



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

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OFFICE OF
INSPECTOR GENERAL

INFORMATION MEMORANDUM FOR SECRETARY LEW

FROM:

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Inspector General

SUBJECT:

Management and Performance Challenges Facing the
Department of the Treasury (OIG-CA-15-001)

In accordance with the Reports Consolidation Act of 2000, we are providing you with our perspective on the most serious management and performance challenges facing the Department of the Treasury.

In assessing the Department's most serious challenges, we are mindful of two external factors that affect Treasury. The first is the slow economic recovery despite the efforts of the Administration and Congress. The second is the Nation's budget deficit. The results of the last national election brought little clarity to the direction the Federal Government will take in addressing these matters, and the upcoming November congressional elections, regardless of the results, will likely continue these uncertainties. As the outgoing and new Congresses grapple with much of the same unfinished business when it comes to the Federal budget and the Nation's debt, significant issues related to programs like Social Security and Medicare are still not addressed while new pressures on federal spending emerge, such as the military action against the Islamic State of Iraq and the Levant. The polarized political environment in which the Federal Government has been operating since 2010, with the repeated cycle of budget and debt ceiling stopgaps, has resulted in waste and inefficiency. While the Department has implemented strong controls over spending, it is imperative that senior leaders and front-line managers remain ever vigilant when exercising the authorities and responsibilities entrusted to them.

Treasury has, throughout the years, had to administer major new programs and initiatives intended to support and improve the country's economy. Last year I reported on a new responsibility, the administration of the Gulf Coast Restoration Trust Fund. This year I am reporting on new responsibilities to implement the Digital Accountability and Transparency Act of 2014 (DATA Act) and to guard against improper payments of federal dollars. In nearly every case, the Department has had to start up and administer new programs and operations with thin staffing and very limited, if any, new resources. That situation remains the case again. Like last year, we cannot emphasize enough to the Department's stakeholders how critically important it is that Treasury is resourced sufficiently to carry out its authorities and responsibilities to include maintaining a strong control environment.

This year we are reporting six challenges, four of which are repeated from last year and two of which are new challenges.

- Cyber Threats (New Challenge)
- Continued Implementation of Dodd-Frank
- Management of Treasury's Authorities Intended to Support and Improve the Economy
- Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement
- Efforts to Promote Spending Transparency and to Prevent and Detect Improper Payments (New Challenge)
- Gulf Coast Restoration Trust Fund Administration

In addition to the above challenges, we are continuing to report our elevated concerns about two matters – currency and coin production and the need to document key activities and decisions.

2014 Management and Performance Challenges

Challenge 1: Cyber Threats

For the last several years, we have reported on our growing concern with cybersecurity. This year we elevated cyber threats to the Department's top management challenge. Cybersecurity represents one of the most serious problems facing the Nation and depends on a reliable critical infrastructure, including information systems and networks, to manage national security and economic threats. It is a persistent area of concern as Treasury's information systems are critical to the core functions of government and the Nation's financial infrastructure. As cyber threats continue to grow and become more sophisticated and subtle, they pose an ongoing challenge for Treasury to safeguard its internal systems and operations and the financial sector it oversees.

Attackers frequently exploit the most vulnerable networks in a string of trusted connections to gain access to government systems. Recent cyber attacks at the US Investigations Services (referred to as USIS) caused the Department of Homeland Security (DHS) and the Office of Personnel Management (OPM) to suspend background check services and most of their contracts with USIS. Another recent attack allowed access to the OPM's e-QIP system which stores detailed data on people with security clearances.

We found in our audits of selected Treasury bureaus that security measures were not sufficient at the time to fully prevent and detect vulnerabilities to their networks and systems. In addition to Treasury's own networks and systems, management must be cognizant of, and defend against, the risks posed by attacks made against other agencies, Treasury contractors, and subcontractors. Treasury frequently enters into interconnection agreements with other Federal, state, and local agencies, and service providers, to conduct its business. Treasury management must exercise due care when authorizing such internetwork connections and verify that third parties comply with federal policies and standards.

Cyber attacks on banking institutions continue to evolve at an accelerated rate, ranging from distributed denial of service attacks on bank websites to phishing attacks to fraudulent wire

payments, depending on the goals of the attacking entities. Organized hacking groups leverage published and unpublished vulnerabilities and vary their methods to make attacks hard to detect and even harder to prevent. Criminal groups and nation-states are constantly seeking to steal information; commit fraud; and disrupt, degrade, or deny access to information systems.

Effective public-private coordination will be required to address the growing threat of cyber attacks against the Nation's critical infrastructure. In this regard, Treasury will be looked upon to provide effective leadership to financial institutions in particular, and the financial sector in general, to strengthen awareness and preparedness against cyber threats. Considering the multitude of threats, Treasury will need to continue to strengthen partnerships and coordination among law enforcement, financial institutions, regulators, and private entities in the financial sector to address these threats.

Challenge 2: Continued Implementation of Dodd-Frank

In response to the need for financial reform, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) in July 2010. Among other things, Dodd-Frank established the Financial Stability Oversight Council (FSOC), which you chair as the Treasury Secretary. FSOC's mission is to identify risks to financial stability that could arise from the activities of large, interconnected financial companies; respond to any emerging threats to the financial system; and promote market discipline. FSOC accomplished much over the past year. That said, FSOC must continue to work in order to meet all of its responsibilities.

Annual reporting – As required, FSOC issued its fourth annual report in May 2014. The report contained recommendations to (1) further address structural vulnerabilities in key markets, (2) take steps to address reform of the housing finance market, (3) identify alternative interest rate benchmarks, (4) heighten risk management and supervisory attention in specific areas, (5) promote forward looking capital and liquidity planning, (6) monitor the impact of the volatile interest rate environment, (7) continue efforts to assess cybersecurity vulnerabilities, and (8) improve the quality and comprehensiveness of financial data.

Designation of nonbank financial companies for consolidated supervision – FSOC proposed the designation of one company for additional supervision by the Board of Governors of the Federal Reserve System (FRB) in September 2014; however, the company has requested a hearing before FSOC to contest the proposed designation. Additionally, FSOC completed annual reevaluations for two of the three companies designated in 2013 and did not rescind either company's designation. FSOC continues to review other nonbank financial companies for potential designation.

Money Market Reform – FSOC released a statement acknowledging the Securities and Exchange Commission's (SEC) adoption of amendments to the rules that govern money market mutual funds in July 2014. The amendments make structural and operational reforms to address risks of investor runs on money market funds, while preserving the benefits of the funds. FSOC intends to fully examine the SEC's rules and their potential impact on money market mutual funds and financial stability.

Risk Monitoring and Regulatory Coordination – FSOC has considered issues such as market volatility, the government shutdown and debt ceiling impasse, interest rate risk, economic developments in Europe and emerging economies, housing finance reform, the NASDAQ trading halt in August 2013, and risks to financial stability arising from cybersecurity vulnerabilities. To facilitate this risk monitoring process, FSOC established the Systemic Risk Committee which serves as a forum for member agency staff to identify and analyze potential risks that may extend beyond the jurisdiction of any one agency.

The Council of Inspectors General on Financial Oversight (CIGFO), also established by Dodd-Frank, which I chair, facilitates the sharing of information among member inspectors general with a focus on reporting our concerns that may apply to the broader financial sector and ways to improve financial oversight. Accordingly, CIGFO is an important source of independent analysis to FSOC. As required, CIGFO met quarterly and issued its fourth annual report in July 2014. CIGFO also established its third Working Group in December 2013. The Working Group assessed the extent to which FSOC is operating in a manner consistent with the expectations outlined in its Transparency Policy. The Working Group determined that FSOC operated in a manner consistent with the expectations outlined in its Transparency Policy. However, the Working Group identified practices in place that, if incorporated into the policy, would make it stronger. Also, the Working Group identified certain additional practices that FSOC should implement to increase transparency. During the Working Group’s audit, FSOC approved a revised Transparency Policy which took into consideration matters we brought to FSOC staff’s attention, and FSOC is addressing other recommendations made by the Working Group.¹ Going forward, CIGFO will continue to review FSOC operations and its efforts to oversee the U.S. financial system.

Dodd-Frank also established two offices within Treasury: the Office of Financial Research (OFR) and the Federal Insurance Office (FIO).² OFR is the data collection, and research and analysis arm of FSOC. Last year, we reviewed the stand-up of OFR. In our report on that review, we noted among other things that OFR had not yet developed performance measures for the office. We are currently conducting a review to assess the design and implementation of performance measures by OFR. FIO is charged with monitoring the insurance industry, including identifying gaps or issues in the regulation of insurance that could contribute to a systemic crisis in the insurance industry or financial system. In May 2014, we issued a report on the stand-up of FIO. In our report, we noted that four of the five reports required by Dodd-Frank were completed well after their due dates and the other had not yet been completed. As of September 2014, the report that was due in September 2012 describing the breadth and scope of the global reinsurance market and the critical role such a market plays in supporting insurance in the U.S. was still not issued. We are currently conducting a review to assess the authority and processes by which the FIO coordinates federal efforts and develops federal policy on prudential aspects of international insurance matters, and if FIO’s activities are consistent with its authority.

¹ CIGFO, *Audit of the Financial Stability Oversight Council’s Compliance with Its Transparency Policy* (CIGFO-14-001); issued July 1, 2014.

² Dodd-Frank also established two other offices within Treasury – the Offices of Minority and Women Inclusion (OMWI) at Departmental Offices and at the Office of the Comptroller of the Currency. We are currently conducting a review of OMWI at Departmental Offices.

As we have stated in the past, the intention of Dodd-Frank is most notably to prevent, or at least minimize, the impact of a future financial sector crisis on the U.S. economy. To accomplish this, Dodd-Frank placed great responsibility with Treasury. This management challenge from our perspective is to maintain an effective FSOC process that timely identifies and appropriately responds to emerging risks and is supported by OFR and FIO within Treasury. This is especially important in times of economic growth and financial institution profitability, when such government action is generally unpopular. As the regulatory framework prescribed by Dodd-Frank is institutionalized and matures, we will reassess our reporting of it as a management challenge going forward.

Challenge 3: Management of Treasury's Authorities Intended to Support and Improve the Economy

Congress provided Treasury with broad authorities to address the financial crisis under the Housing and Economic Recovery Act (HERA) and the Emergency Economic Stabilization Act (EESA) enacted in 2008, the American Recovery and Reinvestment Act of 2009 (Recovery Act), and the Small Business Jobs Act of 2010. As we stated last year, to a large extent Treasury's program administration under these acts has matured, but challenges remain in managing Treasury's programs and its outstanding investments. Additionally, the long-term impact on small business lending resulting from investment decisions under Small Business Jobs Act programs is still not clear. Our discussion of this challenge will begin with this act and then address the others for which Treasury is responsible.

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

The Small Business Jobs Act created within Treasury a \$30 billion Small Business Lending Fund (SBLF) to assist financial institutions increase the availability of credit to small businesses. It also provided \$1.5 billion to Treasury to allocate to eligible state programs through the State Small Business Credit Initiative (SSBCI). These programs represent key initiatives of the Administration to support job creation by facilitating the increase in lending to small businesses. Treasury approved the majority of SBLF and SSBCI applications during the last quarter of fiscal year 2011, and because the majority of applicants waited until near the application deadlines to apply, Treasury encountered significant delays in implementing the two programs. As a result, Treasury made a number of investment and funding decisions to meet deadlines, without establishing clear oversight obligations of participating states beforehand. Now that Treasury has disbursed significant funds for these programs, the challenge is to exercise sufficient oversight to ensure that funds are used appropriately, SBLF dividends owed Treasury are paid, and the programs achieve intended results.

SBLF – As of September 2011, Treasury disbursed more than \$4 billion to 332 financial institutions across the country. Throughout the life of the program, institutions receiving funds from SBLF pay dividends to Treasury at rates ranging from 1 to 9 percent. The lower rates are an incentive for institutions to increase small business lending.

Treasury faces challenges in measuring program effectiveness and ensuring that the SBLF program meets its intended objective. The intent of the authorizing legislation was to

stimulate lending to small businesses, but participating financial institutions are not required to report how they use Treasury's investment nor are they obligated to increase their small business lending. Furthermore, although participating institutions must report their small business lending activity, it is difficult to isolate the impact of the SBLF program from other factors that affect lending, which is further complicated when participating institutions commingle SBLF funding with other funds. Finally, to ensure accurate measurement of program performance and that dividend rate adjustments resulting from reported small business lending are warranted, Treasury needs to verify that institutions are accurately reporting lending information.

SSBCI – As of August 31, 2014, Treasury disbursed approximately \$1.1 billion in SSBCI funding awarded to 57 participating states, territories, and municipalities. Treasury disburses the funds to participants in three increments, with second and third disbursements made after the entity certifies that it has used 80 percent of its previous disbursement. States had been slow to use their SSBCI funding as many either had to establish new small business lending programs to use the funds received and/or redirect funds midstream to better performing programs than those originally designated. In anticipation of the program's sunset in 2017, Treasury is requesting an additional \$1.5 billion to expand the program and provide funding to states through fiscal year 2021.

Primary oversight of the use of SSBCI funds is the responsibility of each participating state. The states may use funds awarded for programs that partner with private lenders and investors to extend credit to small businesses. Such programs may include those that finance loan loss reserves and provide loan insurance, loan guarantees, loan participation, venture capital funds, and collateral support. States must report quarterly and annually on their use of funds and certify quarterly that their programs approved for SSBCI funding comply with program requirements.

Treasury's principal challenge in the SSBCI program is holding participating states accountable for the proper use of funds. Because participating states re-allocate SSBCI funds to many other recipients and sub-recipients, these additional layers, without a robust monitoring program by the states, further muddle the tracking of the funds. As a result, Treasury as well as the states have difficulty determining whether states and subsequent program recipients are complying with SSBCI program requirements.

Bond Guarantee Program

The Small Business Jobs Act and the fiscal years 2013 and 2014 appropriations acts provided Treasury with authority to guarantee bonds issued for eligible community and economic development activities. The bond guarantee periods cannot exceed 30 years. Under this authority, Treasury committed to issue \$525 million in bond guarantees. As the program administrator, Treasury's Community Development Financial Institutions (CDFI) Fund experienced challenges in standing up the program. For example, it missed the program's statutory implementation date of September 2012 because budgetary authority to guarantee bonds was not obtained until the first quarter of fiscal year 2013 and regulations were still being developed. The program was eventually established in June 2013. Going forward,

CDFI Fund must oversee the issuance of the bonds and the use of the bond proceeds by eligible CDFIs to make financing more accessible in underserved communities. Our office plans to assess the CDFI Fund's administration of this program.

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

Through several HERA and EESA programs, Treasury injected capital into financial institutions and businesses.

Under HERA, Treasury supports the financial solvency of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) which continue to operate under the conservatorship of the Federal Housing Finance Agency. To cover the losses of the two government sponsored enterprises (GSE) and maintain a positive net worth, Treasury invested \$187 billion of senior preferred stock in the two GSEs as of September 30, 2014. Although the GSEs did not require Treasury's support in fiscal year 2014, their futures remain uncertain and further assistance may be required. If such support is needed, the current funding capacity available to Fannie Mae is \$117.6 billion and \$140.5 billion to Freddie Mac.

Through the Housing Finance Agency Initiative supporting state and local finance agencies, Treasury purchased \$15.3 billion of securities issued by Fannie Mae and Freddie Mac backed by state and local Housing Finance Agency bonds (New Issue Bond Program) and committed \$8.2 billion for a participation interest in the obligations of Fannie Mae and Freddie Mac (Temporary Credit and Liquidity Program). Treasury received payments of principal and interest on its securities, and as of June 30, 2014, held an investment of approximately \$8.8 billion. Additionally, several state and local housing agencies opted out of the Temporary Credit and Liquidity Program reducing Treasury's commitment to about \$1.0 billion. Treasury must continue to monitor the underlying assets of its investment in the Housing Finance Agency Initiative.

Legislation has been proposed in the Congress to address housing finance reform, but a solution that all can agree on is still in a formative stage. Accordingly, it is difficult to predict what lies ahead for winding down the Fannie Mae and Freddie Mac conservatorships and housing finance reform.

We also note that Treasury continues to administer programs established under the Troubled Asset Relief Program. That program, however, is not under the jurisdictional oversight of our office.

Management of Recovery Act Programs

Since 2009, Treasury has been responsible for overseeing an estimated \$150 billion of funding and tax relief for programs that provided payments for specified energy property in lieu of tax credits and payments to states for low-income housing projects in lieu of tax credits; grants and tax credits through the CDFI Fund; economic recovery payments to Social Security beneficiaries and others; and payments to U.S. territories for distribution to their citizens. While funding for

non-Internal Revenue Service (IRS) programs is coming to a close, Treasury must continue to oversee approximately \$27 billion to recipients under Treasury's payments in lieu of tax credit programs – to persons for specified energy properties and to states for low-income housing projects. In short, management must continue to enforce award compliance of approximately 95,000 recipients over an extended period of time (5 years from the placed in-service date of the specified energy property and 15 years beginning on January 1 of the year following the placed in-service date for the low-income housing project). Additionally, our Office of Investigations has several open matters involving claims for specified energy properties and low-income housing projects.

Challenge 4: Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement

As we have reported in the past, preventing criminals and terrorists from using our financial networks to sustain their operations and/or launch attacks against the U.S. continues to be a challenge. Treasury's Office of Terrorism and Financial Intelligence (TFI) is dedicated to disrupting the ability of terrorist organizations to fund their operations. TFI brings together intelligence gathering and analysis, economic sanctions, international cooperation, and private-sector cooperation to identify donors, financiers, and facilitators supporting terrorist organizations, and disrupt their ability to fund them. Enhancing the transparency of the financial system is one of the cornerstones of this effort. Treasury carries out its responsibilities to enhance financial transparency through the laws collectively known as the Bank Secrecy Act (BSA). The Financial Crimes Enforcement Network (FinCEN) is the Treasury bureau responsible for administering BSA, while Treasury's Office of Foreign Assets Control (OFAC) administers U.S. foreign sanction programs.

FinCEN and OFAC rely on help from other Federal agencies, the states, and financial institutions to enforce compliance with their programs. Accordingly, to be effective, Treasury must establish and maintain working relationships with these entities.

With respect to FinCEN, cooperation among these entities was advanced in August 2014 with the President's signing of the Money Remittances Improvement Act of 2014. The act allows federal regulators to rely on approved state examinations of nonbank financial institutions such as money services businesses (MSB). FinCEN, IRS, and the states will need to work together to ensure that MSBs are identified, registered, and in compliance with laws and regulations. FinCEN also faces the continuing challenge to enhance financial transparency as a way to strengthen efforts to combat financial crime. To this end, FinCEN has been working on clarifying and strengthening customer due diligence requirements. This includes requirements for institutions to identify beneficial ownership of their accountholders so that their true identities are not hidden. FinCEN issued a notice of proposed rulemaking to that effect in July 2014, "Customer Due Diligence Requirements for Financial Institutions." Furthermore, FinCEN is also working on issuing anti-money laundering regulations for non-bank financial institutions such as vehicle dealers, pawnbrokers, travel agents, finance companies, and real estate closing and settlement services, as well as financial services intermediaries such as investment advisors. Most recently, FinCEN was challenged with providing clarifying guidance to the financial community, who may be reluctant to do business with state-legalized marijuana dispensaries.

While these dispensaries remain illegal under federal law, FinCEN's February 2014 guidance for financial institutions clarified reporting obligations with respect to services to marijuana-related businesses consistent with BSA obligations. This guidance includes conducting due diligence on prospective customers.

Another challenge facing FinCEN is the need to address cross-border electronic transmittal of funds. In September 2010, pursuant to the Intelligence Reform and Terrorism Prevention Act of 2004, FinCEN proposed a regulation that would require certain depository institutions and MSBs to report cross-border electronic transmittals of funds. In the notice of proposed rulemaking, FinCEN acknowledged that it did not anticipate having systems in place before 2011. In this regard, the act required FinCEN to certify that the information technology systems were in place to accept reports from the regulated industry prior to prescribing regulations requiring institutions to report on transmittal of funds. FinCEN officials recently told us that with the BSA IT Modernization Program now complete, the bureau finally has the framework to develop a new report to collect the large volume of cross-border electronic transmittals of funds. FinCEN's BSA IT Modernization Program was completed in March 2014. As of this writing, FinCEN is working on a supplemental rule to implement reporting of cross-border electronic transmittals of funds.

Other matters of concern on the horizon include the increasing use of (1) mobile devices for banking, internet banking, internet gaming, and peer-to-peer transactions; and (2) virtual currencies.³ FinCEN and other regulatory agencies will need to make sure that providers of these services that are covered by BSA understand their obligations under that statute. Monitoring the transactions of tomorrow may prove to be increasingly difficult for Treasury. In this regard, in 2013, FinCEN issued guidance on virtual currencies and regulatory responsibilities to provide clarity for businesses and individuals engaged in this expanding field of financial activity. FinCEN's rules defined certain businesses or individuals which use convertible virtual currencies or make a business of exchanging, accepting, and transmitting them as MSBs. MSBs have registration requirements and a range of anti-money laundering, recordkeeping, and reporting responsibilities under FinCEN's regulations.

Given the criticality of this challenge to the Department's mission, and notwithstanding the efforts described above, we continue to consider anti-money laundering and combating terrorist financing as inherently high-risk.

³ Bitcoins are an example of a virtual currency. These consist of a series of numbers created automatically on a set schedule and traded anonymously between digital addresses or "wallets." Certain exchange firms buy or sell Bitcoins for legal tender at a rate that fluctuates with the market. Congress and regulators continue their efforts to determine the legality, legitimacy, and regulatory framework for virtual currencies such as Bitcoins.

Challenge 5: Efforts to Promote Spending Transparency and to Prevent and Detect Improper Payments

Spending Transparency

Over the past several years, Congress and the Administration have taken steps to increase and improve the public availability of information about federal spending. Transparency initiatives are intended to allow citizens to better understand how tax dollars are used and, by making spending information more easily available, help to identify and prevent fraud and waste, facilitate better decision making, and improve operational efficiency. The DATA Act, signed into law in May 2014, furthers these efforts by ensuring that the Federal Government provides consistent, reliable, and useful online data about how it spends taxpayer dollars. The purpose of the law is to:

- expand the Federal Funding Accountability and Transparency Act of 2006 by disclosing direct Federal agency expenditures and linking federal contract, loan, and grant spending information to programs of Federal agencies, enabling taxpayers and policy makers to track federal spending more easily;
- establish Government-wide data standards for financial data and provide consistent, reliable, and searchable Government-wide spending data that is displayed for taxpayers and policy makers on USASpending.gov⁴ (or a successor system that displays the data);
- simplify reporting for entities receiving federal funds by streamlining reporting requirements and reducing compliance costs while improving transparency;
- improve the quality of data submitted to USASpending.gov by holding Federal agencies accountable for the completeness and accuracy of the data submitted; and
- apply approaches developed by the Recovery Accountability and Transparency Board to spending across the Federal Government.

To fulfill its purpose, the DATA Act imposes certain requirements on the Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), the inspectors general of each Federal agency, and the Comptroller General of the United States. In brief, the DATA Act requires Treasury and OMB to:

- by May 2015, establish Government-wide financial data standards for any federal funds made available to or expended by Federal agencies and entities receiving federal funds;
- by May 2017, ensure this financial data is accurately posted and displayed on USASpending.gov, or a successor system; and
- by May 2018, ensure the data standards established are applied to the data made available on the website.

⁴ Prior to 2014, the General Services Administration was responsible for operating and maintaining the USASpending.gov website. In February 2014, the Office of Management and Budget announced the transfer of those responsibilities to Treasury's Bureau of the Fiscal Service. Treasury has developed a plan to take on operational responsibility of the website in April 2015.

In addition, the act states that Treasury may establish a data analysis center or expand an existing service to support the prevention or reduction of improper payments by Federal agencies and improve efficiency and transparency in federal spending. Upon the establishment of a data analysis center, Treasury is required to enter into agreements with Federal agencies, including inspectors general and federal law enforcement agencies, to provide data from the data analytics center to assist those agencies in, among other things, identifying and preventing waste, fraud, and abuse and in conducting investigations.

Inspectors general of each Federal agency, including Treasury, are required by the act to conduct three biennial reviews beginning in 2016 of a statistically valid sample of spending data submitted by the agency. Each review is to assess the completeness, timeliness, quality, and accuracy of the data sampled and the implementation and use of data standards by the agency.

Implementing the DATA Act is a complex undertaking requiring a significant level of interagency coordination and cooperation to develop, establish, and apply new financial data standards and to develop new data handling methodologies within a short timeframe. Among the challenges brought on by the DATA Act is the fact that it assigns to Treasury and OMB much of the responsibility for the act's successful implementation while providing no additional funding. As of September 15, 2014, only 8 months away from the due date for the establishment of data standards, Treasury and OMB officials have told us that they are still in the early stages of planning the DATA Act implementation. While the two parties have established a DATA Act governance and implementation structure and held initial meetings, key decisions are still to be made concerning the nature of the data standards and their application at individual agencies, new data collection methodologies and Treasury's data analytic capabilities to name just a few.

Given the broad government-wide implications and critical roles assigned to Treasury by the Data Act, we consider this a high risk implementation project and management challenge. It should be noted that we have initiated a series of audits of Treasury's efforts to meet its responsibilities under the DATA Act.

Detect Improper Payments

In light of the continuing problem of improper payments (estimated at \$106 billion, or 3.5 percent of all federal payments, for fiscal year 2013) and the extreme pressures on the budget, the Federal Government has intensified efforts to reduce improper payments in major federal programs. The Do Not Pay Initiative is a chief component of these efforts. Executive Order 13520, "Reducing Improper Payments and Eliminating Waste in Federal Programs" (November 2009) directed agencies to identify ways in which information sharing may improve eligibility verification and pre-payment scrutiny. In June 2010, the President issued a memorandum directing the establishment of a "single point of entry" through which agencies would access relevant data in order to determine eligibility for a federal award or payment.⁵ In an April 2012 memorandum, OMB described the efforts of OMB and Treasury to establish the Do Not Pay Initiative.⁶ The memorandum directed Federal agencies to develop a plan for using Treasury's

⁵ Presidential Memorandum, "Enhancing Payment Accuracy through a Do Not Pay List," June 18, 2010.

⁶ OMB Memorandum M-12-11, "Reducing Improper Payments through the 'Do Not Pay List,'" Apr. 12, 2012.

Do Not Pay system for pre-payment eligibility reviews. In January 2013, the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) was enacted, codifying the ongoing efforts to develop and enhance the Do Not Pay Initiative. Additionally, IPERIA required that not later than June 1, 2013, all agencies review payments and awards for all programs through the system.

The Do Not Pay Initiative includes multiple resources that are designed to help agencies confirm that the right recipient obtains the right payment for the right reason at the right time. IPERIA provides the Federal Government with new tools and authorities to help agencies effectively implement the Do Not Pay Initiative. As required by IPERIA, in August 2013 OMB issued implementation guidance for the Do Not Pay Initiative in OMB memorandum M-13-20, "Protecting Privacy while Reducing Improper Payments with the Do Not Pay Initiative." The guidance details Treasury's responsibilities to include hosting a working system for the Do Not Pay Initiative that allows agencies to perform pre-award eligibility and prepayment reviews. Other Treasury responsibilities include entering into computer matching agreements; developing memoranda of understanding with agencies; ensuring records are complete, accurate, and current; complying with the Privacy Act; and periodically reporting to OMB.

In accordance with OMB guidance, the Bureau of the Fiscal Service (Fiscal Service) designed its Do Not Pay Business Center to give critical information to paying agencies to help reduce improper payments. The Do Not Pay Business Center provides two services to agencies: the Do Not Pay Portal and Do Not Pay Data Analytics Service. The Do Not Pay Portal is intended to provide users with a single entry point to search for entities that may be listed in a variety of data sources such as Social Security Administration's (SSA) Death Master File, the Department of Health and Human Service Office of Inspector General's List of Excluded Individuals/Entities, the General Services Administration's System for Award Management, and Treasury's Debt Check Database.

While Fiscal Service established the Do Not Pay Business Center, several challenges face the program. For example, the effectiveness of the Do Not Pay Business Center as a tool to identify and prevent improper payments is hindered because the center does not have access to SSA's full death data.⁷ In addition, the Do Not Pay Business Center does not have access to two of the six IPERIA-required data sources; the Department of Housing and Urban Development's Credit Alert Verification Reporting System and SSA's Prisoner Update Processing System databases. We note that legislation has been proposed to make SSA's full death data available for the Do Not Pay Initiative. In addition, Fiscal Service is working to acquire access to the two IPERIA-required databases for the Do Not Pay Business Center.

With its potential to significantly reduce improper payments while at the same time ensuring privacy, the Do Not Pay Program is a major and important undertaking by Fiscal Service and Treasury. As part of our ongoing audit work in this area, we will continue to monitor the steps taken by Fiscal Service to improve the effectiveness of the Do Not Pay Business Center. In

⁷ Fiscal Service purchased the public version of the Death Master File, which does not include deaths reported by state agencies.

addition, we are planning to review the Do Not Pay Program's data analytic capabilities during the coming fiscal year.

Challenge 6: Gulf Coast Restoration Trust Fund Administration

In response to the *Deepwater Horizon* oil spill, Congress enacted the Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012 (RESTORE Act). This law established within Treasury the Gulf Coast Restoration Trust Fund (Trust Fund) and requires Treasury to deposit into the Trust Fund 80 percent of administrative and civil penalties paid by responsible parties for the *Deepwater Horizon* oil spill. The funds are to be distributed for environmental and economic restoration activities affecting the Gulf Coast states (Alabama, Florida, Louisiana, Mississippi, and Texas). While the total amount that will eventually be deposited into the Trust Fund is unknown at this time, estimates range from \$5 billion to \$15 billion. To date, the Trust Fund received approximately \$653 million as a result of the Federal Government's settlement with the Transocean defendants. Litigation is ongoing with other defendants.

Under the RESTORE Act, money from the Trust Fund is allocated to five components:

- Direct Component (35 percent) – administered by Treasury for allocation in equal shares to the Gulf Coast states for ecological and economic restoration of the Gulf Coast region;
- Comprehensive Plan Component (30 percent) – administered by the Gulf Coast Ecosystem Restoration Council⁸ for allocation to Gulf Coast states and Federal agencies, pursuant to a comprehensive plan approved by the council, to undertake projects and programs using the best available science that would restore and protect the Gulf Coast region's natural resources, ecosystems, fisheries, marine and wildlife habitats, beaches, and coastal wetlands;
- Spill Impact Component (30 percent) – administered by the Gulf Coast Ecosystem Restoration Council for allocation to the Gulf Coast states for eligible oil spill restoration activities, pursuant to the council's approval of the states' plans to improve the ecosystems or economy of the Gulf Coast region, using a regulatory formula;
- National Oceanic and Atmospheric Administration (NOAA) Science Program Component (2.5 percent) – administered by NOAA for its Gulf Coast Ecosystem Restoration Science, Observation, Monitoring, and Technology Program. This program is to carry out research, observation, and monitoring to support the long-term sustainability of the ecosystem, fish stocks, fish habitat, and the recreational, commercial, and charter fishing industry in the Gulf of Mexico; and
- Centers of Excellence Research Grants Program Component (2.5 percent) – administered by Treasury for allocation in equal shares to the Gulf Coast states for competitive grant awards to nongovernmental entities and consortia in the Gulf Coast region, including

⁸ The Gulf Coast Ecosystem Restoration Council consists of the following members, or designees: (1) at the Federal level, the Secretaries of the Interior, Army, Commerce, Agriculture, the head of the department in which the Coast Guard is operating (currently the Secretary of Homeland Security), and the Administrator of the Environmental Protection Agency; and (2) at the state level, the Governors of Alabama, Florida, Louisiana, Mississippi, and Texas.

public and private institutions of higher education, to establish centers for excellence to conduct Gulf Coast region research.

The RESTORE Act prescribes how funds will be distributed and gives the Secretary authority to withhold funds if certain conditions in the act are not met, including compliance with procurement rules and regulations. What makes the administration of the RESTORE Act a challenge is that the numerous entities and councils which are to receive and further allocate funding are still establishing their own policies and procedures. There is the need for cooperation and coordination by these entities and councils to ensure funds are spent responsibly.

The RESTORE Act also authorized our office to conduct, supervise, and coordinate audits and investigations of projects, programs and activities funded under this legislation. To date, we have reported on the progress of Treasury's activities to develop regulations governing the Trust Fund components and establish a grant program for administering the Direct Component and the Centers of Excellence Research Grants Program Component. We continue to meet with the Fiscal Assistant Secretary's staff and provide our perspectives on controls as the procedures to administer the Trust Fund are being developed. We are actively engaged in coordinating with affected Federal, state, and local government entities to ensure effective oversight of programs established by the act.

It should be noted that as October 14, 2014, the Department announced that eligible states and local governments can apply for and receive grants to support the recovery of communities affected by the *Deepwater Horizon* oil spill. The appropriate disbursement and use of these funds will be a focus of our work going forward.

Other Matters of Concern

Although we are not reporting these as management and performance challenges, we want to highlight two areas of concern – (1) currency and coin production and (2) documenting key activities and decisions.

Currency and Coin Production

In January 2012, we reported on deficiencies with the BEP's production process, which led to 1.4 billion finished NexGen \$100 notes being printed (in 2010) but not accepted by FRB because creasing was detected in some of the finished notes. Although the production problems were identified and sufficiently resolved and FRB began supplying financial institutions with the redesigned NexGen \$100 Notes in October 2013; BEP and FRB still need to decide on a course of action for the disposition of the 1.4 billion finished notes that have not been accepted by FRB.

Another matter related to currency redesign that should be kept in mind is meaningful access to U.S. currency for blind and visually impaired individuals. In response to a court ruling on that matter, in 2011 Treasury submitted a three-element approach and a plan to explore emerging technologies to provide such access. Two elements of this approach--raised tactile features and large, high-contrast numerals—require changes to the design of currency. The

third element is a three-phased program started in July 2014 to provide currency readers. The lessons learned from the NexGen \$100 Note production process audits underscore the need for sound and comprehensive project management as BEP undertakes this redesign effort.

Challenges continue to exist with coin production. For example, the cost of producing penny and nickel coins were double their face value because rising metal prices have resulted in higher production costs.

It is also imperative that BEP and the Mint consider the effect of alternative payment methods and other technological advances (such as stored value cards, the Internet, smartphones, virtual currencies, etc.) on their respective business models, practices, and future planning and interactions with their customer, FRB.

Documenting Key Activities and Decisions

In prior years, I have cited several audits by my office that highlighted lapses by the Department in maintaining a complete and concurrent record of key activities and decisions. These audits reported on the selection of financial agents for Treasury's investment in Fannie Mae and Freddie Mac mortgage backed securities, Treasury's consultative role with the Department of Energy's Solyndra loan guarantee, and OCC's oversight of foreclosure-related consent orders. More recently, we reported that while Fiscal Service's decisions to establish the Direct Express[®] Debit MasterCard[®] program and select the program's financial agent were reasonable, its analyses and documentation of those decisions should have been more complete.⁹

Maintaining proper documentation is a fundamental tenet of government accountability and transparency. Maintaining proper documentation is also in the best long-term interest of Treasury and its component offices and bureaus if actions are later questioned, as they have been. In this regard, appropriate documentation can be as simple as contemporaneous notes providing a record of why decisions were made, the way they were made, and how the government satisfied itself that the decisions were the best course. Also adding to the documentation challenge is the increase in federal retirements along with the resulting loss of institutional knowledge. We do note that Treasury has issued policy that addresses documentation requirements, such as Treasury Directive 80-05, *Records and Information Management Program*. In our view, this is a matter of Treasury management personnel needing to remain aware and vigilant.

We would be pleased to discuss our views on the management and performance challenges and the other matters expressed in this memorandum in more detail.

cc: Nani A. Coloretti
Assistant Secretary for Management

⁹ Office of Inspector General, *Fiscal Service Needs to Improve Program Management of Direct Express* (OIG-14-031); issued Mar. 26, 2014.