Department offers four types of securities—bills, notes, bonds, and inflation-protected securities—and conducted 293 public auctions in 2010. Treasury auctions occur on a set schedule and have the following three steps: (1) announcement of the auction, (2) bidding, and (3) issuance of the purchased securities. Our last examination of BPD's auction process for Treasury securities was during fiscal year 2000.

We plan to perform a survey of the auction process for Treasury securities and related controls to identify areas that, based on our assessment of risk, should be audited in more depth.

### Electronic Collection Methods

FMS collected \$537 billion in funds received by non-IRS agencies in fiscal year 2010. Most of the funds were collected electronically. GAO reported in November 2009 that FMS is implementing a plan to improve collections, but the plan excludes important cost considerations and does not use all available incentives. GAO recommended that FMS strengthen oversight of the costs of collecting federal fees and receipts.

## Planned Projects by OIG Issue Area

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We plan to determine what actions FMS has taken to increase the use of electronic collections and to lower the cost of collections.

### Survey of the Federal Financing Bank

Created by Congress in 1973, the Federal Financing Bank is a government corporation under the general supervision of the Secretary of the Treasury. Its mission is to reduce the costs of federal and federally assisted borrowings, to coordinate those borrowings with federal fiscal policy, and to ensure that those borrowings are done in ways least disruptive to private markets. To accomplish this mission, the Federal Financing Bank has broad statutory authority to purchase obligations issued, sold, or guaranteed by federal agencies. Our office has not previously conducted performance audit work of Federal Financing Bank programs and operations.

We plan to perform a survey of the Federal Financing Bank to identify areas that, based on our assessment of risk, should be audited in more depth.

### Safety, Soundness, and Accessibility of Financial Services

#### Issue Area Discussion

One of the Treasury's strategic objectives is to provide a flexible legal and regulatory framework that ensures a safe and sound national financial system promoting the growth of financial services, access to financial services, and fair treatment of banking and thrift customers. Two important components of this financial system are the nation's banking and thrift industries, with over \$9.1 trillion in combined assets. Two Treasury bureaus, OCC and OTS, are the main regulatory agencies responsible for overseeing these industries. OCC and OTS fund their operations largely through assessments levied on the financial institutions and from various licensing fees.

OCC is responsible for licensing, regulating, and supervising approximately 1,500 nationally chartered banks and 51 federal branches or agencies of foreign banks. OCC-supervised banks hold over \$8.2 trillion in commercial banking assets. OCC has approximately 3,000 employees located throughout the United States.

OTS charters, regulates, and supervises the vast majority of the nation's savings associations, commonly referred to as "thrifts." OTS supervises approximately 753 thrifts, with approximately \$931 billion in total assets. OTS also supervises approximately 441 U.S.-domiciled holding company enterprises, with approximately \$4.1 trillion in consolidated assets. OTS has approximately 1,000 employees located in Washington, D.C., and in four regional offices.

OCC and OTS share four strategic goals: (1) a safe and sound national banking and thrift system; (2) fair access to financial services and fair treatment of customers; (3) a flexible legal and regulatory framework that enables their respective industries to provide a full competitive array of financial services; and (4) an expert, highly motivated, and diverse workforce.

The coming year will see a major reorganization of the two Treasury regulators. Specifically, Dodd-Frank requires the transfer of the powers, duties, and functions of OTS to OCC, FDIC, and the Board of Governors by July 21, 2011. (The Treasury Secretary, however, may extend the transfer up to 6 months.)

From September 2007, through September 2010, 294 commercial banks and thrifts failed, resulting in an estimated \$72 billion in losses to the Deposit Insurance Fund. Of these 294 failures, 89 were Treasury-regulated banks or thrifts. Our office is mandated by section 38(k) of the Federal Deposit Insurance Act to review and produce a written report on failures of Treasury-regulated financial institutions that result in material losses to the Deposit Insurance Fund. The law also requires that the report be completed within 6 months after it becomes apparent that a material loss has incurred. Dodd-Frank raised the threshold loss amount triggering an MLR to \$200 million for 2010 and 2011, \$150 million for 2012 and 2013, and \$50 million in 2014 and thereafter, with a provision for

## Planned Projects by OIG Issue Area

increasing the threshold to \$75 million under certain circumstances. The prior threshold loss amount was the greater of \$25 million or 2 percent of the institution's total assets. During the current economic crisis, we have completed 21 MLRs and are engaged in 31 others.

As a new requirement, Dodd-Frank requires that for any failure of a Treasury-regulated bank or thrift with a loss to the Deposit Insurance Fund under the threshold triggering a mandated MLR, we conduct a review that is limited to determining (1) the grounds identified by the Treasury regulator for appointing FDIC as receiver and (2) whether any unusual circumstances exist that might warrant an in-depth review of the loss. For each 6-month period, OIG is also to prepare a written report to the Treasury regulator and Congress that (1) identifies any loss that warrants an in-depth review, why such review is warranted, and when the review will be completed and (2) for losses for which we determine that no in-depth review is warranted, explains how we came to this determination. To meet this reporting requirement, we plan to issue separate reports to the Treasury regulator on each review conducted and summarize our determinations in the semiannual report to Congress required under the Inspector General Act.

Enacted at the end of fiscal year 2010, the Small Business Jobs Act created two new Treasury programs. The Small Business Lending Fund provides Treasury with \$30 billion for capital investments in eligible institutions in order to increase the availability of credit for small businesses. The State Small Business Credit Initiative provides up to \$1.5 billion allocable to participating states to fund a variety of programs to encourage lending.

## In-Progress and Planned Fiscal Year 2011 Projects

### Reviews of Failed Treasury-Regulated Banks (In Progress)

The purpose of an MLR is to provide (1) an independent analysis of why the institution failed and resulted in a material loss; (2) evaluate the relevant regulator's supervision of the institution; and (3) as appropriate, make recommendations to prevent similar losses in the future.

The table below lists 31 MLRs and in-depth loss reviews that are in process as of September 30, 2010. Out of these 31 reviews, 24 are being performed by OIG staff and 7 are being performed by contractors.

Financial institution	Location	Regulator	Date closed	Estimated loss to the Deposit Insurance Fund
The First National Bank of Anthony	Kansas	OCC	06/19/09	\$30,500,000
Ebank	Georgia	OTS	08/21/09	\$63,000,000
Guaranty Bank	Texas	OTS	08/21/09	\$3,000,000,000
Bradford Bank	Maryland	OTS	08/28/09	\$96,300,000

## Planned Projects by OIG Issue Area

Financial institution	Location	Regulator	Date closed	Estimated loss to the Deposit Insurance Fund
Vantus Bank	Iowa	OTS	09/04/09	\$166,800,000
Platinum Community Bank	Illinois	OTS	09/04/09	\$95,700,000
Corus Bank, N.A.	Illinois	OCC	09/11/09	\$932,800,000
Irwin Union Bank, F.S.B.	Kentucky	OTS	09/18/09	\$125,000,000
Partners Bank <sup>1</sup>	Florida	OTS	10/23/09	\$28,600,000
Flagship National Bank	Florida	OCC	10/23/09	\$58,200,000
California National Bank <sup>2</sup>	California	OCC	10/30/09	\$991,200,000
Park National Bank <sup>2</sup>	Illinois	OCC	10/30/09	\$695,500,000
San Diego National Bank <sup>2</sup>	California	OCC	10/30/09	\$413,000,000
Pacific National Bank <sup>2</sup>	California	OCC	10/30/09	\$250,100,000
Pacific Coast National Bank	California	OCC	11/13/09	\$26,100,000
Century Bank, F.S.B.	Florida	OTS	11/13/09	\$342,800,000
First Security National Bank <sup>1</sup>	Georgia	OCC	12/04/09	\$29,700,000
AmTrust Bank	Ohio	OTS	12/04/09	\$2,100,000,000
Greater Atlantic Bank <sup>1</sup>	Virginia	OTS	12/04/09	\$35,100,000
Republic Federal Bank, N.A.	Florida	OCC	12/11/09	\$115,100,000
Peoples First Community Bank	Florida	OTS	12/18/09	\$549,900,000
New South Federal Savings Bank <sup>1</sup>	Alabama	OTS	12/18/09	\$211,900,000
First Federal Bank of California, F.S.B. <sup>1</sup>	California	OTS	12/18/09	\$144,400,000
Charter Bank <sup>1</sup>	New Mexico	OTS	01/22/10	\$191,800,000
First National Bank of Georgia	Georgia	OCC	01/29/10	\$224,400,000
La Jolla Bank, F.S.B.	California	OTS	02/19/10	\$858,700,000
Waterfield Bank <sup>1,3</sup>	Maryland	OTS	03/05/10	\$54,000,000
Unity National Bank <sup>3</sup>	Georgia	OCC	03/26/10	\$67,000,000
Riverside National Bank of Florida	Florida	OCC	04/16/10	\$571,300,000
Amcore Bank, N.A.	Illinois	OCC	04/23/10	\$284,500,000
TierOne Bank	Nebraska	OTS	06/04/10	\$300,100,000

<sup>1</sup> The MLR is being performed by a contractor under OIG supervision.

<sup>2</sup> These were four of nine failed banks owned by a single holding company. Three of the nine banks were regulated by FDIC. The other six banks were regulated by OCC, but two did not meet the statutory threshold for an MLR.

<sup>3</sup> At the time of the bank's failure, an MLR of the bank was required. However, with the increased loss threshold triggering an MLR enacted as part of Dodd-Frank, an MLR is no longer required. Because the audit field work was substantially done we are completing the audit as an in-depth loss review pursuant to Section 38(k).



## Planned Projects by OIG Issue Area

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For failed financial institutions with estimated losses under the MLR threshold, we will (1) determine the grounds identified by the Treasury regulator for appointing FDIC as receiver; and (2) determine whether any unusual circumstances exist that might warrant an in-depth review of the loss.

### Transfer of OTS Functions

Dodd-Frank requires that by mid-January 2011 OCC, FDIC, the Board of Governors, and OTS jointly submit a plan to Congress and their respective OIGs detailing the steps to transfer OTS's functions. Within 60 days of receipt, the OIGs are to jointly report to their respective agencies and to Congress on whether the plan conforms with relevant requirements of the transfer.

Accordingly, and in coordination with the OIGs of FDIC and the Board of Governors, we are to determine whether the plan (1) sufficiently takes into consideration the orderly transfer of personnel; (2) describes procedures and safeguards to ensure that OTS employees are not unfairly disadvantaged relative to employees of OCC and FDIC, (3) takes into consideration the orderly transfer of authority and responsibilities, (4) sufficiently takes into consideration the effective transfer of funds, and (5) sufficiently takes into consideration the orderly transfer of property. Our joint report is also to provide any additional recommendations for an orderly and effective process.

Going forward, every 6 months until all aspects of the plan have been implemented, we (Treasury OIG, FDIC OIG, and the Board of Governors OIG) are to jointly report on the status of the implementation of the plan to the affected agencies and to Congress.

### State Small Business Credit Initiative

We plan to assess Treasury's processes to allocate, approve, and monitor federal funding to the states for eligible programs and activities under the Small Business Jobs Act of 2010. Our audit work during 2011 will be conducted at Treasury and select states, and is expected to result in a number of audits as this program is implemented.

### Small Business Lending Fund

We plan to assess the process established by Treasury to invest in financial institutions under the Small Business Lending Fund established by the Small Business Jobs Act of 2010. Our audit work will be conducted at Treasury and OCC, and is expected to result in a number of audits as this program is implemented.

### Prompt Regulatory Action (In Progress)

As part of a joint review with FDIC OIG and the Board of Governors OIG, we plan to assess the use by OCC and OTS of the prompt regulatory action provisions in the Federal Deposit Insurance Act. We plan to determine (1) to what extent were section 38 capital and section 39 non-capital provisions triggered during the current crisis, (2) what happened to the banks that triggered the prompt regulatory action provisions, (3) whether the provisions allow regulators to resolve banks

## Planned Projects by OIG Issue Area

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with minimal loss, (4) whether the provisions help to identify bank problems early, and (5) whether the provisions prompt regulators to take enforcement actions.

### Bureau of Consumer Financial Protection (In Progress)

In coordination with the Board of Governors OIG, we plan to determine Treasury's authorities and whether they are being carried out in an appropriate manner with respect to standing up and performing the functions of the Bureau until the Bureau is transferred to the Board.

### OCC Identification of Emerging Risks (In Progress)

We plan to determine whether OCC has effective processes to identify emerging risks to financial institution safety and soundness and to address any risks identified.

### OCC Examinations of Bank Foreclosure Practices (In Progress)

We plan to assess OCC's examination processes to ensure banks follow appropriate procedures to foreclose on defaulted home mortgages. We will initially focus on examination coverage of banks with large mortgage servicing operations.

### Supervision of Banks Seeking Charter Conversion

We plan to determine (1) the charter conversion process for banks that wish to change their bank charter or regulator, (2) the criteria used by OCC to make charter conversion decisions, and (3) verify OCC's compliance with guidelines when making approval decisions.

### Supervisory Use of Individual Minimum Capital Requirements

We plan to determine whether OCC is properly applying capital restrictions and risk-weighting to institutions they supervise. We will assess (1) OCC's use of individual minimum capital requirements as an enforcement action, (2) the criteria used to calculate the capital requirement, and (3) how the minimum capital requirements are enforced.

### Corrective Actions Addressing MLR Recommendations (Follow-up)

We plan to assess the corrective actions taken by OCC and OTS to our recommendations in MLR reports issued during the current economic crisis.

### Supervision of Home Loan Modification Programs (In Progress)

We plan to determine whether OCC examination processes are adequate to ensure that banks have implemented effective programs to modify troubled mortgages when appropriate.

## Planned Projects by OIG Issue Area

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### Federal Insurance Office

Title V of Dodd-Frank establishes the Federal Insurance Office to address problems and concerns in the regulation of insurers that could contribute to a systemic crisis in the insurance industry or the U.S. financial system.

We plan to determine whether the Federal Insurance Office is effectively accomplishing its mandate as set forth in section 502 of the act including, among other things (1) monitoring all aspects of the insurance industry, (2) monitoring traditionally underserved communities and consumers, (3) making recommendations to the Financial Stability Oversight Council, (4) assisting the Treasury Secretary in administering the Terrorism Insurance Program, (5) coordinating federal efforts and development of federal policy on prudential aspects of international insurance matters, and (6) consulting with states on insurance matters of national importance and prudential insurance matters of international importance.

### Office of Financial Research

We plan to determine whether the establishment and functioning of the Office of Financial Research results in the effective accomplishment of the office's legislative mandate as outlined in Title I, Subtitle B, of Dodd-Frank.

## Projects Under Consideration for Future Fiscal Years

### Small Bank Supervision

We plan to assess the unique safety and soundness challenges facing small banks and OCC's supervisory response to those challenges. Preliminarily, our focus will be on institutions with total assets of \$250 million or less.

### Examination Coverage of Identity Theft Risk at Third-Party Service Providers

We plan to determine whether OCC examinations of third-party service providers that receive customer information subject to the Financial Privacy Act from banks and thrifts are adequate to mitigate identify theft risk.

### Risk Management of Securities at Financial Institutions

We plan to determine whether OCC is effectively monitoring the risk that derivatives, collateralized debt obligations, committed preferred securities, and trust preferred securities pose to financial institutions.

## Planned Projects by OIG Issue Area

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### Establishment of Depository Institution Peer Groups

We plan to determine the criteria and process used to establish peer groups that serve as the basis for statistical comparisons of depository institutions.

### Examination Coverage of Identity Theft Risk at Banks and Thrifts

We plan to determine the effectiveness and adequacy of OCC examinations in determining whether financial institutions have sufficient controls to prevent or mitigate identity theft.

### Protection of Financial Services Sector Critical Infrastructure

We plan to determine the effectiveness of (1) Treasury's coordination with private sector entities to protect the critical infrastructure of the financial services sector and (2) Financial Services Information Sharing Analysis Centers, which gather threat, vulnerability, and risk information about cyber and physical security risks faced by the financial services sector, in establishing open communication and information sharing between entities in the financial services sector and the federal government.

### Examinations of Large Institutions

We plan to assess the effectiveness and adequacy of OCC examinations of institutions with assets exceeding \$100 billion.

### OCC Risk-based Supervision

We plan to determine how lessons learned during the current economic crisis have been incorporated into OCC's risk based supervision program.

### Assessment of Interest Rate Risk

We plan to evaluate how OCC is evaluating and analyzing interest rate risk during examinations.

### Safeguards Over Financial Institutions' Sensitive Information

We plan to determine whether OCC examiners adhere to policies and procedures for safeguarding financial institutions' sensitive information obtained during the examination process.

### Adequacy of Examinations of Nonbanking Activities of Banks

We plan to determine the adequacy and effectiveness of OCC examinations of nonbanking activities of regulated financial institutions and their affiliates.

### Revenue Collection and Industry Regulation

#### Issue Area Discussion

TTB administers collection of federal excise taxes on tobacco, alcohol, and firearms and ammunition. The bureau is also responsible for regulation of the alcohol and tobacco industries, ensuring that alcohol and tobacco products are properly labeled, advertised, and marketed. In addition, the bureau ensures fair trade practices and facilitates the international trade of alcohol beverage products. TTB administers and enforces the (1) Internal Revenue Code pertaining to the excise taxation and authorized operations of alcohol and tobacco producers and related industries; (2) Federal Alcohol Administration Act; (3) Alcohol Beverage Labeling Act; and (4) Webb-Kenyon Act, which prohibits the shipment of alcohol beverages into a state in violation of the state's laws. The bureau is headquartered in Washington, D.C., and its tax and permit processing center, the National Revenue Center, is located in Cincinnati, Ohio. TTB also has 10 district offices and 16 field offices in the United States and Puerto Rico. The field offices house the Trade Investigations Division (7 field offices) and Tax Audit Division (9 field offices). Some field offices are shared by TTB auditors and investigators. TTB has alcohol and tobacco laboratories in Maryland and California.

During fiscal year 2010, TTB collected \$23.8 billion in excise taxes and other revenue from about 7,100 excise taxpayers. In fiscal year 2010, 3,002 TTB taxpayers filed and paid excise taxes electronically.

TTB regulates the alcohol and tobacco industries to protect consumers from fraud and deception. The bureau processes applications to enter into the alcohol and tobacco industries and ensures that alcohol beverages are produced, labeled, advertised, and marketed, in accordance with federal law. The bureau reviews labels and formulas for domestic and imported beverage alcohol products and maintains public access to approved Certificates of Label Approval, which are required for every alcoholic beverage. In fiscal year 2010, the bureau approved approximately 132,600 certificates. At year-end, 79 percent of Certificate of Label Approval applications were filed electronically. TTB monitors labeling compliance through the Alcohol Beverage Sampling Program and tests samples of products in its in-house laboratories.

The Treasury Secretary has authority for Customs revenue functions, and this oversight is carried out by the Office of Tax Policy. The Homeland Security Act of 2002 transferred the former U.S. Customs Service from Treasury to the Department of Homeland Security in March 2003, where it became Customs and Border Protection. However, as provided by the act, Treasury retained sole authority to approve any regulations concerning import quotas or trade bans, user fees, marking, labeling, copyright and trademark enforcement, and the completion of entry or substance of entry summary, including duty assignment and collection, classification, valuation, application of the U.S. Harmonized Tariff Schedules, eligibility or requirements for preferential trade programs, and the

## Planned Projects by OIG Issue Area

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establishment of related recordkeeping requirements. Treasury also reviews Customs and Border Protection rulings involving these topics if they constitute a change in practice.

### Potential Weaknesses

Our resources have been diverted to mandated work for the last several years, and we have not been able to devote the attention to this area that we believe necessary. We have not completed any performance audits of TTB or the Customs revenue function since 2006.

### Potential Integrity Risks

The major integrity risk regarding revenue collection and industry regulation is the failure by industry members to pay all taxes due, either intentionally or otherwise, coupled with the risk that the TTB tax verification and audit program would not detect these underpayments. Intentional failure to pay all taxes due would likely require deceit or fraud on the part of taxpayers and, as in the case with any regulatory or oversight agency, could potentially include attempts on the part of these business entities to corrupt government officials through bribery or other means to gain an unfair competitive advantage. Similarly, fraudulent manufacturers or distributors could create a risk for consumers by placing unsafe or deceptively advertised products into the marketplace. In addition, contaminated products could reach the marketplace inadvertently. With respect to formulating tax policy, regulations, and rulings, a risk exists of undue influence by parties who could potentially benefit from Treasury positions on tax matters.

## In-Progress and Planned Fiscal Year 2011 Projects

### TTB Alcohol and Tobacco Permit Program

We plan to determine whether TTB has effective controls to ensure that alcohol and tobacco permits are issued only to qualified persons and businesses.

## Projects Under Consideration for Future Fiscal Years

### TTB Collection Procedures

We plan to determine whether TTB has effective collection procedures for delinquent accounts and, if so, is using these procedures to encourage prompt payment.

### TTB Alcohol and Tobacco Laboratories

We plan to determine whether TTB alcohol and tobacco laboratories are providing timely and responsive service to TTB program units.

## Planned Projects by OIG Issue Area

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### TTB Designation of American Viticultural Areas

An American Viticultural Area is a designated wine-grape-growing region with features that affect the growing conditions of the area (climate, soil, elevation, physical features) and that distinguish it from surrounding areas.

We plan to determine whether adequate controls are in place over TTB's program to designate American Viticultural Areas.

### Coordinating Participation in the International Trade Data System Project

The SAFE Port Act formally established the International Trade Data System, a system for processing imports and exports. The system is operated by Customs and Border Protection in collaboration with 43 agencies. The act gave the Treasury Secretary responsibility for coordinating interagency participation in the system.

We plan to determine whether Treasury is fulfilling its responsibility under the SAFE Port Act.

### TTB Online Certificate of Label Approval

We plan to determine whether the online label approval system is effective.

### TTB Cover-Over Payment Program

Among TTB's responsibilities is processing refunds, credits, and reimbursements of excise taxes to private and public entities. These refunds totaled about \$713 million for fiscal year 2010. The largest single type of refund processed is called a cover-over payment, which involves federal excise taxes collected on rum produced in Puerto Rico and the Virgin Islands and imported into the United States. Approximately 78 percent of this excise tax is eventually paid back—or “covered over”—into the treasuries of Puerto Rico and the Virgin Islands. In fiscal year 2010, TTB processed \$387 million of these cover-over reimbursements to the treasuries of Puerto Rico and the Virgin Islands combined.

We plan to determine whether TTB has adequate controls to ensure that cover-over reimbursement is made for the correct amount and in a timely manner.

### TTB Safeguards Over Taxpayer Information

We plan to determine whether TTB has adequate safeguards to ensure the security of taxpayer returns and return information.

## Planned Projects by OIG Issue Area

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### TTB Payments for Tax Refunds for Products Lost in Natural Disasters

We plan to determine whether effective controls are in place to ensure that claims presented to TTB for excise tax refunds for alcohol and tobacco products lost or destroyed in natural disasters are legitimate and accurate.

### Manufacturer Nonbeverage Drawback Program

When a manufacturer uses alcohol to produce a food, flavor, medicine, or perfume that is approved by TTB's Nonbeverage Products Laboratory as unfit for beverage purposes, the manufacturer can claim a return, or drawback, on most of the distilled spirits excise tax paid.

We plan to determine whether TTB is adequately protecting excise tax revenue through its review of nonbeverage product manufacturers and their claims for drawback.

### TTB Review of Foreign Beverages

TTB is responsible for ensuring that alcoholic beverages are safe, including those entering the market from foreign countries. Since TTB does not have access to foreign production plants, it monitors foreign beverage products by conducting a pre-import review, which could include laboratory analysis. TTB monitors post-market products by collecting random or targeted samples from retail outlets and sending samples to TTB laboratories for analysis.

We plan to evaluate TTB's efforts to ensure the safety of imported beverage products through pre-import activities, post-market sampling, and laboratory analysis.

### TTB Use of Collateral to Protect Revenue

TTB protects excise tax revenue by mandating that taxpayers pledge collateral—such as a bond, note, or securities—to offset tax liability if payments are not made.

We plan to determine whether TTB is ensuring that taxpayers maintain adequate collateral to protect tax revenue.

### TTB Use of Offers in Compromise to Collect Revenue

TTB uses adverse actions to administratively resolve willful violations of laws and regulations it administers by manufacturers and distributors of alcohol, tobacco, and firearms and ammunition. Offers in compromise are one form of adverse action. An offer in compromise is an agreement between the government and alleged violator in lieu of civil proceedings or criminal prosecution.

We plan to determine whether TTB is appropriately utilizing the offers-in-compromise mechanism to collect all taxes due.



## Planned Projects by OIG Issue Area

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### TTB Background Investigations

We plan to determine if TTB staff with access to sensitive tax return data have up-to-date background investigations.

### Bill and Coin Manufacturing, Marketing, and Distribution Operations

#### Issue Area Discussion

This issue area focuses on the programs and operations of BEP and the Mint.

BEP produces U.S. currency and other security documents issued by the federal government. Its other activities include engraving plates and dies; manufacturing certain inks used to print security products; purchasing materials, supplies, and equipment; and storing and delivering products in accordance with the requirements of the Board of Governors and other customers; and processing claims for the redemption of mutilated paper currency. In addition, BEP provides technical assistance and advice to other federal agencies on the design and production of documents that require counterfeit deterrence. BEP's has production facilities in Washington, D.C., and Fort Worth, Texas.

In fiscal year 2010, BEP delivered 6.4 billion Federal Reserve notes to the Board of Governors compared to 6.2 billion delivered in 2009. BEP plans to deliver redesigned NexGen \$100 notes to the Board of Governors in February 2011. However, problems have been reported in the production process of these notes.

The Mint's principal mission is to produce the nation's circulation coinage for trade and commerce. In addition to its headquarters in Washington, D.C., the Mint has four production facilities, located in Philadelphia, Pennsylvania; West Point, New York; Denver, Colorado; and San Francisco, California. It also has a bullion depository at Fort Knox, Kentucky.

In fiscal year 2010, the Mint manufactured 5.4 billion coins for the Board of Governors compared to 5.2 billion produced in fiscal year 2009. The Mint expects circulating coin production volumes in 2011 to improve slightly over 2010.

In fiscal year 1996, the Mint Public Enterprise Fund was created to enable the Mint to operate as a revolving fund. All receipts deposited into the fund are available for Mint operations and the cost of safeguarding government assets in the Mint's custody, without fiscal year limitations. (Even though the Mint is not dependent on appropriated funds, its spending authority is approved each fiscal year.) The Treasury Secretary must annually determine the amount of excess in the fund that is not needed for the Mint operations and programs, and the excess is transferred to the Treasury General Fund for deposit as a miscellaneous receipt. For fiscal year 2010, the Mint transferred \$388 million to the Treasury General Fund.

#### Potential Weaknesses

Because their operations are financed through revolving funds, BEP and the Mint are subject to less congressional scrutiny than appropriated agencies. The Mint also has greater flexibility in conducting

## Planned Projects by OIG Issue Area

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its procurement and personnel activities. For example, the Mint is exempt from the Federal Acquisition Regulation. Continued prudent use of its fund authority flexibilities is necessary to ensure a maximum return to the Treasury General Fund.

### Emerging Issue Affecting BEP

In November 2006, a federal judge ruled that the Department's failure to design, produce, and issue paper currency that is readily distinguishable to blind and visually impaired people violated federal law. In May 2008, a federal appeals court ruled that the U.S. discriminates against blind and visually impaired people by producing currency that they cannot recognize without the assistance of others, confirming the 2006 decision. In September 2008, after a meeting with BEP and Department of Justice attorneys, a federal judge ruled that the next generation of \$5, \$10, \$20, and \$50 bills must be manufactured so that blind and visually impaired people can tell them apart. This ruling did not affect the design of the new \$100 bill that is to become available in February 2011, but future designs must ensure that all denominations, except for the \$1 bill, be distinguishable from other bills. While we do not have any specific work planned related to this issue at this time, we are monitoring it closely and will plan and prioritize future work accordingly.

### Potential Integrity Risks

Past audits have noted various weaknesses in BEP security. The most recent, in fiscal year 2008, *Bill and Coin Manufacturing: BEP Needs to Enforce and Strengthen Controls at Its Eastern Currency Facility to Prevent and Detect Employee Theft*, OIG-08-036, (Jun. 12, 2008), found that a theft at the Eastern Currency Facility occurred because BEP failed to ensure that production supervisors enforced, and employees adhered to, existing internal controls. Additionally, no policies and procedures were in place to investigate production discrepancies. We believe that there are several potential integrity risks associated with Treasury's manufacturing operations. Potential integrity risks exist from external parties, such as contractors, terrorists, drug lords, and hackers, and from internal personnel, such as disgruntled or unethical employees, who can (1) disrupt Treasury functions, (2) violate laws, (3) award contracts for less than best value, (4) receive bribes or kickbacks, (5) steal or reveal sensitive data, and (6) steal materials and machinery, finished products, and mutilated products.

## In-Progress and Planned Fiscal Year 2011 Projects

### Mint Production Scheduling (In Progress)

We are examining how the Mint determines demand for its products and schedules production to meet expected demand. As part of our work, we are looking at the Presidential \$1 Coin Program and the Mint's approach to implementing new coin programs. We are also reviewing actions taken by the Mint in response to our prior report, *Manufacturing Operations: The Mint Suspends Its FY 2002 Planned Production of Golden Dollar Coins*, OIG-02-066, (Mar. 19, 2002). This project has been delayed to accommodate mandated work.

## Planned Projects by OIG Issue Area

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### BEP's Production Process of the NexGen \$100 Notes (In Progress)

In response to significant problems encountered by BEP in the production process and at the request of the Department, we plan to assess (1) the planning and implementation of the NexGen \$100 notes and the events that led to problems in their production; (2) the physical security over the notes that have been produced; (3) BEP's plans for the disposition of those notes; and (4) BEP's actions, taken and planned, to address any ongoing production problems.

### Mint Controls Over the Sales of Limited-Production, Investment-Grade Products (In Progress)

We plan to determine whether the Mint has adequate controls to ensure the broadest and most fair access to its products.

### Mint Coin Exchange Program (In Progress)

We plan to determine whether the Mint has established appropriate accountability and security for coin exchange program activities.

## Projects Under Consideration for Future Fiscal Years

### Mint Procurement Operations

We plan to determine whether the Mint follows logical and prudent business practices when procuring goods and services.

### BEP Continuity of Operations Planning

We plan to determine whether BEP has comprehensively developed and tested continuity of operations plans for currency production should a major disruption occur at one or both its production facilities.

### BEP Evaluation of Contract Proposals

We plan to determine whether BEP has a methodology for documenting and reviewing bids received to ensure that it is receiving the best value.

### BEP Controls Over Security (Follow-up)

In fiscal year 2004, we reported that the dual reporting structure for security operations at BEP's two currency facilities has resulted in inconsistent policies and practices.

We plan to determine whether BEP's Western Currency Facility and Eastern Currency Facility security offices are consistently implementing security policies and practices. As part of this audit, we will follow up on corrective actions to the related recommendations in our prior report, *General*

## Planned Projects by OIG Issue Area

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*Management: Controls Over Security Need to be Improved at the Bureau of Engraving and Printing*, OIG-04-035, (June 29, 2004), [report is designated as for limited official use].

### BEP Background Investigations of Personnel

We plan to determine whether BEP's background investigation procedures are adequate and implemented effectively. As part of this audit, we will follow up on the recommendations in our prior report, *General Management: The Bureau of Engraving and Printing's Controls Over Background Investigations Need to be Improved*, OIG-03-004, (Oct. 16, 2002).

### BEP Capital Investment Program

We plan to determine whether BEP's capital investment program ensures that all capital needs are being identified and that sufficient funds are being allocated to meet current and future capital needs.

### BEP Police Officer Training and Firearms Requalification

We plan to determine whether BEP policies for training and firearms requalification of police officers are consistent, appropriate, and followed at its two production facilities. As part of this audit, we will follow up on corrective actions to the related recommendations in our prior report, *General Management: Controls Over Security Need to be Improved at the Bureau of Engraving and Printing*, OIG-04-035, (June 29, 2004), [report is designated as for limited official use].

### BEP Employee Safety

We plan to determine what policies and procedures BEP uses to ensure safe working conditions in its production facilities and how the policies and procedures are being implemented. We will audit each of BEP's production facilities separately, starting with the Eastern Currency Facility.

### Domestic and International Assistance Programs

#### Issue Area Discussion

Treasury plays an important role in a number of domestic and international assistance programs that have a significant impact on the economy. Domestic programs range from those that enhance the availability of financial education, credit, investment capital, and financial services to communities around the United States, to programs that assist in coping with the effects of the current economic conditions. Treasury's role in these areas expanded under the Housing and Economic Recovery Act of 2008, the Emergency Economic Stabilization Act of 2008 (which created TARP and a Special Inspector General to oversee that program), and the Recovery Act of 2009. International programs address the role of international financial institutions and promote economic stability and growth in other countries.

To address economic conditions and stabilize the housing market, the Housing and Economic Recovery Act and the Recovery Act created several domestic assistance programs within Treasury under our jurisdictional oversight.

#### Housing and Economic Recovery Act

The purpose of the act is to address problems and concerns in the mortgage and banking industries. The Housing and Economic Recovery Act assigned Treasury new authorities and responsibilities. Among other things, the act established the Federal Housing Finance Agency as an independent agency to oversee Fannie Mae, Freddie Mac, and the Federal Home Loan Banks (also referred to as government-sponsored enterprises). The act also established the Federal Housing Finance Oversight Board to advise the agency with respect to overall strategies and policies in carrying out its responsibilities. The Treasury Secretary is a member of this board.

- **Government sponsored enterprises.** In connection with the increased federal regulatory oversight of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks, the Housing and Economic Recovery Act increased Treasury's authority over existing lines of credit to the entities that gave the Treasury Secretary standby, unlimited authority to buy stock or debt in them. Before doing so, the Secretary must make an emergency determination that use of the authority is necessary to stabilize markets, prevent disruptions in mortgage availability, and protect the taxpayer. As discussed in the financial management issue area of this plan, Treasury purchased senior preferred stock in the entities and initiated the mortgage-backed securities purchase program to purchase mortgage-backed securities issued by the entities. In addition, Treasury implemented the Housing Finance Agency Initiative with two programs to support state and local housing finance agencies. Through those programs, Treasury purchased securities from Fannie Mae and Freddie Mac backed by state and local Housing Finance Agency bonds (New Issue Bond Program) and participation interests in liquidity facilities

## Planned Projects by OIG Issue Area

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provided to the housing finance agencies by Fannie Mae and Freddie Mac (Temporary Credit and Liquidity Program). Treasury's investment in these activities as of September 30, 2010, is discussed in the financial management issue area of this plan.

- **Capital Magnet Fund.** The Housing and Economic Recovery Act also authorized a new program for the CDFI Fund to administer—the Capital Magnet Fund. It is intended to create a new source of grants for both rental and for-sale housing, as well as for community and economic development. The program is suppose to increase the flow of capital to organizations that will engage in housing-related investments. The fund will be a competitive grant program to attract private capital. There are two types of eligible grantees under the fund, (1) CDFIs that have been certified by the CDFI Fund and (2) nonprofit organizations having as one of their principal purposes the development or management of affordable housing. The eligible grant activities and entities eligible to receive grants through the Capital Magnet Fund are also significantly expanded. These factors are inherently risky from both an operational and an integrity standpoint.
- **Hope for Homeowners Program.** The HOPE for Homeowners Program established under the Housing and Economic Recovery Act is a refinancing assistance program that insures up to \$300 billion of mortgages through the Federal Housing Administration. The program began on October 1, 2008, and sunsets on September 30, 2011. In connection with this program, Treasury is authorized to issue up to \$300 billion of callable federal credit instruments, to be known as HOPE Bonds, to provide the subsidy amounts necessary for the loan guarantees, including administrative costs. As of September 30, 2010, Treasury had issued \$463 million in HOPE Bonds.

### Recovery Act

The purpose of the Recovery Act is to provide relief during the current economic downturn by expanding tax, bond, and cash assistance to segments of the economy most affected. Treasury is responsible for overseeing an estimated \$150 billion provided through tax relief and Recovery Act funding. An estimated \$22 billion is funding administered by Departmental Offices through two tax credit exchange programs that provide payments in lieu of tax credits for specified energy properties and payments in lieu of tax credit allocations to states for rehabilitation and development of low-income housing projects. Treasury's total estimated cost/impact in these areas is discussed in the financial management issue area of this plan.

### Domestic Assistance

Treasury provides assistance to promote economic growth and raise the standard of living in distressed communities in the United States by increasing the availability of business capital and financial services. The CDFI Fund, for example, promotes access to capital and local economic growth by (1) directly investing in, supporting, and training CDFIs that provide loans, investments, financial services, and technical assistance to underserved populations and communities;

## Planned Projects by OIG Issue Area

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- (2) providing incentives to banks to invest in their communities and in other CDFIs; and
- (3) providing financial and other assistance to Native CDFIs and other Native entities proposing to become or create Native CDFIs through its Native Initiatives. The New Markets Tax Credit program provides investors with a tax credit for investing in communities that are economically distressed or consist of low-income populations. Treasury's CDFI Fund is authorized to allocate tax credit authority under the program to Community Development Entities, which manage the program's investments in low-income community development projects. In return for a tax credit, investors supply capital to Community Development Entities.

The CDFI Fund's activities have been affected by recent economic events, resulting in significant funding increases and new program initiatives in fiscal years 2009, 2010, and 2011. Funding for the competitive grant programs doubled in fiscal year 2009, with a \$100 million increase provided through the Recovery Act. In fiscal year 2010, the competitive grant programs were funded \$145 million and the Capital Magnet Fund, a program discussed in more detail above, received \$80 million for its inaugural funding round. The New Markets Tax Credit program has also expanded, with additional allocation authority provided through the Recovery Act that increased the 2008 and 2009 allocation rounds to \$5 billion each. The program was supported at this same level in fiscal year 2010.

The fiscal year 2011 budget proposes increases to CDFI Fund grant programs to \$227 million, which includes funding for two new community development initiatives. The Bank On USA is an initiative that is intended to provide grants to CDFIs to promote access to affordable financial services and consumer credit and is budgeted at \$50 million. The Healthy Food Financing Initiative is a joint project with the departments of Agriculture and Health and Human Services that will provide access to nutritious foods for those living in underserved urban and rural communities. Proposed funding for this initiative is \$10 million. Of the \$5 billion allocation authority proposed for the New Markets Tax Credit program in fiscal year 2011, \$250 million will be used to attract investments that will support the Healthy Food Financing Initiative.

### International Assistance

A prosperous world economy serves the United States in many ways, including creating markets for U.S. goods and services and promoting stability and cooperation among nations. Treasury focuses on preventing crises and minimizing the impact of those that occur. International financial institutions, such as the International Monetary Fund and the multilateral development banks, including the World Bank, play a key role in enabling global economic growth and stability.

The Office of International Affairs oversees U.S. interests in international financial institutions. The United States participates in these institutions to support poverty reduction, private sector development, the transition to market economies, and sustainable economic growth and development; and thereby to advance U.S. economic, political, and commercial interests abroad. Treasury has the responsibility for ensuring that these institutions appropriately use the resources the



## Planned Projects by OIG Issue Area

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United States contributes, and for this reason systematically reviews how these institutions use the money the U.S. government has invested in them. Improving the effectiveness of the multilateral development banks has been a high priority for the administration. Accordingly, Treasury has been pursuing a reform agenda that emphasizes raising living standards and reducing poverty; measuring the results of U.S. contributions; and strengthening efforts to stimulate private-sector investment, promote good government and the rule of law, and fight corruption.

### Committee on Foreign Investment in the United States

The Committee on Foreign Investment in the United States was delegated the presidential function, authorized by section 721 of the Defense Production Act of 1950, to investigate the merger or acquisition of U.S. companies by foreign persons for national security implications. The Treasury Secretary chairs the committee, and the Office of International Affairs manages this function on the Secretary's behalf. As of July 2007, the committee is required to annually report on (1) whether there is credible evidence of a coordinated strategy by one or more countries or companies to acquire U.S. companies involved in research, development, or production of critical technologies for which the United States is a leading producer and (2) whether there are industrial espionage activities directed or directly assisted by foreign governments against private U.S. companies aimed at obtaining commercial secrets related to critical technologies. The importance of this work has grown significantly with the growth of foreign investment into the United States and the sharp increase in transactions filed with the committee.

### Potential Integrity Risks

We believe that integrity risks for domestic and international assistance programs include the potential (1) unauthorized release of sensitive or classified data; (2) falsification of applications or statements; (3) misuse or mismanagement of federal funds, including irregularities in the award of contracts and misallocation of grant proceeds, payments in lieu of tax credits, or federal tax credits; and (4) failure to deliver on promised services. Of particular concern would be contracts that may be let, or grants, or tax credits, or cash payments in lieu of tax credits that may be awarded, without following standard operating procedures that include appropriate monitoring of funded activities. In addition, we recognize that program risks could exist that include the failure to promote economic growth within financially underserved areas of the United States or to foster economic stability in other nations. There may also be a corresponding loss of credibility with taxpayers in this country or a loss of U.S. credibility on an international level if these Treasury programs do not function as intended.

### In-Progress and Planned Fiscal Year 2011 Projects

#### Recovery Act Oversight

The overall objective of our audit oversight of Treasury's Recovery Act programs is to evaluate management's accountability, control, and oversight of the Department's non-IRS funds and provide recommendations for improving operations and preventing fraud, waste, and abuse with respect to those funds. Through a series of audits, described below, we will determine whether Treasury timely and effectively implemented program activities for awarding Recovery Act funding.

##### CDFI Fund Administration of Recovery Act Funds (In Progress)

We plan to determine whether the CDFI Fund timely and effectively awarded the additional \$100 million in funding provided under the Recovery Act for grant program activities. We plan to (1) assess eligibility of potential award recipients, (2) evaluate effectiveness of internal control over grant awards, and (3) ensure recipient compliance with award requirements. Audit work for this project began in April 2009 and will continue in fiscal year 2011.

##### Specified Energy Property Grants in Lieu of Tax Credits (In Progress)

We plan to determine whether Treasury is timely and effectively implementing activities for awarding and monitoring energy grant reimbursements under the Recovery Act. We plan to assess (1) the eligibility of potential award recipients, (2) internal control procedures to prevent recipients from improperly receiving both energy tax credits and grants, and (3) whether recipients are in compliance with award requirements. Audit work for this project began in April 2009 and will continue in fiscal year 2011.

##### Low-Income Housing Grants in Lieu of Tax Credits (In Progress)

We plan to determine whether Treasury is timely and effectively implementing activities for awarding and monitoring Recovery Act grants. We will assess (1) the eligibility of potential grant applicants at both the state and subaward level, (2) the effectiveness of internal control procedures to prevent subawardees from improperly receiving both tax credits and grants, and (3) subawardees' compliance with award requirements. Audit work for this project began in April 2009 and will continue in fiscal year 2011.

##### New Markets Tax Credit Program Award Process and Compliance Monitoring (In Progress)

We plan to determine the effectiveness of the New Markets Tax Credit program's (1) application and tax credit allocation process, (2) assessment of the eligibility of potential award recipients, (3) internal control over and monitoring of program awards, and (4) process for ensuring recipient compliance with tax credit allocation agreements. We will focus on the effectiveness of the CDFI Fund's allocation of the increased authority provided by the Recovery Act and follow up on issues identified

## Planned Projects by OIG Issue Area

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in GAO's 2010 report, *New Markets Tax Credit: The Credit Helps Fund a Variety of Projects in Low-Income Communities, but Could Be Simplified*, GAO-10-334, (Jan. 29, 2010). Audit work for this project began in February 2010 and will continue in fiscal year 2011.

### Survey of Treasury's Responsibilities Under the Housing and Economic Recovery Act (In Progress)

We plan to determine how Treasury plans to carry out its responsibilities under the Housing and Economic Recovery Act. We will also identify any additional audit work that should be considered in this area. Survey work for this project began in February 2010 and will continue in fiscal year 2011.

### Purchases of Government-Sponsored Enterprises' Mortgage-Backed Securities

We plan to determine the reasonableness of Treasury's process and methodology for purchasing mortgage-backed securities in Fannie Mae and Freddie Mac. We plan to (1) assess the process for tracking performance and determining the health of these entities, (2) determine compliance with investment guidelines, and (3) review the collection process for the preferred stock purchase program's commitment fee.

### CDFI Fund Awards to OneUnited Bank (In Progress)

Initiated because of recent media attention surrounding this financial institution and a Member of Congress, we plan to determine whether Bank Enterprise Awards and other CDFI Fund financial assistance to OneUnited Bank were made in accordance with applicable laws, regulations, and CDFI Fund policies and procedures.

## Projects Under Consideration for Future Fiscal Years

### CDFI Fund Administration of the Capital Magnet Fund

We plan to determine whether the CDFI Fund established adequate controls for awarding and administering Capital Magnet Fund grant activities. Specifically, we will (1) review whether funds are properly and timely awarded to eligible recipients; (2) evaluate the effectiveness of the program for providing needed funding to finance the development, rehabilitation, and purchase of affordable housing for low-income persons; and (3) ensure that awardees are leveraging award dollars that will provide a dedicated source of funding.

### Implementation of the Foreign Investment and National Security Act of 2007

The Foreign Investment and National Security Act of 2007 was enacted to strengthen the process by which acquisitions are reviewed and investigated. Final regulations to implement the act became effective in December 2008.

We plan to determine whether the committee has implemented the act in a manner to achieve its national security objectives.

## Planned Projects by OIG Issue Area

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### Committee on Foreign Investment in the United States Procedures to Identify Nonfilers

We plan to determine the effectiveness of measures that the Committee on Foreign Investment in the United States has implemented to identify foreign investors who have not filed with the committee.

### Office of International Affairs Performance Measures

We plan to assess the performance measures used by the Office of International Affairs.

### Office of International Affairs Oversight of Multilateral Development Banks' Anti-Corruption Programs

We plan to determine the effectiveness of the Office of International Affairs' efforts to promote and monitor anti-corruption programs at the multilateral development banks.

### Oversight of the North American Development Bank

The North American Development Bank is a financial institution capitalized and governed equally by the United States and Mexico. Its purpose is to finance environmental projects certified by the Border Environment Cooperation Commission.

We plan to determine whether the Office of International Affairs provides appropriate oversight of funds disbursed to the North American Development Bank.

# Appendix A: Office of Audit

## Fiscal Year 2011 Resource Allocation

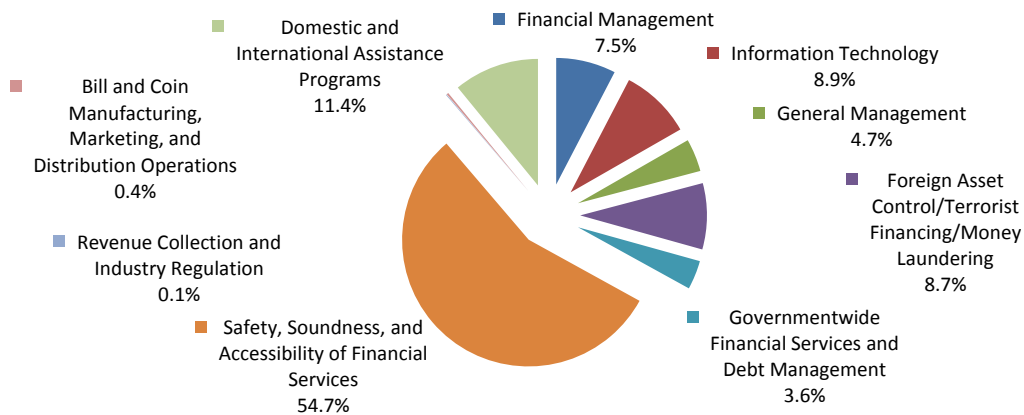
Our planned OIG staff resource utilization by the three priority areas for fiscal year 2011 is shown in the following chart:

### Fiscal Year 2011 OIG Resource Allocation by Audit Priority



Our planned OIG audit staff resource allocation by OIG Issue Area is shown in the following chart:

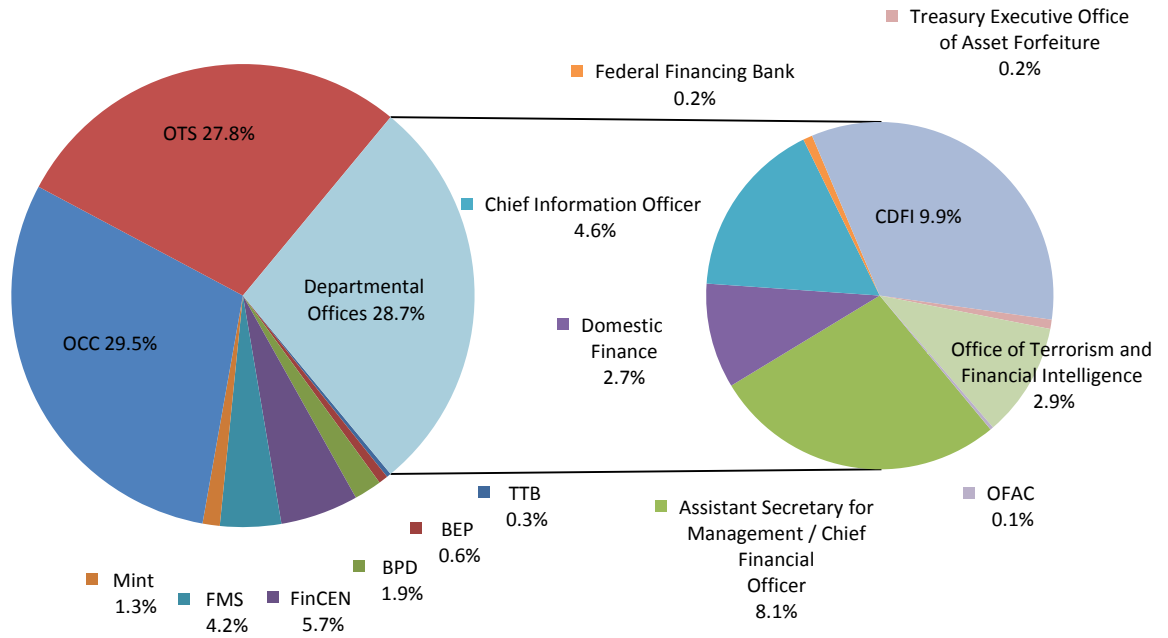
### Fiscal Year 2011 OIG Resource Allocation by OIG Issue Area



## Appendix A: Office of Audit Fiscal Year 2011 Resource Allocation

The chart below shows planned OIG audit staff allocation by Treasury headquarters operational component and bureau:

### FY 2011 OIG Resource Allocation by Treasury Component



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## Abbreviations

BEP	Bureau of Engraving and Printing
BPD	Bureau of the Public Debt
BSA	Bank Secrecy Act
CDFI Fund	Community Development Financial Institutions Fund
Dodd-Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
FDIC	Federal Deposit Insurance Corporation
Board of Governors	Board of Governors of the Federal Reserve System
FinCEN	Financial Crimes Enforcement Network
FISMA	Federal Information Security Management Act of 2002
FMS	Financial Management Service
GAO	Government Accountability Office
IT	information technology
IRS	Internal Revenue Service
MLR	Material Loss Review
OCC	Office of the Comptroller of the Currency
OFAC	Office of Foreign Assets Control
OIG	Office of Inspector General
OMB	Office of Management and Budget
OTS	Office of Thrift Supervision
Recovery Act	American Recovery and Reinvestment Act of 2009
TARP	Troubled Asset Relief Program
TIGTA	Treasury Inspector General for Tax Administration
TNet	Treasury Network
TTB	Alcohol and Tobacco Tax and Trade Bureau
XBRL	eXtensible Business Reporting Language

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