



Annual Plan Fiscal Year 2009

OIG-CA-09-003

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 for fiscal year 2009.

As we enter fiscal year 2009, the most significant factor affecting our office is the requirement that we perform reviews of failed financial institutions regulated by Treasury that result in material losses to the deposit insurance fund (material loss is defined as the greater of \$25 million or 2 percent of an institution's total assets). During 2008, we completed a material loss review of NetBank—our first in 6 years. As of mid-November 2008, we are performing five reviews simultaneously. These include our review of IndyMac Bank with an estimated loss to the deposit insurance fund of \$9 billion. Due to the current financial crises, we expect that a significant number of additional failures requiring reviews are likely to occur. To staff the five in-progress reviews, we have deferred important work related to the Department's anti-money laundering/terrorist financing mission and a major procurement review requested by the Department. Additional reviews will result in a cessation of all self-directed and requested work in this plan and may affect our other mandated work. We have informed the Department, the Office of Management and Budget, and Congress of this situation.

The year 2008 also profoundly changed Treasury's role in preserving the integrity of the nation's financial markets. The Housing and Economic Recovery Act of 2008 gave Treasury unprecedented new authorities to address the financial conditions at Fannie Mae and Freddie Mac. Those authorities were extensively used when the two mortgage giants were put into conservatorship by their regulator in September 2008. The act also created a new program—the Capital Magnet Fund—to be administered by the Treasury Community Development Financial Institutions Fund. The Emergency Economic Stabilization Act of 2008 (EESA) gave the Treasury Secretary \$700 billion in authority to, among other things, (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. These authorities are intended to bolster credit availability and address other serious problems in U.S. and world financial markets.

Under EESA, the Department has aggressively moved forward to make capital infusions through the purchase of senior preferred stock in nine large banks in an effort to loosen up the credit market. A number of other banks have subsequently sought to participate in the Capital Purchase Program. Treasury is also implementing the mechanisms to carry out its other authorities and responsibilities for the Troubled Assets Relief Program (TARP). The Department plans to rely extensively on the private sector, initially with a small cadre of Treasury staff to exercise managerial control over the program.

EESA provides for the appointment of a Special Inspector General to provide oversight of TARP. It also directs the Government Accountability Office to conduct ongoing monitoring and report on the program every 60 days.

The projects described in this plan represent, in our judgment, areas of known or emerging risks and vulnerabilities in the Department. Now more than ever, we encourage Treasury and bureau management to use the plan to identify areas for self-assessment and to take corrective measures when vulnerabilities and control weaknesses are identified, particularly for issues we have identified as significant but, because of limited resources and the impact of material loss reviews, we do not expect to address this year.

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OVERVIEW

Introduction

This planning document outlines the Office of Inspector General's (OIG) major initiatives, priorities, and challenges for fiscal year 2009. Its purpose is to give Treasury officials, the administration, members of Congress, and other stakeholders a greater understanding of who we are, what we do, and what our intended work is for fiscal year 2009. Each of the four OIG components (Audit, Investigations, Counsel, and Management) contributed to developing this plan.

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 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

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 operations, except those of the Internal Revenue Service (IRS).¹

¹ In 1998, through the Internal Revenue Service Restructuring and Reform Act of 1998, Congress established the Treasury Inspector General for Tax Administration, which exercises authority over IRS under the Inspector General Act.

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OIG has jurisdiction over the following Treasury bureaus:

- **Alcohol and Tobacco Tax and Trade Bureau (TTB)**, which enforces and administers laws covering the production, use, and distribution of alcohol and tobacco products and collects excise taxes for firearms and ammunition
- **Bureau of Engraving and Printing (BEP)**, which produces U.S. currency and other government securities and redeems damaged or mutilated currency for the public
- **Bureau of the Public Debt (BPD)**, which borrows the money needed to operate the federal government, accounts for the resulting debt, and provides reimbursable support services to federal agencies
- **Financial Crimes Enforcement Network (FinCEN)**, which administers the Bank Secrecy Act (BSA); supports law enforcement, intelligence, and regulatory agencies in the sharing and analysis of financial intelligence; and builds global cooperation with financial intelligence units of other countries
- **Financial Management Service (FMS)**, which 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
- **U.S. Mint**, which produces circulating coinage for use by the general population; produces and sells commemorative, numismatic, and investment products; and protects the federal government's precious metals and other monetary assets held in its custody
- **Office of the Comptroller of the Currency (OCC)**, which charters, regulates, and supervises national banks to ensure a safe, sound, and competitive banking system
- **Office of Thrift Supervision (OTS)**, which charters, regulates, and examines federal thrift institutions to ensure their safety and soundness

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Other offices and programs under OIG jurisdiction include the following:

- **Departmental Offices**, which formulates policy and manages Treasury operations
- **Office of Terrorism and Financial Intelligence (TFI)**, which develops, organizes, and implements federal government strategies to combat terrorist financing and financial crime, both internationally and domestically, and is responsible for integrating FinCEN, the Office of Foreign Assets Control (OFAC), and the Treasury Executive Office for Asset Forfeiture (TEOAF)
- **Office of International Affairs (IA)**, which advises on and assists in formulating and executing U.S. international economic and financial policy
- **Exchange Stabilization Fund**, which helps the Secretary carry out Treasury responsibilities regarding formulation and implementation of U.S. international monetary and financial policy, including exchange market intervention policy
- **Community Development Financial Institutions Fund (CDFI Fund)**, which provides equity investments, grants, loans, and technical assistance to new and existing CDFIs; provides grants to insured depository institutions to facilitate investment in CDFI and increase community lending activities; and administers the New Markets Tax Credit (NMTC) program
- **Treasury Working Capital Fund**, which is a revolving fund financed by user entities that provides centralized administrative services across Treasury
- **Federal Financing Bank**, which was established to centralize and reduce the cost of federal and federally assisted borrowing and to ensure that such borrowing is coordinated in a manner to be least disruptive to private financial markets and institutions
- **Treasury Franchise Fund**, which is operated as an entrepreneurial government enterprise and provides common administrative support services (in the areas of human resources, procurement, accounting, and travel) on a competitive and fully cost-reimbursable basis
- **Office of D.C. Pensions**, which makes federal benefit payments associated with the District of Columbia retirement programs for police officers, firefighters, teachers, and judges

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Organizational Structure and Fiscal Resources

OIG is headed by the Inspector General. Serving with the Inspector General is the Deputy Inspector General, who shares responsibility with the Inspector General for leading the OIG workforce and managing OIG resources.

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

- Office of Audit
- Office of Investigations
- Office of Counsel
- Office of Management

For fiscal year 2009, the President's budget request for direct appropriations for OIG is \$19.4 million.

OIG Performance Measures

OIG established performance measures for fiscal year 2009 for Office of Audit and Office of Investigations. These measures are discussed below.

Office of Audit Performance Measures

For the Office of Audit, OIG established the following performance and audit workload measures:

Audit Performance Measure 1: During fiscal year 2009, it is our goal to complete 60 audits and evaluations.

The purposes of audits and evaluations are to (1) promote economy, efficiency, and effectiveness of Treasury programs and operations; (2) prevent and detect fraud, waste, and abuse in those programs and operations; and (3) keep the Secretary of the Treasury and Congress fully informed. Audits and evaluations are also a key element in fulfilling the federal government's duty to be accountable to the public.

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Audit Performance Measure 2: During fiscal year 2009, it is our goal to complete 100 percent of audits required by statute by the required date.

Underlying legislation mandating certain audit work generally prescribes, or authorizes the Office of Management and Budget (OMB) to prescribe, the required completion date for recurring audits, such as those for annual audited financial statements. For other types of mandated audit work, such as material loss reviews (MLR) of failed financial institutions, the legislation generally prescribes a timeframe for issuing a report (e.g., 6 months for an MLR) from the date of the event that triggers the audit.

Audit Reporting Measure: Monetary Benefits Identified

OIG audits and evaluations may identify questioned costs or make recommendations that funds be put to better use or that action be taken to generate revenue enhancements.

A questioned cost is a cost that is disallowed because of (1) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable. A recommendation that funds be put to better use is a recommendation that, if implemented by management, could lead to more efficient use of government funds. The term "revenue enhancements" means an action recommended by our office that would, if implemented, increase the General Fund receipts of the federal government.

Our audit and evaluation reports include, where appropriate, a schedule of monetary benefits identified.

Office of Investigations Performance Measures

The Office of Investigations is currently revising its performance measures and internal goals. When established, these new measures and goals will center on investigative quality.

We also issue Management Implication Reports on suspected or identified weaknesses or vulnerabilities identified during an investigation that require administrative action to correct or improve the economy, efficiency, and effectiveness of Treasury programs and operations.

OIG COMPONENT ORGANIZATIONS AND FISCAL YEAR 2009 INITIATIVES

This section describes the functions, organizational structures, priorities, and fiscal year 2009 initiatives for OIG's four components.

Office of Audit

The Assistant Inspector General for Audit is responsible for supervising auditing activities relating to Treasury programs and operations.

The Office of Audit conducts or oversees the conduct of performance, financial, information technology (IT), and contract audits, as well as evaluations. The purpose of these audits and evaluations is to improve the quality, reduce the cost, and increase the integrity of Treasury's programs and operations. The work of the Office is performed in accordance with the standards and guidelines established by the Comptroller General of the United States and the President's Council on Integrity and Efficiency (PCIE).²

Organizational Structure. The Assistant Inspector General for Audit has two deputies—one for performance audit and the other for financial management and IT audit. The Assistant Inspector General for Audit's immediate office includes staff responsible for policy, planning, and quality assurance. In addition to the headquarters office in Washington, D.C., the Office of Audit has a field office in Boston, Massachusetts.

To supplement its authorized staffing, the Office of Audit uses independent public accounting firms under contract to perform the Treasury consolidated financial statement audit and most financial statement audits of Treasury bureaus and other activities required pursuant to the Chief Financial Officers Act, the Government Management Reform Act, and other statutes. The Office also uses a contracted independent public accounting firm to perform the annual independent evaluation required by the Federal Information Security Management Act of 2002 (FISMA) of the Department's information security program and practices for its unclassified systems.

Performance Audit

Under the management and direction of the Deputy Assistant Inspector General for Performance Audit are four Directors of Audit. The Directors of Audit are responsible for performance audits conducted by their staff in Washington, D.C., and Boston, and for

² The Inspector General Reform Act of 2008 (Pub.L. No. 110-409), enacted October 14, 2008, creates a Council of the Inspectors General on Integrity and Efficiency. Once established, this council will effectively replace PCIE. The act specifically provides that the executive order that created PCIE will have no force or effect on and after the earlier of (1) the date on which the Council of the Inspectors General on Integrity and Efficiency becomes effective and operational as determined by the Executive Chairperson of the Council or (2) 180 days after the act became law.

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coordinating audit planning for their assigned functional areas to ensure that audits of highest priority are included in the annual plan. The functional areas of the Directors are described below:

Director, Banking Audit, provides leadership for performance audits of OCC, OTS, IA, and other banking- and finance-related Treasury components.

Director, Fiscal Service Audit, provides leadership for performance audits of FMS, BPD, and the CDFI Fund.

Director, Departmental Offices/Manufacturing/Procurement Audit, provides leadership for performance audits of Treasury's Departmental Offices, BEP, and the Mint, as well as for performance audits of procurement activities in all Treasury bureaus and offices. The Director is also responsible for managing OIG's contract audit function.

Director, Revenue/Anti-Terrorist Financing and Money Laundering Audit, provides leadership for performance audits of the operations in all Treasury bureaus, with a concentration of work in TTB, TFI, FinCEN, OFAC, and TEOAF.

Financial Management and IT Audit

Under the management and direction of the Deputy Assistant Inspector General for Financial Management and IT Audit are two Directors of Audit. The Directors are responsible for audits performed by Washington, D.C., staff and for oversight of work performed by contracted independent public accounting firms. They are also responsible for planning the audits in their assigned functional areas to ensure that audits of highest priority are included in the annual plan. The functional areas addressed by each Director are described below:

Director, Financial Audit, is responsible for performing or providing oversight of contractors performing the annual audit of the Department's consolidated financial statements pursuant to the Chief Financial Officers Act and Government Management Reform Act and for performing or overseeing contractors performing audits of other components or activities that are material to Treasury or are required to be audited by other statutes. The Director coordinates with the U.S. Government Accountability Office (GAO) with respect to its audits of IRS and BPD's Schedule of Federal Debt, as the amounts from IRS and BPD's Schedule of Federal Debt are included in the Department's consolidated financial statements. The Director is also responsible for managing OIG's responsibilities under the Single Audit Act.

Director, IT Audit, conducts or oversees contractors conducting reviews of information security policies and procedures and the acquisition, use, and disposal of computer and

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other IT systems. The Director is also responsible for reviewing overall management of IT as a capital investment of the Department. The reviews are performed to ensure that the systems are effective, efficient, productive, and economical; contain adequate safeguards to protect data integrity and data processing; consistently support Treasury needs; and are developed and operated in accordance with all applicable policies, standards, and procedures.

Fiscal Year 2009 Planning Approach. This plan reflects our effort to provide appropriate audit and evaluation coverage to Treasury and its bureaus given our available resources. In formulating the plan, we also considered (1) observations and suggestions by our managers, auditors, and investigators; (2) the Administration's fiscal year 2009 budget priorities for Treasury; and (3) recent congressional activity, testimony by Treasury officials, and remarks by Treasury, OMB, and congressional officials and staff indicating significant areas of interest.

Key features of this plan include the following:

- Department-wide Perspective. The plan emphasizes the issues of greatest significance to the Department rather than to individual bureaus.
- Customer and Stakeholder Participation. We provided a draft plan to Treasury officials for comment. The Directors and their staffs met with Department and bureau officials and staff throughout the year to solicit audit suggestions. We also solicited input from other interested staff with the Treasury Inspector General for Tax Administration (TIGTA), OIGs for the other federal banking agencies, OMB, various congressional committees, and GAO.
- Responsiveness to Changing Priorities and Needs. The plan will be subject to revision throughout the year to accommodate new legislative requirements, changing bureau missions, and unforeseeable events or high-priority requests for our audit services.
- Continuity. The plan is a dynamic document that will be updated and continued beyond fiscal year 2009.

Audit Priorities for Fiscal Year 2009

Priority 1—Audit products mandated by law

Our office must allocate significant resources to meet legislative requirements related to (1) audited financial statements and financial-related review work; (2) information security;

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(3) in certain instances, failed financial institutions; and (4) as a biennial requirement, a review of Treasury's privacy and data protection procedures. During fiscal year 2009, we expect to devote a significant portion of our audit resources to MLRs of failed financial institutions.

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

We typically receive 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 reprioritize the timing of the work or modify its scope. Other times, the requested work is in a new area, and we assess whether the work should be undertaken. For example, during fiscal year 2008, we initiated an audit of contracting for IT services at the CDFI Fund at the request of its director. We also worked on a review of a Treasury classified program requested by the Senate Intelligence Committee. With respect to externally driven work, PCIE and, more recently, the Office of the Director of National Intelligence have identified work with a broad impact that affects multiple agencies. During fiscal year 2007, for example, in response to a PCIE initiative, we assessed Treasury's progress in implementing OMB Memorandum M-06-016, Protection of Agency Sensitive Information. During fiscal year 2008, we participated with the Office of the Director of National Intelligence in a coordinated joint Intelligence Community OIG review of the process for "nominating" individuals for inclusion on the federal government's consolidated terrorist watch list.

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

To the extent resources are available after addressing mandated audit work, we will undertake audits during fiscal year 2009 to assess the Department's progress in addressing serious deficiencies and emerging risks. Principal areas we will focus on with our limited resources are IT security, safety and soundness of financial institutions and markets, programs to combat terrorist financing/money laundering, and capital investments.

Relationship 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 audit planning process, we identified seven core issue areas that address one or several of Treasury's strategic goals.

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

Treasury Strategic Goal	OIG Issue Area(s)
Effectively manage U.S. government finances	<ul style="list-style-type: none"> • Governmentwide financial services and debt management • Revenue collection and industry regulation
U.S. and world economies perform at full economic potential	<ul style="list-style-type: none"> • Safety, soundness, and accessibility of financial services • Domestic and international assistance programs • Bill and coin manufacturing, marketing, and distribution operations
Prevented terrorism and promoted the nation's security through strengthened international financial systems	<ul style="list-style-type: none"> • Terrorist financing, money laundering, and foreign assets control
Management and organizational excellence	<ul style="list-style-type: none"> • Treasury general management and infrastructure support (financial management, information systems security, and general management)

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 for Fiscal Year 2009. Through our planning process, we identified 38 projects that we will initiate during fiscal year 2009. We also plan to complete work on 67 projects started during fiscal year 2008. Our ability to undertake new self-directed audits and complete those in progress, however, may be affected by mandated material loss reviews of failed financial institutions. We identified 116 high-priority projects that must be deferred because our resources do not permit them to be undertaken in fiscal year 2009. Our in-process and planned work and projects for future consideration are described in more detail in the OIG Issue Areas and Planned Projects section of this document.

In addition, we will perform a peer review of the National Aeronautics and Space Administration OIG under the auspices of the PCIE Audit Committee during fiscal year 2009. Also during fiscal year 2009, our Office of Audit will undergo a peer review by the Department of State OIG. The objective of a peer review is to determine whether the audit organization under review has an effective quality control system that provides reasonable assurance that applicable auditing standards and requirements are followed. Under U.S.

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generally accepted government auditing standards, each OIG must undergo a peer review every 3 years.

Office of Investigations

The Assistant Inspector General for Investigations is the senior law enforcement official responsible for the overall investigative and oversight activities relating to Treasury's programs and operations, except for those of IRS.

Organizational Structure. The Assistant Inspector General for Investigations is supported by a Deputy Assistant Inspector General for Investigations who manages two divisions—the Investigations Division and the Operations Division. The Office responds to all allegations of fraud and other crimes from its office in Washington, D.C.

The Role of the Office of Investigations. The Office of Investigations conducts and provides oversight of investigations relating to programs and operations of the Department and its bureaus. The Office is responsible for the prevention, detection, and investigation of fraud, waste, and abuse in Treasury programs and operations.

Types of investigations conducted include allegations of serious employee misconduct, procurement fraud, and other criminal acts perpetrated by Treasury employees or external parties. The Office receives and investigates complaints or information from employees, contractors, members of the public, GAO, and Congress alleging criminal or other misconduct constituting a violation of laws, rules, or regulations.

The Office performs both reactive and proactive work. The majority of the work is reactive and involves responding to and mitigating ongoing criminal activity by conducting, supervising, or otherwise overseeing investigations involving fraud and other crimes. Proactively, the Office exercises a law enforcement or criminal investigative-oriented leadership role designed to engage and support Treasury's bureaus and offices. The Office's collective objective is to prevent or deter and detect or identify activities that range from improper to illegal conduct.

OIG has concurrent responsibility with the Federal Bureau of Investigation to combat fraud and other crimes that occur within or are directed against the Department's programs and operations. Therefore, a significant amount of our work has the potential to be investigated jointly with the Bureau and other federal law enforcement partners—often as part of a task force working in close cooperation with the U.S. Department of Justice (DOJ).

OIG COMPONENT ORGANIZATIONS AND FISCAL YEAR 2009 INITIATIVES

Investigative Priorities for Fiscal Year 2009

We established the following four overarching investigative priorities for 2009, which are intended to detect and prevent fraud and other crimes against the Department's programs and operations.

Priority 1 – Criminal and serious employee misconduct

Investigating complaints involving alleged criminal and other serious misconduct by employees of the Department is our highest investigative priority. OIG investigates allegations of the general crimes enumerated in Title 18 of the United States 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. In addition, several bureaus and offices of the Department have additional rules and regulations relating to ethical standards for their own employees. OIG also investigates complaints of alleged violations of these rules and regulations.

OIG produces investigative reports that refer criminal and other serious employee misconduct matters to DOJ for criminal prosecution or civil litigation. If these matters are declined for action by DOJ, OIG refers them to the Department's legal and personnel professionals for administrative adjudication. Their actions range from verbal counseling to letters of reprimand, suspension, demotion, and removal.

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. Complaints are received from employees, contractors, members of the public, and Congress alleging criminal or other misconduct constituting a violation of laws, rules, or regulations.

Priority 3 – Financial Programs and Operations Crime

We conduct and supervise a wide variety of 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. Such investigations are usually conducted jointly with the U.S. Secret Service, Federal Deposit Insurance Corporation OIG, the Federal Bureau of Investigation, and DOJ.

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Priority 4—Critical Infrastructure and Fiscal Protection

Treasury has an important role in securing the homeland’s financial sector. Our efforts in this area focus on detecting, investigating, and deterring electronic crimes and addressing threats to the Department’s critical infrastructure.

Relationship of Investigative Priorities to Treasury Strategic Plan

OIG’s four overarching investigative priorities are intended to detect and prevent fraud and other crimes against the Department’s programs and operations. The following chart identifies the strategic goals of the Department and provides a crosswalk to our investigative priorities to demonstrate the relationship between the investigative and policy priorities.

Treasury Strategic Goal	OIG Investigative Priorities			
	Criminal and Serious Employee Misconduct	Fraud Involving Contracts, Grants, Guarantees, and Funds	Financial Programs and Operations Crimes	Critical Infrastructure and Fiscal Protection
Effectively managed U.S. government finances				√
U.S. and world economies perform at full economic potential		√	√	
Prevented terrorism and promoted the nation’s security through strengthened international financial systems		√	√	√
Management and organizational excellence	√	√		

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Investigative Products

The following table depicts the OIG product and service line, or tools that we use to address investigative priorities and initiatives.

Product/Service	Definition	Remedy Support		
		Criminal	Civil	Adminis- trative
Investigation	An investigation or inquiry conducted under the cognizant criminal, civil, or administrative standards	√	√	√
Management Implication Report	A report identifying policy or systemic deficiencies, vulnerabilities, and conditions that leave a program or office susceptible to fraud and that is issued, when warranted as a byproduct of an investigation		√	√
Quality assurance review	A review or spot check intended to assess compliance with laws, rules and regulations, and policy		√	√
Awareness briefing	A presentation to employees and contractors that provides an understanding of ethical conduct and red flags of misconduct			√

Communication

The Office continues to enhance and promote the OIG Hotline as a mechanism that employees, contractors, and the general public can use to report instances of waste, fraud, and abuse relating to Treasury programs and operations. The OIG Web site offers individuals the opportunity to forward complaints and allegations directly to the OIG Hotline (<http://www.ustreas.gov/inspector-general/hotline.shtml>).

Office of Counsel

The Counsel to the Inspector General serves as the senior legal and policy adviser to the Inspector General, Deputy Inspector General, and the Assistant Inspectors General. The Counsel has responsibility for all legal work in OIG.

The Role of the Office of Counsel. The Office of Counsel provides legal advice on issues arising during the statutorily mandated investigative, oversight, and audit activities conducted by the Offices of Audit and Investigations. In addition, the Office of Counsel provides legal advice on issues concerning government contracts, appropriations, budget

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formulation and execution, disclosure, records retention, tax information safeguards, equal employment opportunity, and personnel law. The Office is also responsible for reviewing existing and proposed legislation and regulations that would affect the Department of the Treasury. The Office represents OIG in administrative proceedings before the Merit Systems Protection Board and the Equal Employment Opportunity Commission.

The Office manages the OIG ethics program, which includes financial disclosure, training, and advice on the governing law and regulations. In the area of disclosure law, the Office of Counsel manages OIG's Freedom of Information Act (FOIA) and Privacy Act programs. The Office of Counsel also coordinates document requests from Congress and in connection with litigation and responds to Giglio requests from DOJ for information on Treasury personnel.³

Counsel Initiatives for Fiscal Year 2009. 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 focus resources to provide timely responses to FOIA and Privacy Act requests and to carry out its litigation responsibilities in Merit Systems Protection Board and Equal Employment Opportunity Commission cases. Based on experience, the Office of Counsel expects to process 50 initial FOIA/Privacy Act requests and eight appeals from those initial responses. In the area of electronic FOIA, the Office expects to review approximately 50 audit, evaluation, and oversight reports for posting on OIG's Web site. The Office of Counsel will continue its review of 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 regarding all OIG operations; and provide procedural review and training services as the OIG Senior Agency Official for Privacy. The Office will coordinate with the Department in updating the Treasury Order and Directives that establish and define OIG's authority, responsibility, and organization. Finally, the Office of Counsel will 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. The Office of Counsel will provide training on the Inspector General Act and other subjects in connection with new employee orientation and in-service training. The Office will obtain necessary training in order to provide advice in emerging areas of OIG responsibility. As statutorily mandated, the Office will review legislative and regulatory proposals and, where appropriate, will coordinate comments.

³ Giglio v. United States, 405 U.S. 150 (1972), requires the government to provide potential impeachment evidence to criminal defendants about government employees who may testify at their trials. Such evidence generally includes specific instances of proven misconduct, evidence of reputation for credibility, prior inconsistent statements, and evidence suggesting bias.

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Office of Management

The Office of Management coordinates resources and policy activities that support the OIG mission. Resources and policy activities include administrative services, budget and finance, human resources, IT, general policies and procedures, and liaison to PCIE and other organizations.

Organizational Structure. The administrative services function coordinates internal and external services relating to the acquisition, maintenance, and disposition of all OIG material assets. This includes procurement of goods and services and all logistics support, auditor and investigator travel, credentials and official identification issuance, records management and disposal, facilities management, issuance of OIG-wide policy, health and safety, and physical and information security at all OIG offices.

The budget and finance function develops, justifies, and presents budget requests to the Department, OMB, and Congress. Through budget execution, the function determines annual funding allocations, tracks and analyzes spending patterns, processes financial documents, and reports on the use of resources.

The human resources function manages internal and external personnel and payroll services to OIG employees. These services include recruitment and staffing; position classification and management; employee relations and performance management; training, awards, and recognition; employee development; benefits; personnel actions processing; and payroll processing.

The IT function develops and maintains OIG automated data and integrated voice systems. This includes ensuring electronic infrastructure sufficiency and the proper installation, support, maintenance, and management of hardware, software, and voice and data telecommunications.

Management Initiatives for Fiscal Year 2009. 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 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.

OIG COMPONENT ORGANIZATIONS AND FISCAL YEAR 2009 INITIATIVES

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 Administrative Resource 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. Additionally, the Center 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.

OIG ISSUE AREAS AND PLANNED PROJECTS

Management and Performance Challenges

Introduction

This section provides our overall assessment of significant management and performance challenges facing the Department. Following this assessment are brief descriptions of each OIG issue area, including (1) a description of significant risks to Treasury programs and operations, (2) in-progress audit and investigative projects and new projects to be started during fiscal year 2009, and (3) projects identified through our planning process that will not be undertaken this fiscal year. Our discussion of risks is based principally on (1) prior audit and investigative work, (2) the initiation of new programs or operations, and (3) increased funding initiatives in mature programs or operations.

Management and Performance Challenges

In accordance with the Reports Consolidation Act of 2000, the 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 the Department's annual performance and accountability report.

In a memorandum to Secretary Paulson dated October 30, 2008, Treasury Inspector General Thorson reported two new challenges:

- Management of Treasury's new authorities related to distressed financial markets
- Regulation of national banks and thrifts

Both of these challenges relate to the crises that began in the subprime mortgage market and spread more broadly into U.S. and global financial markets.

The Inspector General also continued to report four challenges from last year:

- Corporate management
- Management of capital investments
- Information security
- Anti-money laundering and terrorist financing/Bank Secrecy Act enforcement

We removed one previously reported challenge—linking resources to results—based on the progress the Department has made in implementing managerial cost accounting in its operations.

OIG ISSUE AREAS AND PLANNED PROJECTS

Management and Performance Challenges

As we have stated in the past, management and performance challenges do not always represent a deficiency in management or performance. Instead, they can represent inherent risks associated with Treasury's mission, organizational structure, or the environment in which it operates. In this regard, the Department can and should take steps to mitigate these challenges but may not be able to entirely eliminate them. As such, they require ongoing management attention.

- Management of Treasury's New Authorities Related to Distressed Financial Markets. Last year we reported as a matter of increasing concern the deterioration of the real estate market and its impact on the credit markets. With worsening conditions over the past year and the impact of the subprime mortgage situation on the broader financial markets, we elevated this concern to the most serious management and performance challenge facing the Department.

Treasury, along with the Federal Reserve and the Federal Housing Finance Agency, has been dealing with multiple financial crises requiring unprecedented actions through the latter half of fiscal year 2008. In July 2008, Congress passed the Housing and Economic Recovery Act, which gave Treasury broad new authorities to address the distressed financial condition of Fannie Mae and Freddie Mac. While the hope at the time was that Treasury would not need to exercise those authorities, the Federal Housing Finance Agency put the two mortgage giants into conservatorship less than 6 weeks later, and Treasury agreed to purchase senior preferred stock in the companies, established a new secured line of credit available to the companies, and initiated a temporary program to purchase new mortgage-backed securities issued by the companies.

As the turmoil in the financial markets increased, Treasury and the Federal Reserve took a number of additional unprecedented actions, including the rescue of Bear Stearns and American International Group. It became evident that a more systemic, comprehensive plan was needed to stabilize the financial markets. Treasury sought and obtained additional authorities through passage of the Emergency Economic Stabilization Act (EESA), which gave the Treasury Secretary \$700 billion in authority to, among other things, (1) purchase capital in qualifying U.S.-controlled financial institutions and (2) buy, maintain, and sell toxic mortgage-related assets from financial institutions. These authorities are intended to bolster credit availability and address other serious problems in U.S. and world financial markets.

The Department has aggressively moved forward to make capital infusions through the purchase of senior preferred stock in nine large banks in an effort to loosen up the credit market. A number of other banks have subsequently sought to participate in the Capital Purchase Program. The Department is also implementing the mechanisms to

OIG ISSUE AREAS AND PLANNED PROJECTS

Management and Performance Challenges

carry out its other authorities and responsibilities for the Troubled Assets Relief Program (TARP). It plans to rely extensively on the private sector, initially with a small cadre of Treasury staff to exercise managerial control over the program. With the hundreds of billions of dollars involved, the need to move quickly, and so much of the program to be managed by financial agents and contractors, the risk is high that Treasury objectives will not be achieved or that taxpayer dollars will be wasted. Accordingly, Treasury needs to ensure that strong controls are in place and that its managerial oversight is effective.

Additionally, the act provides for the appointment of a Special Inspector General to provide oversight of this program. It also directs GAO to conduct ongoing monitoring and report on the program every 60 days.

While the structure and execution of the EESA is still unfolding, it appears that Treasury will be relying to some extent on OCC and OTS to both evaluate their supervised institutions for participation in TARP and to monitor their compliance with the requirements for participation and the use of the capital that Treasury provides, including requirements related to limits on executive compensation. If this approach is to be effective, close coordination between the Treasury team managing implementation of the EESA, OCC, and OTS (as well as the other federal banking agencies) will be necessary.

Going forward, sound administration of the significant taxpayer dollars committed to this rescue effort will clearly be Treasury's most significant management challenge. Furthermore, given the rapidly changing conditions in the financial markets and the coming change in administrations, establishment of a sustainable leadership team as quickly as possible to manage this program is essential.

- Regulation of National Banks and Thrifts. Since September 2007, nine Treasury-regulated financial institutions have failed, with total estimated losses to the deposit insurance fund exceeding \$10 billion. Predictions are that many more will fail before the economy improves. This situation is in sharp contrast to the one that has existed over the past 5 years, when relatively few and much smaller Treasury-regulated financial institutions failed.

While there are many factors that have contributed to the current turmoil in the financial markets, Treasury's regulators, OCC and OTS, did not identify early or force timely correction of the unsafe and unsound practices by institutions under their supervision. The irresponsible lending practices by many institutions that contributed to the current crisis are now well-recognized—including degradation of underwriting standards, loan decisions based on factors other than the borrowers' ability to repay,

OIG ISSUE AREAS AND PLANNED PROJECTS

Management and Performance Challenges

and with the ready availability of investor financing, a mentality of “originate to sell” instead of the more prudent “originate to hold”. At the same time, financial institutions engaged in other high-risk activities, including concentrating high percentages of their assets in areas such as commercial real estate and relying excessively on unpredictable brokered deposits to fund rapid growth.

The banking industry will continue to be under pressure over the next several years. For example, OCC, OTS, and the other federal banking regulators recently reported that 2007 data for shared national credits (loan commitments of \$20 million or more that are shared by three or more federally supervised institutions) showed a large increase in volume during the year, with shared credits now totaling \$2.8 trillion (a 22.6 percent increase over 2006). The regulators also reported a significant deterioration in the quality of these credits. It has also been reported that the next substantial stress to financial markets will come from troubled credit card debt and auto loans, and this may significantly impact those financial institutions that previously had limited exposure to the subprime mortgage crises.

Our office is mandated to look into Treasury-regulated bank failures that result in material losses to the deposit insurance fund. During the last 6 months, we completed a review of the NetBank failure and are currently engaged in five other reviews. These reviews are useful in identifying the causes for failures and assessing the supervision exercised over a particular failed institution. OCC and OTS have been responsive to our recommendations for improving supervision. However, these reviews do not address supervisory effectiveness overall. It is therefore essential that OCC and OTS take a critical look at their respective and collective supervisory processes to identify (1) why those processes did not prevent or better mitigate the unsafe and unsound practices that led to the current crisis and (2) what can be done to better protect the financial health of the banking industry.

Recognizing that the focus of EESA is on the current crisis, another consideration is the need for Treasury to identify, monitor, and manage emerging domestic and global systemic economic risks, which may go beyond the current U.S. regulatory structure. Treasury, in concert with its regulatory partners, needs to diligently monitor both regulated and unregulated products and markets for new systemic risks that may require action.

- Corporate Management. Starting in 2004, we identified corporate management as an overarching management challenge. In short, Treasury needs to provide effective corporate leadership in order to improve performance as a whole. Inherent in this is the need for clear lines of accountability between corporate, bureau, and program office management; enterprise solutions for core business activities; and effective oversight

OIG ISSUE AREAS AND PLANNED PROJECTS

Management and Performance Challenges

of capital investments and information security. With nine bureaus and numerous offices, Treasury is a highly decentralized organization. As we reported last year, the Department has made progress in building up a sustainable corporate control structure. The challenge continues to be maintaining emphasis on corporate governance, particularly as the Department develops the infrastructure to carry out its vastly expanded role in addressing the current economic crisis and as key management officials turnover with the change of administration.

- 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 have reported on a number of capital investment projects that either failed or had serious problems. In light of this, with hundreds of millions of procurement dollars at risk, Treasury needs to exercise continuous vigilance in this area as it proceeds with its (1) transition to a new telecommunications contract (TNet) under the General Services Administration's Networx program, a transition that has already experienced delays; (2) implementation of enhanced information security requirements; (3) the expected renovation of the Treasury Annex; and (4) other large capital investments.

During the last year, the Department reinstated a governance board consisting of senior management officials to provide executive decision-making on, and oversight of, IT investment planning and management and to ensure compliance with the related statutory and regulatory requirements.

- Information Security. While improvements have been made, by its very nature information security will continue to be a management challenge to the Department. Our fiscal year 2008 audit addressing the objectives of FISMA and OMB requirements found that Treasury's non-IRS bureaus made progress in improving information security controls and practices.

Notably, during the past year Treasury strengthened its inventory reporting and Plan of Action and Milestones processes for tracking and correcting security weaknesses. However, our audit found that (1) minimum security control baselines were not sufficiently documented, tested, and/or implemented as required; (2) computer security incidents were not consistently reported timely or correctly categorized; (3) common security configuration baselines were not fully compliant; and (4) federal desktop core configurations were not fully implemented. Treasury management has indicated its commitment to address these issues.

- Anti-Money Laundering and Terrorist Financing/BSA Enforcement. As reported in previous years, Treasury faces unique challenges in carrying out its responsibilities under BSA and the USA Patriot Act to prevent and detect money laundering and

OIG ISSUE AREAS AND PLANNED PROJECTS

Management and Performance Challenges

terrorist financing. While FinCEN is the Treasury bureau responsible for administering BSA, a large number of federal and state entities participate in efforts to ensure compliance with BSA, including the five federal banking regulators, IRS, the Securities and Exchange Commission, DOJ, and state regulators. Many of these entities also participate in efforts to ensure compliance with U.S. foreign sanction programs administered by OFAC.

The dynamics and challenges for Treasury of coordinating the efforts of multiple entities, many external to Treasury, are difficult. In this regard, FinCEN and OFAC entered into memoranda of understanding (MOU) with many federal and state regulators in an attempt to build a consistent and effective process. However, these MOUs are nonbinding (and without penalty), and their overall effectiveness have not been independently assessed.

Furthermore, the USA Patriot Act has increased the types of financial institutions required to file BSA reports. In fiscal year 2007, nearly 18 million BSA reports were filed. Although these reports are critical to law enforcement, past audits have shown that many contain incomplete or erroneous data. Past audits have also shown that regulators' examination coverage of financial institutions' compliance with BSA has been limited.

Given the criticality of this management challenge to the Department's mission, we continue to consider BSA and OFAC programs as inherently high-risk. Further adding to this risk in the current environment is the risk that financial regulators and examiners may lessen their attention on BSA compliance as they address safety and soundness concerns.

OIG ISSUE AREAS AND PLANNED PROJECTS

Treasury General Management and Infrastructure Support—Financial Management

Office of Audit Contact: Michael P. Fitzgerald, Director of Financial Audit, (202) 927-5789

Office of Investigations Contact: Matthew L. Issman, Assistant Inspector General for Investigations, (202) 927-6524

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 also 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 BEP, the Exchange Stabilization Fund, the Federal Financing Bank, the Mint, the Treasury Forfeiture Fund, the Office of the District of Columbia Pensions, the CDFI Fund, OCC, and OTS. In addition, certain accounts and activities of BPD and FMS that are material to the Department's financial statements are audited separately. FinCEN's financial statements are audited as a management initiative.

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires that our annual audits of Treasury's financial statements report on whether Treasury financial management systems comply with federal financial management systems requirements, applicable federal accounting standards, and the standard general ledger at the transaction level. FFMIA also requires that our semiannual reports to Congress include instances when the Department has not met targets for making its accounting systems compliant with FFMIA requirements.

Independent public accounting firms, GAO, and OIG perform the financial statement audits. The independent public accounting firms, under OIG supervision, audit the Department's consolidated financial statements and the financial statements of component entities except for: IRS's financial statements and BPD's Schedule of Federal Debt, which are audited by GAO; and the Mint's Schedule of Custodial Deep Gold and Silver Reserves, which is audited by OIG staff.

Program Responsibilities. The Department has responsibility for certain recently implemented 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 2009 Department-wide financial statements include the following:

- Program 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

OIG ISSUE AREAS AND PLANNED PROJECTS

Treasury General Management and Infrastructure Support—Financial Management

Terrorism Risk Insurance Act is to stabilize market disruptions that result from acts of terrorism. The program, which is temporary and has a \$100 billion cap, would pay 85 percent of the insured losses arising from acts of terrorism above insurers' deductibles.

- Programs Enacted Under the Housing and Economic Recovery Act of 2008. The Housing and Economic Recovery Act of 2008 gave Treasury broad authorities to address the troubled government-sponsored housing enterprises, Fannie Mae and Freddie Mac.⁴ The act also created the Capital Magnet Fund, to be administered by the CDFI Fund. The Capital Magnet Fund is to be funded through a small percentage of new business purchases by Fannie Mae and Freddie Mac to provide grants for attracting private capital for and increase investment in low-income housing and economic development activities or community service.

Treasury has taken on an important role to complement the Federal Housing Finance Agency's September 2008 decision to place Fannie Mae and Freddie Mac into conservatorship. First, Treasury agreed to purchase senior preferred stock in the companies as necessary to ensure that each company maintains a positive net worth. Second, it established a new secured lending credit facility that will be available to the two companies and the Federal Home Loan Banks for short-term loans. Third, to further support the availability of mortgage financing for millions of Americans, Treasury initiated a temporary program to purchase new mortgage-backed securities issued by the companies. From a financial accounting standpoint, OMB determined that the business operations assets and liabilities of Fannie Mae and Freddie Mac will not be included in the budget and the federal government's financial statements. However, all current and projected liabilities and cash flows between the government sponsored enterprises and the government are to be fully reflected and explained.

- Programs Authorized by the Emergency Economic Stabilization Act of 2008. ESSA 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. With respect to the guarantee program, Treasury is to establish and collect premiums from participating financial institutions. EESA further provides for a Troubled Assets Insurance Financing Fund for the purpose of depositing the premiums and making payments to fulfill guarantee obligations.

⁴ Pub. L. No. 110-343.

OIG ISSUE AREAS AND PLANNED PROJECTS

Treasury General Management and Infrastructure Support—Financial Management

EESA requires that TARP prepare financial statements annually to be audited by GAO.

Working Capital Fund. The Department maintains the Working Capital Fund, which was established in 1970 to centrally provide common administrative services across the Department, achieve economies of scale, and eliminate duplication of effort and redundancies. Services in the fund include telecommunications, printing, duplicating, graphics, computer support/usage, personnel/payroll, automated financial management systems, training, short-term management assistance, procurement, IT services, equal employment opportunity services, and environmental health and safety services. These services are provided on a reimbursable basis to Treasury components at rates that recover the fund's operating expenses, including accrual of annual leave and depreciation of equipment. For fiscal year 2007, Working Capital Fund expenses were approximately \$230 million.

Improper Payments. Erroneous payments in federal programs can result from payments to ineligible program beneficiaries, over- or underpayments to beneficiaries, or duplicate payments. The Improper Payments Information Act of 2002 requires agencies to annually review all programs vulnerable to significant erroneous payments and estimate the extent of erroneous payments.⁵ Agencies estimating more than \$10 million in erroneous payments are required to send a report to Congress and to develop a plan for reducing those payments. The Administration has made the reduction of improper and erroneous payments a focus of the President's Management Agenda. OMB reported that for fiscal year 2007, the total federal improper payment rate was 3.5 percent and total improper payments equaled \$55 billion. These numbers represented a 4.4 percent reduction in the total rate of improper payments reported since fiscal year 2004 but an increase in the dollar value because of inclusion of new programs, such as the fee-for-service portion of the Medicaid program in 2007. For fiscal year 2007, Treasury reported that no non-IRS programs or activities were at high risk for significant erroneous payments.

Known Weaknesses. The Department received an unqualified audit opinion on its fiscal year 2008 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 FFMIA:

Material Weakness

- Financial management practices at IRS (repeat condition)

⁵ Pub. L. No. 107-300.

OIG ISSUE AREAS AND PLANNED PROJECTS

Treasury General Management and Infrastructure Support—Financial Management

Other Significant Deficiencies

- Financial management practices at the Department level
- Controls over foreign currency transactions

Instances of Noncompliance With Laws and Regulations Exclusive of FFMIA

- 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 FFMIA. In addition, the firm reported an instance of a potential Anti-deficiency Act violation related to transactions and activities of FinCEN.

In-Progress and Planned Fiscal Year 2009 Projects

Audits of Financial Statements for the Department and of Financial Statements or Schedules for Component Entities and Activities (In Progress)

Audit Objective: To determine whether the financial statements and schedules are fairly presented in all material respects. The audits will also report on internal control, compliance with laws and regulations, and compliance with FFMIA. During fiscal year 2009, we will complete audit work for the fiscal year 2008 financial statements and schedules. We will also begin audit work for the fiscal year 2009 financial statements and schedules. We expect that these projects will require 8,850 hours by OIG staff during the fiscal year.

Single Audit Act Activities (Ongoing)

Audit Objective: To ensure that action is taken on findings related to Treasury programs identified by Single Audits of state and local governments. We expect that this activity will require 100 hours.

Note: Our capacity to undertake the following projects during fiscal year 2009 is contingent on whether additional MLRs are required.

OIG ISSUE AREAS AND PLANNED PROJECTS

Treasury General Management and Infrastructure Support—Financial Management

Treasury's Implementation of the Improper Payments Information Act

Background. An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts can be either overpayments or underpayments (including inappropriate denials of payment or service). An improper payment includes any payment that was made to an ineligible recipient or for an ineligible service, duplicate payments, payments for services not received, and payments that are for the incorrect amount. In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment is also considered erroneous. The purpose of the Improper Payments Information Act of 2002 is to eliminate improper payments and enhance the accuracy and integrity of federal payments. In August 2006, OMB consolidated its implementation requirements for the act in appendix C to OMB Circular A-123, Management's Responsibility for Internal Control.

Audit Objective: To determine whether the Department has implemented an effective process to assess the risk of improper payments by its offices and bureaus pursuant to the Improper Payments Information Act of 2002 and OMB requirements. We expect that this project will require 800 hours.

Projects Under Consideration for Future OIG Annual Plans

Treasury's Working Capital Fund (In Progress—Suspended)

Audit Objective: To determine whether the costs that the Department's Working Capital Fund charges to bureaus are consistent with the costs the fund incurs for projects it performs on their behalf. Specifically, we plan to review in phases (1) the existence, timeliness, and consistency of reconciliations between the actual costs incurred by the fund and costs billed to bureaus; (2) whether costs charged by the fund are appropriate; (3) whether costs charged by the fund to specific bureaus are supported by appropriate documentation; and (4) the reasonableness of assumptions, data, processes, or models used by the fund to estimate its annual costs. This project is a joint effort with TIGTA. During fiscal year 2008, we issued a report addressing the second and third objectives. Due to other high-priority work, we do not expect to resume our review of the first and fourth objectives during fiscal year 2009.

OIG ISSUE AREAS AND PLANNED PROJECTS

Treasury General Management and Infrastructure Support—Financial Management

Treasury's Implementation of Managerial Cost Accounting

Background. 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 in a more effective manner. The Department developed a high-level managerial cost accounting implementation plan and established a Chief Financial Officer's Council Workgroup to address managerial cost accounting requirements within Treasury. This workgroup comprises representatives from all Treasury offices and bureaus and is led by the Deputy Chief Financial Officer. We are also participating with the workgroup in an advisory capacity.

Audit Objective: To assess the Department's progress in implementing managerial cost accounting in a comprehensive and effective manner. We expect that this project will require 1,200 hours.

OIG ISSUE AREAS AND PLANNED PROJECTS

Treasury General Management and Infrastructure Support—Information Systems Security

Office of Audit Contact: Tram J. Dang, Director of IT Audit (202) 927-5171

Office of Investigations Contact: Matthew L. Issman, Assistant Inspector General for Investigations, (202) 927-6524

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 (i.e., authorized users) who have significant knowledge of Treasury's systems and their operation. 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 confidential Treasury information
- Obtaining or disclosing sensitive or 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., 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 Mandate. 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. A contractor under our oversight conducts the evaluation as it pertains to Treasury's non-national security systems. In addition, our contractor incorporates the results of TIGTA's evaluation of IRS in Treasury's overall results. The fiscal year 2008 FISMA audit performed by our contractor included reviews of security of personally identifiable information, Treasury's security controls for federal information systems, and the critical infrastructure protection program. In addition to the FISMA audit,

OIG ISSUE AREAS AND PLANNED PROJECTS

Treasury General Management and Infrastructure Support—Information Systems Security

we conducted evaluations with OIG staff pertaining to national security systems, including those under the purview of the Assistant Secretary for Intelligence and Analysis. The Director of National Intelligence prescribes the annual deadline for the intelligence program evaluations. OMB sets the deadlines for all other FISMA evaluations.

- Known Weaknesses

Based on the results of the 2008 FISMA audit of Treasury, including TIGTA's evaluation of IRS's systems, we reported that Treasury's information security program 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, (1) National Institute of Standards and Technology Federal Information Processing Standard 200 minimum security control baselines were not sufficiently documented, tested, and/or implemented; (2) computer security incidents were not consistently reported timely or correctly categorized; (3) common security configuration baselines were not fully compliant; and (4) federal desktop core configurations were not fully implemented.

TIGTA reported that IRS had made significant improvements in the areas of security identified as needing improvement in its 2007 FISMA evaluation and had improved the efficiency of its certification and accreditation process. Additionally, TIGTA found that IRS had completed certification and accreditation for the last of its systems. TIGTA noted that the most significant area of concern was IRS's implementation and configuration management standards.

In-Progress and Planned Fiscal Year 2009 Projects

FISMA Independent Audit—Non-National Security Systems (Ongoing)

Audit Objective: To determine whether Treasury's information security program and practices, as they relate to Treasury's non-national security systems, are adequate. In addition, the contractor will determine the progress made in resolving previously reported FISMA weaknesses. We expect that 600 OIG staff hours will be needed to provide guidance and oversight to the contractor during fiscal year 2009.

OIG ISSUE AREAS AND PLANNED PROJECTS

Treasury General Management and Infrastructure Support—Information Systems Security

FISMA Independent Evaluation—Non-Intelligence National Security Systems (Ongoing)

Evaluation Objective: To determine whether Treasury's information security program and practices, as they relate to Treasury's non-intelligence national security systems, are adequate. In addition, we will determine the progress made in resolving previously reported FISMA weaknesses. We expect that the 2009 evaluation will require a total of 400 hours.

FISMA Independent Evaluation—Intelligence National Security Systems (Ongoing)

Evaluation Objective: To determine whether Treasury's information security program and practices, as they relate to Treasury's intelligence national security systems, are adequate. In addition, we will determine the progress made in resolving previously reported FISMA weaknesses. We expect that the evaluation will require a total of 400 hours.

Penetration Testing and Vulnerability Assessments (Ongoing)

Audit Objective: To determine whether sufficient protections exist to prevent intrusions into Treasury bureaus' networks, systems, or computer equipment. To accomplish this objective, we will 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 (i.e., 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 2009, we plan to conclude a review at TTB and perform audits at OTS and CDFI Fund. We expect that these three evaluations will require a total of 2,000 hours.

Disaster Recovery Exercises (Ongoing)

Audit Objective: To determine whether Treasury and its components can recover their operations in the event of a disaster (e.g., terrorist attacks, severe weather events). We will observe scheduled disaster recovery exercises on a selective basis. In fiscal year 2009, we plan to observe one exercise. We expect the observation and related testing to require 400 hours.

Database Security Controls

Audit Objective: To determine whether the Department and its bureaus have adequate security controls over their database servers, which contain sensitive and vital information, to protect against unauthorized access, manipulation, or theft. For fiscal year

OIG ISSUE AREAS AND PLANNED PROJECTS

Treasury General Management and Infrastructure Support—Information Systems Security

2009, we plan to perform an audit at FMS. We expect that this project will require 1,600 hours.

Computer Incident Response Capability

Background. According to National Institute of Standards and Technology, computer security incident response has become an important component of IT programs because attacks frequently compromise personal and business data. Treasury must comply with laws, regulations, and policy directing a coordinated, effective defense against information security threats. FISMA requires agencies to have procedures for detecting, reporting, and responding to security incidents. Appendix III to OMB Circular A-130, Security of Federal Automated Information Resources, requires that agencies establish, as part of a system security plan, an incident response capability. Due to a recent change in the threat environment, OMB has mandated additional security incident-related guidance. The guidance is designed to improve incident reporting and require implementation of safeguards to specifically protect information about the public that is maintained by federal agencies. In addition, Cyber Security Incident Handling Guidelines and Clarifications for Treasury Directive Publication 85-01, issued on January 8, 2008, provides guidance to the Department and its bureaus on responding to and reporting security incidents that affect Treasury's ability to conduct its mission.

Audit Objective: To determine whether the actions taken by Treasury's incident response team can ensure that (1) assets are adequately monitored and protected; (2) the computer incident, intrusion detection, or emergency response process policies and procedures are consistent with Treasury and other federal standards; (3) tools necessary to prevent or detect an attempted computer incident or intrusion have been purchased and appropriate users have been adequately trained; (4) roles and responsibilities of key positions necessary to respond to a computer incident, intrusion, or emergency have been developed and communicated; (5) computer incidents, intrusion attempts, and emergencies are elevated to appropriate management levels consistent with Treasury and other federal standards. We expect that this project will require 1,000 hours.

TNet Implementation

Background. Treasury; Treasury bureaus; non-Treasury financial, enforcement and economic organizations; and onsite contractors encompass approximately 184,000 users who need telecommunication services. A net customer growth factor of 3 or 4 percent a year is expected. Many telecommunications services are currently provided through the Treasury Communications System and Digital Telecommunications System. Treasury procured TNet through the General Services 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 and be completed in July 2008, with the

OIG ISSUE AREAS AND PLANNED PROJECTS

Treasury General Management and Infrastructure Support—Information Systems Security

Treasury Communications System shutdown scheduled for October 2008. A revised timeline was devised to take additional security requirements into account. Additional delays encountered during the certification and accreditation process have delayed the beginning of the transition period to October 2008. TNet is expected to provide a basic service tailored to a site's network availability, bandwidth, class of service, and help desk support requirements. In addition, some enhanced services will be offered.

Audit Objective: To determine whether Treasury is managing the transition to TNet in a manner that (1) ensures that users will have the services they require without disruption, (2) provides adequate security for sensitive Treasury information, (3) results in volume discounts, and (4) improves the integration of Treasury systems. We expect that this project will require 1,600 hours.

Projects Under Consideration for Future OIG Annual Plans

Security of Personally Identifiable Information/Section 522

Background. Stolen social security numbers, names, addresses, birthdates, and other personal data are used to perpetrate identity theft and to invade privacy. Recent events in the private sector and the federal government have demonstrated that unauthorized parties can successfully remove or steal this kind of information and place millions of citizens at risk. To address these issues at the federal level, OMB issued M-07-16, Safeguarding Against and Responding to the Breach of Personally Identifiable Information, which reminds agencies of the requirements of FISMA and the Privacy Act of 1974. In particular, it reminds agencies of the need to reduce the volume of collected and retained personally identifiable information and the collection and use of social security numbers. In addition, it requires agencies to establish a breach notification policy within 120 days of the issuance of the memorandum and sets forth a framework for agencies to use to develop this policy. M-07-16 also establishes new incident handling and reporting requirements and requires establishment of policy pertaining to individuals who can access personally identifiable information.

Additionally, the Transportation, Treasury, Independent Agency, and General Government Appropriation Act, 2005 required that within 12 months of the law's enactment (by December 2005), covered agencies were to have established and implemented comprehensive privacy and data protection procedures governing the collection, use, sharing, disclosure, transfer, storage, and security of information in an identifiable form relating to the agency employees and the public.⁶ The act, as amended, also requires that an independent evaluation periodically be made of (1) the agency's use of information in

⁶ Pub. L. No. 108-447, div. H.

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Treasury General Management and Infrastructure Support—Information Systems Security

identifiable form and (2) the privacy and data protection procedures of the agency. We are currently conducting this review as part of the fiscal year 2008 FISMA audit, which will be completed in fiscal year 2009.

Audit Objective: To determine whether Treasury has (1) met the requirements of the Privacy Act of 1974 and OMB M-07-16 and (2) properly secured or mitigated risks pertaining to personally identifiable information. We expect that this project will require 1,200 hours.

Treasury's Capital Planning and Investment Control Process

Audit Objective: To determine whether the Department is appropriately managing its capital planning and investment process for IT projects. In addressing this objective, we will determine whether the Department is effectively focusing on system life-cycle security needs and can support the requested funding to address IT security weaknesses. We expect that this project will require 1,000 hours.

Web Servers—Controls and Security

Audit Objective: To determine whether Treasury and its bureaus have adequate security controls over its Web servers, which provide Internet users access to Treasury information and services, to protect against unauthorized access or malicious attacks from outside users. We expect that this project will require 2,000 hours.

Treasury's Enterprise Environment

Audit Objective: To determine whether the Treasury Chief Information Officer and bureau Chief Information Officers have implemented an enterprise environment framework that eliminates redundancy, reduces cost, improves quality and timeliness of information, enhances system integration, and properly secures information. We expect that this project will require 1,600 hours.

Data Centers – Security Reviews

Audit Objective: To determine whether physical and logical controls have been implemented to protect bureau data centers from malicious intrusions, destruction or disclosure of sensitive data, and theft or damage to valuable assets. Specifically, we plan to review (1) organization and management, (2) computer operations, (3) physical security, (4) environmental controls, (5) hardware and software inventory management, and (6) continuity of operations. We expect that this project will require 1,600 hours per data center.

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Treasury General Management and Infrastructure Support—Information Systems Security

Wireless Network Security Initiative

Investigative/Audit Objective: To determine whether (1) the use of wireless networks at Treasury and its bureaus is exposing sensitive information to increased security risks (e.g., unauthorized disclosure, exploitation by cyber criminals); (2) there are any unauthorized wireless networks on Treasury premises; and (3) Treasury has established adequate policy and oversight regarding wireless networking. We expect that this project will require 800 hours.

Configuration Management Practices

Audit Objective: To determine whether standard baseline configurations for assets under bureau control have been developed, tested, implemented, maintained, and monitored by the bureaus. We expect that this project will require 400 hours.

Equipment Disposal Process

Audit Objective: To assess Treasury's media sanitation process. Specifically, we will examine the process used for sanitation and disposal decisions, considering the security categorization of the associated system's confidentiality. We expect that this project will require 400 hours.

Common Identification Standard for Federal Employees and Contractors (HSPD-12)

Background. Wide variations in the quality and security of forms of identification used to gain access to secure federal and other facilities where there is potential for terrorist attacks need to be eliminated. Therefore, in August 2004, the President issued Homeland Security Presidential Directive 12, Policy for a Common Identification Standard for Federal Employees and Contractors. To enhance security, increase government efficiency, reduce identity fraud, and protect personal privacy, the directive established a mandatory governmentwide standard for "secure and reliable forms of identification". According to the directive, "secure and reliable forms of identification" means identification that (1) is issued based on sound criteria for verifying an individual employee's identity; (2) is strongly resistant to identity fraud, tampering, counterfeiting, and terrorist exploitation; (3) can be rapidly authenticated electronically; and (4) is issued only by providers whose reliability has been established by an official accreditation process. A fiscal year 2007 TIGTA audit found that IRS has been experiencing delays in issuing new identification cards to employees and contractors.⁷

⁷ *Progress Has Been Slow in Meeting Homeland Security Presidential Directive-12 Requirements, 2007-20-110* (June 20, 2007).

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Audit Objective: To determine what steps Treasury has taken to implement the requirements set forth in Homeland Security Presidential Directive 12, Policy for a Common Identification Standard for Federal Employees and Contractors. We expect that this project will require 1,500 hours.

Treasury Implementation of IPv6

Background. Internet Protocol version 6 is the next generation protocol designed by the Internet Engineering Task Force to replace the current protocol, version 4.⁸ Most of today's Internet uses version 4, which is now nearly 20 years old. Version 6 fixes a number of problems in version 4, such as the limited number of available version 4 addresses. Version 6 is expected to gradually replace version 4, with the two coexisting for a number of years during a transition period. OMB set a June 2008 deadline for civilian agencies to add the new technology to their networks.

Audit Objective: To determine what steps Treasury has taken to prepare for implementation of Internet Protocol version 6 throughout the Department. We expect that this project will require 1,500 hours.

⁸ The Internet Engineering Task Force is a large open international community of network designers, operators, vendors, and researchers concerned with the evolution of Internet architecture and the smooth operation of the Internet.

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Treasury General Management and Infrastructure Support—General Management

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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 discount,
- develop systems that do not adequately or fully 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. If the agency's investment plan contains one or more planning weaknesses, the plan is placed on OMB's Management Watch List and targeted for follow-up action to correct potential planning deficiencies prior to execution. In August 2005, OMB established a High Risk List for IT projects to complement its Management Watch List to focus on planning aspects for major investments and performance data to ensure that agencies and programs are meeting their intended goals and achieving results. Projects on the High Risk List are those requiring special attention from the highest level of agency management but are not necessarily at risk of failure. Both lists are publicly available on OMB's Web site.

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As of October 14, 2008, the Management Watch List included 4 Treasury IT investments. As of September 30, 2008, the High Risk List included 69 Treasury IT investments, of which 46 investments were non-IRS.

Human Capital. The Department implemented an automated integrated Human Resources system called HR Connect, which has been considered in the past to be a high-risk project. Funding to support this system is maintained through the Working Capital Fund. In its fiscal year 2009 congressional budget justification, the Department identified \$24.6 million and 33 full-time equivalent staff as the resources needed for HR Connect. These costs are billed to customers.

Procurement. Contract obligations by the Department and non-IRS bureaus totaled approximately \$2.7 billion in fiscal year 2007. Contract obligations involving IT procurements by the Department and its bureaus total approximately \$1.7 billion annually. Use of government credit cards for micro-purchases (generally for goods and services under \$3,000) is also extensive, and a strong control environment over this activity is essential to prevent abuse. Approximately 70 percent of Treasury's purchases above the micro-purchase 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 Departmental Offices and the bureaus. These audits are typically performed by the Defense Contract Audit Agency as coordinated through our office. For fiscal year 2008, approximately \$14 million of pre-award costs were audited for Treasury bureaus. In recent years, the number of requests by bureau contracting officers for contract audits has declined significantly.

Nonappropriated Activities. Four Treasury bureaus (BEP, the Mint, OCC, and OTS) do not receive appropriated funds; instead, they operate with revolving funds.⁹ 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.

Treasury Franchise Fund. First piloted pursuant to the Government Management Reform Act, the Treasury Franchise Fund was permanently established by the Transportation, Treasury, Independent Agencies, and General Government Appropriations Act, 2005.¹⁰ The Fund is a revolving fund that is used to provide financial and administrative services to various Treasury bureaus on a fee-for-service basis. Activities include: consolidated/integrated administrative management; financial management administrative support; and

⁹ A revolving fund is a fund or account whose income remains available to finance its continuing operations without any fiscal year limitation.

¹⁰ Pub. L. No. 108-447.

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financial systems, consulting, and training services. The Fund was recognized as a Center of Excellence in the Financial Management Line of Business in 2005, making it eligible to enter into competitions to provide cross-agency financial management services on a governmentwide basis. Going into fiscal year 2009, the Fund consists of three entities: the Administrative Resource Center, a component of BPD; the Federal Consulting Group; and Treasury Agency Services. Previously, the fund included FedSource, but BPD transitioned out of the FedSource business at the end of fiscal year 2008. For fiscal year 2009, service activities are expected to have new budget authority of \$137 million and employ 793 people.

Potential Integrity Risks. In addition to the weaknesses identified above, we believe that several potential integrity risks are associated with Treasury's operations. 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 instance, Treasury's Departmental Offices is still recovering from divestiture of the majority of Treasury's law enforcement bureaus and functions in fiscal year 2003 as a result of the Homeland Security Act of 2002.¹¹ During fiscal year 2009, Treasury will be challenged with setting up the infrastructure to carry out TARP.

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 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 2009 Projects

Corrective Action Verification (Ongoing)

Background. Treasury and bureau management are responsible for implementing agreed-to audit recommendations made by OIG. Management records its planned corrective actions

¹¹ Pub. L. No. 107-296.

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in response to audit recommendations and the completion of those actions in a Department tracking system called the Joint Audit Management Enterprise System (JAMES).

Audit Objective: To determine whether management has taken corrective action that is 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 5 corrective action verifications during fiscal year 2009. We expect that each verification will require 100 hours.

Contract Audit Oversight Activities (Ongoing)

Audit Objective. To oversee and coordinate Defense Contract Audit Agency contract audit services requested by procurement officers. We also plan to determine the reasons for the decline in requests for such audit services by procurement officers over the past several years and whether these reasons are valid. We expect that 400 hours will be required for this activity during fiscal year 2009.

Note: Our capacity to undertake the following projects during fiscal year 2009 is contingent on whether additional MLRs are required.

TEOAF Management of the National Seized Property Contract (In Progress)

Background. TEOAF administers the Treasury Forfeiture Fund. This Fund is the receipt account for the deposit of nontax forfeitures made by IRS, U.S. Immigration and Customs Enforcement, U.S. Customs and Border Protection (CPB), the U.S. Secret Service, and the U.S. Coast Guard. In 2007, TEOAF contracted with VSE Corporation for general property services in support of the Fund's mission.

Audit Objective: 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. We expect that this project, which was requested by TEOAF management, will require 3,000 hours.

Departmental Offices Procurement Activities

Audit Objective: To determine whether Departmental Offices follows logical and prudent business practices that comply with laws and regulations and Treasury policies and

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procedures when procuring goods and services. We expect that this project will require 2,400 hours.

OFAC and FinCEN Enterprise Content Management System

Background. Treasury has requested fiscal year 2008 funding of \$6 million to enable a pilot enterprisewide Enterprise Content Management solution for the Department, initially meeting the business requirements of OFAC and FinCEN. The enterprisewide approach, to be performed under the oversight of the Treasury Chief Information Officer, is expected to ensure that all departmentwide enterprise content management efforts map to consistent standards; are aligned with related governmentwide initiatives, such as the Case Management Line of Business; and leverage common requirements among Treasury components, thereby achieving economies of scale and efficiencies in information sharing.

Audit Objective: 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. We expect that this project will require 2,000 hours.

Projects Under Consideration for Future OIG Annual Plans

Treasury Secure Data Network

Audit Objective: To determine whether (1) the project business case for the upgrade and enhancement of the Treasury Secure Data Network is based on appropriate assumptions and cost/benefit estimates and (2) sound project management principles are followed in carrying out the project. We expect that this project will require 1,200 hours.

Employee Bonus Policies at Nonappropriated Bureaus

Audit Objective: To determine whether (1) policies for employee bonuses at nonappropriated bureaus are in accordance with the law and (2) bonuses paid conform to established policies. Separate audits are planned at each nonappropriated bureau, beginning with a pilot audit at the Mint. We expect that each project will require 2,000 hours.

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HR Connect Processing Controls

Audit Objective: To determine whether appropriate controls over the processing of personnel actions and access to employee information were implemented. We expect that this project will require 2,000 hours.

Treasury IT Project Planning and Execution

Audit Objective: To assess the Department's implementation of the IT project planning and execution requirements prescribed in OMB Memorandum M-05-23, Improving Information Technology Project Planning and Execution. More specifically, we plan to assess the use of the Earned Value Management System and operational analyses where appropriate and the process used by the Department to identify and, as appropriate, monitor high-risk projects. We expect that this project will require 2,400 hours.

Monitoring of Treasury Mandated Reports

Audit Objective: To determine whether Treasury has adequate monitoring controls in place to ensure the completion of presidentially and congressionally mandated reports. We expect that each project will require 2,000 hours.

Government Performance and Results Act Performance Measures

Background. The Government Performance and Results Act of 1993 requires federal agencies to annually report their success in achieving their performance goals. The act mandates that agencies compare their actual results with their goals and report why any unmet goals were not met and the plans necessary to meet those goals. Key performance measures must be included in the agency's Management Discussion and Analysis section of their financial statements in accordance with federal generally accepted accounting principles and OMB financial reporting requirements.

Audit Objective: To determine whether the performance measures in the Department's and non-IRS bureaus' Performance and Accountability Reports are meaningful and the reported performance data are reliable and complete. We expect that this project will require 2,000 hours.

Treasury Audit Follow-up System

Audit Objective: 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

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complement our corrective action verifications on specific audits by looking at the Department's audit follow-up system as a whole. As part of this audit, we will follow up on the recommendations in our audit report *General Management: Office of Management Needs to Improve Its Monitoring of the Department's Audit Follow-up Process*.¹² We expect that this project will require 1,200 hours.

Resolution of Accountable Officer Irregularities

Background. 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 (e.g., erroneous or improper payments) in the accounts of accountable officers. Requests for relief of accountable officers for 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.

Audit Objective: To determine whether irregularities in the accounts of Treasury accountable officers are resolved in accordance with Treasury Directive 32-04. We expect that this project will require 800 hours.

Treasury's Responsiveness to FOIA Requests

Audit Objective: To determine whether the Department and non-IRS bureaus (1) have adequate systems to record, track, and complete FOIA requests in a timely manner; (2) provide points of contact and monitoring systems to ensure that inquiries regarding existing FOIA requests have been properly addressed with the requesters; and (3) are compliant with the 1996 electronic FOIA amendments to FOIA. As part of this project, we plan to follow up on issues identified in a March 2007 GAO report, *Freedom of Information Act: Processing Trends Show Importance of Improvement Plans*.¹³ We expect that this project will require 1,600 hours.

Treasury Testing for a Drug Free Workplace

Audit Objective: To determine whether the Department and its non-IRS bureaus are effectively supporting the President's goal of a safe and drug-free workplace with established policies and procedures to ensure that employees are tested, the integrity of the test procedures are maintained, and the program is being properly monitored. We expect that this project will require 2,000 hours.

¹² OIG-08-037 (June 23, 2008).

¹³ GAO-07-441 (Mar. 30, 2007).

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Purchase Card and Travel Card Initiative

Background. This joint Office of Investigations and Office of Audit review will assess the Department's internal control procedures for the purchase and travel card programs and identify potentially inappropriate, abusive, unauthorized, and fraudulent transactions for further review. On August 1, 2008, the Senate Homeland Security and Governmental Affairs Committee approved a bill that would require OIG to periodically conduct risk assessments of the agency's purchase card program and associated internal controls and analyze identified weaknesses in the program and the frequency of improper activity on purchase cards.

Investigative/Audit Objective: To (1) identify weaknesses in internal controls over purchase and travel cards that could lead to fraud, waste, and abuse; (2) detect transactions that were prohibited or inadequately controlled; (3) identify abusive, inappropriate, or unauthorized (fraudulent) transactions; (4) initiate investigations when appropriate, as they relate to abusive, inappropriate, or unauthorized (fraudulent) transactions; and (5) identify best practices to increase the programs' efficiency and security.

Treasury Annex Renovation

Background. The Department's fiscal year 2009 budget request included \$12 million to address critical building deficiencies in the Treasury Annex Building.

Audit Objective: To determine whether the Department is following sound planning and other project management principles for the Treasury Annex Building renovation. We expect that this project will require 1,600 hours.

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Terrorist Financing, Money Laundering, and Foreign Assets Control

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Issue Area Discussion

TFI marshals the Treasury Department's intelligence and enforcement functions with the aim of safeguarding the financial system against illicit use and combating rogue nations, terrorist facilitators, weapons of mass destruction proliferators, money launderers, drug traffickers, and other national security threats.

TFI unites five offices and bureaus within the Department. The Office of Terrorist Financing and Financial Crimes is the policy and outreach apparatus for TFI. The Office of Intelligence and Analysis is responsible for TFI's intelligence functions, integrating the Treasury into the larger Intelligence Community and providing support to Treasury leadership, including the Secretary, Deputy Secretary, and the Under Secretaries for IA and Domestic Finance.

TFI also oversees FinCEN, OFAC, and TEOAF. FinCEN is responsible for administering BSA and regulatory functions; OFAC administers and enforces economic and trade sanctions; and TEOAF administers the Treasury Forfeiture Fund.

TFI also collaborates with IRS's Criminal Investigation Division in its anti-money laundering, terrorist financing, and financial crimes cases. In addition, FinCEN and OFAC depend on oversight by financial institution regulators, including OCC, OTS, and IRS within Treasury, and the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Securities and Exchange Commission, and others outside of Treasury. Moreover, TFI coordinates with law enforcement within the United States and, internationally, with the Financial Intelligence Units (similar to FinCEN) located in other countries.

The Department, through FinCEN, and financial institution regulators are responsible for enforcing several key pieces of legislation. Most prominent are BSA and Title III of the USA PATRIOT Act. BSA requires financial institutions to file Currency Transaction Reports for cash transactions exceeding \$10,000 and Suspicious Activity Reports (SAR) for transactions that are suspicious in nature. Title III of the USA PATRIOT Act requires each financial institution to establish an anti-money laundering program, extends the SAR 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. Other laws enforced include the Annunzio-Wylie Anti-Money Laundering Act (1992), which increased penalties for depository institutions that violate federal anti-money laundering laws; the Money Laundering Suppression Act (1994), which mandated certain exemptions to filing Currency Transaction Reports in an effort to reduce

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the number reported, directed the Secretary of the Treasury to designate a single agency to receive SAR filings, required the registration of money services businesses (MSB), and clarified the applicability of BSA to state-chartered and tribal gaming establishments; and the Money Laundering and Financial Crimes Strategy Act (1998), which directed the Secretary to develop a national strategy for combating money laundering.

For fiscal year 2007, Treasury reported that it spent \$537 million on (1) removing or reducing threats to national security from terrorism, proliferation of weapons of mass destruction, drug trafficking, and other criminal activity on the part of rogue regimes, individuals, and their financial and other support networks, and (2) safer and more transparent financial systems. Treasury reported spending \$111 million on the first outcome and \$426 million on the second. These figures do not include the costs incurred by OCC, OTS, and IRS to ensure compliance with BSA and related laws, or by financial regulators, law enforcement, or other organizations outside of Treasury that participate in this effort.

FinCEN is primarily responsible for Treasury's effort to enforce BSA and the USA PATRIOT Act. FinCEN works with federal financial regulators to ensure that regulated industries comply with these laws. FinCEN finalized an MOU in 2004 with the five federal banking agencies—OCC, OTS, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, and the National Credit Union Administration—to better share information and improve coordination in ensuring that BSA is effectively implemented. FinCEN also executed similar MOUs with IRS and most states and territories. FinCEN is working to obtain agreements with the Securities and Exchange Commission and the Commodities Futures Trading Commission to enhance BSA compliance oversight in the nonbank financial sectors.

In June 2005, FinCEN and the Federal Financial Institutions Examination Council, composed of the five federal banking agencies, issued the Bank Secrecy Act/Anti-Money Laundering Manual. This guidance was designed to ensure consistency and provide clarity for conducting BSA examinations. In addition, the manual includes examination procedures for OFAC programs. The manual was updated in 2006 and 2007.

In July 2007, the financial institution regulators issued the Interagency Statement on Enforcement of Bank Secrecy Act/Anti-Money Laundering Requirements to provide greater consistency among the agencies in enforcement matters and to offer insight into the considerations that form the basis of those decisions. The statement describes the circumstances under which the agencies will issue a cease and desist order in compliance with applicable statutes. The statement also makes clear that the agencies may take formal or informal enforcement actions to address other concerns related to BSA or anti-money laundering, depending on the facts.

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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. In performing its mission, OFAC relies principally on delegations of authority made pursuant to presidential powers under the Trading with the Enemy Act, International Emergency Economic Powers Act, and United Nations Participation Act to prohibit or regulate commercial or financial transactions involving specific foreign countries, entities, or individuals. In administering and enforcing economic sanctions programs, OFAC maintains a close working relationship with other federal agencies to ensure that these programs are implemented properly and enforced effectively. OFAC currently administers 32 economic sanctions programs against foreign governments, entities, and individuals. Although 8 of these programs were terminated, they still require residual administrative and enforcement activities. In April 2006, OFAC executed an MOU with the five federal banking agencies to share information and improve coordination. The *Bank Secrecy Act/Anti-Money Laundering Manual* contains examination procedures for OFAC requirements.

Treasury also works globally to combat money laundering and terrorist financing. The United States is a member of the international Financial Action Task Force. The task force is an intergovernmental body created in 1989. Its purpose is to develop and promote policies, both at national and international levels, to combat money laundering and terrorist financing. The task force holds an annual exercise to examine the methods and trends of money laundering and, since 2001, of terrorist financing. The primary objective is to help task force policy makers develop and refine anti-money laundering and counter-terrorist financing standards. In addition, findings from the annual exercise serve as the basis for informing regulatory authorities, law enforcement agencies, financial intelligence units, and the general public about the characteristics and trends of money laundering and terrorist financing. The task force has published "40 + 9 Recommendations" to help bring about international legislative and regulatory reforms. FinCEN and OFAC programs may be used jointly to bring rogue states into line with U.S. interests.

Potential Weaknesses. OIG audits have found problems in either the detection of BSA violations or the timely enforcement of BSA, and these problems have continued through the most recent year. For example, a recent audit of OTS's BSA examination program found that OTS examiners often did not fully evaluate whether thrifts had implemented significant BSA compliance elements. The examiners frequently accepted that thrift programs were up to standard because the thrifts had policies and procedures in place for certain BSA and USA PATRIOT Act program areas. Also making Treasury's mission more difficult is the fact that Treasury is dependent on many federal and other regulators to examine institutions for compliance with program requirements. We recently reported that at least 12 organizations had substantial BSA responsibilities. Four of these organizations—FinCEN, IRS, OCC, and OTS—were within Treasury. The remaining 8—5 financial institution regulators and 3 self-regulatory organizations—were outside of

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Treasury. We also reported that nine federal law enforcement agencies make substantial use of BSA data. Most of these organizational relationships are managed by MOU. The MOUs depend largely on voluntary compliance and are generally unenforceable, elevating the risk that Treasury has in managing this area. In summary, the nature of this Treasury mission area is inherently one of the high-risk areas of the Department.

Other areas of concern include cross-border electronic transmittals of funds (wire transfers) and MSB.

Cross-Border Wire Transfers. Section 6302 of the Intelligence Reform and Terrorism Prevention Act of 2004 directs the Secretary of the Treasury to determine whether reporting requirements should be imposed on financial institutions for certain cross-border wire transfers.¹⁴ In January 2007, Treasury reported that the system is feasible, but a number of issues need to be worked out before implementing a requirement. One significant matter is the need for FinCEN to develop and implement a financial institution cross-border wire transfer reporting system. Development of such a system is pending approval by the Secretary to go forward with a reporting requirement for cross-border wire transfers. Based on FinCEN's recent track record with BSA Direct Retrieval and Sharing, a flawed system development effort terminated in 2006, FinCEN's ability to develop a cross-border wire transfer system is a concern.

MSBs. Due to concern about terrorist financing and money laundering, banks have been pressured by their regulators over the last several years to treat MSBs as high-risk. As a result, MSBs have encountered increased difficulty in establishing and maintaining banking services. This has resulted in reduced banking services for many people, particularly those without access to formal banks. Restricting MSBs' access to banks can drive transactions underground that would normally be conducted at MSBs, thereby harming U.S. efforts to prevent money laundering and combat terrorist financing. In July 2008, the House of Representatives passed the Money Services Business Act of 2008 to eliminate any regulatory burden imposed on insured depository institutions and promote MSB access to the banking system.¹⁵ The act provides for MSB self-certification, gives full recognition to federal and state agency authority to supervise and enforce MSB compliance with anti-money laundering and terrorist financing obligations and implementing regulations, and removes depository obligation to enforce these requirements. This bill is currently in the Senate.

Our planned work for fiscal year 2009 does not include any specific audit projects related to cross-border wire transfers and MSB access to banking services, though we do have

¹⁴ Pub. L. No. 108-458.

¹⁵ H.R. 4049.

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such projects under consideration for future-year plans. We will continue to monitor both these areas in our planning of future work.

Potential Integrity Risks. The success of Treasury efforts to support law enforcement in the fight against terrorist financing, money laundering, and other financial crime is dependent on honest and complete reporting of currency transactions and suspicious financial activity. In addition to the potential weaknesses noted above, we believe that several potential integrity risks are associated with BSA. These risks include (1) the failure by financial institutions to file required BSA reports; (2) filing 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 foreign sanctions program. These risks are potentially exacerbated by the crisis in the financial markets related to subprime lending and the resulting financial weakness of many financial institutions because troubled banks may allow their BSA compliance program to deteriorate as they struggle to improve their financial situation.

Although we have not identified in our prior audits any fraudulent BSA reports or filings, we have identified the potential for this to occur, particularly in our reviews of data quality issues associated with suspicious activity reporting.

The unauthorized release of information collected under BSA may result in criminal prosecution, civil penalties, or administrative sanctions. As a new initiative, the Office of Investigations plans to deliver outreach presentations to FinCEN analysts and other lawful users of BSA data about the proper use and protection of this sensitive information. In addition, the Office of Investigations plans to coordinate with the Federal Law Enforcement Training Center's Financial Fraud Training program to ensure inclusion throughout their courses the topic of safeguarding BSA information. The outreach presentations will highlight the mission of OIG and educate employees and others on how potential compromise of BSA information can occur and identification of fraud indicators associated with BSA filings.

The Treasury Forfeiture Fund equitable sharing program allows for any federal, state, or local law enforcement agency that directly participates in an investigation or prosecution that results in a federal forfeiture to request an equitable share of the net proceeds of the forfeiture. There are restrictions on how recipient agencies may use these funds, and recipient agencies must provide an annual accounting of equitable sharing receipts and expenditures to TEOAF. Prior OIG audits have found instances of misuse of these funds. As we noted in last year's annual plan, we have not performed any audits in this area since fiscal year 1996.

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Terrorist Financing, Money Laundering, and Foreign Assets Control

In Progress and Planned Fiscal Year 2009 Projects

FinCEN BSA Direct System (In Progress)

Audit Objective: To assess FinCEN's efforts in planning, awarding, monitoring, resolving disparities, and reporting performance for the retrieval and sharing component of the BSA Direct contract. We expect that this project will require 500 hours to complete in fiscal year 2009.

FinCEN Monitoring of SAR Data Quality (In Progress)

Background. Our office performed three prior audits in which we raised concerns over longstanding SAR data quality and that these data problems could adversely affect FinCEN's ability to meet its core mission relative to BSA and attendant terrorist financing and money laundering programs. Our last audit of this area, completed in March 2005, found that FinCEN had not established data quality standards from which SARs could be routinely monitored for data quality purposes. We also found that most previously reported control weaknesses and conditions remained outstanding. During this audit, we sampled over 400 SARs filed by depository institutions and MSB, finding that 62 percent of them contained one or more data quality problems (i.e., missing, incomplete, inappropriate, and/or inconsistent information) in a data field critical to law enforcement agencies). Data quality problems were found with 68 percent of the sampled SARs filed by MSB. *FinCEN: Heightened Management Attention Needed Over Longstanding SAR Data Quality Problems.*¹⁶ FinCEN has reported that our recommendations in this report are implemented.

Audit Objective: To assess the effectiveness of FinCEN's corrective actions to the recommendations in our March 2005 report and evaluate the current processes for accumulating and distributing SAR data to ensure data integrity. We expect that this project will require 500 hours to complete in fiscal year 2009.

OFAC Follow-up on Cases Referred for Further Inquiry (In Progress)

Audit Objective: To determine (1) how OFAC has been using the results of a program to assess financial institution compliance with its sanction programs and (2) what follow up was performed regarding potential suspicious activities identified through this program. We expect that this project will require 500 hours to complete in fiscal year 2009.

¹⁶ OIG-05-033 (Mar. 23, 2005).

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BEP Mutilated Currency Redemption (In Progress)

Background. We are reviewing BEP policies and procedures and related authorities that provided for the redemption of mutilated currency through official Treasury warrants. A focus of our review is on potential vulnerabilities which may be exploited by criminal and terrorist organizations to further their illicit activities through these programs. In August 2008, the federal government filed civil actions to seek forfeiture of \$6.4 million in mutilated currency brought to BEP from Mexico in two separate transactions. BEP alerted federal investigators when an individual initially brought \$1.2 million to the BEP facility in Washington, DC. After the second delivery, investigators seized the money because questionable information was provided on FinCEN Form 105, *Report on International Transportation of Currency or Monetary Instruments* for the first transaction and the person did not complete a FinCEN Form 105 for the second transaction. The law requires persons who transport currency or other monetary instruments in excess of \$10,000 in and out of the U.S. to file a FinCEN Form 105 with CBP. There are also inconsistent information provided to investigators about the source of the money and the money's owners.

Audit Objective: To identify and assess potential vulnerabilities posed by the currency redemption programs of BEP. We expect that this project will require 1,600 hours to complete.

Note: Our capacity to undertake the following projects during fiscal year 2009 is contingent on whether additional MLRs are required.

OCC BSA Examination of Private Banking (In Progress - Suspended)

Background. In November 2001, our office issued an audit report on OCC examination of private banking for BSA compliance. The audit found that OCC did not cover BSA compliance for 17 percent of bank trust departments and in 60 percent of those banks offering private banking services. We recommended that OCC take a number of actions to improve its trust and private banking BSA examination coverage. Private banking continues to be an area of concern. For example, a 2005 Senate Permanent Subcommittee of Investigation report on the former Riggs Bank identified extensive problems in Riggs' oversight of its private banking customers.

Audit Objective: To determine whether OCC's BSA compliance examination coverage of national bank trust and private banking services is adequate. As part of this audit, we plan to follow up on the corrective actions taken in response to our report *Bank Secrecy Act:*

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Terrorist Financing, Money Laundering, and Foreign Assets Control

*OCC Examination Coverage of Trust and Private Banking Services.*¹⁷ We expect that this project will require 2,000 hours.

Current Status. This audit was started in fiscal year 2008, but put on hold to staff a mandated MLR.

OCC Wells Fargo Bank Enforcement (Follow-up)

Background. In August 2006, our office completed an audit of the enforcement action taken by OCC to address longstanding and recurring BSA compliance problems with Wells Fargo Bank, the nation's fifth largest bank. OCC addressed these program failures by issuing Wells a non-public, informal action which required Wells to develop and implement a correction plan. We took issue with the use of an informal action but, with the correction plan already being developed by the bank, recommended that OCC closely monitor it. Wells was supposed to complete corrections by December 2006.

Audit Objective: To assess OCC's implementation of corrective actions to the recommendations in our August 2006 report. We expect that the project will require a total of 600 hours.

FinCEN MOU with Financial Institution Regulators

Audit Objective: To determine whether (1) FinCEN is receiving timely, complete, and reliable information under the MOU; and (2) the purpose of the MOU (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 a series of audits at FinCEN, OCC, and OTS. We expect that the projects will require a total of 4,000 hours.

Projects Under Consideration for Future OIG Annual Plans

Security Clearances of Individuals Handling Sensitive BSA Reports Initiative

Audit/Investigative Objective: To determine whether adequate controls are in place to ensure Treasury employees and contractor personnel with access to sensitive BSA reports have current and appropriate security clearances. We plan to coordinate this joint initiative with TIGTA. TIGTA would audit IRS controls over access to BSA data.

¹⁷ OIG-02-016 (Nov. 29, 2001).

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Terrorist Financing, Money Laundering, and Foreign Assets Control

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

Audit Objective: To determine whether (1) OCC and OTS are using the guidance provided in the interagency statement to cite institutions with violations for not establishing or maintaining a BSA compliance program; (2) OCC and OTS are issuing cease and desist orders in situations which warrant them; (3) interagency guidance provides adequate detailed guidance, and (4) additional guidance is needed. We expect that this project will require 2,000 hours for each regulator.

FinCEN's Information Sharing Procedures (Section 314 of the USA PATRIOT Act)

Background. Section 314 of the USA PATRIOT Act of 2001 provides for the sharing of information regarding individuals, entities, and organizations engaged in or reasonably suspected of engaging in terrorist acts or money laundering activities between the government and financial institutions (Section 314(a)), and among financial institutions themselves (Section 314(b)). Effective March 1, 2005, FinCEN implemented a web-based USA PATRIOT Act secure communication system to expedite this information.

Audit Objective: To determine whether FinCEN has implemented an effective system to provide for the sharing of information between law enforcement authorities and financial institutions, and among financial institutions themselves, in accordance with Section 314 of the USA PATRIOT Act. We expect that this project will require 1,600 hours.

FinCEN Access and Monitoring Controls Over BSA Data

Background. 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 FinCEN expects this number to climb to 10,000 by 2009. FinCEN needs to ensure the data is 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 and the data is protected.

Audit Objective: To determine whether FinCEN is properly controlling and monitoring external access to BSA data. We expect that this project will require 1,200 hours.

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FinCEN Efforts to Ensure Compliance with MSB Registration Requirements (Follow-up)

Background. In 2005, OIG issued an audit report recommending that FinCEN (1) develop and track performance indicators that measure how registration is enhancing BSA compliance by the MSB industry, including registration; (2) develop and implement a strategy to take enforcement actions when appropriate, including working with the IRS and the states to ensure timely and quality referrals of unregistered MSB are made; and (3) assess the need to clarify guidance on the dollar threshold for designation as MSB.

Audit Objective: To determine whether FinCEN has exercised sufficient oversight of the MSB industry to ensure compliance with MSB registration requirements. We expect that this project will require 1,000 hours.

Financial Industry Use of Interdiction Software to Comply With OFAC Sanctions

Background. To assist financial institutions in complying 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 by law, many financial institutions use commercial interdiction software to compare customers to the OFAC list. A number of companies produce and sell related software products and services. While OFAC's position is that software is the main method that financial institutions use to identify and report OFAC-related violations, OFAC does not approve or sanction any particular packages for use.

Audit Objective: To determine what best practices exist in the federal government to manage risks associated with software packages sold by the private sector that are used to comply with laws and regulations. We expect that this project will require 1,200 hours.

FinCEN Civil Penalties for BSA Program Violations

Audit Objective: 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. We expect that this project will require 2,000 hours.

OCC BSA and USA PATRIOT Act Compliance Examinations and Enforcement Actions

Audit Objective: 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

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to deter and detect money laundering, terrorist financing, and other related criminal acts. The last time we comprehensively reviewed OCC's BSA compliance examination program was in fiscal year 2000. We expect that this project will require 3,000 hours.

TEOAF Use of Treasury Forfeiture Fund Receipts to Support Law Enforcement

Audit Objective: To determine whether TEOAF has appropriate controls to (1) distribute funds to eligible law enforcement agencies in accordance with applicable laws, regulations, and policies; and (2) ensure the 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 funds in accordance with Treasury guidelines. We expect that each agency review will require 1,200 hours. It should be noted that the last time we audited the use of equitable sharing funds by local government agencies was in fiscal year 1996. That year, we conducted a series of audits that found significant instances of misuse or poor accountability over these funds.

Anti-Money Laundering Regulations for the Real Estate Industry

Background. Section 352 of the USA PATRIOT Act includes entities involved in real estate closings and settlements in the definition of financial institutions, and requires these 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 yet to issue regulations.

Audit Objective: To determine and assess the progress of FinCEN effort's to issue anti-money laundering regulations for the real estate industry. We expect that this project will require 1,600 hours.

Compliance by MSB Industry with Sanction Programs

Audit Objective: To determine whether OFAC is effectively coordinating with IRS (the regulator of the MSB industry) to ensure compliance by the industry with OFAC requirements. We expect that this project will require 1,600 hours.

Adequacy of FinCEN Modified Currency Transaction Report Exemption Procedures on Depository Institutions

Audit Objective: To determine whether FinCEN's modified regulatory requirements for Currency Transaction Report exemption reporting by depository institutions has been

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effective in increasing the efficiency and effectiveness of Currency Transaction Report reporting. We expect that this project will require 2,000 hours.

Electronic Banking and BSA Compliance

Background. On-line banking has been around for years. It is offered as a service by a large number of financial institutions. Most of this on-line activity involves traditional financial institutions that have typical walk-in banking, but also offer customers the ability to conduct business on-line. 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, the banking industry has been evolving to the point that certain financial institutions conduct all of their business on-line. This includes allowing account holders to open accounts without ever setting foot in a "storefront" location.

Audit Objective: To determine how OCC and OTS ensure adequate customer identification and customer due diligence controls are in place for financial institutions that extensively or exclusively conduct business on-line. We expect that this project will require 2,400 hours.

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

Background. In interpretive guidance issued in December 2004, FinCEN advised institutions subject to suspicious activity reporting under the 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 fulfill the requirement to file SARs with FinCEN on such transactions (i.e., a separate SAR to FinCEN on the same blocked transaction would no longer be required). However, if the filer has information not included on the blocking report filed with OFAC, a separate SAR must still be filed with FinCEN including that information.

Audit Objective: 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. We expect that this project will require 800 hours.

Insurance Companies Reporting of Suspicious Transactions

Audit Objective: To determine what steps FinCEN has taken to assess initial insurance industry compliance with BSA. We expect that this project will require 2,000 hours.

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Intelligence Support Provided by the Office of Intelligence and Analysis

Background. The Intelligence Authorization Act for Fiscal Year 2004 codified the Office of Intelligence and Analysis and assigned to that office responsibility for the receipt, analysis, collation, and dissemination of foreign intelligence and foreign counterintelligence information related to the operations and responsibilities of Treasury.

Audit Objective: To assess progress by the Office of Intelligence and Analysis progress in meeting its responsibilities under the Intelligence Authorization Act. We expect that this project will require 2,400 hours.

OFAC MOU With Financial Institution Regulators

Audit Objective: To determine whether (1) OFAC is receiving timely, complete, and reliable information under the April 2006 MOU with the federal banking regulators; and (2) the purpose of the MOU—to help OFAC in fulfilling its role as administrator and enforcer of economic sanctions and to assist the regulators in fulfilling their roles as banking organization supervisors—is being achieved. To address these objectives, we plan to conduct audit work at OFAC, OCC, and OTS. We expect that the projects will require a total of 2,400 hours.

OFAC Policies and Procedures

Audit Objective: To determine whether OFAC has adequately documented their current policies, procedures, and practices. We expect this project will require 800 hours.

OTS BSA Enforcement (Follow-up)

Background. Our office performed an audit in 2003 that identified weaknesses in the OTS BSA enforcement program. OTS issued formal sanctions against only 11 of 180 thrifts (taken from a sample of 351 thrifts) who were found to have substantive BSA compliance problems. OTS consistently relied on moral suasion and thrift management assurances that BSA violations would be addressed. OTS concurred with our recommendations to improve the enforcement program.

Audit Objective: To determine whether OTS is taking timely and sufficient enforcement action against thrifts with substantive BSA violations. As part of this audit, we plan to follow up on the corrective actions taken in response to our report *OTS: Enforcement*

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*Actions Taken for Bank Secrecy Act Violations.*¹⁸ We expect that this project will require 2,000 hours.

Securities Industry Reporting of Suspicious Transactions

Audit Objective: To determine whether FinCEN has taken adequate steps to ensure securities industry companies comply with BSA. We expect that this project will require 2,000 hours.

FinCEN Efforts to Assess the Money Laundering and Terrorist Financing Risks Associated With the Use of Stored Value and Prepaid Cards

Background. The use of stored value and prepaid cards is growing at a rapid rate. Recent estimates show consumer spending using these cards to grow from \$63 billion in 2004 to \$257 billion in 2009. The fact that these cards may be carried in wallets with credit cards, are often indistinguishable from credit cards, and may often be used anonymously, makes them a potential vehicle for potential money launderers or terrorists. Government regulations may not yet caught up with this emerging industry.

Audit Objective: To evaluate FinCEN's progress in identifying and addressing the money laundering and terrorist financing risks associated with the use of stored value and prepaid cards. We expect that this project will require 2,000 hours.

FinCEN Cross-Border Wire Transfer System

Background. The Intelligence Reform Act of 2004 required FinCEN to complete a study assessing the feasibility and impact of implementing financial institution cross-border wire transfer reporting requirements. Treasury delivered this study in January 2007, which found the reporting requirement feasible and potentially valuable. The requirement has not yet been implemented, in part because it would require FinCEN to develop a system.

Audit Objective: To determine the data and methodology FinCEN used to make its assessment, and the status of the system's development. We expect that this project will require 2,000 hours.

¹⁸ OIG-03-095 (Sep. 23, 2003).

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Controls Over Intelligence Sharing

Background. During fiscal year 2004, we completed an evaluation, requested by the Treasury General Counsel, which found certain issues in the process by which certain Treasury bureaus and offices obtained sensitive and classified intelligence information.¹⁹

Audit Objective: To assess, since the creation of Office of Intelligence and Analysis, intelligence sharing within Treasury. We expect that this project will require 1,200 hours.

Intelligence Oversight Board Reporting

Background. 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 13462. This Order requires each Intelligence Community member agency to designate an office to report to the Board regarding intelligence activities they 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.

The Secretary has designated the Office of Intelligence and Analysis as the reporting office for the Department.

To assist the Board in fulfilling its responsibilities and the Director of National Intelligence's related oversight obligations, the Office of the Director of National Intelligence will assume an enhanced role in the reporting process, including analyzing reports for the Board, identifying trends or patterns warranting further action, and ensuring remedial actions are carried out. The office will provide analyses on a quarterly basis to the Board, as well as interim reports on significant issues, as appropriate.

Audit Objective: To determine whether the changes Treasury has made regarding its internal guidelines, practices, and procedures for complying with the requirements of E.O. 13462 are effective. We expect that this project will require 800 hours.

FinCEN Performance Measures

Audit Objective: To determine whether FinCEN has established appropriate performance measures and has adequate data collection, validation, and reporting systems to ensure the goals outlined in Treasury's strategic plan are achieved. We expect that this project will require 2,400 hours.

¹⁹ Our evaluation report on these matters, OIG-CA-04-003, is classified.

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Governmentwide Financial Services and Debt Management

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Issue Area Discussion

As the federal government's financial manager, FMS provides centralized payment, collection, and reporting services for the government. BPD, which borrows the money needed to operate the federal government, accounts for the resulting debt, and provides reimbursable support services to federal agencies.

Disbursement and Collections. 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 totaled approximately \$1.8 trillion in fiscal year 2008. Accurate, on-time payments are of considerable financial importance to American citizens, whether recipients of Social Security or Veterans' benefits, income tax refunds, or other federal payments. During fiscal year 2008, FMS issued nearly a billion payments via paper check and electronic funds transfer.

In fiscal year, 2008, FMS also collected approximately \$3.2 trillion in payments to the government through 9,000 financial institutions. Nearly \$2.5 trillion of this amount is collected electronically.

The Economic Stimulus Act of 2008 was enacted in February 2008 to help protect the U.S. economy from the housing downturn and other challenges.²⁰ This Act has two main elements - (1) short-term incentives to bolster business investment, and (2) consumer spending to keep the economy growing and creating jobs. Together, these two elements of the legislation provide about \$150 billion of tax relief for the economy in 2008. The Act provides for individual tax relief in the form of tax rebates. For households, single filers generally receive a minimum of \$300 and as much as \$600 in Stimulus payments, and joint filers will generally receive at least \$600 and up to \$1,200. There is also an additional \$300 payment for each qualifying child. Total payments to households will be over \$100 billion. The Act further provided funding for U.S. possessions to make Stimulus payments to their residents. As part of the legislation, FMS received a supplemental appropriation of \$64.2 million to help fund its costs for implementing the Act. This funding will remain available until September 30, 2009. FMS plans to spend the bulk of the funding - \$47.2 million for operations support, most of it on postage.

Since enactment of the Debt Collection Improvement Act of 1996, FMS has collected about \$37.4 billion in delinquent debt. Prompt referral of eligible delinquent debts to Treasury by federal program agencies is critical to the success of collection efforts. At the close of fiscal year 2008, FMS reported that 100 percent (\$37.6 billion) of the eligible

²⁰ Pub. L. No. 110-185.

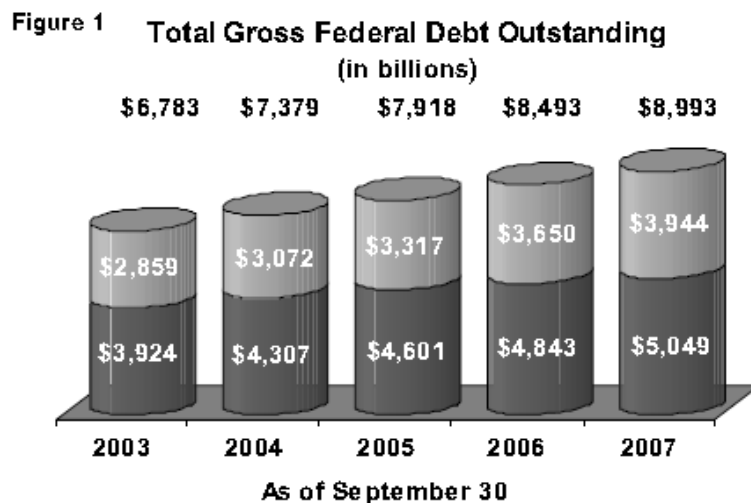
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federal non-tax debts had been referred for collection by payment offset. For the same time period, FMS reported that 100 percent (\$9.3 billion) of the eligible debts had been referred to the Cross-Servicing Program for collection. Total collections were about \$5.9 billion for fiscal year 2008. This amount includes \$1.5 billion from the offset of Stimulus payments.

Public Debt. 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.

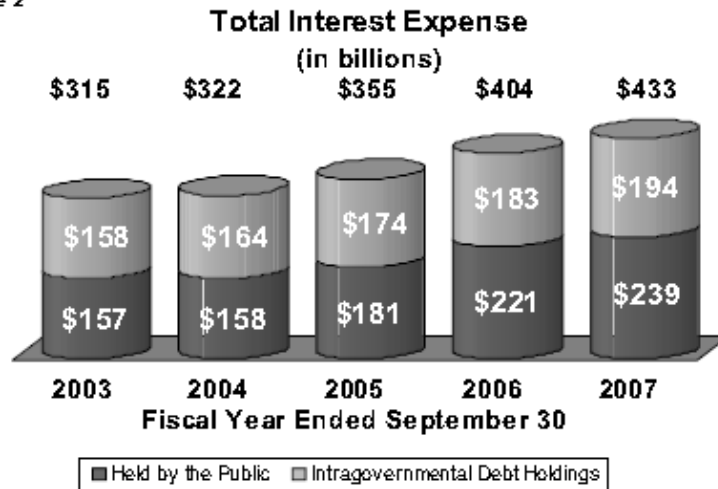
The federal debt has two major components: Debt Held by the Public and Intragovernmental Holdings. Debt Held by the Public is the federal debt held by individuals, corporations, state or local governments, foreign governments, and other entities outside the U.S. government. Types of securities held by the public include Treasury Bills, Treasury Notes, Treasury Bonds, Treasury Inflation-Protected Securities, U.S. Savings Bonds, State and Local Government Series, Foreign Series, and Domestic Series. Intragovernmental Holdings are primarily Government Account Series securities held by federal government trust funds, revolving funds, and special funds. As of September 30, 2007, the total federal debt outstanding was nearly \$9 trillion, of which \$5 trillion was Debt Held by the Public, and \$4 trillion was Intragovernmental Holdings. The interest expense on the federal debt during fiscal year 2007 was \$433 billion. The following two figures show the increases to the debt outstanding and interest expense over the last 5 years.



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Figure 2



Source: GAO; *Financial Audit: Bureau of the Public Debt's Fiscal Years 2007 and 2006 Schedules of Federal Debt*; GAO-08-168 (Nov. 7, 2007)

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

Due to competing priorities in our office, FMS programs received little performance audit coverage during recent years. Since we last substantively reviewed FMS payment and collection systems, federal payments and collections have grown substantially, and become increasingly electronic. During fiscal year 2008, we initiated a series of audits of private collection agencies with respect to their compromise of delinquent debt. This was the first time we looked at FMS debt collection activities since 1999.

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, impacting 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

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innovations requires that law enforcement look for and implement new ways and techniques to identify and prevent future criminal activity.

In an effort to proactively 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.²¹ Based upon the collection of this sensitive data, trends and patterns can potentially identify ongoing fraud and abuse directed against or occurring within the operations of the FMS.

In-Progress and Planned Fiscal Year 2009 Projects

FMS Private Collection Agencies Debt Compromise (In Progress)

Audit Objective: To determine whether for compromises on delinquent federal non-tax debt, the private collection agencies are (1) following private collection agency contract requirements, including (a) attempting to collect the full amount due before considering a compromise and (b) compromising at authorized levels; and (2) obtaining adequate documentation to support each compromise, providing proper justification, and retaining evidence for the required period. We expect that this audit will require 200 hours to complete in fiscal year 2009.

Note: Our capacity to undertake the following projects during fiscal year 2009 is contingent on whether additional MLRs are required.

BPD Administrative Resource Center User Fees Collection and Reimbursable Agreements

Background. The Administrative Resource Center is an office within BPD. The Center's mission is to provide administrative support to various federal agencies. As a member of the Treasury Franchise Fund, the Center does not receive direct appropriated funds, but instead relies solely on reimbursable revenue to pay all organizational expenses. The Center relies on reimbursement from its customers. If a federal agency needs a service provider, the Center provides franchise services.

The Administrative Resource Center provides a wide range of administrative services and has developed an Internet-based infrastructure to make daily business activities easier for its customers. The Center's automated administrative support systems for accounting, travel, personnel management, and procurement are all available via the Internet. Currently, the Center has 14 Treasury customers and 50 non-Treasury customers.

²¹ Data mining is the process of extracting meaningful information from large databases.

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Audit Objective: To determine whether the Administrative Resource Center has appropriate agreements for its services and a proper accounting system to (1) operate independently from BPD funding, (2) ensure proper reimbursement by federal agencies for all of its services in a timely manner, and (3) account for the full cost incurred for providing its services. We expect that this project will require 3,000 hours.

FMS Debit Card Program for Social Security Benefits

Background. U.S. Debit Card is an FMS program managed by JPMorgan Chase to give federal agencies the ability to deliver funds through debit cards, providing an electronic alternative to checks, drafts, and imprest funds. A subset of the program, Direct Express Card, is managed by Comerica and provides a mechanism for the delivery of federal benefits, such as Social Security payments. The program provides an electronic funds transfer alternative for unbanked Social Security and supplemental security income recipients and will significantly increase the number of payments issued via debit cards.

Audit Objective: To determine how information about debit card recipients will be safeguarded and how JPMorgan Chase and Comerica were selected to be the financial agent banks for this service. We expect this audit will require 2,000 hours.

FMS Controls Over Disbursement Activities

Background. FMS is responsible for disbursing federal government payments such as Social Security, veterans' benefits, and income tax refunds. Checks are printed and mailed from FMS's four regional financial centers located in Austin, Texas; Kansas City, Missouri; Philadelphia, Pennsylvania; and San Francisco, California. The centers issue payments by electronic funds transfer and paper check. In fiscal year 2008, FMS issued nearly one billion payments via paper check and electronic funds transfer, with a dollar value of nearly \$1.8 trillion. For fiscal year 2008, nearly 794 million payments were issued via electronic funds transfer, representing 79 percent of all FMS payments, while 205 million paper-check disbursements were made, representing 21 percent of FMS payments. With federal payments totaling approximately \$1.8 trillion annually, the reliable and accurate processing of federal payments is an essential part of supporting the U.S. economy.

Audit Objective: 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. We expect that these projects will require 2,000 hours each.

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Projects Under Consideration for Future OIG Annual Plans

FMS Appropriation for the Economic Stimulus Act of 2008

Audit Objective: To assess how FMS uses the appropriated funds it received for the Economic Stimulus Act of 2008. We expect that the audit will require 1,500 hours.

FMS Oversight of Lockbox Operations

Background. The Treasury automated lockbox network is comprised of designated financial institutions selected by FMS to provide lockbox remittance services for federal agencies. The financial institutions are strategically located to minimize mail, processing, and collection float.

Lockbox processing was adopted as a means of accelerating deposits to the 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 assigns a unique lockbox post office box number to facilitate receipt and processing of collections for each agency program. The bank transfers deposits to the Federal Reserve on a daily basis for credit to the agency accounts and processes remittance advices according to FMS and agency instructions. Compensation to the banks for these services is provided by Treasury.

For fiscal year 2008, total lockbox collections were approximately \$446 billion, of which nontax collection was almost \$24 billion, while tax collection was almost \$422 billion. Several incidents of loss or mishandling of essential documents and thefts at lockbox financial agents have been reported. For example, in 2006, TIGTA identified 54 checks totaling \$2.8 million as stolen from a lockbox in Dallas. Another case involved missing passport applications from a lockbox in Delaware.

Audit Objective: To determine whether FMS's oversight of lockbox financial agents is effective. We expect that this project will require 2,000 hours.

FMS Debt Check Program

Background. Debt Check is an Internet-based system for use by federal agencies and outside lenders engaged in making federal loans, loan insurance, and loan guarantees. Agencies can search the FMS Debt Check database to confirm whether applicants for federal financial assistance owe delinquent, nontax debt to the federal government or delinquent child support. Federal agencies are required to deny loans, loan insurance, or

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loan guarantees to individuals that owe delinquent nontax debt to the federal government. Queries are submitted on-line and if the records indicate that a debt is owed, the lending agency informs the loan applicant of the debt, and the loan applicant will likely contact the creditor agency to pay or otherwise resolve the debt, or get confirmation that the debt is not valid or that some other error was made. Until the debt is resolved, the applicant would potentially be barred from receiving the loan, loan insurance, or loan guarantee.

The Debt Check system is designed to complement existing sources of information available to agencies to provide an additional tool to bar delinquent debtors from obtaining federal loan assistance. Unless improved access to delinquent debt information is achieved, the risk that delinquent federal debtors would be able to secure new forms of financial assistance from federal agencies will continue. However, Debt Check will complement the other systems, serving as an additional source of debt information and helping to maintain debt collection.

Audit Objective: To determine whether FMS implemented the Debt Check program effectively. As part of this audit, we will confirm the accuracy of information in the Debt Check system to ensure the correct identification of delinquent debtors. We expect that this project will require 1,600 hours.

FMS's Collection Strategy

Background. FMS is developing and implementing a long-term collection strategy. This strategy would involve the design of a collection mix for each agency that would achieve cost efficiency by using the most cost-effective collection methods for each agency. The approach is aimed at lowering transaction costs for each agency, thereby lowering overall costs to the federal government. 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* as of March 2008, FMS had reviewed eight federal entities and identified potential cost savings or efficiencies at each, but none of them signed an agreement.²² The report recommended that to expeditiously realize additional cost savings, FMS should develop a full implementation strategy, including timelines for completion, cost savings estimates, and assessment of needed resources for its revenue collection review program.

Audit Objective: To determine whether FMS has taken action to implement the new revenue collection strategy and evaluate its effectiveness. We expect that this audit will require 2,000 hours.

²² OIG-08-558 (May 15, 2008).

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

Background. In fiscal year 2007, federal entities accepted credit and debit cards for over \$27 billion in revenues and paid at least \$433 million for the fees associated with providing card services. For those able to separately identify interchange costs, these entities collected \$18.6 billion in card revenue and paid \$205 million in interchange fees. Interchange fees are payments that the card-acquiring banks providing card services made to the banks that issued the cards. For fiscal year 2008, FMS's portion of credit and debit card-acquiring revenue collected was approximately \$8.2 billion, with interchange fees paid of \$90 million.

Audit Objective: To determine whether FMS is monitoring its card-acquiring bank's interchange management adequately. As part of this audit, we will follow up on GAO's findings from its May 2008 report, *Credit and Debit Cards: Federal Entities Are Taking Actions to Limit Their Interchange Fees, but Additional Revenue Collection Cost Savings May Exist.*²³ We expect that this project will require 1,600 hours.

BPD's TreasuryDirect

Background. BPD securities transactions have increasingly gravitated to on-line purchases over the years. BPD developed TreasuryDirect as the centerpiece of Treasury's effort to achieve an all-electronic issuance of retail securities, allowing investors to conduct their investments and account management activities on-line through a single portfolio account. Although this has reduced administrative costs, it has posed new challenges and risks associated with an on-line processing environment. During October 2002, BPD implemented its new TreasuryDirect system, where consumers buy U.S. Savings Bonds and manage their holdings in an electronic, paperless environment. In October 2005, BPD began offering marketable Treasury securities in the system. TreasuryDirect currently holds approximately 600,000 accounts. Treasury recently provided access cards, an additional customer-based authentication mechanism, to all account holders. Since 2002, Treasury has used single factor authentication, requiring passwords and other information that an account holder knows to conduct transactions. By November 2008, Treasury plans to require all account holders use both passwords and access cards to access their accounts. This multifactor authentication is more reliable and difficult to compromise than single factor authentication.

Audit Objective: To determine whether BPD has adequate computer security controls, including fraud deterrence, for transactions conducted over the Internet-based TreasuryDirect system. We expect that this audit will require 2,500 hours.

²³ OIG-08-558 (May 15, 2008).

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FMS Treasury Check Information System

Background. FMS developed the Treasury Check Information System in fiscal year 2006 to replace the Check Payment and Reconciliation System. The Treasury Check Information System will record and reconcile the worldwide issuance and payment of U.S. Treasury checks. This system will also allow end users to query the Payments, Claims, and Enhanced Reconciliation system for claim status on Automated Clearing House payments. The Payments, Claims, and Enhanced Reconciliation system also provides on-line access to payment status, the capability to initiate claims, and the ability to view the initial on-line disposition for electronic funds transfer and check payments.

The Treasury Check Information System provides FMS with an electronic office environment for check aftermath activities and it manages payment data representing over two billion check payments and three million claims over a 7-year period. It also affords FMS the opportunity to move from paper to electronic communication with the agencies, as their processes allow. The system will enable agencies to access all claim information in one system and is accessible through a standard web browser.

Audit Objective: To determine whether FMS conducted risk assessments of the Treasury Check Information System to provide information on the reasonableness of security measures in place to protect the system against loss of check aftermath activities. We expect that this audit will require 2,000 hours.

Agency Referrals of Delinquent Debts to FMS for Collection Under the Debt Collection Improvement Act of 1996

Audit Objective: To evaluate FMS's efforts to work with creditor federal agencies to ensure debt is referred when appropriate in accordance with the Debt Collection Improvement Act of 1996. We expect that this audit will require 1,200 hours.

FMS Acquisition of Banking Services

Background. 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 certain financial institutions. A fiscal year 2003 OIG audit, *Governmentwide Financial Management Services: Additional Control and Oversight Needed to Reduce Costs and Improve the Plastic Card Network*, found that the use of compensating balances was expensive and FMS did not have adequate controls to ensure that the costs of banking services acquired through compensating balances were appropriate.²⁴ In August 2006, FMS signed an

²⁴ OIG-03-088 (Jul. 11, 2003).

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agreement with Fifth Third Bank, an Ohio banking corporation, to designate and authorize the bank to be the sole financial agent for federal government card-acquiring banking services.

Audit Objective: To determine whether FMS followed sound business practices and applicable law in acquiring banking services. We expect that this project will require 2,000 hours.

FMS Use of the Internet Payment Platform

Background. 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. Information created throughout the procurement-to-pay cycle will be accumulated and made assessable by the portal. The portal is also intended to provide a digital alternative to paper-based purchasing and invoicing processes by making purchase orders and invoices accessible via the Internet. By automating current paper-based or fax-based transactions, it is expected that the portal will expedite the processing of vendor payments by agencies. It is also expected that the portal will allow for more efficient exchange of invoice/payment processing information between Federal agencies and their vendors by providing access to information on purchase orders, invoices, and Treasury-disbursed payments. The Platform addresses shortcomings in the existing flow of information between federal agencies and suppliers in the order-to-pay process by providing a centralized location to exchange electronic purchase orders, invoices, and related payment information.

The Internet Payment Platform represents an opportunity for federal agencies to transform existing paper-based processes into a streamlined electronic flow. Through the Platform, federal agencies can send electronic purchase orders to suppliers, and electronically receive invoices, purchase order acknowledgements or advanced shipping notices. Agencies can also use the Platform's highly customizable workflow function to expedite on-line approval of invoices. Agencies may use the Platform's discount management option to capitalize on discount opportunities offered by suppliers.

FMS piloted the portal from January 2003 to June 2004, and the first phase of the system was implemented in November 2007. According to FMS, effective September 29, 2008, all Payment Advice Internet Delivery users and services will be transitioned to the Platform.

Audit Objective: To determine whether FMS (1) implemented proper security measures and controls for the portal, (2) identified and addressed issues found in the pilot program, and (3) established an implementation plan to provide the portal to all agencies. We expect that this project will require 2,000 hours.

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Survey of Treasury Securities Programs

Background. Marketable securities can be bought, sold, or transferred after they are originally issued. The Treasury uses an auction process to sell these securities and determine their rate or yield. Annual auction activity, (1) offers 4 types of securities with varying maturities, (2) conducts approximately 200 public auctions, and (3) issues more than \$4.2 trillion in securities.

To finance public debt, the Treasury sells bills, notes, bonds, and Treasury Inflation-Protected Securities to institutional and individual investors through public auctions. Starting in February 2006, Treasury resumed the auction of Treasury bonds. Treasury auctions occur regularly and have a set schedule. There are three steps to an auction, (1) announcement of the auction, (2) bidding, and (3) issuance of the purchased securities. The last time our office conducted performance audit work of BPD's auction process for Treasury securities was during fiscal year 2000.

Audit Objective: To perform a survey of the auction process for Treasury securities and related controls for the purpose of identifying areas that, based on our assessment of risk, should be audited in more depth. We expect that the survey will require 800 hours.

Survey of Federal Financing Bank

Background. The Federal Financing Bank is a government corporation, created by Congress in 1973 under the general supervision of the Secretary of the Treasury. The Bank was established to centralize and reduce the cost of federal borrowing, as well as federally-assisted borrowing from the public. The Bank was also established to deal with federal budget management issues which occurred when off-budget financing flooded the government securities market with offers of a variety of government-backed securities that were competing with Treasury securities. The Bank has statutory authority to purchase any obligation issued, sold, or guaranteed by a federal agency to ensure that fully guaranteed obligations are financed efficiently.

Our office has not previously conducted performance audit work of the Bank's programs and operations.

Audit Objective: We will perform a survey of the Federal Financing Bank for the purpose of identifying areas that, based on our assessment of risk, should be audited in more depth. We expect that the survey will require 800 hours.

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Issue Area Discussion

Issue Area Overview. After a long period of stability and profitability in the banking industry, 2007 and 2008 saw a significant increase in bank failures as the real estate market continues to take a downturn. Traditional measures and indicators of safety and soundness in the banking industry show an increase in safety and soundness risks and a decrease in financial performance.

There have already been 15 commercial bank and thrift failures during 2008 (as of October 10, 2008), and three failures during 2007. More failures, perhaps as many as 150 according to some news reports, are expected. One of the 2008 failures—IndyMac Bank, F.S.B., with assets of \$28 billion—is of particular note due to the size of the loss. The Federal Deposit Insurance Corporation (FDIC) estimated the IndyMac loss to the Deposit Insurance Fund at \$9 billion.

Safety and soundness risks facing the banking industry include rising interest rates, the increase in defaults on sub-prime mortgages due to the adjustable interest rate resetting, and the slowdown in the real estate market, including commercial real estate. Rising interest rates can adversely affect institutions' financial net interest margins, in which interest earned on loans made by the institutions do not keep pace with the rising interest payments made on their deposits, resulting in required changes in risk management by financial institutions. Non-traditional mortgage products expose banks to losses from home foreclosures and liquidations if homeowners are unable to make payments on their mortgages due to rising interest rates.²⁵ Sub-prime adjustable-rate mortgages were the driving force behind the rise in foreclosures starting in 2007 and continuing in 2008. In addition, the slowdown in the real estate market has led to overall declines in mortgage lending.

One of 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 \$8.6 trillion in combined assets. OCC and OTS are the main regulatory agencies responsible for overseeing the two industries. OCC and OTS fund their

²⁵ Non-traditional mortgage products include: Alternative A loans such as no income verification, no income/no asset/no employment verification, and no ratio requirements; option adjustable rate mortgages, interest-only mortgages, and sub-prime mortgages. Sub-prime mortgages are mortgages that have higher interest rates due to deficiencies in either the credit history or the financial health of the borrower.

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operations largely through assessments levied on the financial institutions and from various licensing fees.

OCC is responsible for licensing, regulating, and supervising approximately 1,680 nationally chartered banks, more than 75 uninsured trust companies, and 50 federal branches or agencies of foreign banks. OCC supervised national banks hold over \$7.1 trillion in commercial banking assets. OCC has approximately 3,000 employees located throughout the United States. OCC's fiscal year 2007 total revenue was \$695 million, an increase of \$61 million from fiscal year 2006. OCC's net position was \$604 million as of fiscal year-end 2007, an increase of \$86 million from fiscal year-end 2006.

OTS charters, regulates and supervises the vast majority of the nation's savings associations, commonly referred to as "thrifts." OTS supervises approximately 830 of the nation's thrifts accounting for \$1.5 trillion of total thrift assets. OTS also supervises approximately 480 U.S.-domiciled holding company enterprises with \$8.4 trillion in consolidated assets. OTS has approximately 1,000 employees located in Washington, D.C., and across four regional offices. OTS's fiscal year 2007 total revenue was \$243 million, an increase of \$6 million from fiscal year 2006. OTS's net position was \$161 million as of fiscal year-end 2007, an increase of \$37 million from fiscal year-end 2006.

OCC and OTS share four similar 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 banking industry ended the first quarter of 2008 with earnings of \$19 billion, but 46 percent less than the earnings reported in the first quarter of 2007. Deteriorating asset quality concentrated in real estate portfolios resulting in higher loss provisions was the primary reason earnings decreased. Federal Deposit Insurance Corporation-insured commercial banks and savings institutions set aside \$37.1 billion in loan loss provisions during the first quarter of 2008, more than four times the \$9.2 billion set aside in the first quarter of 2007. Other negative factors were an increase in noninterest expenses and a decrease in noninterest income.

OCC reported that national banks' earnings the first quarter of 2008, \$12.0 billion, were significantly lower than those reported in the first quarter of 2007, \$21.1 billion. Loan loss reserves have increased, consistent with deterioration in credit quality. National banks' ratio of noncurrent loans rose to 1.56 percent in the first quarter of 2008, compared to 0.85 percent a year ago. OTS reported that during the first quarter of 2008, the thrift

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industry posted a \$617 million net loss after setting aside an all-time industry high of \$7.6 billion in loan loss provisions. Pressures from the continued housing market distress were evident not only from losses in earnings and profitability in the first quarter, but also from an increase in troubled assets. Troubled assets (noncurrent loans and repossessed assets) were 2.06 percent of assets during the first quarter, up from 0.80 percent a year ago.

MLRs. Section 38(k) of the Federal Deposit Insurance Act, as amended, mandates OIG review the failure, assess the supervision, and prepare a report within 6 months if an insured financial institution's failure causes a material loss to the deposit insurance fund. A loss is considered material if the amount is determined to be in excess of the greater of \$25 million or 2 percent of the institution's assets. Moving into fiscal year 2009, the OIG had 5 MLRs in progress, and based on the increasing number of banks listed on various problem bank reports, we may be required to perform additional MLRs in the near future.

Housing and Economic Recovery Act of 2008. The purpose of this Act is to address problems and concerns in the mortgage and banking industries. The Act assigned Treasury new authorities and responsibilities.

- Oversight of Government-Sponsored Enterprises. Among other things, the Act establishes the Federal Housing Finance Agency as an independent agency to oversee Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. The Agency has broad supervisory and regulatory powers over these entities, including receivership powers, control over executive compensation, and enforcement authority. The Act also establishes 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 the Board.

In connection with the increased federal regulatory oversight of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks, the Act increases Treasury's authority over existing lines of credit to the entities for the next 18 months, giving 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.

- Homeowners Assistance. The Act establishes the HOPE for Homeowners Program, a refinancing assistance program which insures up to \$300 billion of mortgages through the Federal Housing Administration. The program starts on October 1, 2008, and sunsets on September 30, 2011. The Act establishes a Board of Directors of the program, of which the Treasury Secretary is a member. The Board

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is charged with establishing requirements and standards for the program, prescribing regulations, providing guidance, and reporting to the Congress.

In connection with this program, Treasury is authorized to issue callable federal credit instruments, to be known as HOPE Bonds, up to \$300 billion to provide the subsidy amounts necessary for the loan guarantees, including administrative costs.

- Affordable Housing and Economic Development. The Act establishes a Capital Magnet Fund within the CDFI Fund to attract private capital and increased investment for the development and preservation of affordable housing and economic development. The Capital Magnet Fund is discussed in more detail in the Domestic and International Assistance Programs issue area of this plan.

The funding sources for payment of the HOPE Bonds and the Capital Magnet Fund, as well as a Housing Trust Fund to be administered by the Department of Housing and Urban Development, are Fannie Mae and Freddie Mac. The two enterprises are required to set aside 4.2 basis points (0.42 percent) of the unpaid principal balance of their new business purchases for these purposes. The Federal Housing Finance Agency, however, can suspend the set asides depending on the financial health of the enterprises.

Recent Event. As previous noted, Treasury has taken on an important role to complement the Federal Housing Finance Agency's September 2008 decision to place Fannie Mae and Freddie Mac into conservatorship. Specifically, Treasury agreed to purchase senior preferred stock in the companies as necessary to ensure each company maintains a positive net worth. It also established a new secured lending credit facility that will be available to the two companies, as well as the Federal Home Loan Banks, for short-term loans. Additionally, to further support the availability of mortgage financing for millions of Americans, Treasury initiated a temporary program to purchase new mortgage backed securities issued by the companies.

Identity Theft. Another area of growing concern has been the reoccurring incidences of customer financial privacy and identity theft. A press release issued by the Identity Theft Resource Center states nearly 20 million people were affected by security breaches in 2006. Banking, credit, and financial services entities accounted for 8 percent of those breaches. As of July 31, 2007, however, that number has decreased to 6.7 percent. The President's Identity Theft Task Force, which included the federal banking regulators, issued a strategic plan for combating identity theft in April 2007. The plan calls for national standards to be established to require private sector entities to safeguard the personal data they compile; and that federal agencies should implement an awareness

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campaign to educate consumers, the private sector, and the public sector on deterring, detecting, and defending against identity theft.

Critical Infrastructure Protection. Another OIG concern deals with Treasury's role in ensuring that our nation's financial infrastructure is able to maintain continuity of operations and avoid disruptions due to national disasters or terrorist attacks. Homeland Security Presidential Directive 7, *Critical Infrastructure Identification, Prioritization and Protection* defines responsibilities for sector-specific agencies that are responsible for addressing specific critical infrastructure sectors and other departments and agencies. It instructs federal departments and agencies to identify, prioritize, and coordinate the protection of critical infrastructure to prevent, deter, and mitigate the effects of attacks. Treasury is responsible for the banking and finance sector which provides the financial infrastructure of the nation. This sector consists of commercial banks, insurance companies, mutual funds, government sponsored enterprises, pension funds, and other financial institutions that carry out transactions including clearing and settlement.

Derivative Risk. Derivatives have become an integral part of the financial markets because they can be used to reduce business risks, expand product offerings to customers, trade for profit, manage capital and funding costs, and alter the risk-reward profile of a particular item or an entire balance sheet. They are used by banks, businesses and hedge funds among others. In the banking industry, the growth in derivative holdings of banks over the past 10 years has been rapid, increasing the risk to OCC's and OTS's supervisory activities. For example, the notional value of derivatives held by U.S. commercial banks in the fourth quarter of 2007 was \$164.2 trillion, an increase of 25 percent in the value from 2006. However, the value decreased \$8 trillion, or 5 percent, compared to the third quarter of 2007.

Basel II. An emerging event in the banking industry is the adoption of Basel II. Basel II is an effort by international banking supervisors to update the original international bank capital accord (Basel I), which has been in effect since 1988. Basel II aims to improve the consistency of capital regulations internationally, make regulatory capital more risk sensitive, and promote enhanced risk-management practices. The Federal Reserve Board, OTS, OCC, and Federal Deposit Insurance Corporation announced on July 20, 2007, agreement on the implementation of Basel II. In November 2007, the Federal Reserve Board approved the final rules to implement Basel II.

Compliance with Basel II would be mandatory for the nation's largest, most internationally active banking organizations—those with \$250 billion of assets or exposure to foreign markets above \$10 billion. This includes about 12 of the largest banks and thrifts in the U.S. The regulators agreed to allow smaller banks to adopt the Basel II standardized approach.

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On April 1, 2008, Basel II went live, however, the 12 banks required to adopt the framework have not started the parallel run period, during which the banks follow Basel I and Basel II concurrently. On April 7, 2008, the Financial Stability Forum released a report on the causes and weaknesses of the current credit turmoil. The forum made general statements and recommendations, including the timing of the Basel II implementation and evidence that certain pieces of Basel II need to be strengthened.

On June 8, 2008, the federal banking and thrift agencies issued an interagency statement outlining the qualification process for banking organizations implementing Basel II. The process consists of three major stages: adoption of an implementation plan; completion of a satisfactory parallel run; and advancement through three transitional periods. The statement updates the interagency statement on qualification issued in January 2005, to reflect the final advanced approaches rule published December 7, 2007. The federal banking and thrift agencies issued final guidance outlining the supervisory review process for banking organizations implementing Basel II on July 15, 2008. The final guidance relating to supervisory review is aimed at helping banking organizations meet certain qualification requirement in the advanced approaches rule, which took effect April 1, 2008. We will be following OCC's and OTS's efforts to implement the Basel II rules and monitor its impact on safety and soundness.

Potential Integrity Risks. We believe there are potential risks stemming from inappropriate conduct by examiner staff as well as from such staff's real or perceived conflicts of interest. Credibility is essential to both OCC and OTS in order for them to effectively supervise and maintain the safety and soundness of the banking industry. In the performance of their duties, OCC and OTS examiners should maintain objectivity and integrity, be free of conflicts of interest, and not subordinate their judgment to others.

In-Progress and Planned Fiscal Year 2009 Projects

ANB Financial MLR (In Progress)

Background. ANB Financial National Association was closed on May 9, 2008, and FDIC reported \$1.9 billion in assets at closing with an estimated loss of \$214 million to the Deposit Insurance Fund.

Audit Objective: To (1) determine the cause(s) of ANB Financial's failure; (2) assess the supervision exercised over the institution; and (3) as applicable, make recommendations to prevent similar losses in the future. We expect that this review will require 1,500 hours to complete in fiscal year 2009.

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IndyMac Bank. MLR (In Progress)

Background IndyMac Bank, F.S.B. was closed on July 11, 2008, and FDIC reported \$28 billion in assets with an estimated loss to the Deposit Insurance Fund of \$8.9 billion.

Audit Objective To (1) determine the cause(s) of IndyMac Bank's failure; (2) assess the supervision exercised over the institution; and (3) as applicable, make recommendations to prevent similar losses in the future. We expect that this review will require 3,400 hours to complete in fiscal year 2009.

First National Bank of Nevada and First Heritage Bank MLRs (In Progress)

Background. First National Bank of Nevada and First Heritage Bank, N.A., were closed on July 25, 2008, and FDIC reported combined assets of \$3.6 billion. The estimated losses to the Deposit Insurance Fund for First Nevada and First Heritage are \$820 million and \$42 million, respectively. These failures are being included as part of the same audit as the banks were owned by one holding company – First National Bank Holding Company, Scottsdale, Arizona.

Audit Objective: To (1) determine the cause(s) of First National Bank of Nevada's and First Heritage Bank, N.A.'s failures; (2) assess the supervision exercised over the institutions; and (3) as applicable, make recommendations to prevent similar losses in the future. We expect that this review will require 4,000 hours to complete in fiscal year 2009.

Ameribank MLR (In Progress)

Background. Ameribank, Inc., was closed on September 19, 2008, and FDIC reported approximately \$100 million in assets with an estimated loss to the Deposit Insurance Fund of \$42 million.

Audit Objective: To (1) determine the cause(s) of Ameribank, Inc.'s failure; (2) assess the supervision exercised over the institution; and (3) as applicable, make recommendations to prevent similar losses in the future. We expect that this review will require 4,000 hours to complete in fiscal year 2009.

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Note: Our capacity to undertake the following projects during fiscal year 2009 is contingent on whether additional MLRs are required.

WaMu Failure

Background. OTS placed Washington Mutual Bank into receivership on September 25, 2008. In a transaction facilitated by FDIC, JPMorgan Chase acquired the institution's assets, assumed the qualified financial contracts, and made a payment of \$1.9 billion. Claims by equity, subordinated, and senior debt holders were not acquired. According to FDIC at the time of the transaction, there was no loss to the Deposit Insurance Fund. WaMu also had a subsidiary, Washington Mutual FSB. They had combined assets of \$307 billion.

Audit Objective: To determine the cause(s) of WaMu's failure and assess OTS's supervision of the institution. We expect that this project will require 5,000 hours.

OCC/OTS Identification of Emerging Risks

Audit Objective: To determine whether OCC/OTS have effective processes to identify emerging risks to financial institution safety and soundness and translate the risks identified into action. We expect that this project will require 2,000 hours at each regulator.

Survey of Treasury's Responsibilities Under the Housing and Economic Recovery Act of 2008

Background. The Housing and Economic Recovery Act of 2008 was enacted to address problems and concerns in the mortgage and banking industries. The Act assigned Treasury new authorities and responsibilities.

Audit Objective: To determine how Treasury plans on carrying out its responsibilities under the Housing and Economic Recovery Act of 2008 and evaluate its recent exercise of those authorities to complement the conservatorship of Fannie Mae and Freddie Mac, and identify what additional audit work should be considered in this area. We expect that this survey will require 800 hours.

National Bank and Thrift Participation in the HOPE for Homeowners Program Under the Housing and National Recovery Act of 2008

Audit Objective: To determine (1) the extent that national banks and thrifts are participating in the HOPE Homeowners Program by accepting write-downs of first or

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subordinate mortgages for at-risk borrowers and (2) efforts by OCC and OTS to promote participation. We expect that this project will require 2,400 hours.

OCC/OTS Examination Coverage of Privacy and Identity Theft Risks When Banks Outsource Functions to Third Party Service Providers

Audit Objective: To determine whether OCC and OTS examinations provide adequate coverage of banks' third party service providers when they are provided customer financial information subject to the Financial Privacy Act to mitigate the risk of identity theft. We expect this project will require 2,000 hours at each regulator.

Protecting the Financial Services Sector Critical Infrastructure

Audit Objective: To determine the effectiveness of the (1) coordination efforts upon which the Department of the Treasury, as the sector-specific agency for the banking and finance sector, has embarked with private sector entities to protect this portion of the nation's critical infrastructure; and (2) Financial Services Information Sharing Analysis Centers in establishing open communication and information sharing between the various entities in the financial services sector with the Treasury and federal government. We expect this project will require 1,600 hours.

OCC/OTS Risk-based Supervision

Audit Objective: To determine whether (1) full scope examinations are being conducted over the required 12 or 18 month cycle; (2) exceptions are adequately supported, and (3) examination procedures adequately address those areas determined to be low risk. We expect this project will require 1,600 hours for each regulator.

Bank Fraud Initiative

Investigative/Audit Objective. To profile SARs filed with FinCEN by national banks, insured thrifts, and/or OCC/OTS. This joint investigative/audit initiative will be coordinated with the OIGs for the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve System, and other law enforcement agencies with jurisdiction over crimes committed by or against banks.

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Projects Under Consideration for Future OIG Annual Plans

OTS's Supervision of Holding Companies with International Activities

Audit Objective: To determine whether OTS is effectively supervising holding companies with international operations. We expect this project will require 2,400 hours.

OTS's Examinations of Holding Companies

Audit Objective: To assess the effectiveness of OTS holding company examination policies, procedures, and practices; and to determine how OTS examines thrift holding companies. We expect this project will require 2,000 hours.

OCC/OTS Risk Management of Derivatives at Financial Institutions

Audit Objective: To determine whether OCC and OTS are effectively monitoring the risk that derivatives pose to financial institutions. We expect that this project will require 2,400 hours at each regulator.

OCC Examinations of Large Banks

Audit Objective: To assess the effectiveness and adequacy of OCC's examinations of banks with assets exceeding \$100 billion relative to OCC's four strategic goals. This would include areas such as staffing, subject matter expertise, aggregate and unit risk assessments, compliance, fraud, examiner rotation, and reliance placed on internal/external auditors work. We expect that this project will require 2,400 hours.

OCC/OTS Examination Coverage of Non-conventional Home Mortgage Loan Risk

Audit Objective: To determine whether (1) regulators give adequate weight to non-conventional loans in assessing the related risk to the institution's loan portfolio and in assessing an institution's CAMELS rating;²⁶ (2) examination procedures provide a level of testing of non-conventional loans that is commensurate with the adverse effects that higher interest rates could have on the loan portfolio, and consequently on the institution's safety and soundness; and (3) the examiners ensure that the institution's Allowance for Loan and Lease Losses appropriately reflects the higher risks associated with certain non-conventional loans. The project will specifically look at the lessons learned by banks and

²⁶ CAMELS is an acronym for the six component elements that are evaluated: capital, asset quality, management, earnings, liquidity and sensitivity to market risk. Each of these elements is rated on a scale of 1 to 5, with 1 being the highest rating and 5 being the lowest rating.

OIG ISSUE AREAS AND PLANNED PROJECTS

Safety, Soundness, and Accessibility of Financial Services

regulators from the current subprime mortgage and housing crisis. We expect each project will require 1,600 hours at each regulator.

OCC/OTS Strategic Management of Human Capital

Audit Objective: To determine what action OCC and OTS is taking to address the human capital concern of the impact of a potentially large number of employees retiring in the near future. We expect for this project will require 1,600 hours at each regulator.

OCC/OTS Examination Coverage of Identity Theft Risk

Audit Objective: To determine the effectiveness and adequacy of OCC and OTS examinations to ensure banks and thrifts have sufficient controls to prevent or mitigate identity theft. We expect that 2,400 hours will be required for this project at each regulator.

Impact of Basel II Capital Accord on OCC and OTS Supervisory Abilities

Audit Objective: To determine what actions OCC and OTS are taking to analyze the impact of the change in capital requirements under Basel II on their supervisory activities. We expect that this project will require 2,000 hours at each regulator.

OCC/OTS Safeguards Over Financial Institutions' Sensitive Information

Audit Objective: To determine whether OCC examiners adhere to policies and procedures over safeguarding financial institutions' sensitive information obtained during the examination process. We expect that this project will require 2,000 hours.

OCC/OTS Assessment of Interest Rate Risk

Audit Objective: To evaluate how OCC and OTS are evaluating and analyzing interest rate risk. We expect that this project will require 2,400 hours at each regulator.

Adequacy of OCC and OTS Exams of Financial Institutions' Non-Banking Related Activities

Audit Objective: To determine the adequacy and effectiveness of examinations by OCC and OTS of non-banking related activities of national bank subsidiaries, and savings and loan holding companies, respectively. We expect that this project will require 2,400 hours at each regulator.

OIG ISSUE AREAS AND PLANNED PROJECTS

Revenue Collection and Industry Regulation

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Issue Area Discussion

The Department of the Treasury manages the nation's finances. An integral part of this effort is collecting federal taxes and other revenue. Although the IRS collects the bulk of taxes and revenue due to the United States, Treasury also collects significant taxes and other revenue through TTB. TTB administers the collection of federal excise taxes on tobacco, alcohol, and firearms and ammunition.

Within Treasury, Office of Tax Policy is responsible for developing and implementing tax policies and programs; providing the official estimates of all Government receipts for the President's budget, fiscal policy decisions, and Treasury cash management decisions; establishing policy criteria reflected in regulations and rulings and guides preparation of them with IRS to implement and administer the Internal Revenue Code; negotiating tax treaties for the United States and representing the United States in meetings and work of multilateral organizations dealing with tax policy matters; and providing economic and legal policy analysis for domestic and international tax policy decisions. By Treasury Order, the Assistant Secretary (Tax Policy) is exclusively authorized to make the final determination of the Department's position with respect to issues of tax policy arising in connection with regulations, published Revenue Rulings and Revenue Procedures, and tax return forms and to determine the time, form and manner for the public communication of such position.

TTB reports to the Office of Tax Policy. TTB is the primary focus of our office in the issue area of revenue collection and industry regulation. In addition to collecting excise taxes and other revenue, TTB is responsible for the regulation of the alcohol and tobacco industries. TTB ensures that alcohol and tobacco beverages are properly labeled, advertised, and marketed; facilitates the importation and exportation of alcohol beverages and non-beverage products; promotes tax compliance, and collects excise tax revenue. TTB administers and enforces (1) the Internal Revenue Code pertaining to the excise taxation and authorized operations of alcohol and tobacco producers and related industries; (2) the Federal Alcohol Administration Act; (3) the Alcohol Beverage Labeling Act; and (4) the Webb-Kenyon Act, which prohibits the shipment of alcoholic beverages into a state in violation of the state's laws. TTB is headquartered in Washington, D.C., and has 10 district field offices. The TTB Office of Field Operations is comprised of the following units (1) National Revenue Center in Cincinnati, Ohio; (2) Trade Investigations Division (7 field offices); and (3) Tax Audit Division (10 field offices). TTB also has alcohol and tobacco laboratories in Maryland and California.

OIG ISSUE AREAS AND PLANNED PROJECTS

Revenue Collection and Industry Regulation

Collecting the Revenue. During fiscal year 2007, TTB collected \$14.7 billion in excise taxes and other revenue from more than 8,000 organizations: alcohol accounted for 49.2 percent; tobacco accounted for 48.9 percent; and firearms and ammunition 1.9 percent. About 200 organizations accounted for 98 percent of all excise taxes collected. Treasury reported that TTB collected more than 86 percent of its tax payments through voluntary compliance on or before the scheduled due date. TTB also reported that it collected \$321 for every dollar spent on administration and collected 98 percent of taxes electronically. TTB completed 150 audits through its Tax Audit Division, an increase of 20 audits over fiscal year 2006, using a risk model to target non-compliant industry members and encourage voluntary compliance.

Protecting the Public. TTB regulates the alcohol and tobacco industries to protect consumers from fraud and deception. As part of the regulatory process, TTB processes applications to enter into the alcohol and tobacco industries. TTB is also responsible for ensuring alcoholic beverages are produced, labeled, advertised, and marketed in accordance with Federal law. TTB reviews labels and formulas for domestic and imported beverage alcohol products and maintains public access to Certificates of Label Approval, which are required for every alcoholic beverage. In fiscal year 2007, TTB received 125,117 Certificate of Label Approval applications and approved 98,000. The remaining 27,117 (22 percent) were returned for correction, withdrawn, expired, or surrendered. TTB fell short of its goal (as it did in fiscal year 2006) of processing 45 percent of applications in 9 calendar days, achieving an actual total of 42 percent. TTB also samples 2,259 beverage alcohol products for product integrity, pre-import analysis, and tax credit determination, and 312 tobacco products to ensure compliance with tax and classification regulations. TTB conducts these tests in its in-house laboratories.

We did not perform any performance audits of TTB programs in fiscal years 2007 and 2008.

Customs Revenue Functions. The Secretary of the Treasury 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 CBP. However, as provided by Homeland Security Act, Treasury retained the 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 assessment and collection, classification, valuation, application of the U.S. Harmonized Tariff Schedules, eligibility or requirements for preferential trade programs, and the establishment of related recordkeeping requirements. Treasury also reviews CBP rulings involving these topics if they constitute a change in practice.

OIG ISSUE AREAS AND PLANNED PROJECTS

Revenue Collection and Industry Regulation

In June 2008, Treasury testified before the Senate Finance Committee that Treasury and CBP have worked in the past year to simplify duty drawback rules and to address the problem of collecting antidumping and countervailing duties, chiefly caused by an inability to obtain adequate security (cash deposits, bonds, or other instruments). Treasury also worked with CBP on the International Trade Data System, which was formally established by the SAFE Port Act.²⁷ The system is a feature of CBP's Automated Commercial Environment, the new system for processing imports and exports. The system will be operated by CBP in collaboration with 43 agencies and is being designed to, among other things, substitute electronic messages for redundant reporting (often on paper forms); enhance CBP's ability to target risky cargo, persons, and conveyances; reduce technical barriers to share data; improve compliance with laws and regulations; and provide a convenient access to data on international trade. The system has made progress but continues to face challenges, as highlighted in a November 2007, report to Congress. Treasury plans to participate with other agencies in resolving problems addressed in the congressional report.

Potential Integrity Risks. We believe 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 concurrent failure of TTB to detect this underpayment. Intentional failure to pay all taxes due would likely require deceit or fraud on the part of taxpayers as well as attempts to corrupt TTB employees through bribery or other means. Similarly, fraudulent manufacturers or distributors could create a risk for consumers by placing unsafe or deceptively advertised products into the marketplace, particularly if TTB's protective programs are not functioning well enough to detect these products. In addition, TTB has to be vigilant concerning the possibility of contaminated products reaching the marketplace inadvertently, including those from foreign countries. With respect to formulating tax policy, regulations, and rulings, there is also a risk of undue influence by impacted parties who could potentially benefit from Treasury positions on tax matters.

In-Progress and Planned Fiscal Year 2009 Projects

Based on current resource levels, mandated work, and risk relative to other OIG Issue Areas, no audits of revenue collection and industry regulation are planned for fiscal year 2009.

²⁷ Pub. L. No. 109-347.

OIG ISSUE AREAS AND PLANNED PROJECTS

Revenue Collection and Industry Regulation

Projects Under Consideration for Future OIG Annual Plans

TTB Alcohol and Tobacco Permit Program

Audit Objective: To determine whether effective controls are in place to ensure that alcohol and tobacco permits are only issued to qualified persons and businesses. The audit will review the types of controls in place and whether these controls consider the implications of possible terrorist and other criminal involvement in the marketplace. We estimate this project will require 2,000 hours.

TTB Collection Procedures

Audit Objective: To determine whether TTB has effective collection procedures for delinquent accounts, and is using these procedures to encourage prompt payment. We estimate this project will require 1,600 hours.

TTB Alcohol and Tobacco Laboratories

Audit Objective: To determine whether TTB alcohol and tobacco laboratories are providing timely and responsive service to TTB program units. We expect that this project will require 2,000 hours.

TTB Designation of American Viticultural Areas

Background. An American Viticultural Area is a delimited grape-growing region recognized by TTB that is distinguishable by geographical features. A viticultural area designation should be based on features that affect the growing conditions of the area (climate, soil, elevation, physical features) and may extend across political boundaries. However, the entire area should possess a unifying feature that distinguishes it from surrounding areas, and evidence must be provided to TTB that shows this contrast.

Audit Objective: To determine whether adequate controls are in place over TTB's program to designate American Viticultural Areas. We expect that this project will require 1,600 hours.

OIG ISSUE AREAS AND PLANNED PROJECTS

Revenue Collection and Industry Regulation

Treasury Responsibility to Coordinate Interagency Participation in the International Trade Data System Project

Audit Objective: To determine whether Treasury is fulfilling its responsibility under the SAFE Port Act and is effectively coordinating input from 43 participating agencies. We expect this project will require 1,600 hours.

TTB On-Line Certificate of Label Approval

Audit Objective: To determine whether there have been user problems with the on-line certificate and label approval system and, if so, what has TTB done to correct the problems. We expect that this project will require 1,600 hours.

TTB Cover-Over Payment Program

Background. TTB is also responsible for processing approximately between \$700 and \$800 million dollars annually in refunds, credits, and reimbursements in excise taxes to both private and public entities. The largest single type processed by TTB is called a cover-over payment. A federal excise tax is 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 into the treasuries of both. The term cover-over is used to describe this payment. In fiscal year 2008, TTB processed \$467 million of these cover-over reimbursements. Puerto Rico received \$459 million and the Virgin Islands received \$8 million.

Audit Objective: To determine whether on a quarterly basis, TTB is adequately protecting excise tax revenue by review of its cover-over payments program. We expect that this project will require 1,500 hours.

TTB Safeguards Over Taxpayer Information

Audit Objective: To determine whether TTB has adequate safeguards over the security of taxpayer returns and return information. We expect that this project will require 1,600 hours.

TTB Controls Over Payments to Vendors Who Lost Products to Natural Disasters

Audit Objective: 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. We estimate this project will require 800 hours.

OIG ISSUE AREAS AND PLANNED PROJECTS

Revenue Collection and Industry Regulation

Manufacturer Non-Beverage Drawback Program

Audit Objective: To determine whether TTB is adequately protecting excise tax revenue through its review of non-beverage product manufacturers and their claims for drawback (refund). We expect that this project will require 1,600 hours.

TTB Review of Foreign Beverages

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

Audit Objective: To evaluate TTB's efforts to ensure safe imported beverage products through its pre-import activities, post-market sampling, and laboratory analysis efforts. We estimate this project will require 2,000 hours.

TTB Use of Collateral to Protect Revenue

Background. TTB protects excise tax revenue by mandating that taxpayers pledge collateral—such as a bond, note, or securities—in the event they do not fulfill their tax payment obligations. The instruments are used to offset tax liability when payments are not received.

Audit Objective: To determine whether TTB is ensuring that taxpayers maintain an adequate amount of collateral to protect tax revenue. We expect that this project will require 1,200 hours.

TTB Use of Offers in Compromise to Collect the Revenue

Background. TTB uses adverse actions to administratively resolve willful violations made by the manufacturers and distributors of Alcohol, Tobacco, Firearms and Ammunition to promote compliance with regulations and to collect excise tax. The use of offers in compromise is one form of adverse action used by TTB. This adverse action is an agreement made between the government and alleged violator in lieu of civil proceedings or criminal prosecution. In fiscal year 2007, TTB agreed to accept approximately \$1.2 million from offers in compromise on liability assessed at approximately \$2.9 million. Thus far in fiscal year 2008, TTB has agreed to accept from offers in compromise \$137,500 on liability assessed at approximately \$1.3 million.

OIG ISSUE AREAS AND PLANNED PROJECTS

Revenue Collection and Industry Regulation

Audit Objective: To determine whether TTB is appropriately utilizing the offers in compromise mechanism to collect all taxes due. We expect that this project will require 1,500 hours.

TTB Background Investigations

Audit Objective: To determine whether TTB staff with access to sensitive tax return data have up-to-date background investigations. We expect that this project will require 1,600 hours.

OIG ISSUE AREAS AND PLANNED PROJECTS

Bill and Coin Manufacturing, Marketing, and Distribution Operations

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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 requirements of the Federal Reserve System and other customers. In addition, BEP provides technical assistance and advice to other federal agencies in the design and production of documents, which, because of their innate value or other characteristics, require counterfeit deterrence. The bureau audits cash destruction and unfit currency operations at Federal Reserve Banks, and it is responsible for the accountability and destruction of internally generated security waste products. BEP also processes claims for the redemption of mutilated paper currency. BEP's production facilities are located in Washington, D.C., and Fort Worth, Texas.

In 2007, BEP delivered 9.1 billion Federal Reserve Notes to the Federal Reserve System. This resulted in revenue of \$578 million and an excess of revenue over expenses of \$46 million.

The Mint's principal mission is to produce the nation's circulation coinage for trade and commerce. Along with the Mint's headquarters in Washington, D.C., there are four production facilities located in Philadelphia, West Point, Denver, and San Francisco, and the bullion depository at Fort Knox. During fiscal year 2007, the Mint manufactured 14.5 billion coins for the Federal Reserve System.

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 the Mint operations and the cost of safeguarding government assets in the Mint's custody without fiscal year limitations. The Secretary of the Treasury must annually determine the amount of excess in the fund that is not needed for the Mint operations and programs. The excess is transferred to the Treasury General Fund for deposit as a miscellaneous receipt. For fiscal year 2007, the Mint transferred \$825 million to the Treasury General Fund. Even though the Mint is not dependent on appropriated funds, its spending authority is approved each fiscal year.

Potential Weaknesses. Because their operations are financed through revolving funds, BEP and the Mint are subject to less congressional oversight scrutiny through the federal budget process than appropriated agencies. The fund's legislation also gives the Mint

OIG ISSUE AREAS AND PLANNED PROJECTS

Bill and Coin Manufacturing, Marketing, and Distribution Operations

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

Four recent OIG audits noted various weaknesses in BEP security matters. In fiscal year 2003, we reported that employees did not always have the level of security clearance commensurate with their work assignments.²⁸ In fiscal year 2004, we reported that the dual reporting structure for security operations at BEP's two currency facilities have resulted in inconsistent policies and practices. We also reported weaknesses with BEP police officer training and firearms re-qualifications and security system.²⁹ In fiscal year 2007, we concluded that failure to follow existing internal control procedures at the Western Currency Facility facilitated an October 2004 theft by an employee who removed at least \$5,000 of \$50 Federal Reserve Notes slated for destruction.³⁰ In 2008, we reported that an Eastern Currency Facility theft occurred because BEP failed to ensure that production supervisors enforced, and employees adhered to, existing internal controls. Additionally, there were no policies and procedures in place to investigate production discrepancies.³¹

Emerging Issue Impacting 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 the blind by producing currency that visually impaired people can not recognize without the assistance of others, confirming the decision issued in 2006. In September 2008, after a meeting with BEP and DOJ attorneys, a federal judge ruled that the next generation of \$5, \$10, \$20, and \$50 bills have to be manufactured so that blind and visually impaired people to tell them apart. In addition, the current design of the \$100 bill that are slated to be manufactured this fall are not affected by this ruling, however, future designs must ensure that the \$100 bill be distinguishable from the 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.

²⁸ *General Management: The Bureau of Engraving and Printing's Controls Over Background Investigations Need to be Improved* (OIG-03-004).

²⁹ *General Management: Controls Over Security Need to be Improved at the Bureau of Engraving and Printing* (OIG-04-035).

³⁰ *Bill and Coin Manufacturing: Control Weaknesses Need To Be Addressed at BEP's Western Currency Facility* (OIG-07-035).

³¹ *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).

OIG ISSUE AREAS AND PLANNED PROJECTS

Bill and Coin Manufacturing, Marketing, and Distribution Operations

Potential Integrity Risks. In addition to the weaknesses identified above, we believe there are several potential integrity risks associated with Treasury's manufacturing operations. Potential integrity risks exist from external parties—contractors, terrorists, drug lords, and hackers; and internal personnel—employees who can be disgruntled or unethical. For example, these personnel can (1) disrupt Treasury functions, (2) violate laws, (3) award contracts for less than best value, (4) receive bribes or kick-backs, (5) steal or reveal sensitive data, and (6) cost the taxpayer money through the theft of materials and machinery, finished products, and mutilated products.

In-Progress and Planned Fiscal Year 2009 Projects

Mint Production Scheduling (In Progress)

Audit Objective: To examine how the Mint determines demand for its products and then schedules production to meet the expected demand. As part of our work, we plan to look at the Presidential \$1 Coin Program and the Mint's approach to implementing new coin programs. We also plan to review the 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*.³² We expect that this project will require 800 hours to complete in fiscal year 2009.

Note: Our capacity to undertake the following projects during fiscal year 2009 is contingent on whether additional MLRs are required.

Mint Controls Over the Sales of Limited-Production, Investment-Grade Products

Audit Objective: To determine whether the Mint has adequate controls to ensure the broadest and most fair access to its products. We expect that this project will require 2,000 hours.

Projects Under Consideration for Future OIG Annual Plans

Mint Procurement Operations

Audit Objective: To determine whether the Mint follows logical and prudent business practices when procuring goods and services. We expect that this project will require 2,000 hours.

³² OIG-02-066 (Mar. 19, 2002).

OIG ISSUE AREAS AND PLANNED PROJECTS

Bill and Coin Manufacturing, Marketing, and Distribution Operations

Mint Cost Accounting

Audit Objective: To determine whether the Mint is using appropriate cost accounting methods and systems for its coin production operations. We expect that this project will require 2,000 hours.

BEP Evaluation of Contract Proposals

Audit Objective: To determine whether BEP has a methodology for documenting and reviewing bids received to ensure that it is receiving the best value. We expect that this project will require 1,600 hours.

BEP Controls Over Security (Follow-up)

Audit Objective: To determine whether BEP's Western and Eastern Currency Facility security offices are functioning as one unit. We estimate this project will require 900 hours.

BEP Background Investigations of Personnel

Audit Objective: To determine whether BEP's background investigation procedures are adequate and implemented in an effective manner. As part of this audit, we will follow up on the recommendations in our prior report, *General Management: The Audit on the Bureau of Engraving and Printing's Controls Over Background Investigations Need to be Improved*.³³ We expect that this project will require 2,000 hours.

BEP Capital Investment Program

Audit Objective: To determine whether BEP's capital investment program ensures that all capital needs are being identified and sufficient funds are being allocated to meet current and future capital needs. We estimate this project will require 2,000 hours.

BEP Police Officer Training and Firearms Re-qualification

Audit Objective: To determine whether BEP policies for training and firearms re-qualification of police officers are consistent, appropriate, and followed at its two production facilities. As part of this audit, we will follow up on actions taken by BEP in response to our report, *General Management: Controls Over Security Need to be Improved*

³³ OIG-03-004 (Oct. 16, 2002).

OIG ISSUE AREAS AND PLANNED PROJECTS

Bill and Coin Manufacturing, Marketing, and Distribution Operations

at the Bureau of Engraving and Printing.³⁴ We expect that this project will require 1,200 hours.

BEP Continuity of Operations Planning

Audit Objective: 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. We expect that this project will require 2,400 hours.

BEP Employee Safety

Audit Objective: To determine how BEP ensures safe working conditions in its production facilities. We plan to conduct separate audits of BEP's production facilities with the first being conducted at the Eastern Currency Facility. We expect that each audit will require 2,000 hours at each facility.

Mint Cycle Time

Audit Objective: To determine the Mint's effectiveness at managing "cycle" time (the time it takes for raw materials to flow through the manufacturing processes to order fulfillment). We expect that this project will require 2,000 hours.

³⁴ OIG-04-035 (Jun. 29, 2004).

OIG ISSUE AREAS AND PLANNED PROJECTS

Domestic and International Assistance Programs

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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 and of credit, investment capital, and financial services to communities around the U.S., to programs that assist in coping with the after-effects of the September 11, 2001, terrorist attacks. International programs address the role of international financial institutions and promote economic stability and growth in other countries.

Domestic Assistance. Treasury provides assistance to promote economic growth and raise the standard of living in distressed communities in the U.S. by increasing the availability of business capital and financial services. The CDFI Fund, for example, promotes access to capital and local economic growth in the following ways (1) through its CDFI Program by directly investing in, supporting and training CDFIs that provide loans, investments, financial services and technical assistance to underserved populations and communities; (2) through its Bank Enterprise Award Program by providing an incentive to banks to invest in their communities and in other CDFIs; and (3) through its Native Initiatives, by taking action to provide financial assistance, technical assistance, and training to Native CDFIs and other Native entities proposing to become or create Native CDFIs. Congress appropriated \$55 million in fiscal year 2007, and \$94 million to CDFI in fiscal year 2008. The President's fiscal year 2009 budget asked for \$29 million for the program. Since inception in 1994, the CDFI Fund has awarded \$864 million to community development organizations and financial institutions under these programs. The NMTC program, one of the more recent initiatives in this arena, provides for a total of \$16 billion in tax incentives to help spur investments in low-income communities. During the first five award cycles under this program, the CDFI Fund designated 294 Community Development Entities and made available \$16 billion in tax credits. This includes \$1 billion for use specifically in the Hurricane Katrina Gulf Opportunity Zone.

For fiscal year 2007, the Fund received a disclaimer of opinion on its financial statements because its Chief Financial Officer would not sign the management representation letter. For fiscal year 2008, the financial auditors will audit the balance sheet only.

OIG ISSUE AREAS AND PLANNED PROJECTS

Domestic and International Assistance Programs

The Housing and Economic Recovery Act of 2008 authorized a new program for the CDFI Fund to administer—the Capital Magnet Fund. It will create a new source of grants for both rental and for-sale housing, as well as for community and economic development. The program is intended 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. As discussed in the Safety, Soundness, and Accessibility of Financial Services issue area, funding for the Capital Magnet Fund will come from new business purchases by Fannie Mae and Freddie Mac. The Congressional Budget Office estimated that the Capital Magnet Fund will provide CDFIs with an additional \$99 million in 2010, \$156 million in 2011, and then at least \$218 million annually through 2018.³⁵ There are two types of eligible grantees under the Fund, (1) CDFIs that have been certified by the CDFI Fund and (2) non-profit organizations having as one of their principal purposes the development or management of affordable housing.

International Assistance. A prosperous world economy serves the U.S. 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.

IA oversees U.S. interests in international financial institutions. The U.S. 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 U.S. 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 U.S. The Committee on Foreign Investment in the U.S. was delegated the Presidential function, authorized by Section 721 of the Defense

³⁵ It should be noted that contributions to the Capital Magnet Fund can be suspended by the Federal Housing Finance Agency depending on the financial health of Fannie Mae and Freddie Mac.

OIG ISSUE AREAS AND PLANNED PROJECTS

Domestic and International Assistance Programs

Production Act of 1950, to investigate the merger or acquisition of U.S. companies by foreign persons for national security implications. The Secretary of Treasury is the chair of the committee and IA manages this function on the Secretary's behalf. As of July 2007, the committee is required to file an annual 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 U.S. 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. Annual reporting replaced quadrennial reporting which began in 1994 when it was discovered in 2005 that Treasury failed to report in 1998 and 2002. The significance of this work has grown exponentially with the growth of foreign investment into the U.S. and the sharp increase in transactions filed with the committee.

Potential Integrity Risks. We believe Integrity risks for domestic and international assistance programs include the potential (1) unauthorized release of sensitive or classified data; (2) the falsification of applications or statements; (3) misuse or mismanagement of federal funds—including irregularities in the award of contracts and misallocation of grant proceeds or federal tax credits; and (4) failure to deliver on promised services. As the success of CDFI's programs are based upon the truthfulness of the certifications made by individual applicants reflecting their full disclosure of information, falsification of documents presents a significant risk leading to the unauthorized use of funds. Of particular concern would be contracts that may be let, or grants or tax credits that may be awarded, without following standard operating procedures. In addition, we recognize that program risks could exist that include the failure to promote economic growth within financially underserved areas of the U.S., or 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.

It should also be noted that the Capital Magnet Fund represents a new activity for the CDFI Fund, and the funding that could be potentially made available is considerably more than available to the CDFI Fund for its present grant programs. 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 integrity standpoint.

OIG ISSUE AREAS AND PLANNED PROJECTS

Domestic and International Assistance Programs

In-Progress and Planned Fiscal Year 2009 Projects

CDFI Fund Post-Award Grant Administration (In Progress)

Audit Objective: To determine whether the CDFI Fund has effective policies, procedures, and controls in place to ensure that grant recipients are carrying out and reporting on grant activities in accordance with their assistance agreements and applicable laws and regulations. As part of this project, we visited 20 grantees to review their records and inspect funded projects. We also followed up on corrective actions taken by the CDFI Fund in response to our prior report, *Financial Management/Compliance With the Federal Financial Management Improvement Act: Community Development Financial Institutions Fund Post-Award Administration Process*.³⁶ We expect that this project will require 800 hours to complete in fiscal year 2009.

CDFI Fund IT Contract Administration (In Progress)

Audit Objective: To determine whether the CDFI Fund has (1) effective policies, procedures, and controls in place to ensure that IT contract activities are properly managed and comply with applicable law, regulations, and Treasury policies and procedures, and (2) complied with laws, regulations, and policies. We expect that this project will require 400 hours to complete in fiscal year 2009.

Note: Our capacity to undertake the following projects during fiscal year 2009 is contingent on whether additional MLRs are required.

CDFI Fund Grant Award Process

Audit Objective: To determine whether the CDFI Fund has adequate policies, procedures, and controls for its core programs (CDFI program, Bank Enterprise Award program, and Native Initiatives) to ensure that assistance awards are made in accordance with laws and regulations and in an equitable manner. We expect that this project will require 2,400 hours.

Implementation of the Foreign Investment and National Security Act of 2007

Background. The Committee on Foreign Investment in the U.S. was delegated the Presidential function, authorized by Section 721, which amended the Defense Production Act of 1950, to investigate the merger or acquisition of U.S. companies by foreign

³⁶ OIG-02-122 (Sep. 24, 2002).

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persons for national security implications. The Secretary of Treasury is the chair of the committee and IA manages this function on the Secretary's behalf. The significance of this work has grown exponentially with the growth of foreign investment into the U.S. and the sharp increase in transactions filed with the committee.

In 2005 and 2006, two proposed foreign acquisitions of U.S. companies sparked concerns about how the committee conducts reviews of proposed transactions. As a result, the Foreign Investment and National Security Act of 2007 was enacted, amending Section 721, to strengthen the process by which acquisitions are reviewed and investigated. Proposed regulations to implement the Act were published in the April 21, 2008 federal register. The proposed rules are set to formalize the process for which the committee is to conduct national reviews, enter into mitigation when a transaction poses national security concerns, and impose civil penalties for violation of Section 721.

Audit Objective: To determine whether the Committee on Foreign Investment in the U.S. has implemented the Foreign Investment and National Security Act of 2007 to achieve the national security objectives as prescribed in the statute. We expect that this project will require 2,400 hours.

Projects Under Consideration for Future OIG Annual Plans

CDFI Fund Administration of the Capital Magnet Fund

Audit Objective: To determine whether the CDFI Fund has adequate controls for awarding and administering Capital Magnet Fund grant activities. We expect that our first review of this new CDFI Fund program will require 2,000 hours.

IA Oversight of Multilateral Development Banks' Anti-Corruption Programs

Audit Objective: To determine the effectiveness of IA's efforts to promote and monitor anti-corruption programs at the multilateral development banks. We expect that this project will require 2,000 hours.

CDFI Fund Award Process and Compliance Monitoring of the NMTC Program

Background. The legislation authorizing the NMTC program requires GAO to report to Congress on the program by January 31, 2004, 2007, and 2010. In January 2004, GAO reported that, according to CDFI Fund officials, not many NMTC projects were started by the end of 2003, and that they were unlikely to know the status of projects until early 2005. GAO also reported that the CDFI Fund and IRS have made progress in identifying

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data to use in monitoring NMTC compliance with allocation agreements and tax laws, respectively, and in developing and implementing systems to collect these data. However, many details remain to be settled on how these data will actually be used to monitor compliance. Additionally, in terms of evaluating the NMTC program, the CDFI Fund has decided to contract for an evaluation. GAO recommended that the CDFI Fund and IRS develop plans, including milestones, to ensure that compliance-monitoring processes are in place when needed.³⁷ In January 2007, GAO reported that its survey and statistical analysis indicate that the NMTC may be increasing investment in low-income communities by participating investors. Investors indicated that they have increased their investment budgets in low-income communities as a result of the credit, and GAO's analysis indicates that businesses may be shifting investment funds from other types of assets to invest in the NMTC, while individual investors may be using at least some new funds to invest in the NMTC. Additionally, GAO reported that the CDFI Fund and IRS developed processes to monitor community development entities' compliance with their allocation agreements and the tax code. However, IRS's study of community development entities' compliance does not cover the full range of NMTC transactions, focusing instead on transactions that were readily available, and may not support the best decisions about enforcement in the future. Moreover, IRS and the CDFI Fund are not collecting data that would allow IRS to identify credit claimants and amounts to be claimed.³⁸

Audit Objective: To determine the effectiveness of the NMTC Program's application and allocation procedures, allocation of shares of available tax credits, and monitoring of compliance with the allocation agreements. As part of this project, we plan to assess the CDFI Fund's actions to address the prior GAO recommendations and coordinate with TIGTA and GAO. We expect this project will require 2,000 hours.

Committee on Foreign Investment in the U.S. and Identifying Non-filers

Audit Objective: To determine the effectiveness of the measures that have been implemented to identify foreign investors who have not filed with the Committee on Foreign Investment in the U.S. We expect that this project will require 2,400 hours.

IA Performance Measures

Audit Objective: To review the adequacy of IA's performance measures. We expect this project will require 1,600 hours.

³⁷ *New Markets Tax Credit Program: Progress Made in Implementation, but Further Actions Needed to Monitor Compliance*; GAO-04-326.

³⁸ *Tax Policy: New Markets Tax Credit Appears to Increase Investment by Investors in Low-Income Communities, but Opportunities Exist to Better Monitor Compliance*; GAO-07-296.

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Treasury Oversight of the North American Development Bank

Audit Objective: To determine whether IA provides appropriate oversight of funds disbursed to the North American Development Bank. We expect that this project will require 1,600 hours.

APPENDIX A:

OFFICE OF AUDIT FISCAL YEAR 2009 RESOURCE ALLOCATION

Our planned OIG audit staff resource utilization by the three priority areas for fiscal year 2009 is shown in the following table:

Audit Priority	Percentage of Planned Audit Resources
Audit products mandated by law	47
Work requested by Congress or externally driven	18
Self-directed work in Treasury's highest-risk areas	35
Total	100

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

OIG Issue Area	Percentage of Planned Audit Resources
Treasury general management and infrastructure support:	
Financial management	17
Information systems security	11
General management	11
Terrorist financing, money laundering, and foreign assets control	12
Governmentwide financial services and debt management	7
Safety, soundness, and accessibility of financial services	33
Revenue collections and industry regulation	0
Bill and coin manufacturing, marketing, and distribution operations	2
Domestic and international assistance programs	7
Total	100

APPENDIX A:**OFFICE OF AUDIT FISCAL YEAR 2009 RESOURCE ALLOCATION**

The table below shows planned OIG audit staff allocation by Treasury headquarters operational component and bureau.

Treasury Component	Percentage of Planned Audit Resources
Departmental Offices:	
Office of the Assistant Secretary for Management and Chief Financial Officer	13
Domestic Finance	1
Office of the Chief Information Officer	4
Federal Financing Bank	1
TFI	1
OFAC	1
TEOAF	6
Office of Tax Policy	0
CDFI Fund	8
IA	1
Bureaus:	
FinCEN	5
FMS	9
BPD	4
OCC	17
OTS	21
TTB	1
BEP	3
Mint	4
Total	100

APPENDIX B:
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ABBREVIATIONS

BEP	Bureau of Engraving and Printing
BPD	Bureau of the Public Debt
BSA	Bank Secrecy Act
CBP	Customs and Border Protection
CDFI Fund	Community Development Financial Institutions Fund
DOJ	Department of Justice
FFMIA	Federal Financial Management Improvement Act of 1996
FinCEN	Financial Crimes Enforcement Network
FISMA	Federal Information Security Management Act of 2002
FMS	Financial Management Service
EESA	Emergency Economic Stabilization Act of 2008
FDIC	Federal Deposit Insurance Corporation
FOIA	Freedom of Information Act
GAO	U.S. Government Accountability Office
IA	Office of International Affairs
IRS	Internal Revenue Service
IT	information technology
MLR	material loss review
MOU	memorandum of understanding
MSB	money services businesses
NMTC	New Markets Tax Credit
OCC	Office of the Comptroller of the Currency
OFAC	Office of Foreign Assets Control
OIG	Treasury Office of Inspector General
OMB	Office of Management and Budget
OTS	Office of Thrift Supervision
PCIE	President's Council on Integrity and Efficiency
SAR	Suspicious Activity Report
TARP	Troubled Assets Relief Program
TEOAF	Treasury Executive Office for Asset Forfeiture
TFI	Office of Terrorism and Financial Intelligence
TIGTA	Treasury Inspector General for Tax Administration
TTB	Alcohol and Tobacco Tax and Trade Bureau

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