

# Semiannual Report to Congress

October 1, 2012 – March 31, 2013  
OIG-CA-13-007

Office of Inspector General  
Department of the Treasury



## Highlights

During this semiannual reporting period, our Office of Audit issued 37 products and our Office of Small Business Lending Fund (SBLF) Program Oversight issued 6 products. Work by our Office of Investigations resulted in 5 arrests and 13 convictions. Some of our more significant results for the period are described below.

- KPMG LLP, under our supervision, rendered an unqualified opinion on the Department of the Treasury's (Treasury) fiscal year 2012 financial statements. The auditors reported a material weakness related to financial reporting at the Internal Revenue Service and a significant deficiency related to information systems controls at the Bureau of the Fiscal Service.
- Office of Inspector General (OIG) auditors completed the first-ever audit of the Schedule of United States Gold Held by Federal Reserve Banks, and rendered an unqualified opinion on the Schedule. The U.S. gold holdings audited had a market value at September 30, 2012, of approximately \$23.9 billion.
- Our Office of SBLF Program Oversight found that the State of Vermont did not properly account for interest rate subsidies financed by the State Small Business Credit Initiative (SSBCI) or report income earned. Vermont also charged \$216,820 in administrative costs to the SSBCI program that was not allowable or allocable and falsely certified in September 2011 and December 2011 that it was compliant with all SSBCI program requirements.
- Although the State of Michigan appropriately obligated or spent the majority of its \$38.5 million SSBCI allotment, we concluded that Michigan misused \$2.5 million, of which \$21,000 constituted a reckless misuse of funds as defined by Treasury guidance.
- We found that 53 percent of financial institutions participating in the Small Business Lending Fund that we reviewed incorrectly reported their small business lending activity for the quarter ended March 31, 2012. The errors were caused by recording and calculation mistakes as well as the misclassification of loans on call reports. Collectively, participants underreported approximately \$15.3 million of small business lending activity, but the errors did not affect the dividend/interest rates on October 1, 2012, payments to Treasury.
- Our Office of Investigations initiated a joint investigation with the Social Security Administration OIG into allegations that social security benefit payments were being diverted from their intended recipients in a scheme involving Treasury Direct Express debit cards. The investigation resulted in the indictment of two individuals in the U.S. District Court in Baltimore, Maryland, on multiple charges, including conspiracy and aggravated identity theft.
- As a result of a joint investigation by our office and other federal agencies, the U.S. Department of Justice filed a civil complaint against Gallup Organization (Gallup) for violations under the False Claims Act and other violations of federal laws and regulations. Gallup was suspended from future contracting with the federal government pending completion of the civil complaint.



## Message From the Inspector General

I am pleased to provide our Semiannual Report for the 6 months ending March 31, 2013. During the period, we conducted noteworthy investigations in the areas of false claims, improper payments, and Treasury check fraud. We also completed important audits during this period, including a number of mandated financial statement audits as well as reviews of funds distributed under the State Small Business Credit Initiative (SSBCI). Of particular note, our Office of Small Business Lending Fund Program Oversight identified misused SSBCI funds and recommended the disallowance of certain administrative expenses that were not properly supported. A more detailed discussion of these audits, significant investigations, and other work completed by our office during the period is included in this report.

Also during this semiannual reporting period, the Council of Inspectors General on Financial Oversight, which I chair, convened its second working group to assess the Financial Stability Oversight Council's (FSOC) process to designate financial market utilities as systemically important. Led by our office, the working group is examining the rules, procedures, and practices established by the FSOC and its member agencies. We anticipate consolidating the results of the working group's review into a report to the FSOC.

Our office is also fully engaged to meet our responsibilities under the Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012 (RESTORE Act). Signed into law in July 2012, the RESTORE Act established the Gulf Coast Restoration Trust Fund (Trust Fund) within Treasury for providing funds for the environmental and economic restoration of the Gulf Coast region after the April 2010 Deepwater Horizon oil spill. Deposits into the Trust Fund will be comprised of 80 percent of the administrative and civil penalties paid after July 6, 2012, pursuant to a court order or negotiated settlement under the Federal Water Pollution Control Act. In March 2013, Treasury received the first deposit of \$323 million for the Trust Fund. The act specifically designated our office to provide oversight of programs established under the RESTORE Act. To that end, our Offices of Audit and Investigations have begun coordination with impacted federal, state, and local government entities to ensure effective oversight. We also initiated two audits to assess Treasury's progress to establish the Trust Fund and to implement its other RESTORE Act responsibilities.

In closing, I would like to acknowledge the employees of Treasury's Office of Inspector General for their commitment and professionalism. In particular, I would like to express my appreciation to Joel Grover, the Deputy Assistant Inspector General for Financial Management and Information Technology Audit. Joel retired after giving 38 years of dedicated service to the federal government and the federal financial community, including the nearly 7 years during which he made significant contributions to Treasury. On behalf of the entire office, we wish him and his family many happy years in his retirement.

A handwritten signature in black ink, appearing to read "Eric M. Thorson".

Eric M. Thorson  
Inspector General

# Contents

Highlights .....	i
Message From the Inspector General .....	ii
Office of Inspector General Overview .....	1
Treasury’s Management and Performance Challenges .....	3
Office of Audit – Significant Audits .....	5
Financial Management.....	5
Programs and Operations .....	9
Office of SBLF Program Oversight – Significant Audits.....	17
State Small Business Credit Initiative.....	17
Small Business Lending Fund.....	20
Office of Investigations –Significant Investigations .....	22
Other OIG Accomplishments and Activity .....	29
Statistical Summary .....	32
Summary of OIG Activity.....	32
Significant Unimplemented Recommendations.....	33
Summary of Instances Where Information Was Refused.....	35
Listing of Audit Products Issued.....	35
Audit Reports Issued With Questioned Costs .....	39
Audit Reports Issued With Recommendations That Funds Be Put to Better Use .....	40
Previously Issued Audit Reports Pending Management Decisions (Over 6 Months) .....	40
Significant Revised Management Decisions .....	40
Significant Disagreed Management Decisions.....	41
Peer Reviews.....	41
Bank Failures and Nonmaterial Loss Reviews .....	43
References to the Inspector General Act.....	44
Abbreviations.....	45

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# Office of Inspector General Overview

The Department of the Treasury's (Treasury) Office of Inspector General (OIG) was established pursuant to the 1988 amendments to the Inspector General Act of 1978. OIG is headed by an Inspector General appointed by the President, with the advice and consent of the Senate.

OIG performs independent, objective reviews of Treasury programs and operations, except for those of the Internal Revenue Service (IRS) and the Troubled Asset Relief Program (TARP), and keeps the Secretary of the Treasury and Congress fully informed of problems, deficiencies, and the need for corrective action. The Treasury Inspector General for Tax Administration (TIGTA) performs oversight related to IRS. A Special Inspector General and the Government Accountability Office (GAO) perform oversight related to TARP.

OIG has five components: (1) Office of Audit, (2) Office of Investigations, (3) Office of Small Business Lending Fund (SBLF) Program Oversight, (4) Office of Counsel, and (5) Office of Management. OIG is headquartered in Washington, D.C., and has an audit office in Boston, Massachusetts.

The Office of Audit, under the leadership of the Assistant Inspector General for Audit, performs and supervises audits, attestation engagements, and evaluations. The Assistant Inspector General for Audit has two deputies. One is primarily responsible for performance audits and the other is primarily responsible for financial management, information technology (IT), and financial assistance audits.

The Office of Investigations, under the leadership of the Assistant Inspector General for Investigations, performs investigations and conducts initiatives to detect and prevent fraud, waste, and abuse in Treasury programs and operations under our jurisdiction. The Office of Investigations also manages the Treasury OIG Hotline to facilitate reporting of allegations involving Treasury programs and activities.

The Office of SBLF Program Oversight, under the leadership of a Special Deputy Inspector General, conducts, supervises, and coordinates audits and investigations of SBLF and the State Small Business Credit Initiative (SSBCI).

The Office of Counsel, under the leadership of the Counsel to the Inspector General, provides legal advice to the Inspector General and all OIG components. The office represents the OIG in administrative legal proceedings and provides a variety of legal services including (1) processing Freedom of Information Act and *Giglio*<sup>1</sup> requests; (2) conducting ethics training; (3) ensuring compliance with financial disclosure requirements; (4) reviewing proposed legislation and regulations; (5) reviewing administrative subpoena requests; and (6) preparing for the Inspector General's signature, cease and desist letters to be sent to persons and entities misusing the Treasury seal and name.

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<sup>1</sup> *Giglio* is information that refers to material that may call into question the character or testimony of a prosecution witness in a criminal trial.

The Office of Management, under the leadership of the Assistant Inspector General for Management, provides services to maintain the OIG administrative infrastructure.

OIG's fiscal year 2013 appropriation is \$28.1 million. As of March 31, 2013, OIG had 178 full-time staff of which 17 of those staff work for the Office of SBLF Program Oversight and are funded on a reimbursable basis.

# Treasury's Management and Performance Challenges

In accordance with the Reports Consolidation Act of 2000, the Treasury Inspector General annually provides the Secretary of the Treasury with his perspective on the most serious management and performance challenges facing the Department. In a memorandum to Secretary Geithner dated October 25, 2012, Inspector General Thorson reported one new challenge—Gulf Coast Restoration Trust Fund Administration—and three challenges from last year. One previously reported challenge was removed. The following is a synopsis of the matters included in that memorandum. The Inspector General's annual Management and Performance Challenges Memoranda are available, in their entirety, on the Treasury OIG [website](#).

## Transformation of Financial Regulation (Repeat Challenge)

This challenge focuses on the responsibilities of Treasury and the Secretary under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank).

## Management of Treasury's Authorities Intended to Support and Improve the Economy (Repeat Challenge)

This challenge focuses on the administration of broad authorities given to Treasury by the Congress to address the financial crisis under the Housing and Economic Recovery Act of 2008, the Emergency Economic Stabilization Act of 2008, the American Recovery and Reinvestment Act of 2009, and the Small Business Jobs Act of 2010.

## Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement (Repeat Challenge)

This challenge focuses on the difficulties Treasury faces to ensure criminals and terrorists do not use our financial networks to sustain their operations and/or launch attacks against the U.S.

## Gulf Coast Restoration Trust Fund Administration

This challenge focuses on Treasury's administration of a new activity, the Gulf Coast Restoration Trust Fund, established by the Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012 (RESTORE Act) in response to the April 2010 Deepwater Horizon oil spill.

## Other Areas of Concern

Our memorandum also highlighted three areas of concern—cyber threats, challenges with currency and coin production, and lapses by the Department in maintaining a complete and concurrent record of key activities and decisions.

We also noted challenges faced by the Department as it undertakes the consolidation and restructuring of the Bureau of the Public Debt (BPD) and Financial Management Service (FMS) into the Bureau of the Fiscal Service.

In October 2013, the Inspector General will update the Management and Performance Challenges Memoranda to the Secretary.

# Office of Audit – Significant Audits

## Financial Management

### Consolidated Financial Statements

KPMG LLP (KPMG), an independent public accountant working under our supervision, issued an unqualified opinion on the Department's fiscal years 2012 and 2011 consolidated financial statements. The auditor reported a material weakness related to financial reporting at IRS and a significant deficiency related to information systems controls at the legacy FMS. KPMG also reported that the Department's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 related to federal financial management system requirements and applicable federal accounting standards. The audit identified a potential violation of the Anti-Deficiency Act related to voluntary services provided to the Department. **(OIG-13-012)**

In connection with its audit of Treasury's consolidated financial statements, KPMG issued a management letter that identified a matter involving internal control over financial reporting related to accounting for international assistance transactions. **(OIG-13-023)**

### Other Financial Statement Audits

The Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, requires annual financial statement audits of Treasury and any component entities designated by the Office of Management and Budget (OMB). In this regard, OMB designated IRS for annual financial statement audits. The financial statements of certain other Treasury component entities are audited pursuant to other requirements, their materiality to Treasury's consolidated financial statements, or as a management initiative. The table on the next page shows the audit results for fiscal years 2012 and 2011.

Treasury-audited financial statements and related audits						
Entity	Fiscal year 2012 audit results			Fiscal year 2011 audit results		
	Opinion	Material weaknesses	Significant deficiencies	Opinion	Material weaknesses	Significant deficiencies
<b>Government Management Reform Act/Chief Financial Officers Act requirements</b>						
Department of the Treasury	UQ	1	1	UQ	1	3
Internal Revenue Service (A)	UQ	1	1	UQ	2	1
<b>Other required audits</b>						
Department of the Treasury's Special-Purpose Financial Statements	UQ	0	0	UQ	0	0
Office of Financial Stability (TARP) (A)	UQ	0	0	UQ	0	1
Bureau of Engraving and Printing	UQ	0	1	UQ	0	1
Community Development Financial Institutions Fund	UQ	0	0	UQ	2	0
Office of DC Pensions	UQ	0	1	UQ	0	1
Exchange Stabilization Fund	UQ	0	0	UQ	0	0
Federal Financing Bank	UQ	0	1	UQ	0	0
Office of the Comptroller of the Currency	UQ	0	1	UQ	0	0
Office of Thrift Supervision (B)	N/A	N/A	N/A	UQ	0	0
Treasury Forfeiture Fund	UQ	0	0	UQ	0	0
<b>Mint</b>						
Financial statements	UQ	0	0	UQ	0	1
Custodial gold and silver reserves	UQ	0	0	UQ	0	0
<b>Other audited accounts that are material to Treasury financial statements</b>						
<b>Bureau of the Public Debt</b>						
Schedule of Federal Debt (A)	UQ	0	0	UQ	0	0
Government trust funds	UQ	0	0	UQ	0	0
<b>Financial Management Service</b>						
Treasury-managed accounts	UQ	0	1	UQ	0	1
Operating cash of the federal government	UQ	0	1	UQ	0	1
<b>Management-initiated audit</b>						
Financial Crimes Enforcement Network	UQ	0	0	UQ	0	0
Alcohol and Tobacco Tax and Trade Bureau	UQ	0	0	UQ	1	0
U.S. gold reserves held by Federal Reserve Banks (C)	UQ	0	0	N/A	N/A	N/A
UQ	Unqualified opinion.					
(A)	Audited by the GAO.					
(B)	In accordance with Dodd-Frank, the functions of the Office of Thrift Supervision transferred to the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation in July 2011, and the Office of Thrift Supervision was abolished in October 2011.					
(C)	Fiscal year 2012 was the initial audit of the Schedule of U.S. Gold Reserves Held by Federal Reserve Banks.					
N/A	Not audited.					

The fiscal year 2012 audits of Treasury’s component entities’ financial statements identified the following significant deficiencies. These audits were performed by KPMG or other independent public accountants under our supervision.

### Significant Deficiencies

- The Bureau of Engraving and Printing’s (BEP) controls over the implementation of an Oracle operating system. **(OIG-13-024)**
- The Office of D.C. Pensions’ supervisory review and monitoring controls over annuitant benefit payments. **(OIG-13-021)**
- The Federal Financing Bank’s controls over reporting fair value of borrowings. **(OIG-13-008)**
- Office of the Comptroller of the Currency’s (OCC) IT general controls over its financial systems. **(OIG-13-027)**
- FMS’s IT controls over systems that it directly managed as well as others managed by third parties. **(OIG-13-013, OIG-13-014)**

In connection with the fiscal year 2012 financial statement audits, the auditors issued management letters on other matters involving internal control at BEP **(OIG-13-025)**, Federal Financing Bank **(OIG-13-009)**, Office of D.C. Pensions **(OIG-13-022)** and the Community Development Financial Institutions Fund **(OIG-13-011)**. In addition, the auditors issued sensitive but unclassified (SBU) management reports that provided details of the significant deficiencies and recommended corrective actions related to (1) FMS’s IT controls over systems that it directly managed as well as others managed by third parties. **(OIG-13-016, OIG-13-017)**, and (2) OCC’s IT general controls over its financial systems **(OIG-13-029)**

The following instances of noncompliance with the Federal Financial Management Improvement Act of 1996, which all relate to IRS, were reported in connection with the audit of the Department’s fiscal year 2012 consolidated financial statements.

Condition	Type of noncompliance
Internal control deficiencies in automated systems for tax-related transactions continue to exist. As a result of these deficiencies, IRS was unable to (1) rely on its general ledger system for tax transactions and underlying subsidiary records to report federal taxes receivable, compliance assessments, and write-offs in accordance with federal accounting standards without significant compensating procedures; (2) trace reported balances for taxes receivable from its general ledger to underlying source documents; and (3) effectively prevent or timely detect and correct errors in taxpayer amounts. (first reported in fiscal year 1997)	Federal financial management systems requirements
Automated systems for tax-related transactions did not support the net federal taxes receivable amount on the balance sheet and required supplementary information disclosures for uncollected taxes – compliance assessments and write-offs – as required by <i>Statement of Federal Financial Accounting Standards No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting</i> . (first reported in fiscal year 1997)	Federal accounting standards

The status of these instances of noncompliance, including progress in implementing remediation plans, will be evaluated as part of the audit of the Department’s fiscal year 2013 consolidated financial statements.

### Audit of United States Gold Reserves Held by Federal Reserve Banks

For fiscal year 2012, Treasury OIG auditors performed the first-ever audit of Treasury’s Schedule of United States Gold Reserves Held by Federal Reserve Banks, and rendered an unqualified opinion on the Schedule. The OIG auditors identified no material weaknesses in internal control over financial reporting and no instances of reportable noncompliance with laws and regulations. The Schedule reported that the gold reserves held at Federal Reserve Banks, practically all of which was held at the Federal Reserve Bank of New York, totaled approximately 13.5 million fine troy ounces (FTO) with a value at the statutory rate of \$42.2222 per FTO of approximately \$568 million. The market value of these gold reserves at September 30, 2012, based on the London Gold Fixing (PM) of \$1,776 per FTO, was approximately \$23.9 billion. **(OIG-13-031)**

### Attestation Engagement

KPMG, working under our supervision, issued an unqualified opinion on the BPD Trust Fund Management Branch’s assertions pertaining to the schedule of assets and liabilities and related schedule of activity of selected trust funds, as of and for the year ended September 30, 2012, that the assertions were fairly stated. The following trust funds were audited.

- Federal Supplementary Medical Insurance Trust Fund
- Federal Hospital Insurance Trust Fund
- Highway Trust Fund, Airport and Airway Trust Fund

- Hazardous Substance Superfund Trust Fund
- Leaking Underground Storage Tank Trust Fund
- Oil Spill Liability Trust Fund
- Harbor Maintenance Trust Fund
- Inland Waterways Trust Fund
- South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund

The attestation examination did not identify any material weaknesses or significant deficiencies in internal control or instances of reportable noncompliance with laws and regulations. **(OIG-13-004)**

## Programs and Operations

### Information Technology

#### Fiscal Year 2012 Audit of Treasury's Federal Information Security Management Act Unclassified Systems

The Federal Information Security Management Act (FISMA) requires each Inspector General to perform an annual, independent evaluation of their agency's information security program and practices. We contracted with KPMG to perform an audit, under our supervision, of the Department's non-IRS unclassified systems' compliance with FISMA requirements. For IRS, TIGTA performed the annual FISMA evaluation and GAO performed the financial statement audit. Together, TIGTA and GAO covered information security for IRS's financial systems. Based on the results reported by KPMG, TIGTA, and GAO, we determined that Treasury's information security program was in place and was generally consistent with FISMA, OMB information security requirements, and the National Institute of Standards and Technology (NIST) information security standards.

Even so, in its audit of Treasury's unclassified systems, which did not include the IRS, KPMG reported on a number of areas where the program could be improved. Specifically, KPMG reported the following at one or more Treasury component entities.

- Logical account management activities were not in place nor consistently performed (5 component entities)
- Security incidents were not reported timely (3 component entities)
- System security plans were not updated to address weaknesses identified in the security assessments or did not fully document all security controls from NIST *Special Publication 800-53, Revision 3, Recommended Security Controls for Federal Information Systems and Organizations* (3 component entities)

- Audit log reviews were not sufficiently performed in accordance with NIST and Treasury requirements (2 component entities)
- Plans of action and milestones were not tracked in accordance with NIST and Treasury requirements (1 component entity)
- Vulnerability scanning and remediation were not performed in accordance with Treasury requirements (5 component entities)
- Contingency planning and testing were not fully implemented or operating as designed (2 component entities)
- Backup controls were not in place or were not operating as designed (2 component entities)
- System configuration settings were not implemented properly (2 component entities)
- System baselines were not properly documented (3 component entities)
- Multifactor authentication was not implemented (1 component entity)

In all, KPMG made 31 recommendations to address these control deficiencies. Treasury’s Chief Information Officer agreed with the findings and recommendations and has provided corrective action plans to address the areas needing improvement.

TIGTA also reported that IRS was generally consistent with FISMA requirements in all but three areas. Specifically, the IRS information security program did not meet the level of performance specified by the Department of Homeland Security’s *Fiscal Year 2012 Inspector General FISMA Reporting Matrix* for configuration management, identity and access management, and security training. In addition, GAO reported that it considered IRS’s information security, previously reported as a long-standing material weakness, to be a significant deficiency that warrants the attention of those charged with governance of IRS.<sup>2</sup> **(OIG-13-007)**

### Fiscal Year 2012 Audit of Treasury’s Federal Information Security Management Act Implementation for Its Collateral National Security Systems

We also contracted with KPMG to perform an audit, under our supervision, of the Department’s non-IRS collateral national security systems<sup>3</sup> fiscal year 2012 compliance with FISMA requirements. Based on the results reported by KPMG, we determined that the Department’s collateral national security system program and practices were generally consistent with FISMA, OMB information security requirements, and related information security standards published by NIST. However, the program was not fully effective. Specifically, KPMG identified five findings and made three recommendations to

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<sup>2</sup> GAO, *Financial Audit: IRS’s Fiscal Years 2012 and 2011 Financial Statements*, (GAO-13-120, Nov. 2012)

<sup>3</sup> Collateral national security systems in the context of this report are national security systems that do not deal with intelligence. We reported on our fiscal year 2012 audit of the Department’s intelligence systems in the prior semiannual period.

address the findings. KPMG also determined that two of the four prior-year findings from the fiscal year 2011 FISMA audit remained open. Treasury’s Chief Information Officer agreed with the findings and recommendations and provided corrective action plans to address the areas needing improvement. Due to the sensitive nature of these systems, this report is designated SBU. **(OIG-13-006)**

## Failed Bank Reviews

In 1991, Congress enacted the Federal Deposit Insurance Corporation Improvement Act following the failures of about a thousand banks and thrifts from 1986 to 1990. Among other things, the act added Section 38, Prompt Corrective Action, to the Federal Deposit Insurance Act. Section 38 requires federal banking agencies to take specific supervisory actions in response to certain circumstances.<sup>4</sup>

Section 38 also requires the Inspector General for the primary federal regulator<sup>5</sup> of a failed financial institution to conduct a material loss review (MLR) when the estimated loss to the Deposit Insurance Fund (DIF) is “material.” An MLR requires that we determine the causes of the failure and assess the supervision of the institution, including the implementation of the Section 38 Prompt Corrective Action provisions. Section 38, as amended by the Dodd-Frank Act, defines a material loss as a loss to the DIF that exceeds \$150 million for 2012 and 2013, and \$50 million in 2014 and thereafter, with a provision for increasing the threshold to \$75 million under certain circumstances. Section 38 also requires a review of all bank failures with losses under those threshold amounts for the purposes of (1) ascertaining the grounds identified by OCC for appointing the Federal Deposit Insurance Corporation (FDIC) as receiver, and (2) determining whether any unusual circumstances exist that might warrant a more in-depth review of the loss. This provision applies to bank failures from October 1, 2009, forward.<sup>6</sup>

From the beginning of the recent economic crisis in 2007 through March 2013, FDIC and other banking regulators closed 470 banks and thrifts. Treasury, through OCC and the former Office of Thrift Supervision (OTS), was responsible for regulating 128 of those institutions. Of the 128 failures, 54 resulted in a material loss to the DIF, which were completed in prior semiannual reporting periods. There were no new failures of Treasury-regulated banks that required an MLR during this semiannual reporting period. During this period, we did not complete any in-depth reviews, but completed 5 reviews of failed Treasury-regulated banks that did not meet the material loss threshold as defined in the Dodd-Frank Act. Since 2007, we have completed 54 MLRs (as mentioned above), 64 nonmaterial loss reviews, and 3 in-depth reviews.

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<sup>4</sup> Prompt corrective action is a framework of supervisory actions for insured institutions that are not adequately capitalized. It was intended to ensure that action is taken when an institution becomes financially troubled in order to prevent a failure or minimize resulting losses. These actions become increasingly more severe as the institution falls into lower capital categories. The capital categories are well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized.

<sup>5</sup> Within Treasury, OCC is the regulator for national banks. Effective July 21, 2011, OCC assumed the regulatory responsibility for federal savings associations that were previously regulated by the former Office of Thrift Supervision.

<sup>6</sup> Prior to Dodd-Frank, an MLR was required if loss to the DIF from a bank failure exceeded the greater of \$25 million or 2 percent of the institution’s total assets. There was also no requirement for us to review bank failures with losses less than this threshold.

## Material Loss and In-Depth Reviews

There were no failed financial institutions that required an MLR by our office during this semiannual period. As reported in the prior semiannual period, we determined that, for one federal savings association, Second Federal Savings and Loan Association of Chicago (Second Federal), there was an unusual circumstance surrounding the failure that we determined warranted an in-depth review by our office. At the end of this semiannual period, the review was in-progress. Second Federal was closed July 20, 2012, with an estimated loss to the DIF of \$76.9 million.

## Nonmaterial Loss Reviews

During this semiannual period, 2 OCC-regulated financial institutions failed with individual losses below the material loss threshold as defined in the Dodd-Frank Act. During the period, we issued 5 audit reports on nonmaterial loss reviews (1 on a failure during the current period and 4 on failures from the prior period). A list of these audit reports is provided in the Statistical Summary section of this report. At the end of this semiannual period, one nonmaterial loss review was in-progress.

## Other Banking-Related Work

### Status of the Transfer of OTS Functions

The Dodd-Frank Act transferred the powers and duties of OTS to the Board of Governors of the Federal Reserve System (FRB), the FDIC, and OCC effective July 21, 2011. Our office and the OIGs of FRB and the FDIC are mandated by the act to perform joint reviews of the transfer. In our first joint review, we determined the Joint Implementation Plan (Plan) for the transfer prepared by FRB, FDIC, OCC, and OTS conformed to relevant provisions in the act. After our initial review of the Plan, the act requires that every six months we jointly provide a written report on the status of the implementation of the Plan to FRB, the FDIC, and OCC, with a copy to Congress. This is our fourth joint status report issued under this requirement and the fifth report mandated by the act.

We concluded that procedures and safeguards as outlined in the Plan to ensure that transferred OTS employees are not unfairly disadvantaged were in place and maintained during the period. However, there remain certain open items and time-limited provisions impacting former OTS employees that we continue to monitor. Our most recent joint report did not include any recommendations. **(OIG-13-035)**

## Other Performance Audits

### Treasury Was Not in Compliance With the Improper Payments Elimination and Recovery Act for Fiscal Year 2012

As required by the Improper Payments Elimination and Recovery Act (IPERA) of 2010, we performed an audit to determine whether Treasury was in compliance with the act for fiscal year 2012. We

concluded Treasury was not in compliance with IPERA for fiscal year 2012 due to IRS's Earned Income Tax Credit (EITC) improper payments reporting deficiencies identified by TIGTA. Specifically, IRS did not establish annual EITC improper payment reduction targets and did not report an improper payment rate of less than 10 percent.

This is the second consecutive year we determined that Treasury was not in compliance with IPERA due to IRS's EITC improper payment reporting deficiencies. In accordance with IPERA, the Director of OMB will review the EITC program and determine if additional funding will help Treasury become compliant.

Our audit also identified the need for Treasury to improve its IPERA reporting. Specifically, Treasury's corrective action plan to become compliant with the act did not address IRS's EITC improper payments reporting deficiencies and we noted errors and omissions in Treasury's payment recapture audit reporting.

In addition, TIGTA noted certain compliance activities were omitted from reporting in Treasury's fiscal year 2012 agency financial report and the EITC improper payment rate did not include an estimate of EITC underpayments. Moreover, TIGTA recognized that the IRS faces significant challenges to becoming compliant with IPERA related to the improper payment risk assessment process for IRS revenue program funds and the characteristics of the EITC program that make it difficult to reduce the improper payment rate to 10 percent.

We recommended that Treasury submit a comprehensive plan to Congress that includes a description of the corrective actions Treasury will take to remediate noncompliance with IPERA due to the IRS's EITC improper payments reporting deficiencies. We also recommended improvements to Treasury's payment recapture audits reporting. Treasury's management response identified corrective actions that met the intent of our recommendations. **(OIG-13-034)**

### FinCEN's BSA IT Modernization Program Met Milestones With Schedule Extensions

To improve the collection, analysis, and sharing of Bank Secrecy Act (BSA) data, the Financial Crimes Enforcement Network (FinCEN) began a system development effort in November 2006 referred to as the BSA IT Modernization program (BSA IT Mod). The intent of the system was, among other things, to transition BSA data from the IRS to FinCEN. BSA IT Mod is estimated to cost \$120 million and is to be completed in 2014.

Pursuant to a Congressional directive,<sup>7</sup> we completed a third in a series of audits of FinCEN's BSA IT Mod. Consistent with the directive, the objectives of the audit were to determine if FinCEN is

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<sup>7</sup> House Report 112-331 directed our office to report on BSA IT Mod, including contractor oversight and progress regarding budget and schedule semiannually. Our first report under this requirement was issued Mar. 26, 2012, and our second report was issued Sep. 27, 2012.

(1) meeting cost, schedule, and performance benchmarks for the program and (2) providing appropriate oversight of contractors. We also assessed program oversight provided by Treasury’s Office of the Chief Information Officer. The period covered by this audit was June 2012 through December 2012.

As of December 2012, we found that the BSA IT Mod program was proceeding mostly on schedule and within budgeted cost. Program development met all major milestones including those for updating the program’s system of record and the release of FinCEN Query,<sup>8</sup> but the planned completion dates for certain projects were extended when project staffing resources were re-allocated to resolve data quality issues. Additionally, although the program as a whole was within budget, the costs for some discrete projects exceeded initial budgeted amounts.

FinCEN tested the performance of BSA IT Mod projects completed as of our review, and resolved significant issues identified during testing. However, during our audit, FinCEN users began experiencing performance issues with the FinCEN Query tool, including searches yielding incomplete data. FinCEN attributed this problem to the search engine software and was working to resolve it at the completion of our fieldwork. We will follow-up on this issue during our next 6-month assessment.

While FinCEN met all major milestones, risks remain to the program. One risk is the interdependency between the component projects. Future enhancements and modifications made to one component could affect others. Another risk concerns differences among users’ needs and how FinCEN must consider, prioritize, and accommodate those needs. Some users also reported that BSA IT Mod features were difficult to use. We will continue in our future audits to assess FinCEN’s efforts in meeting these BSA IT Mod challenges.

With respect to FinCEN’s oversight of BSA IT Mod, program management officials continued to provide technical assistance on BSA IT Mod configuration management as this was considered more important to the program’s success than was conducting independent assessments. We found Treasury Office of the Chief Information Officer’s monitoring of the program continued to be primarily focused on reviews of FinCEN-prepared program documentation. Given the overall positive track record by FinCEN to date in managing the BSA IT Mod development effort, we consider the office’s monitoring appropriate.

We did not make any new recommendations to FinCEN and the bureau has taken corrective action that met the intent of recommendations made previous to this report. In a response to our report, FinCEN’s Director observed that the risks identified in our report are inherent in major IT investment efforts and that FinCEN would continue to employ rigorous program management, and engage and collaborate with stakeholders. The Director also noted that the performance issue experienced with FinCEN Query during our audit had been resolved. **(OIG-13-036)**

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<sup>8</sup> FinCEN Query is the new search application that allows users to query BSA data broadly across many fields.

## Treasury Implemented the Mortgage Backed Securities Purchase Program Consistent With Its Authorities, But Needs to Improve Oversight of Financial Agents

We performed an audit to assess Treasury’s execution of the Agency Mortgage Backed Securities Purchase Program and oversight of the financial agents it hired to execute the program on its behalf. Treasury implemented the program in an effort to stabilize the mortgage market at a time of unprecedented volatility and illiquidity as a result of the financial crisis.

We found that Treasury executed the Agency Mortgage Backed Securities Purchase Program consistent with its authorities under the Housing and Economic Recovery Act of 2008, but needed to improve oversight of financial agents.

Treasury officials worked with its financial agents—State Street Bank and Trust Company and the New York Branch of Barclays Bank PLC—to develop strategic parameters for their trading activities while maintaining ongoing communication with the financial agents’ senior management and staff. The officials monitored the financial agents’ daily transactions and performed site visits to the trading floors. However, they did not document these activities well. In addition, the financial agents were subject to requirements under their financial agency agreements with Treasury when executing trades on behalf of Treasury. Due to the frequent communications with Treasury officials over the phone, we believe that some form of physical barriers for the traders executing trades for Treasury should have been provided to meet the intent of the agreement. However, during our site visits, we noted that there were no physical barriers established to separate the traders.

We recommended that, if a similar situation arises in the future when Treasury would need the services of financial agents to trade securities on its behalf, Treasury should (1) document its monitoring activities over the financial agents and (2) assess the need for separate physical barriers to ensure the safeguarding and protection of confidential information. Treasury accepted both recommendations. **(OIG-13-030)**

## Other Product

### Response to the Congressional Bicameral Task Force on Climate Change

We responded to a February 2013 request from the Congressional Bicameral Task Force on Climate Change (Task Force) for information regarding Treasury’s efforts to address the growing threat of climate change. In its request, which had two-parts, the Task Force asked us to first (1) identify existing requirements in laws, regulations, executive orders, and directives applicable to Treasury; (2) assess whether Treasury is meeting those requirements; and (3) if not, make recommendations for improvement. In the second part of its request, we were asked to assess (1) Treasury’s authorities to reduce emissions of heat-trapping pollution, (2) Treasury’s authorities to make the nation more resilient to the effects of climate change, and (3) the most effective additional steps that could be taken to reduce emissions and strengthen resiliency.

We performed a review of Treasury’s relevant programs and operations for which we have oversight responsibility. We also coordinated our review with TIGTA, who received a similar request and has the oversight responsibility for the IRS. In preparing our response, we (1) reviewed applicable statutes, executive orders, policy, and guidance relevant to addressing the threat of climate change; (2) requested, obtained, and reviewed other relevant information and documentation from Treasury; and (3) interviewed Treasury officials responsible for addressing the growing threat of climate change.

Based on our review, we found that Treasury acknowledged that climate change will be one of the major challenges of the 21st century and that it understands certain aspects of its operations and mission could be impacted by expected changes in regional climate conditions throughout the U.S. Additionally, Treasury is taking a comprehensive approach to climate change that incorporates new knowledge and changing conditions into its missions, facility operations, and programs to adapt to a changing climate. In this regard, Treasury has demonstrated a commitment to leadership in environmental stewardship and complying with environmental and energy statutes, executive orders, and regulations. We had no recommendations resulting from our review. **(OIG-CA-13-006)**

# Office of SBLF Program Oversight – Significant Audits

## State Small Business Credit Initiative

The Small Business Jobs Act of 2010 established the SSBCI program, which awarded \$1.5 billion to states, territories, and eligible municipalities to support state programs that lend to and invest in small businesses. Under the initiative, participating states use the federal funds for programs that leverage private lending to help finance small businesses and manufacturers that are creditworthy, but are not getting the loans they need to expand and create jobs. SSBCI builds on new and existing models for state small business programs, including those that finance loan loss reserves and provide loan insurance, loan guaranties, venture capital funds, and collateral support. To date, Treasury has disbursed approximately \$621 million of the funds awarded under the program to 57 states, territories, and municipalities that are participating in SSBCI. Recipients must report quarterly and annually on their use of the funds.

The act also created within OIG the Office of SBLF Program Oversight. This office is responsible for identifying instances of intentional or reckless misuse of SSBCI funds. Program funds are disbursed in three allotments and are subject to being withheld pending the results of an audit by the Office of SBLF Program Oversight. During this semiannual reporting period, the Office of SBLF Program Oversight completed five audits on states' use of federal funds.

### Vermont's Use of Federal Funds Received from SSBCI

We determined that the State of Vermont's accounting practices for its interest rate subsidy loan programs did not comply with its SSBCI allocation agreement with Treasury. Vermont estimated interest rate subsidies for two of its loan programs that were financed with SSBCI funds; therefore, the state's quarterly reports to Treasury did not reflect its actual use of funds. As a result, Treasury lacked the information it needed to determine whether Vermont had achieved the private capital leverage ratio the program requires. In addition, Vermont did not properly account for revenue generated with SSBCI funds, which must be tracked and used for SSBCI purposes over the 7-year life of the program. We also determined that \$216,820 in administrative costs charged to the SSBCI program as of March 31, 2012, was not allowable or allocable. Additionally, although borrower and/or lender assurances were incomplete at the time of loan closing for 77 percent of the 26 loans sampled, the state certified in September 2011 and December 2011 that it was compliant with all SSBCI program requirements.

We recommended, and Treasury agreed to

- require Vermont to provide a sub-accounting of all the funds transferred in connection with the interest rate subsidy program and program income generated from the use of such funds;
- disallow current and future administrative expenses claimed unless the state can demonstrate that it is properly tracking direct costs and has a cost allocation plan; and

- determine whether Vermont is in general default of its allocation agreement and whether future funding to the state should be reduced, suspended, or terminated. **(OIG-SBLF-13-001)**

### Michigan's Use of Federal Funds for Capital Access and Other Credit Support Programs

We determined the majority of the \$38.5 million in SSBCI funds obligated or expended by the State of Michigan prior to December 31, 2011, had been used in accordance with program requirements. However, the state misused \$2.5 million on lender purchase transactions that did not involve extensions of additional credit to borrowers; \$3,000 on a partner buy-out (a prohibited purpose); and \$21,000 on a capital access program insurance premium for a loan that had been awarded several months prior to the state's admission to the SSBCI program. However, only \$21,000 of the \$2.5 million constituted a reckless misuse of funds as defined by Treasury guidance, which must be recouped. While the other instances of misuse were not reckless, we questioned whether permitting program funds to be used for loan purchases that do not increase capital to small businesses is consistent with the intent of the Small Business Jobs Act to help small businesses create jobs. Also, Michigan's application was worded so broadly that it allowed the state to use its SSBCI funds to help a failing business, which was an exception from how it planned to use the funds; and the state used loan enrollment forms that did not disclose the purpose of the loans being made. In addition to the instances of misuse, \$8,506 of administrative costs charged to the SSBCI program were incurred prior to Michigan's participation in the program.

We recommended that Treasury

- recoup from Michigan the \$21,000 identified as a reckless misuse of funds, and disallow \$8,506 in administrative expenses;
- issue guidance addressing the conditions under which loan purchase transactions would be permissible, and direct Michigan to modify its application to require that any exceptions granted to its anticipated use of funds be documented and approved by Treasury; and
- require participating states that grant funds as exceptions to their own stated policies to provide written justification for doing so, and require states to use enrollment forms for capital access programs that disclose the purpose of the loans enrolled.

Treasury accepted each of our recommendations, but stated it believed that Michigan's purchase of a loan participation was not prohibited. Nevertheless, Treasury will issue guidance addressing the conditions under which loan purchase transactions would be permitted. **(OIG-SBLF-13-002)**

### Texas' Use of Federal Funds for Other Credit Support Programs

The State of Texas complied with SSBCI program requirements and restrictions in its expenditure of \$6.3 million of program funds. In addition, \$105,000 in costs incurred for administration of its SSBCI programs were properly tracked and determined to be allowable and allocable in accordance with Treasury guidelines and OMB Circular A-87.

The state's success in ensuring full compliance with SSBCI requirements was attributable to several oversight best practices employed by the state, which included the use of an investment checklist that ensured all investments were evaluated for compliance with SSBCI requirements prior to funding. Because Texas complied with all SSBCI program requirements, and the cost allocation requirements issued by OMB and Treasury, we made no recommendations. **(OIG-SBLF-13-003)**

### New Jersey's Use of Federal Funds for Other Credit Support Programs

The State of New Jersey complied with all program requirements in administering the \$2.9 million of SSBCI funds. The state also collected complete lender and borrower assurances for the four transactions sampled in a timely manner. The state's success in ensuring compliance was attributable to several best practices that it employed to enhance program oversight. However, the state's quarterly report to Treasury included two expenditures that had been withdrawn, overstating its use of SSBCI funds.

Because Treasury has not communicated a process for reporting withdrawn transactions, we recommended that it issue guidance to participating states on how to remove withdrawn transactions from quarterly and annual reports. Treasury and New Jersey officials concurred with the report and expressed appreciation for the report's recognition of best practices employed by the state in administering the program. Treasury also stated its appreciation for the recommendation regarding the treatment of withdrawn transactions and reported that it is currently developing appropriate guidance and a process for removing withdrawn transactions from subsequent reports. **(OIG-SBLF-13-005)**

### Delaware's Use of Federal Funds for Capital Access and Other Credit Support Programs

Our audit did not identify any instances of intentional or reckless misuse of SSBCI funds by the State of Delaware. However, the state did not obtain all required borrower and lender assurances at loan closing and several assurances were missing signatures or dates. Treasury became aware of the state's noncompliance in May 2012, but did not direct the state to obtain the missing assurances until October 2012.

Despite the noncompliant assurances, Delaware officials certified in September 2011, December 2011, March 2012, June 2012, and September 2012 that it was fully compliant with all SSBCI program requirements. Although these certifications were materially inaccurate, Treasury did not challenge the state's June 2012 or September 2012 compliance assertions or declare the state to be in default of its allocation agreement. The delay in Treasury's enforcement of program requirements and acceptance of the state's materially inaccurate certifications suggests that improvements are needed in the Department's compliance monitoring and enforcement efforts.

We recommended that Treasury determine whether Delaware is in general default of its allocation agreement, and whether as a result, future funding to the state should be reduced, suspended, or terminated. We also recommended that Treasury examine the reasons why appropriate and timely actions were not taken to address Delaware's compliance and certification issues, and take appropriate

actions to strengthen its compliance monitoring and enforcement of program requirements. Treasury officials accepted the report recommendations, identified affirmative actions it took to correct issues of non-compliance, and stated they will identify any additional measures that should have been taken. (OIG-SBLF-13-006)

### Small Business Lending Fund

The Small Business Jobs Act of 2010 also established the SBLF program. The SBLF program was created to provide capital to small banks, with incentives for those banks to increase small business lending. Treasury disbursed more than \$4 billion to 332 financial institutions across the country, of which 137 were institutions that used their SBLF investment to refinance securities issued under TARP. The 137 TARP banks received two-thirds of the \$4 billion invested in participating banks. Institutions receiving investments under the SBLF program are expected to pay dividends to Treasury at rates that will decrease as the amount of their qualified small business lending increases. Under Section 4107(a) of the act, the Special Deputy Inspector General for SBLF Program Oversight is responsible for audit and investigations related to the SBLF program and must report at least twice a year to the Secretary of the Treasury and the Congress on the results of oversight activities involving the program. During this semiannual reporting period, the Office of SBLF Program Oversight completed one audit on small business lending.

#### Accuracy of Third-Quarter 2012 Dividend Rate Adjustments

We determined that 10 of the 19 financial institutions reviewed inaccurately reported qualified small business lending gains for the quarter ended March 31, 2012. The errors noted resulted in the underreporting of qualified lending by approximately \$15.3 million, but did not affect the dividend/interest rates on October 1, 2012, payments made by financial institutions participating in the SBLF program. At the time of the audit we could not obtain information needed for the audit of Cache Valley Bank, which did not respond to our data requests.

The errors observed were similar in nature to those noted in our August 2012 report on initial dividend rates and were largely caused by institutions (1) incorrectly recording call report loan volumes on the initial supplemental reports and quarterly supplemental reports, (2) improperly adjusting lending volumes on the reports, and (3) incorrectly classifying loans on call reports. Treasury's review process can identify these types of errors, with the exception of those resulting from misclassified loans, which is the responsibility of the financial regulators.

We recommended that Treasury

- incorporate review procedures into its program oversight activities to test for the types of reporting discrepancies identified by the OIG;

- determine whether corrected initial supplemental reports and quarterly supplemental reports should be submitted for the 10 institutions that made errors, review the submissions of these institutions for additional errors, and adjust dividend rates, as appropriate; and
- assess Cache Valley Bank the maximum dividend rate under the program until such time as the bank provides documentation supporting its lending gains, and exclude lending activity reported by the bank if support is not provided; and
- ensure the April 2013 *Use of Funds Report* correctly identifies qualified lending activity for the 10 banks flagged by the audit.

With one exception, Treasury agreed to take all of our recommended actions. It did not agree to assess Cache Valley Bank the maximum dividend rate, stating that the SBLF program contract may limit its ability to do so and that it would need more documentation from the bank to make a determination. We subsequently subpoenaed Cache Valley Bank and received records the bank withheld during the audit. We plan to provide Treasury with the results of our analysis and to explore Treasury's reasons for establishing a program contract that restricts its ability to withhold rate reductions from program participants that are unwilling to provide underlying support for their reported lending activity.

**(OIG-SBLF-13-004)**

# Office of Investigations –Significant Investigations

## Significant Investigations

### Two Arrested for Redirected Benefit Fraud Associated With Social Security Beneficiaries

Our office initiated a joint investigation with the Social Security Administration OIG into allegations that social security benefit payments were being diverted from their intended recipients. After identifying an address to which 17 Direct Express debit cards in 9 different recipients' names had been misdirected, our office executed a search warrant and discovered evidence implicating the two residents.

Federal arrest warrants were obtained and on October 15, 2012, were executed on the two subjects, who were arrested in Baltimore, Maryland. Both residents were subsequently indicted in the U.S. District Court in Baltimore, Maryland, on multiple charges, including conspiracy and aggravated identity theft.

### Gallup Suspended as Result of Civil Complaint

Our office initiated a multi-year joint investigation with the Federal Bureau of Investigation, the U.S. Department of State, the U.S. Department of Homeland Security, and the General Services Administration involving a whistleblower complaint against the Gallup Organization (Gallup) alleging that the organization had overcharged federal agencies on hours and costs for its services. Gallup allegedly overcharged the Mint for a contract to provide surveys for the Presidential Dollar Program and allegedly violated the False Claims Act by giving the Mint and the Department of State inflated estimates of the number of hours that its services would be required on projects, even though it had separate and lower internal estimates of the number of hours that would be required. The federal government paid Gallup based on the inflated estimates that it had submitted.

In November 2012, the U.S. Department of Justice filed a civil complaint against Gallup seeking to recover treble damages and civil penalties for violations under the False Claims Act, the Procurement Integrity Act, and other violations of federal laws and regulations. As a result of this lawsuit, effective December 2012, Gallup was suspended from future contracting with any agency in the executive branch of the federal government pending completion of the civil complaint. As of January 2013, five members of Gallup's management team had been suspended as well.

### Recovery of \$150,000 in Improper Payments

Our office completed an investigation regarding an allegation that a widow of a deceased Washington, D.C., metropolitan police officer fraudulently benefited from her deceased husband's monthly survivor benefit payments issued by Treasury on behalf of the District of Columbia Retirement Board. The widow did not report to the Board that she had remarried, and she continued to receive and cash survivor benefit payments to which she was no longer entitled, totaling \$228,703, for nearly 13 years. Our office determined that the widow fraudulently benefited from her deceased husband's monthly survivor benefit.

In January 2013, the widow reached a non-admission settlement agreement with the Civil Division of the Office of the U.S. Attorney for the District of Maryland and repaid the federal government \$150,000.

### **Individual Arrested for Theft of Treasury Check**

FMS issued a Treasury check for \$26,854 to a payee who never received it. The payee reported the missing check and was subsequently issued a replacement check. In October 2012, our office received information from a bank that the original Treasury check had been fraudulently endorsed at the bank by an account holder. A joint investigation by our office and the U.S. Postal Inspection Service determined that the original check had been delivered to the wrong address, the payee's signature had been forged, and the original check had been negotiated.

In January 2013, a subject was arrested on one count of violation of Maryland state law pertaining to theft. Criminal proceedings are ongoing.

### **Missing Computer Servers Found**

In October 2012, BPD referred to our office an allegation regarding two missing computer servers, valued together at \$39,600. The computer servers were delivered to and signed-for at a BPD facility in Kansas City, Missouri, in September 2011. Several internal searches and inventory reviews over the course of the following year failed to locate the computer servers, and it was believed that they had been stolen.

In January 2013, Special Agents from our office traveled to the BPD facility and after making further inquiries and conducting a thorough search of a warehouse, were able to find the two missing computer servers.

### **Indictment for Stealing and Using Identifying Information of Another to Collect Disability Payments**

Our office initiated a joint investigation with the Social Security Administration OIG into allegations that an individual stole his nephew's personally identifiable information and used that information to obtain \$59,590 in fraudulent social security disability payments between 2007 and 2010. The joint investigation led to the indictment of the individual. The charges were ultimately dismissed due to the death of the indicted individual.

### **Individual Charged With Making False Claims and Double Negotiation of Treasury Checks**

Our office initiated a joint investigation with the Social Security Administration OIG into allegations that a beneficiary fraudulently obtained double payments from the Social Security Administration. The joint investigation determined that the subject falsely claimed that she had not received her social security checks on a number of occasions. The subject received and negotiated settlement checks for the

claims totaling \$48,941. The subject has been indicted on four counts of theft and complied with a summons ordering her arrest and appearance in federal court.

### **Five Subjects Indicted in Money Laundering and Cigarette Smuggling Scheme**

In November 2012, our office developed a spinoff investigation from a previous investigation where our office assisted the U.S. Attorney’s Office for the District of South Carolina. The investigation involved money laundering and cigarette smuggling by subjects operating unlicensed and unregistered money service businesses in the Charleston, South Carolina, metro area.

The first investigation, as reported by the U.S. Attorney’s Office for the District of South Carolina, resulted in multiple indictments obtained by the U.S. Attorney’s Office for the District of South Carolina for violations of stolen property, conspiracy, transportation of counterfeit goods, and money laundering (this case is also discussed below in our updates to significant investigative activities section).

As a result of the spinoff investigation initiated by our office in November 2012, five additional subjects were identified for having direct links to the money laundering and cigarette smuggling scheme. The subjects were indicted for conspiracy and false statements on loan and credit applications. The investigation is ongoing.

### **Two Arrested for Conspiracy**

On December 13, 2012, two siblings were arrested in the Commonwealth of Pennsylvania on charges of theft by deception, forgery, and criminal conspiracy for stealing a Treasury check in 2010 intended for a known third party. The siblings admitted to stealing the check, forging the intended recipient’s signature, negotiating the check, and receiving \$2,743 in proceeds. Further investigation determined that the check’s intended recipient, who was in prison at the time, was involved in the conspiracy and received some of the check’s proceeds from his co-conspirators. The check’s intended recipient died in prison before he could be arrested on the new charges.

### **American Recovery and Reinvestment Act**

During this semiannual reporting period, we received an allegation of misuse of grant funds under the American Recovery and Reinvestment Act. We, along with other law enforcement entities, are investigating the allegation pursuant to Section 1553 of the act. This investigation is ongoing, and the complainant has agreed to a necessary time extension needed to properly carry out the investigation.

Following are updates to significant investigative activities reported in prior semiannual reports.

### **\$13 Million Improper Payments Investigation**

As reported in our September 2011 semiannual report, a joint investigation with IRS-Criminal Investigation and the U.S. Postal Inspection Service was initiated regarding potentially fraudulent tax refund checks issued by Treasury that were brought to our attention by Wells Fargo. The investigation determined that more than 10,000 potentially fraudulent tax refund claims were made to IRS by a group of individuals in Washington, D.C. As a result of these claims, more than 6,000 potentially fraudulent tax refunds were issued by Treasury resulting in a potential loss of over \$13 million. At the time of reporting, the U.S. Attorney's Office in the District of Columbia anticipated pursuing criminal charges against multiple defendants in this investigation.

**Update:** The U.S. Secret Service, Social Security Administration OIG, and U.S. Postal Service OIG have joined the investigation. The multi-year investigation expanded into additional allegations concerning a group of more than 100 individuals in connection with the massive and sophisticated identity theft tax refund scheme involving more than \$20 million in fraud against the federal government. The investigation has resulted in 45 individuals being referred to and accepted for prosecution by the U.S. Attorney's Office, including U.S. Postal Service employees and bank tellers.

In February 2013, one prominent subject in the conspiracy pled guilty to: conspiracy to defraud the federal government; making false, fictitious, or fraudulent claims for a tax refund; and fraud and related activity in connection with identity theft. In addition, six of his co-conspirators pled guilty to related charges and one additional co-conspirator was arrested in connection with the scheme. Sentencing is pending for all the subjects as the investigation continues.

### **Real Estate Developer Sentenced in Bank Fraud**

As reported in our September 2011 semiannual report, a joint investigation involving multiple federal agencies resulted in the conviction and sentencing of a real estate developer in Savannah, Georgia. The developer was sentenced to 52 months' imprisonment and ordered to pay over \$2 million in restitution in connection with a conspiracy to defraud over \$2 million from several banks, including the First National Bank of Savannah. The developer, initially acting on behalf of two businesses, entered into loan agreements with various banks for the purchase and development of property located in Savannah, Georgia. Over a 2-year period, the developer submitted dozens of fraudulent contractor invoices and thereby obtained over \$1 million in funds for contract and development work that was never performed. To prevent the loans from becoming delinquent, the developer conspired with employees of the First National Bank of Savannah to obtain additional funds in excess of \$1 million. The proceeds were funneled back to the developer.

**Update:** As part of this joint investigation, our office looked into allegations that former executives of the bank had conspired to hide millions of dollars in non-performing loans from members of its board of directors and OCC by obscuring the identity of the true borrowers, the actual loans, and the overall condition of the bank. By subverting the bank examination process, the officers, including the president and the chief financial officer, the chief credit officer, and four other senior officers, caused the bank to fail with an ultimate cost to FDIC's DIF of over \$90 million.

On January 10, 2013, seven of the bank's officers were indicted by a federal grand jury in the U.S. District Court for the Southern District of Georgia, Savannah Division, on 35 counts, including bank fraud, conspiracy, misapplication of bank funds, false entries in bank records, and false statements to influence a bank.

### Computer Programmer Arrested for Stealing Proprietary Code

As reported in our March 2012 and September 2012 semiannual reports, a joint investigation with the Federal Bureau of Investigation resulted in the arrest of a computer programmer for stealing proprietary code from the Federal Reserve Bank of New York. The individual was a contract employee assigned to work on further developing a specific portion of the Government-wide Accounting and Reporting Program software system owned by Treasury. In May 2012, the individual pled guilty to one count of theft of government property and one count of immigration fraud.

**Update:** In December 2012, the subject was sentenced to time served and to 36 months' probation with a special condition of 6 months' home confinement, and a \$200 special assessment.

### Eighteen Arrested in Queens, New York in a \$1.9 Million Auto Loan Scheme

As reported in our March 2012 semiannual report, a multi-year joint investigation with the New York Police Department, Organized Crime Control Bureau, Auto Crime Division, resulted in the indictment and arrest of 18 individuals. The individuals were indicted or arrested for participating in a scheme wherein multiple financial institutions suffered financial losses of nearly \$2 million. One of the individuals indicted was an OIG employee.

**Update:** On February 8, 2013, the OIG employee pled guilty to attempted enterprise corruption. The employee was sentenced to 3 years conditional discharge under New York law. The employee has been terminated from federal service.

### Two Plead Guilty to Theft and Fraudulent Negotiation of Treasury Checks

As discussed in our September 2012 semiannual report, a joint investigation with the U.S. Secret Service into the theft of five Treasury checks resulted in two individuals pleading guilty in federal court in Alabama to the theft and fraudulent negotiation of the checks, which had a total combined value of \$6,295.

**Update:** In November 2012, the first subject was sentenced to 18 months' probation, a special assessment of \$100, and restitution in the amount of the total combined value of the negotiated checks. In December 2012, the second subject was sentenced to 2 months' imprisonment, 36 months' probation, a special assessment of \$100, and restitution in the amount of the total combined value of the negotiated checks.

### Twelve Arrested in Atlanta and Macon, Georgia, for Theft of Treasury Checks and Tax Refund Fraud

As discussed in our September 2011, March 2012, and September 2012 semiannual reports, an investigation in Atlanta and Macon, Georgia led to the execution of multiple federal and state search and arrest warrants in which more than 6,000 victims of identity theft were identified along with an estimated \$2.3 million in fraud against the U.S. government. Our investigation resulted in multiple arrests, guilty pleas, and sentences.

**Update:** Since last reporting this information, an additional subject has been sentenced to 75 months' imprisonment, 60 months' probation, a \$200 fine, and restitution of \$386,675.

### Guilty Plea in Treasury Direct Embezzlement Scheme

As reported in our September 2012 semiannual report, our office, the Federal Bureau of Investigation, and the Winter Garden Police Department conducted a joint investigation involving an embezzlement scheme in Treasury Direct accounts. The subject embezzled approximately \$1.9 million from a charitable foundation and several businesses. In an attempt to conceal the crime, the subject used money from victims to pay other victims by withholding bank statements and destroying records. The subject pled guilty to one count of wire fraud.

**Update:** On October 18, 2012, a U.S. District Judge in Orlando, Florida sentenced the subject to 55 months in federal prison for wire fraud. As part of her sentence, the court also entered a money judgment for \$1.7 million, the traceable proceeds of the offense.

### Twelve Indicted and Arrested for Money Laundering and Cigarette Smuggling Scheme

As reported in our March 2012 semiannual report, in January 2006 the U.S. Attorney's Office for the District of South Carolina requested our assistance with an investigation into apparent money laundering. The subjects were operating unlicensed and unregistered money service businesses out of Subway restaurant franchises, a trucking company, and convenience stores in the Charleston, South Carolina, metropolitan area. In June 2011, the investigation was merged with an ongoing Bureau of Alcohol, Tobacco, Firearms, and Explosives investigation involving illegal cigarette sales. In November 2011, 12 individuals were arrested and indicted in connection with violations of laws involving stolen property, conspiracy, transportation of counterfeit goods, and money laundering.

**Update:** Between September 2012 and February 2013, two subjects were found guilty of money laundering and conspiracy by a jury trial, one subject pled guilty to a violation of misprision of felony and eight pled guilty to conspiracy. Criminal proceedings are ongoing.

### Management Implication Report

#### Mint Addressing Fraudulent Coin Orders

During this reporting period, we issued a management implication report to the Mint regarding policy and procedure issues found by our office during a recent review of fraudulent purchases of Mint coins and medals. The report offered five specific findings and recommendations for improving the program. The Mint is currently reviewing our findings and recommendations.

## Other OIG Accomplishments and Activity

### OIG Hosts Delegation from Vietnam

On October 18, 2012, Inspector General Thorson and OIG senior management hosted a delegation from Vietnam's Ministry of Finance, Finance Inspectorate. We briefed the delegation on the mission, structure, and activities of our office as well as how the inspector general concept works throughout the U.S. government. Members of the delegation were Mr. Lien Kim Nguyen, Chief Inspector; Mr. Tuyen Ngoc Dang, Vice Chief Inspector; and Mr. Son Hung Pham, Inspector. Also with the delegation was Mr. Hung Duc Hoang, Partner and Advisory Team Leader, Advisory Service, Ernst & Young Vietnam.



*Pictured above are OIG executives with members of the Vietnamese delegation*

### CIGIE Award Ceremony

Treasury OIG staff members were recognized with four prestigious awards at the 15<sup>th</sup> Annual Council of the Inspectors General on Integrity and Efficiency (CIGIE) Awards Ceremony held on October 16, 2012.

- **Barry R. Snyder Joint Award:** Susan Barron, Audit Director; Amni Samson, Audit Manager; Alicia Weber, Auditor; Kathryn Bustell, Auditor; Daniel Gerges, Auditor; John Tomasetti, Auditor; Marla Freedman, Assistant Inspector General for Audit; Bob Taylor, Deputy Assistant Inspector General for Audit; and James Lisle, Referencer; members of a Joint Review Team with the FRB Consumer Financial Protection OIG and FDIC OIG in recognition of exemplary joint work to review the transfer of functions of OTS to the Federal Reserve Board, FDIC, and OCC

- **Investigations Award for Excellence: James Howell**, Special Agent; in recognition of his dedication and outstanding accomplishments relating to the detection, prosecution, and deterrence of an individual who fraudulently utilized the Treasury Direct System in a multimillion dollar tax refund scheme
- **Audit Award for Excellence: Donna Joseph**, Audit Director; **Erica Wardley**, Audit Manager; **James Hodge**, Auditor-in-Charge; **Cheryl Sroufe**, Auditor; **Nicholas Slonka**, Auditor; **Joel Grover**, Deputy Assistant Inspector General for Financial Management and IT Audit; and **Alicia Weber**, Referencer; members of the Solyndra, LLC Loan Guarantee Audit Team in recognition of exemplary work in identifying Treasury OIG's role with the Solyndra, LLC Loan Guarantee
- **Evaluations Award for Excellence: Susan Barron**, Audit Director; **Amni Samson**, Audit Manager; **Lisa DeAngelis**, Audit Manager; **Alicia Weber**, Auditor-in-Charge; **Kathryn Bustell**, Auditor; **Daniel Gerges**, Auditor; **Amy Altemus**, Assistant Counsel; **Richard Delmar**, Counsel to the Inspector General; **Marla Freedman**, Assistant Inspector General for Audit; **Bob Taylor**, Deputy Assistant Inspector General for Audit; and **Kathy Johnson**, Referencer; members of a joint Treasury OIG and FRB and Consumer Financial Protection Bureau OIG evaluations team in recognition of exemplary joint work to respond to an urgent Congressional request and to evaluate the standup activities of the Consumer Financial Protection Bureau



*From left to right are Susan Barron, Director, Banking Emerging Issues Audit; Joel Grover, Deputy Assistant Inspector General for Financial Management and IT Audit; Brian Crane, Assistant Inspector General for Investigations; Marla Freedman, Assistant Inspector General for Audit; Inspector General Thorson; Donna Joseph, Director, Grants Management Audit; and James Howell, Special Agent, Office of Investigations*

### OIG 2012 Combined Federal Campaign Exceeds Its Goal

Led by the Office of Investigations, Treasury OIG exceeded its 2012 Combined Federal Campaign (CFC) dollar participation goal. In March 2013, the National Capital Area CFC recognized our efforts with a Merit Award for exemplary participation. The campaign's manager was **Brian Crane**, Assistant Inspector General for Investigations; the campaign's coordinator was **Sonja Scott**, Special Agent, Office of Investigations; and other keyworkers were **Pat Brown**, Executive Secretary to the Inspector General; **Richard Delmar**, Counsel to the Inspector General; **Brigit Hoover**, Auditor, Office of Audit; **Robby Oliveri**, Auditor, Office of SBLF Program Oversight; and **Sam Sternberg**, IT Specialist, Office of Management.

### OIG Audit Leadership Roles

Treasury OIG's audit professionals serve on various important public and private professional organizations supporting the federal audit community. Examples of participation in these organizations follow:

**Marla Freedman**, Assistant Inspector General for Audit, serves as co-chair of the Federal Audit Executive Council's (FAEC) Professional Development Committee which is actively involved in auditor training and development matters. Among other things, during this period the committee completed a curriculum review of the Introductory Training Course offered by the CIGIE Training Institute. Ms. Freedman also served on the Audit Award for Excellence nomination review panel for the 15<sup>th</sup> Annual CIGIE Awards Ceremony.

**Bob Taylor**, Deputy Assistant Inspector General for Performance Audits, and **Kieu Rubb**, Audit Director, led an interagency FAEC project to update the CIGIE Audit Committee's external peer review guide. The update incorporated changes to the general and performance audit standards in the 2011 Revision to *Government Auditing Standards*. The updated guide was approved by CIGIE in November 2012. Mr. Taylor also made presentations on auditor communications before the Association of Government Accountants Virginia Peninsula/Richmond Chapters' 17th Annual South-Atlantic Professional Development Training and on external peer reviews of governmental audit organizations before the Mid-Atlantic Intergovernmental Audit Forum.

**Jeff Dye**, Audit Director, regularly taught modules of the Introductory Auditor course sponsored by the CIGIE Training Institute.

**Mike Maloney**, Audit Director, serves on the American Institute of Certified Public Accountants' Governmental Accounting and Auditing Committee. Among other activities, the committee is organizing its annual National Governmental Accounting and Auditing Update Conference, which will be held in Washington, DC, in August 2013.

# Statistical Summary

## Summary of OIG Activity

For the 6 months ended September 30, 2012

OIG Activity	Number or Dollar Value
<b>Office of Counsel Activity</b>	
Regulation and legislation reviews	3
Instances where information was refused	0
<b>Office of Audit Activities</b>	
Reports issued and other products	37
Disputed audit recommendations	0
Significant revised management decisions	0
Management decision in which the Inspector General disagrees	0
<b>Monetary benefits (audit)</b>	
Questioned costs	0
Funds put to better use	0
Revenue enhancements	0
Total monetary benefits	0
<b>Office of Small Business Lending Fund Program Oversight Activities</b>	
Reports issued and other products	6
Disputed audit recommendations	0
Significant revised management decisions	0
Management decision in which the Inspector General disagrees	0
<b>Monetary benefits (audit)</b>	
Questioned costs	\$225,326
Funds put to better use	\$21,000
Revenue enhancements	0
Total monetary benefits	\$246,326
<b>Office of Investigations Activities</b>	
<b>Criminal and judicial actions (including joint investigations)</b>	
Cases referred for prosecution and/or litigation	59
Cases accepted for prosecution and/or litigation	46
Arrests	5
Indictments/informations	37
Convictions (by trial and plea)	13

## Significant Unimplemented Recommendations

For reports issued prior to April 1, 2012

The following list of OIG audit reports with unimplemented recommendations is based on information in Treasury's automated audit recommendation tracking system, which is maintained by Treasury management officials.

Number	Date	Report Title and Recommendation Summary
OIG-06-030	05/06	<p><i>Terrorist Financing/Money Laundering: FinCEN Has Taken Steps to Better Analyze Bank Secrecy Act Data but Challenges Remain</i></p> <p>FinCEN should enhance the current FinCEN database system or acquire a new system. An improved system should provide for complete and accurate information on the case type, status, resources, and time expended in performing the analysis. This system should also have the proper security controls to maintain integrity of the data. (1 recommendation)</p>
OIG-10-035	2/10	<p><i>Management Letter for Fiscal Year 2009 Audit of the Department of the Treasury Financial Statements</i></p> <p>The Chief Information Officer, with input from the Office of the Deputy Chief Financial Officer, should implement the use of Secure Sockets Layer for the Treasury Information Executive Repository and CFO Vision applications. (1 recommendation)</p>
OIG-11-036	11/10	<p><i>Information Technology: Treasury is Generally in Compliance with Executive Order 13103</i></p> <p>The Chief Information Officer should (1) revise Treasury Directive 85-02 to (a) define authorized software more specifically, (b) require heads of bureaus and offices to ensure that software in their inventory is on the Treasury list of authorized software and remove it if it is not, (c) require the Chief Information Officer to perform periodic audit checks to determine if the bureaus and offices are only using software on the Treasury list of authorized software, and (d) require the bureaus and offices to reconcile their inventory with software license agreements rather than with software purchases; (2) develop procedures to create and manage a list of approved enterprise authorized software; (3) ensure that bureaus remove unauthorized software from Treasury systems; (4) establish and implement department-wide procedures for auditing and tracking software licenses; and</p>

(5) complete deployment of the software management tool.  
(5 recommendations)

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OIG-12-010	11/11	<p><i>Management Letter for the Audit of the Federal Financing Bank’s Fiscal Years 2011 and 2010 Financial Statements</i></p> <p>Federal Financing Bank management should (1) implement controls to ensure that all inputs for fair value calculations are approved and verified and (2) check the accuracy of the automated calculations by re-performing one fair value calculation for each type of transaction that is included in the note disclosure. This could be done as part of the review and approval of the note disclosure. It should be noted that Treasury management reported these recommendations as implemented in December 2012. The corrective actions taken will be verified as part of the audit of the Federal Financing Bank’s fiscal year 2013 financial statements. (2 recommendations)</p>
<hr/>		
OIG-12-025	12/11	<p><i>Management Report for the Audit of the Financial Management Service’s Fiscal Years 2011 and 2010 Schedules of Non-Entity Government-Wide Cash</i></p> <p>Due to the sensitive nature of the findings and recommendations, we designated the report SBU. (13 recommendations)</p>
<hr/>		
OIG-12-038	1/12	<p><i>Bill Manufacturing: Improved Planning and Production Oversight Over NexGen \$100 Note Is Critical</i></p> <p>BEP should ensure (1) BEP completes production validation in conjunction with FRB on an agreed-to limited initial production quantity of NexGen \$100 notes, and that technical problems are resolved before resuming full production and (2) that before awarding a contract to purchase single-note inspection equipment, BEP completes a comprehensive cost-benefit analysis including all costs, benefits, and risks of the available options for the disposition of the approximate 1.4 billion finished notes that have not been accepted by the FRB. Among other things, the analysis should consider the capability of the single-note inspection equipment to ensure notes meet quality standards for acceptance by the FRB, as well as costs associated with things such as false rejects and labor. The option selected should be agreed to by all parties (e.g., the FRB, Secret Service) and be made as expeditiously as possible. (2 recommendations)</p>

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OIG-12-039	1/12	<i>Safety and Soundness: Material Loss Review of Riverside National Bank of Florida</i> OCC should work with its regulatory partners to reevaluate the regulatory capital treatment of unrealized losses on available-for-sale debt securities in determining Tier 1 capital. (1 recommendation)
OIG-12-043	3/12	<i>Safety and Soundness: Reviews of Failed National Banks Owned by First Bank of Oak Park Corporation</i> OCC should re-evaluate whether OCC requirements for risk-weighting of government sponsored enterprises equity securities should be changed from 20 percent to 100 percent. (1 recommendation)

## Summary of Instances Where Information Was Refused

October 1, 2012, through March 31, 2013

During our audit of SBLF Dividend rates, Cache Valley Bank, a recipient of SBLF funds, did not respond to data requests made by the Office of SBLF Program Oversight. As a result, we subpoenaed the data, which was provided subsequent to completion of the audit.

## Listing of Audit Products Issued

October 1, 2012, through March 31, 2013

### Office of Audit

#### Financial Audits and Attestation Engagements

*Report on the Bureau of the Public Debt Trust Fund Management Branch Schedules for Selected Trust Funds as of and for the Year Ended September 30, 2012*, OIG-13-004, 11/6/2012

*Audit of the United States Mint's Schedule of Custodial Deep Storage Gold and Silver Reserves as of September 30, 2012 and 2011*, OIG-13-005, 11/7/2012

*Audit of the Federal Financing Bank's Fiscal Years 2012 and 2011 Financial Statements*, OIG-13-008, 11/13/2012

*Management Letter for the Audit of the Federal Financing Bank's Fiscal Years 2012 and 2011 Financial Statements*, OIG-13-009, 11/13/2012

*Audit of Community Development Financial Institutions Fund's Fiscal Years 2012 and 2011 Financial Statements, OIG-13-010, 11/13/2012*

*Management Letter for the Audit of the Community Development Financial Institutions Fund's Fiscal Years 2012 and 2011 Financial Statements, OIG-13-011, 11/13/2012*

*Audit of the Department of the Treasury's Fiscal Years 2012 and 2011 Financial Statements, OIG-13-012, 11/15/2012*

*Audit of the Financial Management Service's Fiscal Years 2012 and 2011 Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue, OIG-13-013, 11/16/2012*

*Audit of the Financial Management Service's Fiscal Years 2012 and 2011 Schedules of Non-Entity Government-wide Cash, OIG-13-014, 11/16/2012*

*Audit of the Department of the Treasury's Special-Purpose Financial Statements for Fiscal Years 2012 and 2011, OIG-13-015, 11/16/2012*

*Management Report for the Audit of the Financial Management Service's Fiscal Years 2012 and 2011 Schedules of Non-Entity Government-wide Cash, OIG-13-016, 11/26/2012, (SBU)*

*Management Report for the Audit of the Financial Management Service's Fiscal Years 2012 and 2011 Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue, OIG-13-017, 12/3/2012, (SBU)*

*Audit of the United States Mint's Fiscal Years 2012 and 2011 Financial Statements, OIG-13-018, 12/5/2012*

*Audit of the Exchange Stabilization Fund's Fiscal Years 2012 and 2011 Financial Statements, OIG-13-019, 12/5/2012*

*Audit of the Department of the Treasury Forfeiture Fund's Fiscal Years 2012 and 2011 Financial Statements, OIG-13-020, 12/7/2012*

*Audit of the Office of D.C. Pensions' Fiscal Years 2012 and 2011 Financial Statements, OIG-13-021, 12/10/2012*

*Management Letter for the Audit of the Office of D.C. Pensions' Fiscal Years 2012 and 2011 Financial Statements, OIG-13-022, 12/10/2012*

*Management Letter for the Audit of the Department of the Treasury's Fiscal Years 2012 and 2011 Financial Statements, OIG-13-023, 12/10/2012*

*Audit of the Bureau of Engraving and Printing's Fiscal Years 2012 and 2011 Financial Statements, OIG-13-024, 12/17/2012*

*Management Letter for the Audit of the Bureau of Engraving and Printing's Fiscal Years 2012 and 2011 Financial Statements, OIG-13-025, 12/17/2012*

*Audit of the Alcohol and Tobacco Tax and Trade Bureau's Fiscal Years 2012 and 2011 Financial Statements*, OIG-13-026, 12/18/2012

*Audit of the Office of the Comptroller of the Currency's Fiscal Years 2012 and 2011 Financial Statements*, OIG-13-027, 12/19/2012

*Management Report for the Audit of the Office of the Comptroller of the Currency's Fiscal Years 2012 and 2011 Financial Statements*, OIG-13-029, 12/20/2012 (SBU)

*Audit of the Department of the Treasury's Schedule of United States Gold Reserves Held by Federal Reserve Banks as of September 30, 2012*, OIG-13-031, 1/4/2013

*Audit of the Financial Crimes Enforcement Network's Fiscal Years 2012 and 2011 Financial Statements*, OIG-13-032, 2/2/2013

### Information Technology Audits and Evaluations

*Information Technology: The Department of the Treasury Federal Information Security Management Act Fiscal Year 2012 Performance Audit for Collateral National Security Systems*, OIG-13-006, 11/7/2012, (SBU)

*Information Technology: The Department of the Treasury Federal Information Security Management Act Fiscal Year 2012 Performance Audit*, OIG-13-007, 11/9/2012

### Performance Audits – Reviews of Failed Banks Pursuant to Section 987 of the Dodd-Frank Act

*Safety and Soundness: Failed Bank Review of Inter Savings Bank, FSB, Maple Grove, Minnesota*, OIG-13-001, 10/3/2012

*Safety and Soundness: Failed Bank Review of Palm Desert National Bank*, OIG-13-002, 10/11/2012

*Safety and Soundness: Failed Bank Review of Alabama Trust Bank, National Association, Sylacauga, Alabama*, OIG-13-003, 10/15/2012

*Safety and Soundness: Failed Bank Review of Second Federal Savings and Loan Association of Chicago*, OIG-13-028, 12/20/2012

*Safety and Soundness: Failed Bank Review of Citizens First National Bank, Princeton, Illinois*, OIG-13-033, 3/8/2013

### Other Performance Audits

*Treasury Implemented the Mortgage Backed Securities Purchase Program Consistent With Its Authorities, But Needs to Improve Oversight of Financial Agents*, OIG-13-030, 1/3/2013

*The Department of the Treasury Was Not in Compliance With the Improper Payments Elimination and Recovery Act for Fiscal Year 2012*, OIG-13-034, 3/15/2013

*Status of the Transfer of Office of Thrift Supervision Functions*, OIG-13-035, 3/27/2013

*Terrorist Financing/Money Laundering: FinCEN's BSA IT Modernization Program Met Milestones with Schedule Extensions*, OIG-13-036, 3/28/2013

### Other Product

*The Treasury Inspector General Response to the Congressional Bicameral Task Force on Climate Change Request*, OIG-CA-13-006, 3/29/2013

### Office of SBLF Program Oversight

*State Small Business Credit Initiative: Vermont's Use of Federal Funds for Capital Access and Credit Support Programs*, OIG-SBLF-13-001, 11/30/2012, **\$216,820 Questioned Cost**

*State Small Business Credit Initiative: Michigan's Use of Federal Funds for Capital Access and Other Credit Support Programs*, OIG-SBLF-13-002, 12/13/2012, **\$21,000 Funds Put to Better Use, \$8,506 Questioned Cost**

*State Small Business Credit Initiative: Texas' Use of Federal Funds for Other Credit Support Programs*, OIG-SBLF-13-003, 1/29/2013

*Small Business Lending Fund: Accuracy of Third-Quarter 2012 Dividend Rate Adjustments*, OIG-SBLF-13-004, 1/29/2013

*State Small Business Credit Initiative: New Jersey's Use of Federal Funds for Other Credit Support Programs*, OIG-SBLF-13-005, 2/27/2013

*State Small Business Credit Initiative: Delaware's Use of Federal Funds for Capital Access and Other Credit Support Programs*, OIG-SBLF-13-006, 3/29/2013

## Audit Reports Issued With Questioned Costs

October 1, 2012, through March 31, 2013

Category	Total No. of Reports	Total Questioned Costs	Total Unsupported Costs
For which no management decision had been made by beginning of reporting period	3	\$165,160	\$0
Which were issued during the reporting period	2	\$225,326	\$0
Subtotals	5	\$390,486	\$0
For which a management decision was made during the reporting period	3	\$165,160	\$0
Dollar value of disallowed costs	3	\$57,455	\$0
Dollar value of costs not disallowed	1	\$107,705	\$0
For which no management decision was made by the end of the reporting period	2	\$225,326	\$0
For which no management decision was made within 6 months of issuance	0	\$0	\$0

## Audit Reports Issued With Recommendations That Funds Be Put to Better Use

October 1, 2012, through March 31, 2013

Category	Total No. of Reports	Total	Savings	Revenue Enhancement
For which no management decision had been made by beginning of reporting period	2	\$2,863,250	\$2,863,250	\$0
Which were issued during the reporting period	1	\$21,000	\$21,000	\$0
Subtotals	3	\$2,884,250	\$2,884,250	\$0
For which a management decision was made during the reporting period	2	\$2,863,250	\$2,863,250	\$0
Dollar value of recommendations agreed to by management	2	\$2,863,250	\$2,863,250	\$0
Dollar value based on proposed management action	0	\$0	\$0	\$0
Dollar value based on proposed legislative action	0	\$0	\$0	\$0
Dollar value of recommendations not agreed to by management	0	\$0	\$0	\$0
For which no management decision was made by the end of the reporting period	1	\$21,000	\$21,000	\$0
For which no management decision was made within 6 months of issuance	0	\$0	\$0	\$0
A recommendation that funds be put to better use denotes funds could be used more efficiently if management took actions to implement and complete the recommendation including: (1) reduction in outlays, (2) de-obligations of funds from programs or operations, (3) costs not incurred by implementing recommended improvements related to operations, (4) avoidance of unnecessary expenditures noted in pre-award review of contract or grant agreements, (5) any other savings which are specifically identified, or (6) enhancements to revenues of the federal government.				

## Previously Issued Audit Reports Pending Management Decisions (Over 6 Months)

There are no previously issued audit reports pending management decisions for the reporting period.

## Significant Revised Management Decisions

October 1, 2012, through March 31, 2013

There were no significant revised management decisions during the period.

## Significant Disagreed Management Decisions

October 1, 2012, through March 31, 2013

There were no management decisions this period with which the Inspector General was in disagreement.

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## Peer Reviews

October 1, 2012, through March 31, 2013

### Office of Audit and Office of SBLF Program Oversight

Audit organizations that perform audits and attestation engagements of federal government programs and operations are required by *Government Auditing Standards* to undergo an external peer review every 3 years. The objectives of an external peer review are to determine, during the period under review, whether, the audit organization's system of quality control was suitably designed and whether the audit organization was complying with its quality control system to provide the audit organization with reasonable assurance that it was conforming to applicable professional standards. Federal audit organizations can receive a peer review rating of *pass*, *pass with deficiencies*, or *fail*.

During this semiannual period, we completed an external peer review of the Department of Education OIG's system of quality control for its audit organization in effect for the year ended March 31, 2012. In our report, dated October 25, 2012, we rendered a *pass* rating on the Department of Education OIG's system of quality control for its audit organization. We did not make any recommendations.

Our Office of Audit and Office of SBLF Program Oversight were not required to undergo an external peer review during this reporting period. The most recent peer review of our offices was performed by the U.S. Agency for International Development (USAID) OIG. In its report dated September 6, 2012, our audit organizations received a *pass* rating for our system of quality control in effect for the year ended March 31, 2012. USAID OIG did not make any recommendations. Our offices' external peer review reports are available on the Treasury OIG [website](#).

### Office of Investigations

CIGIE mandates that the investigative law enforcement operations of all OIGs undergo peer reviews every 3 years to ensure compliance with (1) the council's investigations quality standards and with (2) the relevant guidelines established by the Office of the Attorney General for the United States.

Our Office of Investigations was not required to undergo a CIGIE peer review during this reporting period. The most recent peer review of our office was performed in March 2011 by the Small Business Administration OIG. We were found to be in compliance with all relevant guidelines and there are no unaddressed recommendations outstanding from this review.

## Bank Failures and Nonmaterial Loss Reviews

We conducted reviews of two failed banks supervised by OCC with losses to the DIF that did not meet the definition of a material loss in the Federal Deposit Insurance Act. These reviews were performed to fulfill the requirements found in 12 U.S.C. § 1831o(k). The term “material loss” which, in turn, triggers an MLR be performed is, for 2012 and 2013, a loss to the DIF that exceeds \$150 million; and, for 2014 going forward, a loss to the DIF that exceeds \$50 million (with provisions to increase that trigger to a loss that exceeds \$75 million under certain circumstances).

For losses that are not material, the Federal Deposit Insurance Act requires that each 6-month period, the OIG of the federal banking agency must (1) identify the estimated losses that have been incurred by the DIF during that 6-month period and (2) determine the grounds identified by the failed institution’s regulator for appointing the FDIC as receiver, and whether any unusual circumstances exist that might warrant an in-depth review of the loss. For each 6-month period, we are also required to prepare a report to the failed institutions’ regulator and the Congress that identifies (1) any loss that warrants an in-depth review, together with the reasons why such a review is warranted and when the review will be completed; and (2) any losses where we determine no in-depth review is warranted, together with an explanation of how we came to that determination. The table below fulfills this reporting requirement to the Congress for the 6-month period ended March 31, 2013. We issue separate audit reports on each review to OCC.

Bank Failures and Non Material Loss Reviews				
Bank Name/Location	Date Closed/ Loss to the DIF	OIG Summary of Regulator’s Grounds for Receivership	In-Depth Review Determination	Reason/ Anticipated Completion Date of the In-Depth Review
First East Side Savings Bank Tamarac, Florida	October 19, 2012 \$9.1 million	<ul style="list-style-type: none"> <li>• Dissipation of assets and earnings due to unsafe and unsound practices</li> <li>• Capital impaired</li> </ul>	No	No unusual circumstances noted
Citizens First National Bank Princeton, Illinois	November 2, 2012 \$45.2 million	<ul style="list-style-type: none"> <li>• Dissipation of assets and earnings due to unsafe and unsound practices</li> <li>• Capital impaired</li> <li>• Unsafe and unsound practices were likely to seriously prejudice the interests of the DIF</li> </ul>	No	No unusual circumstances noted

## References to the Inspector General Act

Section	Requirement	Page
Section 4(a)(2)	Review of legislation and regulations	32
Section 5(a)(1)	Significant problems, abuses, and deficiencies	5-28
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies	5-28
Section 5(a)(3)	Significant unimplemented recommendations described in previous semiannual reports	33-35
Section 5(a)(4)	Matters referred to prosecutive authorities	32
Section 5(a)(5)	Summary of instances where information was refused	35
Section 5(a)(6)	List of audit reports	35-38
Section 5(a)(7)	Summary of significant reports	5-28
Section 5(a)(8)	Audit reports with questioned costs	39
Section 5(a)(9)	Recommendations that funds be put to better use	40
Section 5(a)(10)	Summary of audit reports issued before the beginning of the reporting period for which no management decision had been made	40
Section 5(a)(11)	Significant revised management decisions made during the reporting period	40
Section 5(a)(12)	Management decisions with which the Inspector General is in disagreement	41
Section 5(a)(13)	Instances of unresolved Federal Financial Management Improvement Act noncompliance	8
Section 5(a)(14)	Results of peer reviews conducted of Treasury OIG by another OIG	41-42
Section 5(a)(15)	List of outstanding recommendations from peer reviews	41-42
Section 5(a)(16)	List of peer reviews conducted by Treasury OIG, including a list of outstanding recommendations from those peer reviews	41-42
Section 5(d)	Serious or flagrant problems, abuses, or deficiencies	N/A
Section 6(b)(2)	Report to Secretary when information or assistance is unreasonably refused	35

## Abbreviations

BEP	Bureau of Engraving and Printing
BPD	Bureau of the Public Debt
BSA	Bank Secrecy Act
BSA IT Mod	BSA IT Modernization
CFC	Combined Federal Campaign
CIGIE	Council of the Inspectors General on Integrity and Efficiency
DIF	Deposit Insurance Fund
Dodd-Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
EITC	Earned Income Tax Credit
FAEC	Federal Audit Executive Council
FDIC	Federal Deposit Insurance Corporation
FinCEN	Financial Crimes Enforcement Network
FISMA	Federal Information Security Management Act
FMS	Financial Management Service
FRB	Board of Governors of the Federal Reserve System
FSOC	Financial Stability Oversight Council
FTO	fine troy ounce
GAO	Government Accountability Office
IRS	Internal Revenue Service
IPERA	Improper Payments Elimination and Recovery Act of 2010
IT	information technology
KPMG	KPMG LLP
MLR	material loss review
NIST	National Institute of Standards and Technology
OCC	Office of the Comptroller of the Currency
OIG	Office of Inspector General
OMB	Office of Management and Budget
OTS	Office of Thrift Supervision
RESTORE Act	Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012
SBLF	Small Business Lending Fund
SBU	sensitive but unclassified
SSBCI	State Small Business Credit Initiative
TARP	Troubled Asset Relief Program
TIGTA	Treasury Inspector General for Tax Administration
USAID	U.S. Agency for International Development

# The Office of the Comptroller of the Currency Commemorating 150 Years 1863 – 2013



## President Lincoln and Treasury Secretary Chase



President Lincoln recognized that unreliable paper money and inadequate credit was problematic. Along with his Treasury Secretary, Salmon P. Chase, he conceived the national banking system and the Office of the Comptroller of the Currency to regulate and supervise it.

On February 25, 1863, President Lincoln signed The National Currency Act into law. The act established the Office of the Comptroller of the Currency, charged with responsibility for organizing and administering a system of nationally chartered banks and a uniform national currency. In June 1864, the legislation underwent substantial amendment and became known as the National Bank Act. Modified and supplemented over the years, the National Bank Act continues to provide the basic governing framework for the national banking system today.

## Hugh McCulloch

**First Comptroller of the Currency  
1863-1865**

Hugh McCulloch, president of the State Bank of Indiana, was appointed the first Comptroller of the Currency by President Lincoln. McCulloch, once a foe of national banking legislation, organized the agency and launched the national banking system. During McCulloch's 22 months in office, 868 national banks were chartered and no failures occurred. The first Comptroller recommended major changes in the banking law. The resulting National Banking Act of 1864 remains the foundation of the national banking system. McCulloch resigned to become Lincoln's Secretary of the Treasury. He also served as Secretary of the Treasury under President Arthur.



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