

# Semiannual Report to Congress

April 1, 2011–September 30, 2011  
OIG-CA-12-002

Office of Inspector General  
Department of the Treasury

## Highlights

During this semiannual reporting period, the Office of Audit issued 50 audit products, including 20 material loss reviews and one in-depth review of failed Treasury-regulated banks and thrifts; the Office of Small Business Lending Fund (SBLF) Program Oversight issued 2 products; and the work by the Office of Investigations resulted in 15 arrests and 10 convictions. Examples of our most significant results are described below.

- We noted serious deficiencies related to the physical security over the NexGen \$100 finished notes and work-in-process sheets at both the Bureau of Engraving and Printing's currency facilities. For example, we found inadequate security over finished notes and work-in-process sheets at the Eastern Currency Facility. In response, the bureau promptly corrected the situation.
- We issued six audit reports as part of our ongoing oversight of Treasury's more than \$20 billion of non-Internal Revenue Service spending authority under the American Recovery and Reinvestment Act of 2009. These audits resulted in questioned award amounts of approximately \$2.1 million under the Section 1603 Program (Payments in Lieu of Tax Credits for Specified Energy Properties).
- As required by the Dodd-Frank Wall Street Reform and Consumer Protection Act, we completed the second joint review with the Offices of Inspector General of the Federal Reserve Board and the Federal Deposit Insurance Corporation on the transfer of Office of Thrift Supervision functions to the Office of the Comptroller of the Currency, Federal Reserve Board, and the Federal Deposit Insurance Corporation. We concluded that the transfer of Office of Thrift Supervision functions, employees, funds, and property substantially occurred as planned. Certain aspects of the transfer are ongoing or were not yet required to be completed; we will continue to monitor the transfer until all planned activities are accomplished.
- We found that the contract and project management of Treasury's new telecommunications system, TNet, was poor. Among other things, the TNet task order terms did not protect the government's interest to obtain a timely enterprise network at the least possible cost. Furthermore, inadequate contractor performance resulted in additional costs of \$33 million to Treasury.
- With respect to the \$30 billion SBLF authorized by the Small Business Jobs Act of 2010, we reported that Treasury's investment decision process, which closely follows legislative requirements, targets institutions that are at least adequately-capitalized. We did suggest that Congress consider whether to make the repayment of dividends by SBLF recipient banks a requirement for exiting the program. We also reported that Treasury needs to strengthen accountability by States for use of funds received through the State Small Business Credit Initiative, a \$1.5 billion program also authorized by the Act.
- The Office of Investigations determined that a number of Treasury checks and fraudulently-obtained tax refund Treasury checks were stolen by a group of individuals in Georgia. Five arrest warrants and two federal criminal indictments have been obtained thus far, with more to follow.
- An investigation of a Mint Police Officer found that he received \$2.4 million from the sale of error coins that he stole from the Mint.





## Message From the Inspector General

I am pleased to provide our Semiannual Report for September 30, 2011. Over the past 6 months, my office continued to focus on the Treasury programs and responsibilities under our jurisdiction that the Administration and the Congress put in place to address the Nation's efforts to recover from the financial crisis and move forward.

For example, the Small Business Jobs Act of 2010 established in Treasury a \$30 billion Small Business Lending Fund (SBLF) to help banks increase small businesses lending. That program disbursed just over \$4 billion to 332 banks, with \$1.6 billion going to 141 banks in its final days of funding authority. In May 2011, our Office of SBLF Program Oversight issued its first report, on SBLF's investment decision process. We found that while Treasury established an investment decision framework, major elements of the framework had not been finalized. We are currently evaluating the cost for administering the program, as well as Treasury's decision on a number of investments. The Office of SBLF Program Oversight is also evaluating the \$1.5 billion State Small Business Credit Initiative (SSBCI) which provides federal funds to states for programs that support lending to small businesses. We are currently preparing an initial risk assessment of the participating states, and will begin making site visits based on that assessment. We look forward to working with the Department to help ensure that SBLF and SSBCI program controls are strong and program results are transparent.

In July 2011, the Council of Inspectors General on Financial Oversight (CIGFO), created by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) and which I chair, issued its first annual report to the Financial Stability Oversight Council (FSOC) and the Congress. The report included a discussion of current and pending joint projects of CIGFO members and an overview of the FSOC's compliance with statutory requirements. We reported that FSOC had either met or was on target to meet all requirements to date. In addition, our report included sections, developed by each Inspector General, establishing a baseline of oversight activity conducted by each Inspector General from the beginning of the current financial crisis through July 14, 2011. Going forward, CIGFO will continue to provide an important source of independent oversight of FSOC.

During the period, we completed important reviews on a number of other fronts related to Dodd-Frank. For example, we completed a joint review with the Office of Inspector General of the Federal Reserve Board on the planning activities for standing up the Bureau of Consumer Financial Protection (CFPB). Although established as an independent bureau of the Federal Reserve Board, we performed this coordinated review as the Treasury Secretary is responsible for CFPB until the first CFPB Director is confirmed. CFPB did in fact open its doors as planned in July 2011. Additionally, we continued our joint oversight with the Offices of Inspector General of the Federal Reserve Board and the Federal Deposit Insurance Corporation of the transfer of Office of Thrift Supervision functions to other banking agencies. As we jointly reported in September 2011, the transfer was substantially implemented as planned.

We are also continuing our oversight of Treasury's investment in and continued financial support of Fannie Mae and Freddie Mac. For example, among other things, we are looking at Treasury's sales of its

remaining \$60 billion Fannie Mae and Freddie Mac mortgage-backed securities investment portfolio. It should be noted that Treasury expects to dispose of the entire portfolio by March 2012.

With respect to our mandate to perform reviews of all failed Treasury regulated institutions, I noted in my last Semiannual Report that the rate of bank failures had slowed, but that we still had a substantial number of these reviews in process. During the period, we significantly reduced that inventory and are current on all new failed bank reviews. We also continued our proactive audits and investigations of the American Recovery and Reinvestment Act of 2009 (Recovery Act) recipients. To date, in Treasury's two major Recovery Act programs, payments in lieu of tax credits for specified energy properties and payments to the states in lieu of tax credits for low income housing, Treasury has disbursed over \$13 billion. Our focus initially has been on the specified energy properties program. So far, we have completed reviews of 5 Recovery Act recipients and have another 103 in progress.



Eric M. Thorson  
Inspector General

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## Office of Inspector General Overview

The Department of the Treasury's 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 performs oversight related to IRS. A Special Inspector General office and the Government Accountability Office 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, DC, 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 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 the SBLF program and 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 OIG in all legal proceedings and provides a variety of legal services including (1) processing all Freedom of Information Act and *Giglio* 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.

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

As of September 30, 2011, OIG had 174 full-time staff. OIG's fiscal year 2011 appropriation was \$29.6 million.

## 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 our perspective on the most serious management and performance challenges facing the Department. In a memorandum to Secretary Geithner dated October 24, 2011, Inspector General Thorson reported four management and performance challenges. The following is an abridged version of that memorandum.

### Transformation of Financial Regulation

Enacted in July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) established a number of new responsibilities for Treasury and the Secretary.

For example, Dodd-Frank created the Financial Stability Oversight Council (FSOC), chaired by the Treasury Secretary, whose 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. As required, FSOC issued its first annual report in July 2011. The report contained recommendations to (1) heighten risk management and supervisory attention in specific areas, (2) further reforms to address structural vulnerabilities in key markets, (3) take steps to address reform of the housing finance market, and (4) ensure interagency coordination on financial regulatory reform. This is an important early step, but FSOC still has work ahead to meet all of its responsibilities. In this regard, Dodd-Frank calls for the consolidated supervision and heightened prudential standards

for large, interconnected nonbank financial companies. FSOC also has the authority to designate nonbank financial companies for consolidated supervision and to recommend heightened standards. As of the date of the Inspector General's memorandum, FSOC was still in the process of establishing the framework for identifying systemically significant nonbank financial institutions.

The Council of Inspectors General on Financial Oversight (CIGFO), chaired by the Treasury Inspector General, was also established by Dodd-Frank and is an important source of independent, unbiased analysis to FSOC. As required, CIGFO issued its first annual report in July 2011. That report discussed current and pending joint projects of CIGFO members and CIGFO's conclusion that FSOC had either met or is on target to meet all requirements to date. In the future, CIGFO anticipates establishing a working group to oversee the process of designating systemically important nonbank financial institutions for heightened prudential supervision.

Dodd-Frank also established two new offices within Treasury: the Office of Financial Research and the Federal Insurance Office. The Office of Financial Research is to be a data collection, research, and analysis arm of FSOC. The Federal Insurance Office 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. We are currently reviewing the Department's progress in standing up the Office of Financial Research and our future work plans include a review of the Federal Insurance Office.



Intended to streamline the supervision of depository institutions and holding companies, Dodd-Frank transferred the powers and duties of the Office of Thrift Supervision (OTS) to the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (FRB), and the Federal Deposit Insurance Corporation (FDIC) effective July 21, 2011. As was also required by the act, we and the OIGs of FDIC and FRB completed two reviews on the transfer during 2011. The first review reported on the planning for the transfer and the second review reported on the status of the transfer 6 months later. The reviews found that the planning was generally adequate and that transfer activities occurred as planned. However, we also reported on items that were still “works-in-progress.”

The other regulatory challenges that we discussed in the previous year's memorandum still remained. Specifically, since September 2007, 113 Treasury-regulated financial institutions failed, with estimated losses to the Deposit Insurance Fund (DIF) of about \$36.3 billion. Although many factors contributed to the turmoil in the financial markets, our work found that OCC and the former OTS often did not identify early or force timely correction of unsafe and unsound practices by numerous failed institutions under their respective supervision. The irresponsible lending practices of many institutions are now well-recognized. At the same time, many of the failed banks also engaged in other high-risk activities, including high asset concentrations in commercial real estate and overreliance on unpredictable wholesale funding to fund growth.

During the past year, Treasury was successful in standing up the Bureau of Consumer Financial

Protection (CFPB). CFPB opened for business on July 21, 2011, as planned. CFPB is an independent bureau of FRB but Treasury has a unique role in its operations. Specifically, until a Director is appointed, the Treasury Secretary is charged with exercising some, but not all, of the Director's authorities.

### 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. Certain authorities in HERA and EESA have now expired but challenges remain in managing Treasury's outstanding investments. To a large extent, Treasury's program administration under these acts has matured. However, investment decisions involving the Small Business Jobs Act programs have only recently been completed.

### Management of the SBLF and SSBCI

Enacted in September 2010, the Small Business Jobs Act of 2010 created the \$30 billion SBLF within Treasury and provided \$1.5 billion to be allocated by Treasury to eligible state programs through the SSBCI. Both programs were slow to disburse funds to intended recipients, with Treasury approving the majority of SBLF and SSBCI applications during the last quarter of fiscal year 2011. Now that Treasury has completed the approval process for these two programs, the challenge will be to exercise sufficient oversight to ensure that funds are

used appropriately by participants, SBLF dividends owed Treasury are paid, and that the programs achieve intended results.

With regard to SBLF, Treasury disbursed more than \$4 billion to 332 financial institutions. Of the institutions funded, 42 percent were institutions that used their SBLF investment to refinance securities issued under the TARP Capital Purchase Program. Institutions receiving investments under the SBLF program are expected to pay dividends to Treasury at rates that will decrease as the amount of qualified small business lending the institution increases. The dividends are non-cumulative, meaning that institutions are under no obligation to make dividend payments as scheduled or to pay off previously missed payments before exiting the program. That said, there are provisions for increased restrictions as dividends are missed.

Treasury will face many challenges in ensuring that the SBLF program meets its intended objective of increasing lending to small businesses and in measuring program performance.

As of September 27, 2011, 53 states, territories, and eligible municipalities (participating states) had applied for \$1.5 billion in SSBCI funding. Of the participating states, 31 received their first funding allocations of approximately \$0.3 billion. Under SSBCI, participating states may obtain funding for programs that partner with private lenders to extend credit to small businesses. A key feature is that participating states receive their allocations in one-third increments. Treasury may withhold a successive increment to a state pending the results of an audit by our office. Primary oversight of the use of SSBCI funds is the responsibility of each participating state. Treasury will face challenges

in holding states accountable for the proper use of funds as it has not, among other things, clearly defined the oversight obligations of states or specified minimum standards for determining whether participating states have fulfilled their oversight responsibilities.

### Management of Recovery Act Programs

Treasury is responsible for overseeing an estimated \$150 billion of Recovery Act funding and tax relief. Treasury's oversight responsibilities include programs that provide payments for specified energy property in lieu of tax credits, payments to states for low-income housing projects in lieu of tax credits, grants and tax credits through the Community Development Financial Institutions Fund (CDFI), economic recovery payments to social security beneficiaries and others, and payments to U.S. territories for distribution to their citizens.

It is estimated that Treasury's Recovery Act payments in lieu of tax credit programs, for specified energy property and to states for low-income housing projects, will cost more than \$20 billion over their lives. To date, Treasury has awarded approximately \$13 billion under these programs. We conducted a number of audits of recipients of payments under the specified energy property program to determine whether funds were properly awarded to eligible applicants for eligible properties. We have found some questionable claims involving several million dollars in total. We plan to continue our work in this area and will report any major instances of program abuse as necessary.

### Management of the HERA and EESA

Under HERA, Treasury continues to address the distressed financial condition of Fannie Mae and Freddie Mac which are under the conservatorship of the Federal Housing Finance Agency. Among other things, in order to cover the continuing losses of the two entities and their ability to maintain a positive net worth, Treasury agreed to purchase senior preferred stock as necessary, and as of June 30, 2011, invested \$164 billion in the two entities.

Treasury also purchased \$225 billion of mortgage-backed securities issued by the two entities under a temporary purchase program that expired in December 2009. In March 2011, Treasury began to wind down its mortgage-backed securities portfolio and has steadily reduced the portfolio by about \$10 billion a month. The remaining principal outstanding is approximately \$60 billion. Even with Treasury's assistance, the future of both entities remains in question and prolonged assistance may be required. Additionally, the legislative process for housing finance reform is in an early stage and it is difficult to predict what lies ahead for winding down the Fannie Mae and Freddie Mac conservatorships and reforming housing finance in the long run.

TARP, established under EESA, gave Treasury the authorities necessary to bolster credit availability and address other serious problems in the domestic and world financial markets. Treasury's Office of Financial Stability administers TARP, and through several of its programs, made purchases of direct loans and equity investments in a number of financial institutions and other businesses, as well as guaranteed other troubled mortgage-related and financial assets. Authority to make new investments under the TARP program expired

on October 3, 2010. Treasury, however, is continuing to make payments for programs which have existing contracts and commitments. Treasury's challenge in this area has changed from standing-up and running TARP programs to winding them down and recovering its investment. To date, Treasury has reported positive returns from the sale of its investments in the banking industry and has begun reducing its investment in American International Group.

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

Ensuring criminals and terrorists do not use 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 is dedicated to disrupting the ability of terrorist organizations to fund their operations. This office brings together intelligence gathering and analysis, economic sanctions, international cooperation, and private-sector cooperation to identify donors, financiers, and facilitators supporting terrorist organizations, and disrupts their ability to fund them. Treasury carries out its responsibilities to enhance financial transparency through the Bank Secrecy Act (BSA) and USA Patriot Act. The Financial Crimes Enforcement Network (FinCEN) is the Treasury bureau responsible for administering BSA.

Over the past decade, the Treasury's Office of Terrorism and Financial Intelligence has made progress in closing the vulnerabilities that allowed money launderers and terrorists to use the financial system to support their activities. Nonetheless, significant challenges remain. One challenge is ensuring the continued cooperation

and coordination of all the organizations involved in its anti-money laundering and combating terrorist financing efforts. Many of these entities also participate in efforts to ensure compliance with U.S. foreign sanction programs administered by Treasury's Office of Foreign Assets Control. Neither FinCEN nor the Office of Foreign Assets Control has the resources or capability to maintain compliance with their programs without significant help from these other organizations. To this end, Treasury has entered into memoranda of understanding with many federal and state regulators in an attempt to build a consistent and effective process. While important to promote the cooperation and coordination needed, it should be noted that these instruments are nonbinding and carry no penalties for violations, and their overall effectiveness has not been independently assessed.

Last year, financial institutions filed approximately 15 million BSA reports, including over 1.3 million suspicious activity reports. While the number of suspicious activity reports has been increasing since 2001, FinCEN needs to continue its efforts to work with regulators and examining agencies to ensure that financial institutions establish effective BSA compliance programs and file accurate and complete BSA reports, as required. Furthermore, FinCEN still needs to complete work to issue anti-money laundering regulations as it determines appropriate for some non-bank financial institutions, such as vehicle dealers; pawnbrokers; travel agents; finance companies; real estate closing and settlement services; and financial services intermediaries, such as investment advisors.

BSA data is currently maintained by IRS and access to the database is generally handled

through an IRS system. FinCEN's BSA IT Modernization program, begun in 2008, is being built to ensure efficient management, safeguarding, and use of BSA information. This program, which we believe is needed, has yet to reach a point of broad-based integration testing and is highly dependent on continued funding, a challenge for many programs today.

FinCEN has a particularly difficult challenge in dealing with money services businesses (MSB). FinCEN has taken steps to improve MSB examination coverage and compliance. In the past year, FinCEN has finalized new rules and increased enforcement designed to ensure MSBs comply with BSA requirements, including registration and report filing requirements. However, ensuring MSBs register with FinCEN has been a continuing challenge. Furthermore, IRS serves as the examining agency for MSBs but has limited resources to inspect MSBs or identify unregistered MSBs.

FinCEN has also been concerned with MSBs that use informal value transfer systems and with MSBs that issue, redeem, or sell prepaid access. MSBs using informal value transfers have been identified in a number of attempts to launder proceeds of criminal activity or finance terrorism. This past summer, FinCEN issued a final rule applying customer identification, recordkeeping, and reporting obligations to providers and sellers of prepaid access. Ensuring compliance with these rules will be a major challenge.

To detect possible illicit wire transfer use of the financial system, FinCEN also proposed a regulatory requirement for certain depository institutions and MSBs to report cross-border electronic transmittals of funds. However, such a system cannot be fully implemented until



FinCEN completes its work on its BSA IT Modernization project, scheduled for 2014.

### Management of Capital Investments

Managing large capital investments, particularly IT investments, is a difficult challenge for any organization, whether public or private. As a new development, after several years of attempting to centrally manage large infrastructure investments at the Department level, Treasury has announced that it will de-consolidate all infrastructure investments to the bureaus. This move is intended to improve efficiency and transparency, cost savings and avoidance, and overall governance.

In prior years, we reported on a number of capital investment projects that either failed or had serious problems. This year, we continue to identify challenges with ongoing IT investments.

#### Replacement telecommunications platform

Treasury plans to spend \$3.7 billion on its Information Technology Infrastructure Telecommunications Systems and Services investment. While the Treasury Network (TNet) has become operational across Treasury, it is not yet fully compliant with Federal security requirements, among other things.

#### Common identity management system

The Treasury Enterprise Identity, Credential and Access Management (TEICAM) is a \$147 million effort to implement requirements for a common identity standard. Treasury has reported that the system was \$40 million over planned costs.

#### Data center consolidation

The Office of Management and Budget initiated the Federal Data Center Consolidation Initiative to reduce the number of federal data centers. Treasury had over 60 data centers around the country and during fiscal year 2011 closed 3. Treasury plans to close 12 more by 2015. Treasury's ability to successfully accomplish this is contingent on adapting shared infrastructure services.

#### FinCEN BSA IT Modernization

FinCEN's BSA IT Modernization is expected to cost about \$120 million and be completed in 2014. A prior attempt, from 2004 to 2006, to develop a new BSA system ended in failure with over \$17 million wasted. However, early indications from our audit work are that project management is much improved for this effort.

It remains to be seen whether Treasury's decision to de-consolidate all infrastructure investments will improve efficiency and transparency, cost savings and avoidance, and overall governance as intended.

### Matter of Concern

Our memorandum also highlighted an area of increasing concern – information security.

We reported information security as a serious management and performance challenge at Treasury for a number of years but removed the challenge in 2009. We did so because Treasury had made significant strides in improving and institutionalizing its information security controls. We believe that remains the case today. However, notwithstanding Treasury's strong security stance, cyber attacks against federal government systems by foreign

governments and the hacker community are unrelenting and increasing. Treasury's information systems are critical to the Nation, and thus potential targets of those wishing to do grave harm. Accordingly, this is a very troubling situation that requires the highest level of continual attention to ensure that information security policies remain current and practices do not deteriorate.

# Office of Audit – Significant Audits and Other Products

## Financial Management

### Reports on the Processing of Transactions by Bureau of the Public Debt

We completed three reports described below in support of the audit of Treasury’s fiscal year 2011 consolidated financial statements and the financial statement audits of certain other federal agencies.

KPMG LLP, under our supervision, examined the accounting and procurement processing, and general computer controls related to financial management services provided to various federal agencies by the Bureau of the Public Debt’s Administrative Resource Center. KPMG LLP found, in all material respects, that (1) the description of controls for these activities fairly presented the controls that were designed and implemented throughout the

period July 1, 2010, to June 30, 2011; (2) these controls were suitably designed; and (3) the controls tested operated effectively throughout the period July 1, 2010, to June 30, 2011. **(OIG-11-097)**

KPMG LLP, under our supervision, performed examinations that covered (1) the general computer and trust funds management processing controls used for various federal and state agencies’ transactions by the Bureau of the Public Debt’s Trust Funds Management Branch, and (2) general computer and investment/redemption processing controls used for various federal agencies’ transactions by the bureau’s Federal Investments Branch. KPMG LLP found, in all material respects, that (1) the description of controls for these activities fairly presented the controls that were designed and implemented throughout the period August 1, 2010, to July 31, 2011; (2) these controls were suitably designed; and (3) the controls tested operated effectively throughout the period August 1, 2010, to July 31, 2011. **(OIG-11-107, OIG-11-108).**

## Office of Audit – Significant Audits and Other Products

Audits of the fiscal year 2011 financial statements or schedules of the Department and component reporting entities were in progress at the end of this semiannual reporting period. The following table shows audit results for fiscal years 2010 and 2009.

Treasury-audited financial statements and related audits						
	Fiscal year 2010 audit results			Fiscal year 2009 audit results		
Entity	Opinion	Material weak-nesses	Other significant deficiencies	Opinion	Material weak-nesses	Other significant deficiencies
<b>Government Management Reform Act/Chief Financial Officers Act requirements</b>						
Department of the Treasury	UQ	1	3	UQ	2	2
Internal Revenue Service (A)	UQ	2	1	UQ	2	0
<b>Other required audits</b>						
Department of the Treasury's Special-Purpose Financial Statements	UQ	0	0	Q	1	0
Office of Financial Stability (TARP) (A)	UQ	0	1	UQ	0	2
Bureau of Engraving and Printing	UQ	0	0	UQ	0	0
Community Development Financial Institutions Fund	UQ	0	1	UQ	0	3
Office of DC Pensions	UQ	0	1	UQ	0	0
Exchange Stabilization Fund	UQ	0	1	UQ	0	1
Federal Financing Bank	UQ	0	0	UQ	0	0
Office of the Comptroller of the Currency	UQ	0	0	UQ	0	0
Office of Thrift Supervision	UQ	0	0	UQ	0	0
Treasury Forfeiture Fund	UQ	0	0	UQ	0	0
<b>United States Mint</b>						
Financial statements	UQ	0	0	UQ	0	0
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	1	0	UQ	2	0
UQ Unqualified opinion Q Qualified opinion due to omission of a required disclosure and misstatement of certain account balances in the financial statement notes (A) Audited by the Government Accountability Office						



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 2010 consolidated financial statements. The status of these areas of noncompliance, including progress in implementing remediation plans, will be evaluated as part of the audit of Treasury’s fiscal year 2011 financial statements.

Condition	Type of noncompliance
Persistent deficiencies in internal control over information security remain uncorrected. As a result of these deficiencies, IRS was (1) unable to rely upon these controls to provide reasonable assurance that its financial statements are fairly stated in the absence of effective compensating procedures, (2) unable to ensure the reliability of other financial management information produced by its systems, and (3) at increased risk of compromising confidential IRS and taxpayer information. (first reported in fiscal year 1997)	Federal financial management systems requirements
Automated systems for tax related transactions did not support the net taxes receivable amount on the balance sheet and other required supplemental information related to uncollected taxes—compliance assessments and tax write-offs—in accordance with Statement of Federal Financial Accounting Standards No. 7, <i>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

## Information Technology

### Treasury’s Contract Management of TNet Was Poor

TNet currently provides Treasury; its bureaus; other non-Treasury financial, enforcement and economic organizations; and on-site contractors with telecommunication services. We are reviewing, in phases, whether Treasury’s implementation of TNet was based on sound and effective contract management, project management, security management and transition management. This report covered the results of our review of Treasury’s contract management and project management phase of the project.

We concluded that Treasury’s contract and project management of TNet was poor. Specifically, TNet’s statement of work included in the task order did not protect the government’s interest to obtain a timely enterprise network at the least possible cost. Critical system security requirements and key delivery dates were omitted from the task order

rendering Treasury unable to pursue reasonable remedies or terminate the contract for default. Furthermore, even after delivery dates were subsequently incorporated in task order modifications, Treasury still did not pursue available remedies to enforce the terms and conditions of the task order, essentially assuming responsibility for late delivery. Ultimately, the lack of effective leadership resulted in a poorly written, poorly planned, and poorly executed task order. Finally, we believe that inadequate contractor performance resulted in additional costs of \$33 million to Treasury.

The Treasury Chief Information Officer concurred with our recommendations to (1) determine whether damages resulting from certain contractor delays are legally available and, if so, to pursue them; and (2) implement measures to improve the contract and project management of TNet and future information technology acquisitions. **(OIG-11-106)**

## Bureau of Engraving and Printing's Network and Systems Security Was Insufficient

The Bureau of Engraving and Printing (BEP) did not establish sufficient protection for its network and systems and should enhance its security controls to protect against threats posed by malicious insiders. Specifically, during our social engineering exercise, we successfully persuaded 23 BEP users to give us access to their computers using their accounts. While impersonating BEP contractors with unescorted access to the facility, every user whom we approached gave us full access to their computer without challenge. In fact, in one instance, a BEP employee observed us standing at the door to a restricted area. Rather than question our presence, he opened the door and let us in, giving us unescorted access to the entire administrative area.

Our work also identified significant deficiencies in BEP's network and systems related to its patch management processes and system configurations. Specifically, we found critical vulnerabilities because of a number of missing security patches, some more than 1 year old.

Finally, we noted that BEP did not fully comply with the Office of Management and Budget Memorandum M-10-22, "Guidance for Online Use of Web Measurement and Customization Technologies." This memorandum emphasizes the need to safeguard the privacy of the American public while increasing the Federal Government's ability to serve the public by improving and modernizing its activities online.

BEP management's planned corrective actions were responsive to our 13 recommendations addressing the above conditions. **(OIG-11-112)**

## Fiscal Year 2011 Audit of Treasury's Federal Information Security Management Act Implementation for Its Intelligence Systems

The Federal Information Security Management Act requires each inspector general to perform an annual independent evaluation of its agency information security program and practices for national security systems. We performed the fiscal year 2011 audit of Treasury's information security program and practices for its intelligence systems. We determined that Treasury has made notable progress in implementing information security programs and practices for its intelligence systems, but additional improvements are needed. Due to the sensitive nature of these systems, our report was designated Unclassified/For Official Use Only. **(OIG-11-098)**

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## Programs and Operations

### Review of CFPB Implementation Planning Activities

Dodd-Frank established CFPB as an independent agency within the Federal Reserve System. Dodd-Frank provided CFPB with the authority to implement and, as applicable, enforce federal consumer financial law consistently to ensure that all consumers have access to markets for financial products and services, and that these markets are fair, transparent, and competitive.

In anticipation of the July 21, 2011, the date established pursuant to Dodd-Frank for CFPB to open its doors for business, we conducted a joint evaluation with the FRB OIG on the implementation planning activities for CFPB. We conducted our evaluation as part of our

respective offices' joint oversight responsibilities of CFPB. We concluded that CFPB identified and documented implementation activities critical to standing up the agency's functions necessary to address certain Dodd-Frank requirements. Furthermore, CFPB developed and is implementing appropriate plans that support ongoing operations as well as the transfer of employees and functions that occurred on July 21, 2011. In addition, CFPB communicated its planning and implementation of standup activities to internal stakeholders, and provided information to other consumer regulatory agencies regarding its transfer planning. Nevertheless, CFPB's operational success will depend, in part, on its ability to effectively execute its plans.

**(OIG-11-088)**

### Improved BEP Security Over NexGen \$100 Notes Is Necessary

As part of our audit of the BEP's production process for the NexGen \$100 notes, we noted deficiencies related to the physical security over the NexGen \$100 finished notes and work-in-process sheets at the Eastern Currency Facility (ECF) and Western Currency Facility (WCF). We found (1) inadequate security over finished notes and work-in-process sheets at ECF, (2) inadequate and inconsistent retention requirements for security video and digital recordings at both ECF and WCF, and (3) the lack of updated operational security plans to address security matters over the NexGen \$100 notes at ECF. We considered these matters serious enough to warrant immediate corrective action by BEP.

To address these matters, we recommended that BEP (1) safeguard all NexGen \$100 finished notes and work-in-process sheets at ECF in

secured nonproduction areas that have limited and controlled access, (2) evaluate the policy and practices to retain video and digital recordings at ECF and WCF in light of potential long-term storage needs of the NexGen \$100 finished notes and work-in-process sheets, and (3) ensure that written security risk assessments and area security plans at ECF are updated and regularly re-certified in accordance with BEP policy.

In a written response, BEP management provided the corrective actions taken, which included securing the NexGen \$100 finished notes and work-in-process sheets at ECF, and corrective actions planned. We believe these actions are responsive to the intent of our recommendations and we verified the corrective actions implemented as of the date of the report. **(OIG-11-068)**

### CDFI Fund Awards to OneUnited Bank

We performed an audit of the CDFI Fund to determine whether the awards and assistance provided to OneUnited Bank were made in compliance with applicable laws, regulations, and CDFI Fund policies and procedures. We undertook this audit because of media reports surrounding OneUnited and Congresswoman Maxine Waters' financial interest in the institution.

We concluded that the CDFI Fund made its awards and provided assistance to OneUnited in accordance with applicable laws, regulations, and fund policies and procedures. However, as discussed with CDFI Fund officials during the course of our work, we disagreed with the decision by the CDFI Fund to hold its announcement of OneUnited's fiscal year 2010 Bank Enterprise Award pending completion of

this audit. In our view, since the application review and award approval process had taken place before this audit began, the announcement of OneUnited’s fiscal year 2010 award should have been made commensurate with the CDFI Fund’s announcement of the other fiscal year 2010 awards.

During our audit, we identified the following issues that require action by the CDFI Fund; (1) policies and procedures are needed for assessing regulatory enforcement actions when considering Bank Enterprise Award applications; (2) qualified activity for the award program needs clarification; (3) improved verification is needed of Bank Enterprise Award applicant compliance with distressed community requirements; and (4) the equity investment policy does not have an exit strategy. CDFI Fund management generally agreed with our recommendations and its corrective actions, both taken and planned, were responsive to the recommendations. **(OIG-11-091)**

## 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 (PCA), to the Federal Deposit Insurance Act. PCA requires federal

banking agencies to take specific supervisory actions in response to certain circumstances.<sup>1</sup>

Section 38 also requires the inspector general for the primary federal regulator<sup>2</sup> of a failed financial institution conduct a material loss review (MLR) when the estimated loss to the 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 PCA provisions. Section 38, as amended by the Dodd-Frank, defines a material loss as a loss to the DIF that exceeds \$200 million for 2010 and 2011, \$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 and formerly, OTS, for appointing FDIC as receiver, and (2) determining whether any unusual circumstances exist that might warrant a more in-depth review of the loss. This provision

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<sup>1</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>2</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 OTS.



applies to bank failures from October 1, 2009, forward.<sup>3</sup>

From the beginning of the current economic crisis in 2007 through September 2011, FDIC and other banking regulators closed nearly 400 banks and thrifts. Treasury was responsible for regulating 113 of those institutions. Of the 113 failures, 54 resulted in a material loss to the DIF, including 3 new bank failures requiring an MLR during this semiannual period. In prior semiannual reports, we completed and reported on 21 MLRs. During this semiannual reporting period, we completed another 20 MLRs and one in-depth review.

As previously reported, from the MLRs we have completed, we have seen a number of trends emerge. With respect to the causes of these institutions' failures, we found significant losses in loan portfolios, poor underwriting and overly aggressive growth strategies fueled by volatile and costly wholesale funding (e.g., brokered deposits, Federal Home Loan Bank loans); risky lending products such as option adjustable rate mortgages; high asset concentrations; and inadequate risk management systems. In addition, the management and boards of these institutions were often ineffective. The economic recession and the decline in the real estate market were also factors in most of the failures.

With respect to OCC's and OTS's supervision, we found that both regulators conducted regular and timely examinations and identified operational problems, but were slow to take

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<sup>3</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.

timely and effective enforcement action. We also found that in assessing these institutions, examiners regularly gave too much weight to profitability and performing loans and not enough to the amount of risk these institutions had taken on. We also noted that regulators took the appropriate PCAs when warranted but those actions did not prevent a material loss to the DIF.

## Material Loss and In-depth Reviews

As mentioned before, during this reporting period, we completed 20 MLRs on Treasury-regulated institutions whose failures resulted in material losses to the DIF. We also completed an in-depth review of another failed institution. The most significant of these failures in terms of FDIC-estimated losses were the OTS-regulated AmTrust Bank, Guaranty Bank, and La Jolla Bank with \$2.5 billion, \$1.3 billion, and \$1 billion in estimated losses, respectively. These three failed thrifts supervised by the former OTS are highlighted below. A list of the 20 MLRs and 1 in-depth review completed during this semiannual period is provided in the Statistical Summary section.

### Material Loss Review of AmTrust Bank (closed December 4, 2009; estimated loss to the DIF - \$2.5 billion)

AmTrust failed because of significant losses in its loan portfolio. The loans were highly concentrated in acquisition, development, and construction loans, high-risk residential mortgage loans, and also highly concentrated in several depressed real estate markets. AmTrust's board and management did not establish appropriate risk management controls and practices over its loan portfolio. AmTrust also did not maintain adequate capital to compensate for the portfolio's risk. AmTrust's net losses

exceeded \$513 million in 2008 and \$308 million in 2009.

OTS's supervision of AmTrust was not adequate to prevent a material loss to the DIF. From 2005 through 2007, OTS identified AmTrust's high-risk concentrations in acquisition, development, and construction loans and nontraditional residential mortgage loans, and was concerned with its capital adequacy. However, OTS's supervisory approach during those years was primarily to rely on examiner recommendations and matters requiring board attention in the reports of examination.

In November 2008, when OTS concluded stronger action was needed to address AmTrust's problems, it issued a cease-and-desist order (a formal/public enforcement action) that required AmTrust to increase capital levels. By the time OTS issued the cease-and-desist order, however, AmTrust's problems had become too large and severe to resolve. **(OIG-11-076)**

#### **Material Loss Review of Guaranty Bank (closed August 21, 2009; estimated loss to the DIF - \$1.3 billion)**

Guaranty failed primarily because of losses in its non-agency mortgage-backed securities portfolio. That portfolio consisted of a high concentration of California option adjustable rate mortgages. With respect to its supervision of Guaranty, OTS failed to recognize the risks associated with the thrift's investment strategy until 2008, primarily because the non-agency mortgage-backed securities that Guaranty bought were graded AAA by credit rating agencies.

We found that from 2004 through 2007, both the thrift and OTS relied on the AAA ratings and considered the risk of purchasing AAA-rated, non-agency mortgage-backed securities to be minimal. As losses associated with the non-agency mortgage-backed securities mounted, OTS started taking enforcement actions in 2008 and issued a formal cease and desist order in April 2009. In August 2009, OTS took the required PCA actions in a timely manner as Guaranty's reported capital levels fell below adequately capitalized. However, these actions were unable to save the thrift. **(OIG-11-066)**

#### **Material Loss Review of La Jolla Bank, FSB (closed February 19, 2010; estimated loss to the DIF - \$1 billion)**

La Jolla Bank failed because of significant asset quality deterioration and loan losses. This condition resulted from La Jolla Bank's aggressive growth in high-risk construction, land, and commercial loans during the period 2002 to 2008. Thrift management failed to maintain proper internal controls, and the board did not appropriately oversee the thrift's lending activities. La Jolla Bank officials attempted to resolve problem loans by making improper loan modifications and extensions, which made loans with late payments appear current. Potential fraud and other misconduct by the chief executive officer and chief credit officer brought to the attention of the board's audit committee by the thrift's internal auditor in July 2009, likely contributed to La Jolla Bank adopting its unsafe and unsound operating strategy. At the time of our review, OTS and FDIC were investigating potentially fraudulent activity and improper behavior by the thrift's officers. We also referred these matters and related documentation to OIG's Office of Investigations.

With respect to OTS’s supervision, we found that OTS conducted timely and regular examinations of La Jolla Bank. In 2004 and subsequent examinations, OTS identified concerns with La Jolla Bank’s business plan, loan policies, and internal controls. OTS generally addressed its concerns through matters requiring board attention and corrective actions. Field visits, however, were not performed in between these examinations to ensure the thrift was taking the necessary corrective actions. Also, it was not until the December 2008 examination that examiners determined management practices and board oversight were inadequate, particularly in the key areas of loan underwriting and credit administration. **(OIG-11-086)**

### Nonmaterial Loss Reviews

During this semiannual reporting period, nine OCC- or OTS-regulated financial institutions failed with losses below \$200 million, the current threshold triggering an MLR. We determined that there were no unusual circumstances surrounding the failures or the supervision exercised by OTS or OCC that would warrant a more in-depth review of the failures by our office. Additional information on the nine failures is provided in the “Bank Failures and Nonmaterial Loss Reviews” section of this report.

During the period, we issued nine final audit reports on our nonmaterial loss reviews. A list of these audit reports is provided in the Statistical Summary section.

## Other Banking-Related Work

### Transfer of OTS Functions

Intended to streamline the supervision of depository institutions and holding companies, Dodd-Frank transferred the powers and duties of OTS to OCC, FRB, and FDIC effective July 21, 2011. As required by Dodd-Frank, we and the OIGs of FRB and FDIC completed two reviews on the transfer during 2011. The first review, completed in March 2011 and discussed in our prior semiannual report, reported that the Joint Implementation Plan (Plan) by FRB, FDIC, OCC, and OTS for the transfer was generally adequate. The second review, completed in September 2011, reported on the status of the implementation of the Plan.

We concluded that FRB, FDIC, OCC, and OTS have substantially implemented the actions in the Plan that were necessary to transfer OTS functions, employees, funds, and property to FRB, FDIC, and OCC, as appropriate. Certain aspects of the Plan, as discussed below, are ongoing or were not yet required to be completed.

In our March 2011 report, we reported that, while not impacting our overall conclusion on the Plan, certain details needed to be worked out to ensure that OTS employees were not unfairly disadvantaged and an orderly transfer of OTS powers, authority, and employees could be effectively accomplished. For example, neither the number of employees to be transferred to OCC nor the assignment of functions for those employees had been finalized at the completion of our last review. Those details have largely been resolved with the exception that the Acting Director of OTS has not yet received a notice of position assignment from OCC. In this regard, OCC has

120 days after the date the Acting Director is transferred to OCC to issue the notice. Such transfer must occur not later than 90 days after the transfer date (July 21, 2011).

Our March 2011 report also identified a concern expressed by OTS officials related to additional OCC certification requirements in order to qualify to lead examinations of national banks, in addition to savings associations. OCC is addressing this matter with a project to develop a cross-credentialing process for both OCC and former OTS examiners, but has not estimated a date for its completion.

**(OIG-11-109)**

As required by Dodd-Frank, we will continue to report jointly with the OIGs of FRB and FDIC on the status of the Plan every 6 months until all aspects of the Plan have been implemented.

### Evaluation of Prompt Regulatory Action

We performed a joint evaluation with the OIGs of FDIC and FRB on the use of PCA and safety and soundness provisions of the Federal Deposit Insurance Act (Sections 38 and 39, respectively, and referred to as Prompt Regulatory Action in our joint report) by the federal banking agencies during the recent economic crisis. While we found that PCA was appropriately implemented and helped strengthen oversight to a degree, we also found:

- Inherent limitations associated with PCA's capital-based framework and the sudden and severe economic decline impacted PCA's effectiveness in resolving the problems of institutions during this crisis.
- Regulators identified deficiencies prior to declines in PCA capital categories.

- Regulators took action to address safety and soundness concerns before undercapitalization but after financial decline occurred.
- Regulators made limited use of Section 39 to address asset quality and management deficiencies.
- Critically undercapitalized institutions were closed promptly, but overall losses were significant.

To improve the effectiveness of the Prompt Regulatory Action framework and to meet the Section 38 and 39 goals of identifying problems early and minimizing losses to the DIF, we recommend that FDIC, FRB, and OCC review the matters for consideration presented in our report and work through FSOC to determine whether the Prompt Regulatory Action legislation or implementing regulations should be modified. The specific matters for consideration are (1) develop specific criteria and corresponding enforcement actions for non-capital factors, (2) increase the minimum PCA capital levels, and (3) continue to refine the deposit insurance system for banks with assets under \$10 billion to assess greater premiums commensurate with risk-taking.

**(OIG-CA-11-008)**

### Economic Analysis by OCC

We reviewed the economic analyses performed by OCC related to its rulemaking activities to implement Dodd-Frank. Our review was conducted in response to a request for information we received from the Ranking Member and other members of the Senate Committee on Banking, Housing, and Urban Affairs.

We found that OCC has processes in place to ensure that required economic analyses are performed consistently and with rigor in connection with its rulemaking authority. Furthermore, we found that those processes were followed for the three proposed rules we reviewed. OCC concurred with our recommendations to (1) develop procedures to ensure the coordination between the groups calculating administrative burden for various analyses, and (2) update internal guidance to reflect the current statutory environment governing the rulemaking and related economic analysis processes, and develop related written procedures. Additionally, we noted that there was no formal process in place that provides for coordination on economic analyses between OCC and the other federal banking agencies. **(OIG-CA-11-006)**

### Recovery Act Audits

During this semiannual period, we issued six audit reports as part of our ongoing oversight of Treasury's more than \$20 billion of non-IRS spending authority under the Recovery Act. We consider our Recovery Act oversight one of our highest priorities. Accordingly, we continue to conduct proactive audits of recipients of funds disbursed as part of the Treasury's two major Recovery Act programs: Payments to States in Lieu of Tax Credits for Low Income Housing (Section 1602) and Payments in Lieu of Tax Credits for Specified Energy Properties (Section 1603). As of September 2011, Treasury has disbursed approximately \$13 billion to approximately 20,000 recipients; we have initiated reviews of 103 Recovery Act payment recipients valued at approximately \$2 billion.

### Specified Energy Properties (1603 Program)

As part of our audit of Treasury's Section 1603 Program, we audited selected recipients to determine whether the specified energy properties existed, were placed-in-service within the eligible timeframes, and the award amounts were appropriate. During this semiannual period, we issued several audit reports on wind facilities and solar companies. These audits resulted in questioned award amounts of approximately \$2.1 million, the results of which are highlighted below.

#### EcoGrove Wind LLC

We found that the EcoGrove's subject property existed and was placed in service within the eligible timeframe. However, we found that the award amount was not appropriate. We questioned \$2,080,452 of EcoGrove's award as a result of identifying \$6,934,838 of questionable costs included in EcoGrove's 1603 Program claim. We believed this claim did not comply with Treasury Regulation §1.263A-1 as these costs were neither a direct nor allocable indirect cost of producing the property and should not have been included in the subject property's cost basis. EcoGrove management did not agree with all the costs that we questioned and agreed to reimburse only \$35,479 of its award to Treasury.

We recommended that the Fiscal Assistant Secretary (1) ensure that EcoGrove reimburse Treasury \$2,080,452 for the excessive 1603 Program payment received for the subject property and (2) direct EcoGrove and affiliated companies not to include in applications for 1603 Program awards inappropriate or otherwise ineligible costs in the claimed cost basis. Treasury management agreed in part with our findings, related to the reimbursement of



\$35,479 of EcoGrove’s 1603 Program award, but could not make a determination with respect to the remainder of the questioned costs without further analysis. We consider this an open recommendation and will follow up on a management decision in 6 months.

**(OIG-11-103)**

### Sierra SunTower LLC

In the case of Sierra SunTower, we found that the subject property existed and was placed in service within the eligible timeframe. However, we questioned \$117,497 of costs included in Sierra SunTower’s reported cost basis that we believed did not comply with Treasury Regulation §1.263A-1 as these costs were neither a direct nor allocable indirect cost of producing the property and should not have been included in the subject property’s cost basis. As a result, we questioned \$35,249 of Treasury’s 1603 Program award to Sierra SunTower (30 percent of \$117,497). Sierra SunTower management concurred with the costs that we questioned.

We recommended that the Fiscal Assistant Secretary (1) ensure that Sierra SunTower reimburse Treasury \$35,249 for the excessive 1603 Program payment received for the subject property, and (2) direct Sierra SunTower and affiliated companies not to include in applications for 1603 Program awards inappropriate or otherwise ineligible costs in the claimed cost basis. Treasury agreed with our recommendations. **(OIG-11-077)** According to the Department’s audit recommendation tracking system, the reimbursement has been obtained.

### Nevada Solar One LLC

We found that Nevada Solar’s subject property existed and was placed in-service within the eligible timeframe. However, we questioned \$24,257 of costs included in Nevada Solar’s reported cost basis that we believed did not comply with Treasury Regulation §1.263A-1. We questioned \$7,277 of Treasury’s 1603 Program award to Nevada Solar (30 percent of \$24,257). Nevada Solar management concurred with our findings but did not agree with all of the costs questioned.

We recommended that the Fiscal Assistant Secretary (1) ensure that Nevada Solar reimburse Treasury \$7,277 for the excessive 1603 Program payment received for the subject property, and (2) direct Nevada Solar and affiliated companies not to include in applications for 1603 Program awards inappropriate or otherwise ineligible costs in the claimed cost basis. Treasury agreed with our recommendations and will take appropriate action to seek full reimbursement from Nevada Solar in the amount of \$7,277. **(OIG-11-093)**

### Inadale Wind Farm LLC

We found that Inadale’s subject property existed and was placed in service within the eligible timeframe. We found that the award amount was appropriate with one minor exception of \$2,038 of unsupported costs included in Inadale’s reported cost basis.

We recommended that the Fiscal Assistant Secretary (1) ensure that Inadale reimburse Treasury \$611 for the excess 1603 Program payment received for the subject property (30 percent of \$2,038), and (2) direct Inadale and affiliated companies not to include in applications for 1603 Program awards

inappropriate or otherwise ineligible costs in the claimed cost basis. Inadale agreed to reimburse Treasury the questioned cost of \$611. Treasury management agreed with our recommendations. **(OIG-11-111)**

### Pyron Wind Farm LLC

We determined that Pyron’s subject property existed and was placed in service within the eligible timeframe. After receiving clarification from Treasury of certain applicable tax provisions through its response to the draft of this report, we are not questioning the eligibility of costs claimed by Pyron in its reported cost basis. **(OIG-11-110)**

### CDFI Fund Administration of Recovery Act Funds

#### Process for Awarding Assistance to Applicants Needs Improvement

We assessed the CDFI Fund’s process for awarding Recovery Act funds and report four areas for improvement. Specifically, we found (1) the CDFI Fund’s policies and procedures did not comply with certain statutory requirements of the Recovery Act and the Riegle Community Development and Regulatory Improvement Act of 1994, (2) applications for the fiscal year 2009 funding were not evaluated in a fair and consistent manner, (3) applications for fiscal year 2009 funding were not always scored in compliance with internal CDFI Fund guidance nor were complete assistance application files maintained, and (4) instances where the fiscal year 2009 assistance agreements omitted required information or included incorrect data that was not flagged by the CDFI Fund review process. CDFI Fund management agreed with our 10 recommendations to ensure compliance with

applicable laws and regulations and consistency in evaluating and scoring funding applications, as well as ensuring reviewer guidance is consistently followed, complete application files are maintained, all assistance agreements are reviewed for key schedules and proper performance measures, and to correct the agreements as appropriate. **(OIG-11-071)**

# Office of SBLF Program Oversight – Significant Products

## Investment Decision Process for SBLF

Our review disclosed that Treasury’s investment decision process, which closely follows legislative requirements, targets institutions that are at least adequately capitalized because the Small Business Jobs Act of 2010 restricts participation to financially viable banks. Financially viable banks are adequately capitalized, not expected to become undercapitalized, and not expected to be placed into conservatorship or receivership. According to Treasury officials, this requirement will increase the likelihood that participants, including banks currently participating in TARP capital programs, can repay their investment and have sufficient capital with which to increase small business lending. However, TARP banks approved for SBLF funding are not expected to get much additional capital beyond their outstanding TARP investment balances. The maximum investment for TARP banks, like other institutions, is restricted to a percentage of their risk-weighted assets, and for many TARP banks, such assets may have declined due to the downturn in the economy since the time of their application to TARP.

Applicants are required to submit small business lending plans that include their goals, but neither their federal banking agency (FBA) nor Treasury intend to review the plans for the likelihood of goal achievement. The Small Business Jobs Act of 2010 provides that Treasury may consult with the Small Business Administration (SBA) regarding the

administration of the SBLF program. However, Treasury program officials did not have a formal plan to consult with the SBA or leverage market data that SBA may collect to determine whether the goals reported are met. SBA officials stated that they welcome consultation with Treasury as it would provide an opportunity to help Treasury maximize SBLF program outcomes; and put institutions in touch with SBA resources for developing outreach plans and business strategies to target small businesses in the areas they serve.

Treasury does not plan to consider the small business lending history of applicants who are SBA lenders to identify compliance issues. Senior Treasury officials indicated they are interested in having the SBLF program office explore ways to leverage SBA’s data and experience to achieve program outcomes.

We also determined that (1) although FBAs are required to disclose only material supervisory issues, they have significant discretion on which issues to disclose to Treasury, (2) Treasury has provided no specific guidance to the FBAs for identifying banks that may be required to raise matching funds, (3) the noncumulative treatment of SBLF dividends, which are driven by capital requirements imposed by an amendment to Dodd-Frank, may result in institutions not fully paying all of the expected dividends for Treasury’s investment, and (4) the financial performance of applicants may change between the time of the FBA review and the disbursement of funds, creating a need to update supervisory information provided by the FBAs.

We recommended that Treasury (1) report to Congress monthly aggregate data regarding the capital ratios of applicants approved for SBLF

funding, which is publicly available in call reports; (2) evaluate the reasonableness of small business lending plan goals before making investment decisions and consult with SBA in making the evaluation; (3) discuss with SBA compliance issues associated with SBLF applicants who are SBA lenders; (4) confirm with FBAs that there are no changes in an institution's financial viability or new supervisory concerns prior to disbursement of SBLF funds; and (5) develop matching capital guidance for the FBAs detailing Treasury's expectations.

In its response, Treasury management generally agreed with our recommendations. With respect to the recommendation that Treasury confirm with FBAs that there are no changes in an institution's financial viability or new supervisory concerns prior to disbursement of SBLF funds, Treasury officials indicated that they have implemented such a procedure. However, the procedure described does not provide for directly contacting the FBAs prior to providing funds. Accordingly, we consider this recommendation to be unresolved and plan to refer it to the Department's Office of Management for resolution in accordance with Treasury Directive 40-03, "Treasury Audit Resolution, Follow-Up, and Closure."

In addition, we suggested that Congress consider whether a legislative amendment to the Small Business Jobs Act of 2010 or a waiver from provisions of Dodd-Frank is needed to make the repayment of all dividends a requirement for exiting the program.  
**(OIG-SBLF-11-001)**

### Treasury Needs To Strengthen State Accountability For Use of SSBCI Funds

Before Treasury can disburse SSBCI funds, it must execute an allocation agreement with every participating state that sets forth internal control, compliance, and reporting requirements. We reviewed the SSBCI allocation agreement between Treasury and participating states and other policy documents to determine whether Treasury had adequately defined the compliance and oversight obligations of participating states to establish proper accountability for oversight of allocated funds.

We identified several areas where SSBCI's compliance and oversight framework could be improved. Specifically, the allocation agreement should clearly define the oversight obligations of participating states and specify minimum standards for determining whether participating states have fulfilled their oversight responsibilities. The language in the allocation agreement and policy guidelines should also require that participating states collect and review compliance assurances made by lenders and borrowers and that all recipients provide compliance assurances. Finally, Treasury should define what constitutes a "material adverse change" in a participating state's condition, or operations, which would reduce uncertainty about when a State must notify Treasury. As a result, participating states may not exercise sufficient oversight of funds allocated under the SSBCI program, and we may have difficulty establishing whether participating states are in default of program requirements and have misused funds.

Management took immediate action to address the issues raised in the report, but did not agree

with our recommendation to modify the allocation agreement or policy guidelines to require participating states to make a representation that it is aware of, monitoring, and enforcing compliance with the policy guidelines and other restrictions applicable to program recipients. Management responded that the current certification provides an adequate assurance that each state is aware of, monitoring, and enforcing compliance with policy guidelines. However, we believe, that state certifications would be solely based on compliance assurances received from financial institutions and borrowers without any monitoring or verification by the state of that compliance. We will continue to work with Treasury to strengthen and improve the existing oversight regime and plan to pursue resolution of this recommendation through the audit resolution process. **(OIG-SBLF-11-002)**



# Office of Investigations – Initiatives and Significant Investigations

## Initiatives

### Bank Fraud Initiative

In 2008, the number of failed financial institutions across the country grew dramatically and threatened our nation's financial system. In 2009, in an effort to strengthen and protect the nation's financial system, the Office of Investigations opened a number of investigations specifically targeting fraudulent activities affecting the nation's banks. Working jointly in most cases with the FDIC, the FRB, the United States Secret Service, and the Federal Bureau of Investigation, these investigations specifically involve the obstruction of OCC's financial institution examinations. Currently, the Office of Investigations has 15 open investigations nationally and continues to receive referrals from the Office of Audit and other sources.

### Check Forgery Insurance Fund Initiative

The Check Forgery Insurance Fund was created by the Congress in 1941 to serve as a source of restitution to payees whose Treasury checks were damaged, lost, stolen, or otherwise compromised and unredeemable. Initially, the fund's earmark was \$50,000, but today the fund's annual funding allocation is over \$10 million. In 2009, claims affecting the fund totaled \$18.1 million; in 2010, \$15.9 million; and in 2011, the projection is \$11.7 million.

During this reporting period, the Office of Investigations presented cases involving 20

subjects to federal and local prosecutors with requests for criminal charges. In addition, we assisted in indicting 3 individuals suspected of Check Forgery Insurance Fund fraud, arrested another 14 individuals, and obtained 5 criminal convictions. We also referred 9 matters to the Treasury Office of General Counsel for civil adjudication consideration under the Program Fraud Civil Remedies Act.

We continue to review claims against the Check Forgery Insurance Fund and work with other law enforcement agencies and prosecutors at all levels of government to identify possible fraud against Treasury and improper payments made by Treasury.

### Money Service Business Initiative

Recently, we began an initiative to investigate MSBs that do not properly register with the FinCEN. Failure by MSBs to register with FinCEN is a violation of *Title 18 of the U.S. Code, Section 1960, Prohibition of Unlicensed Money Transmitting Businesses*. Additionally, upon request from a U.S. Attorney's Office, we will assist in investigations involving MSBs that are registered, but are nonetheless involved in fraudulent activities such as money laundering, *Title 18 of the U.S. Code, Section 1957, Engaging in Monetary Transactions in Property Derived From Specified Unlawful Activity*.

An MSB subject to the registration requirement includes any person doing business and meeting certain daily activity thresholds, whether on a regular basis or as an organized business concern, in one or more of the following capacities: (1) currency dealer or exchanger; (2) check casher; (3) issuer of travelers' checks, money orders or stored value cards; (4) seller or redeemer of travelers' checks, money orders, or

stored value; (5) money transmitter; or (6) the U.S. Postal Service.

We began preliminary inquiries and opened several investigations into alleged unregistered and unlicensed MSBs as well as into illicit activities involving registered MSBs as requested by the U.S. Attorney's Offices.

### Significant Investigations

#### Mint Police Officer Pleads Guilty to Theft and Tax Evasion

As part of a joint investigation with IRS-Criminal Investigation, a Mint Police Officer pled guilty to two counts of an Information filed by the U.S. Attorney's Office for the District of New Jersey, charging him with theft of government property and tax evasion. The investigation revealed that from 2007 through 2009, the Mint Police Officer stole Presidential \$1 coins with missing edge lettering and other items out of a Mint facility. The individual later sold the coins to a coin distributor in California. He admitted to receiving \$2.4 million from the coin distributor for the error coins, and that he failed to report that sale of the coins on his income tax return. The individual is scheduled to be sentenced in December 2011.

#### Real Estate Developer Sentenced in Bank Fraud

On August 15, 2011, our 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 to pay \$2,396,373 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. The investigation continues against former employees of the bank.

#### Mint Police Officer Arrested for Workers' Compensation Fraud

In August 2011, as part of a joint investigation with the U.S. Department of Labor OIG, a Mint Police Officer was arrested in Mt. Laurel, New Jersey, for making material false statements to obtain workers' compensation. His residence was also searched as part of the investigation. The employee was allegedly injured in September 2008 moving a gate at the Mint. He was offered "light duty" but refused, claiming he could not perform any type of work. Since that date, he has received over \$173,000 in compensation while operating a profitable company selling law enforcement memorabilia.

#### Search Reveals \$2.3 Million in Potential Fraud

In November 2010, we initiated an investigation regarding possible stolen Treasury checks brought to our attention by Chase Bank. The investigation determined that a number of stolen Treasury checks, including tax refunds,

were obtained by a group of individuals in Atlanta, Georgia. Execution of a federal search warrant and subsequent investigative activity identified more than 6,000 potential victims of identity theft and \$2.3 million in possible fraud against the government. Five arrest warrants and two federal criminal indictments have been obtained thus far, with more expected to follow.

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

In January 2010, 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 to the government from improper payments. The U.S. Attorney's Office in the District of Columbia anticipates pursuing criminal charges against multiple defendants in this investigation.

### **Recovery Act - Suspension of Easy Energy, LLC**

On September 6, 2011, Treasury suspended Easy Energy, LLC, and its President and Principal from participating in further transactions with federal government programs and activities for 12 months or until the end of civil or criminal proceedings. The suspension was based on adequate evidence that Easy Energy, LLC had committed irregularities which seriously reflected on the propriety of further federal government dealings with the company. This action effectively protects the federal

government from further transactions with these parties.

Our office presented evidence to Treasury's suspension and debarment official alleging the company and its President and Principal committed several fraudulent activities to inflate the cost basis of a solar array installation at the Waterfront Apartments in Phoenix, Arizona. The Recovery Act enables entities placing certain specified energy property, including solar energy property, into service to obtain a grant in the amount of a percentage of their cost basis as reimbursement, in lieu of an otherwise available tax credit. Easy Energy, LLC claimed a grant in lieu of tax credit for 30 percent of the cost basis of the property, to which it would have been entitled if the cost basis were correct. However, our investigation has revealed that its claimed basis was inflated and that it submitted false documents in substantiation of that claim. Treasury will continue to monitor this case and take appropriate action in due course.

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

### **Indictment and Sentencing in Fraudulent Check Scheme - Update**

As reported in our March 2011 semiannual report, an OIG investigation determined that an individual in New Bern, North Carolina attempted to misuse the Treasury Direct Program.

On July 7, 2011, the individual was sentenced in the U.S. Courthouse in Wilmington, North Carolina, to 16 months imprisonment followed

by a 4-year term of supervised release, and to pay \$2,635 in restitution to his victims.

### **Fraudulent Tax Refund Scheme Utilizing Treasury Direct Accounts - Update**

As reported in our March 2011 semiannual report, our office investigated a multi-million dollar fraud involving the use of false identities to obtain unwarranted tax refunds through the Treasury Direct Program. Among other things, a subject arrested by OIG special agents had been indicted and seizure warrants were issued for fraudulent Treasury Direct accounts totaling over \$781,000.

Since our last semiannual report, seizure warrants were issued for Treasury Direct accounts totaling an additional \$1.2 million. The subject's trial is scheduled for later this year.

### **OCC Examiner Admits Misusing Government Travel Card – Update**

As reported in our March 2011 semiannual report, an investigation by our office determined that an OCC bank examiner admitted that she had used cash advances inappropriately.

OCC issued the bank examiner a letter of reprimand for the misuse of the travel card.

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## **Management Implication Reports**

### **Findings of Inadequate Warehouse Security/Inventory Controls**

During this reporting period, we issued a Management Implication Report to the Treasury Executive Office for Asset Forfeiture regarding security concerns observed during an

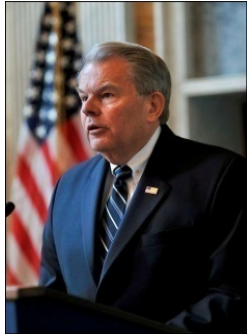
investigation involving a theft at one of its contractor's warehouses. Specifically, we found that the warehouse did not have adequate cameras, video retention, or a security badging system to record when individuals entered vaults and other secure locations. We also determined that the officer and its contractors need to improve their inventory control within the warehouses. Treasury Executive Office for Asset Forfeiture management is currently reviewing these recommendations.

### **Procurement Process Deficiencies**

In November 2010, we issued a Management Implication Report to the Mint regarding deficiencies discovered in the bureau's procurement process. During this semiannual period, Mint management responded that they have provided additional training and certification for their procurement personnel, hired additional personnel, and reorganized their procurement staff to reduce and eliminate future issues in their contracting process.

## Other OIG Accomplishments and Activity

### IG Testimony on Oversight of U.S. Custodial Deep Storage Gold Reserves



*Pictured is Eric Thorson, Inspector General, Department of the Treasury.*

Over the years, some have called into question both the existence and accuracy of the nation's gold inventory. On June 23, 2011, Inspector General

(IG) Thorson testified before the House Committee on Financial Services' Subcommittee on Domestic Monetary Policy and Technology regarding the audits conducted by Treasury OIG on the U.S. Mint's Schedule of Custodial Deep Storage Gold Reserves. Testifying with Mr. Thorson was Mr. Gary T. Engel, Director, Financial Management and Assurance, Government Accountability Office

Treasury OIG assumed responsibility for auditing Treasury's deep storage gold in fiscal year 1993. During the audits, we observe the Mint's inventory counts, sample the gold for independent verification of its stated assay value (assay is a measure of the purity of the gold), and inspect the integrity of the official joint seals placed on the compartments where the gold is stored. In his testimony, Mr. Thorson told the Subcommittee, "100 percent of the U.S. Government's deep storage gold reserves in the custody of the Mint have been inventoried and audited, with no noteworthy exceptions." Mr. Thorson also made it clear that the physical security over the gold reserves is absolute because he has personally observed the gold.

### OIG Senior Executive Receives Presidential Rank Award

**Marla Freedman**, Assistant Inspector General for Audit, was the recipient of a 2010 Meritorious Presidential Rank Award. Presidential Rank Awards honor high-performing senior career employees for "sustained extraordinary accomplishment." Executives from across Government are nominated by their agency heads, the nominations are evaluated by citizen panels, and the awards are conferred by the President. Winners of this distinguished award are deemed to be strong leaders, professionals, or scientists who achieve results and consistently demonstrate strength, integrity, industry, and a relentless commitment to excellence in public service.



*Ms. Freedman and other Department of the Treasury 2010 Presidential Rank Award recipients were honored at a ceremony held in the Treasury Building Cash Room on September 14, 2011. Standing with Ms. Freedman are Assistant Secretary for Management, Chief Financial Officer and Chief Performance Officer Daniel Tangherlini and Inspector General Thorson.*



### The First Annual Treasury OIG Awards

On June 1, 2011, Treasury OIG held its first annual awards program in the Cash Room of Main Treasury. The program recognized the achievements and outstanding performance of OIG staff during the calendar year 2010. Presented were 5 Individual Achievement Awards, 2 Teamwork Awards, 4 Customer Service Awards, and the Rookie Award. Also awarded was the first-ever IG's Leadership Award, the highest honor bestowed to an OIG employee.

Inspector General Eric Thorson presented awards to the following recipients:

#### **IG Leadership**

P. Brian Crane

#### **Rookie Award**

Sabrina Diggs

#### **Individual Achievement Awards**

Donald Benson, Erica Wardley, Bobbi Paulson, Jenny Hu, and John Gauthier

#### **Teamwork Award**

##### **Branch 3 of the Office of Investigations**

Jason Metrick, Jerome Marshall, Christopher LeFever, and Sean McDowell

#### **The 2009-2010 External Peer Review Team in the Office of Audit**

Bobbie Gambrill, Sheila Michel, Mark Levitt, Michael Stein, Horace Bryan, Linda Anderson, Chereeka Straker, Erica Wardley, Michelle Littlejohn, Sabrina Diggs, Alicia Bruce, and Gerald Kelly

#### **Customer Service Awards**

##### **IT/VPN Team in the Office of Management**

Robin Berg, Jeff Lawrence, Ava Maria Davis, Ernie Eldridge, and Sam Sternberg

#### **Individual Awards**

David Cho, Audit; Imogene Murray; Counsel, and Michael Stein, Audit

### Continuing Professional Education Symposium

The Offices of Audit and SBLF Program Oversight held their biennial continuing professional education symposium in August 2011 at the Rosen Plaza Hotel in Orlando, Florida. In attendance were 115 Treasury OIG staff as well as 10 auditors from the Department of Labor OIG. The symposium theme, Building on Success, provided 40 hours of training in the areas of (1) developing audit findings, (2) report writing skills, and (3) leadership skills. As plenary sessions, the attendees heard from subject matter experts on topics such as *Government Auditing Standards*, auditing for fraud, the financial crisis, and identity theft. We also conducted our 1<sup>st</sup> biennial Audit IQ competition testing staff's knowledge of auditing and Treasury history. The Banking Directorate led by **Jeff Dye** won this year's Audit IQ Champion title. A photo of the winning Directorate team is on the next page.



*Pictured above are the Audit IQ Champions: back row from left to right Jim Lisle, Audit Manager; Vicki Preston, Auditor; Marco Uribe, Auditor; Christen Stevenson, Auditor; front row from left to right April Ellison, Auditor; Marla Freedman, Assistant Inspector General for Audit; Adelia Gonzales, Auditor; Olivia Scott, Auditor; and Jennifer Ksanznak, Auditor.*

### Treasury OIG Adopts New 5-Year Strategic Plan

In late May, OIG adopted a Strategic Plan for Fiscal Years 2011-2015 that reinforces the mission of promoting the integrity, efficiency and effectiveness of Treasury programs and operations. In addition to outlining the key mandates and values of the office, the plan sets forth four major strategic goals, with accompanying objectives and indicators of success. The plan also discusses the relationship of the OIG Strategic Plan to the Department of the Treasury Strategic Plan and includes a discussion of critical environmental factors.

OIG's four strategic goals are as follows.

- Promote the integrity and effectiveness of Treasury programs and operations through audits and investigations
- Proactively support and strengthen the Department's ability to identify and manage challenges, both today and in the future
- Fully and currently inform stakeholders of Treasury OIG findings, recommendations,

investigative results, and priorities related to Treasury programs and operations

- Enhance, support, and sustain a workforce and strengthen internal operations to achieve the Treasury OIG mission, vision and strategic goals

# Statistical Summary

## Summary of OIG Activity

For the 6 months ended September 30, 2011

OIG Activity	Number or Dollar Value
<b>Office of Counsel Activity</b>	
Regulation and legislation reviews	4
Instances where information was refused	0
<b>Office of Audit Activities</b>	
Reports issued and other products	50
Disputed audit recommendations	0
Significant revised management decisions	0
Management decision in which the IG disagrees	0
<b>Monetary benefits (audit)</b>	
Questioned costs	\$2,123,589
Funds put to better use	0
Revenue enhancements	0
Total monetary benefits	\$2,123,589
<b>Office of Small Business Lending Fund Program Oversight Activities</b>	
Products issued	2
<b>Office of Investigations Activities</b>	
<b>Criminal and judicial actions (including joint investigations)</b>	
Cases referred for prosecution and/or litigation	62
Cases accepted for prosecution and/or litigation	37
Arrests	15
Indictments/informations	3
Convictions (by trial and plea)	10

## Significant Unimplemented Recommendations

For reports issued prior to October 1, 2010

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	<i>Terrorist Financing/Money Laundering: FinCEN Has Taken Steps to Better Analyze Bank Secrecy Act Data but Challenges Remain</i>

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)

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OIG-09-027      1/09      *Management Letter for Fiscal Year 2008 Audit of the Office of the Comptroller of the Currency's Financial Statements*  
 OCC should continue to dedicate resources to fully implement the necessary System Management Server process automatically and promptly detect and remove unauthorized personal and public domain software from OCC systems (workstations) and implement controls to restrict users from downloading and installing unapproved software. (1 recommendation)

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OIG-10-001      10/09      *Safety and Soundness: Material Loss Review of TeamBank, National Association*  
 OCC should emphasize to examiners the need to ensure that banks conduct transactional and portfolio stress testing when appropriate.  
 (1 recommendation)

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OIG-10-017      12/09      *Safety and Soundness: Material Loss Review of Omni National Bank*  
 OCC should implement a policy for examiner in charge rotation for midsize and community banks. (1 recommendation)

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OIG-10-025      12/09      *Management Letter for Fiscal Year 2009 Audit of the Office of the Comptroller of the Currency's Financial Statements*  
 OCC management should continue with its plan to implement a software solution to restrict users from installing and executing unauthorized software on OCC workstations. (1 recommendation)

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OIG-10-035      2/10      *Management Letter for Fiscal Year 2009 Audit of the Department of the Treasury Financial Statements*  
 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 Department's Information Executive Repository and CFO Vision applications. (1 recommendation)

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OIG-CA-10-009 5/10 *Safety and Soundness: Material Loss Review of Union Bank*  
OCC officials should work with its regulatory partners to determine whether to propose legislation and/or change regulatory guidance to establish limits or other controls for concentrations that pose and unacceptable safety and soundness risk and determine an appropriate range of examiner response to high risk concentrations. (1 recommendation)

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## Summary of Instances Where Information Was Refused

April 1, 2011, through September 30, 2011

There were no such instances during this semiannual period.

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## Listing of Audit Products Issued

April 1, 2011, through September 30, 2011

### Office of Audit

#### Attestation Engagements

*Report on the Bureau of the Public Debt Administrative Resource Center's Description of its Financial Management Services and the Suitability of the Design and Operating Effectiveness of its Controls for the Period July 1, 2010 to June 30, 2011, OIG-11-097, 9/12/2011*

*Report on the Bureau of the Public Debt Trust Funds Management Branch's Description of its Trust Funds Management Processing Services and the Suitability of the Design and Operating Effectiveness of its Controls for the Period August 1, 2010 to July 30, 2011, OIG-11-107, 9/22/2011*

*Report on the Bureau of the Public Debt Federal Investments Branch's Description of its Investment/Redemption Services and the Suitability of the Design and Operating Effectiveness of its Controls for the Period August 1, 2010 to July 31, 2011, OIG-11-108, 9/23/2011*

#### Information Technology Audits and Evaluations

*Information Technology: Fiscal Year 2011 Audit of Treasury's Federal Information Security Management Act Implementation for Its Intelligence Systems, OIG-11-098, 9/14/2011*

*Information Technology: Treasury's Contract and Project Management for Treasury Network (TNet) Was Poor, OIG-11-106, 9/22/2011*



*Information Technology: BEP's Network and Systems Security Was Found to Be Insufficient*, OIG-11-112, 9/30/2011

## Performance Audits – Material Loss and In-depth Reviews of Failed Banks

*Safety and Soundness: Material Loss Review of Guaranty Bank*, OIG-11-066, 4/29/2011 (closed August 21, 2009; estimated loss to the DIF - \$1.3 billion)

*Safety and Soundness: Material Loss Review of Flagship National Bank*, OIG-11-067, 5/3/2011 (closed October 23, 2009; estimated loss to the DIF - \$66.8 million)

*Safety and Soundness: Material Loss Review of Greater Atlantic Bank*, OIG-11-069, 5/16/2011 (closed December 4, 2009; estimated loss to the DIF - \$38 million)

*Safety and Soundness: Material Loss Review of Charter Bank*, OIG-11-072, 5/31/2011 (closed January 22, 2010; estimated loss to the DIF - \$246.1 million)

*Safety and Soundness: Material Loss Review of First Security National Bank*, OIG-11-075, 6/10/2011 (closed December 4, 2009; estimated loss to the DIF - \$35.4 million)

*Safety and Soundness: Material Loss Review of AmTrust Bank*, OIG-11-076, 7/6/2011 (closed December 4, 2009; estimated loss to the DIF - \$2.5 billion)

*Safety and Soundness: Material Loss Review of TierOne Bank*, OIG-11-080, 7/12/2011 (closed June 4, 2010; estimated loss to the DIF - \$313.8 million)

*Safety and Soundness: Material Loss Review of ebank*, OIG-11-081, 7/13/2011 (closed August 21, 2009; estimated loss to the DIF - \$46.3 million)

*Safety and Soundness: Material Loss Review of Bradford Bank*, OIG-11-082, 7/13/2011 (closed August 28, 2009; estimated loss to the DIF - \$96.3 million)

*Safety and Soundness: Material Loss Review of Century Bank, FSB*, OIG-11-083, 7/14/2011 (closed November 13, 2009; estimated loss to the DIF - \$266.5 million)

*Safety and Soundness: Material Loss Review of Partners Bank*, OIG-11-084, 7/14/2011 (closed October 23, 2009; estimated loss to the DIF - \$34.6 million)

*Safety and Soundness: In-Depth Review of Waterfield Bank*, OIG-11-085, 7/14/2011 (closed March 5, 2009; estimated loss to the DIF - \$42.5 million)

*Safety and Soundness: Material Loss Review of La Jolla Bank, FSB*, OIG-11-086, 7/14/2011 (closed February 19, 2010; estimated loss to the DIF - \$1 billion)

*Safety and Soundness: Material Loss Review of New South Federal Savings Bank*, OIG-11-087, 7/14/2011 (closed December 18, 2009; estimated loss to the DIF - \$227 million)

*Safety and Soundness: Material Loss Review of First Federal Bank of California*, OIG-11-090, 8/3/2011 (closed December 18, 2009; estimated loss to the DIF - \$10 million)

*Safety and Soundness: Material Loss Review of Peoples First Community Bank*, OIG-11-094, 8/25/2011 (closed December 18, 2009; estimated loss to the DIF \$514.7 million)

*Safety and Soundness: Material Loss Review of United Western Bank*, OIG-11-096, 9/2/2011 (closed January 21, 2011; estimated loss to the DIF \$292.3 million)

*Safety and Soundness: Material Loss Review of Irwin Union, FSB*, OIG-11-100, 9/14/2011 (closed September 18, 2009; estimated loss to the DIF \$138.7 million)

*Safety and Soundness: Material Loss Review of Platinum Community Bank*, OIG-11-102, 9/16/2011 (closed September 4, 2009; estimated loss to the DIF \$49.5 million)

*Safety and Soundness: Material Loss Review of Vantus Bank*, OIG-11-104, 9/20/2011 (closed September 4, 2009; estimated loss to the DIF \$182.2 million)

*Safety and Soundness: Material Loss Review of First National Bank of Anthony*, OIG-11-105, 9/20/2011 (closed June 19, 2009; estimated loss to the DIF \$38.3 million)

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

*Safety and Soundness: Failed Bank Review of Canyon National Bank*, OIG-11-070, 5/19/2011 (closed February 11, 2011; estimated loss to the DIF - \$10 million)

*Safety and Soundness: Failed Bank Review of San Luis Trust Bank, FSB*, OIG-11-071, 5/24/2011 (closed February 18, 2011; estimated loss to the DIF - \$96.1 million)

*Safety and Soundness: Failed Bank Review of Appalachian Community Bank, F.S.B.*, OIG-11-073, 6/7/2011 (closed December 17, 2010; estimated loss to the DIF - \$26 million)

*Safety and Soundness: Failed Bank Review of First National Bank of Davis*, OIG-11-074, 6/8/2011 (closed March 11, 2011; estimated loss to the DIF - \$26.5 million)

*Safety and Soundness: Failed Bank Review of Rosemount National Bank*, OIG-11-078, 7/8/2011 (closed April 15, 2011; estimated loss to the DIF - \$ 3.6 million)

*Safety and Soundness: Failed Bank Review of First National Bank of Central Florida*, OIG-11-092, 8/17/2011 (closed April 29, 2011; estimated loss to the DIF \$42.9 million)

*Safety and Soundness: Failed Bank Review of Coastal Bank*, OIG-11-095, 8/30/2011 (closed May 6, 2011; estimated loss to the DIF \$13.4 million)

*Safety and Soundness: Failed Bank Review of Western Springs National Bank and Trust, Western Springs, Illinois*, OIG-11-099, 9/14/2011 (closed April 8, 2011; estimated loss to the DIF \$34 million)

*Safety and Soundness: Failed Bank Review of Atlantic Bank and Trust of Charleston, South Carolina* OIG-11-101, 9/14/2011 (closed June 3, 2011; estimated loss to the DIF \$36.4 million)

## Other Performance Audits

*Bill Manufacturing: Improved Security Over the NexGen \$100 Notes Is Necessary*, OIG-11-068, 5/13/2011

*Recovery Act: Audit of Sierra SunTower LLC Payment Under 1603 Program*, OIG-11-077, 7/7/2011, **\$35,249 Q**

*Recovery Act: The Community Development Financial Institutions Fund Needs to Improve Its Process for Awarding Assistance to Applicants*, OIG-11-079, 7/8/2011

*Review of CFPB Implementation Planning Activities*, OIG-11-088, 7/15/2011

*Awards to OneUnited Bank Were Consistent with Requirements But Certain Aspects of CDFI Fund Program Administration Need to be Revisited*, OIG-11-091, 8/3/2011

*Recovery Act: Audit of Nevada Solar One LLC Payment Under 1603 Program*, OIG-11-093, 8/17/2011, **\$7,277 Q**

*Recovery Act: Audit of EcoGrove Wind LLC Payment Under 1603 Program*, OIG-11-103, 9/19/2011, **\$2,080,452 Q**

*Status of the Transfer of Office of Thrift Supervision Functions*, OIG-11-109, 9/28/2011

*Recovery Act: Audit of Pyron Wind Farm LLC Payment Under 1603 Program*, OIG-11-110, 9/28/2011

*Recovery Act: Audit of Inadale Wind Farm LLC Payment Under 1603 Program*, OIG-11-111, 9/30/2011, **\$611 Q**

## Evaluations and Other Products

*Safety and Soundness: Material Loss Review Glossary*, OIG-11-065, 4/11/2011

*Dodd-Frank Act: Congressional Request for Information Regarding Economic Analysis by OCC*, OIG-CA-11-006, 6/13/2011

*Statement of the Honorable Eric M. Thorson, Inspector General, Department of the Treasury, Before the House Committee on Financial Services, Subcommittee on Domestic Monetary Policy and Technology (Hearing entitled “Investigating the Gold: H.R. 1495, the Gold Reserve Transparency Act of 2011 and the Oversight of United States Gold Holdings”),* OIG-CA-11-007, 6/23/2011

*Evaluation of Prompt Regulatory Action Implementation,* OIG-CA-11-008, 9/30/2011

## Office of SBLF Program Oversight

*Small Business Lending Fund: Investment Decision Process for the Small Business Lending Fund,* OIG-SBLF-11-001, 5/13/2011

*State Small Business Credit Initiative: Treasury Needs To Strengthen State Accountability For Use of Funds,* OIG-SBLF-11-002, 8/5/2011

## Audit Reports Issued With Questioned Costs

April 1, 2011, through September 30, 2011

Category	Total No. of Reports	Total Questioned Costs	Total Unsupported Costs
For which no management decision had been made by beginning of reporting period	0	\$0	0
Which were issued during the reporting period	4	\$2,123,589	0
Subtotals	4	\$2,123,589	0
For which a management decision was made during the reporting period	1	\$35,249	0
Dollar value of disallowed costs	1	\$35,249	0
Dollar value of costs not disallowed	0	0	0
For which no management decision was made by the end of the reporting period	3	\$2,088,340	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

April 1, 2011, through September 30, 2011

Category	Total No. of Reports	Total	Savings	Revenue Enhancement
For which no management decision had been made by beginning of reporting period	1	\$19,607,790	\$19,607,790	0
Which were issued during the reporting period	0	0	0	0
Subtotals	1	\$19,607,790	\$19,607,790	0
For which a management decision was made during the reporting period	1	\$19,607,790	\$19,607,790	0
Dollar value of recommendations agreed to by management	1	8,757,232	8,757,232	0
Dollar value based on proposed management action	1	8,757,232	8,757,232	0
Dollar value based on proposed legislative action	0	0	0	0
Dollar value of recommendations not agreed to by management	1	\$10,850,558	\$10,850,558	0
For which no management decision was made by the end of the reporting period	0	0	0	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 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

April 1, 2011, through September 30, 2011

There were no significant revised management decisions during the period.



## Significant Disagreed Management Decisions

April 1, 2011, through September 30, 2011

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

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## Peer Reviews

April 1, 2011, through September 30, 2011

### Office of Audit

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 objective of an external peer review is to determine whether, during the period under review, the audit organization's system of quality control was suitably designed and whether the audit organization was complying with its quality control system in order to provide the audit organization with reasonable assurance that it was conforming to applicable professional standards.

No external peer reviews were conducted of, or by the Treasury OIG Office of Audit during this semiannual period. A copy of the report issued in November 2009 on our most recent external peer review conducted by the Department of State OIG is available on our website at

[www.treasury.gov/about/organizational-structure/ig/Documents/Treasury%20OIG%20Peer%20Review%20Final%202009.pdf](http://www.treasury.gov/about/organizational-structure/ig/Documents/Treasury%20OIG%20Peer%20Review%20Final%202009.pdf)

### Office of Investigations

The Council of Inspectors General on Integrity and Efficiency mandates that the investigative law enforcement operations of all OIGs undergo peer reviews every 3 years in order 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. No external peer reviews were conducted of, or by the Treasury Office of Investigations during this semiannual period. In March 2011, the SBA OIG conducted a peer review of our office and found our office to be in compliance with all relevant guidelines.

## Bank Failures and Nonmaterial Loss Reviews

We conducted reviews of 9 failed banks 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 Section 987 of Dodd-Frank. As redefined in Dodd-Frank, the term “material” loss which, in turn, triggers an MLR to be performed is, for 2010 and 2011, a loss to the DIF that exceeds \$200 million; 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, Section 987 requires that each 6-month period, the OIG of the federal banking agency to (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 September 30, 2011. We issue separate audit reports on each review to the responsible Treasury regulator, OCC or OTS. In accordance with Title III of Dodd-Frank, OTS’s powers and authorities were transferred to OCC, FDIC, and FRB on July 21, 2011. Reports issued for OTS-regulated failed banks after this date were transmitted 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
<b>Regulator – Office of the Comptroller of the Currency</b>				
Western Springs National Bank and Trust Western Springs, Illinois	April 8, 2011 \$31 million	<ul style="list-style-type: none"> <li>• Dissipation of assets or earnings due to unsafe and unsound practices</li> <li>• Capital impaired</li> </ul>	No	No unusual circumstances noted However, our review revealed certain questionable transactions that were referred by our auditors to the OIG Office of Investigations.
Rosemount National Bank Rosemount, Minnesota	April 15, 2011 \$3.6 million	<ul style="list-style-type: none"> <li>• Dissipation of assets or earnings due to unsafe and unsound practices</li> <li>• Capital impaired</li> </ul>	No	No unusual circumstances noted
First National Bank of Central Florida Winter Park, Florida	April 29, 2011 \$42.9 million	<ul style="list-style-type: none"> <li>• Dissipation of assets or earnings due to unsafe and unsound practices</li> <li>• Capital impaired</li> </ul>	No	No unusual circumstances noted
BankMeridian, N.A. Columbia, South Carolina	July 29, 2011 \$65.4 million	<ul style="list-style-type: none"> <li>• Dissipation of assets or earnings due to unsafe and unsound practices</li> <li>• Capital impaired</li> </ul>	No	No unusual circumstances noted

## Bank Failures and Nonmaterial Loss Reviews

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
The First National Bank of Olathe Olathe, Kansas	August 12, 2011 \$116.6 million	<ul style="list-style-type: none"> <li>• Dissipation of assets or earnings due to unsafe and unsound practices</li> <li>• Capital impaired</li> <li>• Failed to submit acceptable capital restoration plan</li> </ul>	No	No unusual circumstances noted
First Southern National Bank Georgia Statesboro, Georgia	August 18, 2011 \$39.6 million	<ul style="list-style-type: none"> <li>• Dissipation of assets or earnings due to unsafe and unsound practices</li> <li>• Capital impaired</li> <li>• Failed to submit acceptable capital restoration plan</li> </ul>	No	No unusual circumstances noted
First National Bank of Florida Milton, Florida	September 9, 2011 \$46.9 million	<ul style="list-style-type: none"> <li>• Dissipation of assets or earnings due to unsafe and unsound practices</li> <li>• Capital impaired</li> <li>• Failed to submit acceptable capital restoration plan</li> </ul>	No	No unusual circumstances noted
<b>Regulator – Office of Thrift Supervision</b>				
Coastal Bank Cocoa Beach, Florida	May 6, 2011 \$13.4 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Failed to submit acceptable capital restoration plan</li> </ul>	No	No unusual circumstances noted However, our review revealed certain questionable transactions that were referred by our auditors to the OIG Office of Investigations
Atlantic Bank and Trust Charleston, South Carolina	June 3, 2011 \$36.4 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Materially failed to implement a capital restoration plan</li> </ul>	No	No unusual circumstances noted

## References to the Inspector General Act

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## Abbreviations

1603 Program	Specified Energy Properties
BEP	Bureau of Engraving and Printing
BSA	Bank Secrecy Act
CDFI	Community Development Financial Institutions
CFPB	Bureau of Consumer Financial Protection
CIGFO	Council of Inspectors General on Financial Oversight
DIF	Deposit Insurance Fund
Dodd-Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act
ECF	Eastern Currency Facility
EESA	Emergency Economic Stabilization Act
FBA	federal banking agency
FDIC	Federal Deposit Insurance Corporation
FinCEN	Financial Crimes Enforcement Network
FRB	Board of Governors of the Federal Reserve System
FSOC	Financial Stability Oversight Council
HERA	Housing and Economic Recovery Act
IG	Inspector General
IRS	Internal Revenue Service
IT	information technology
MLR	material loss review
MSB	money services businesses
OCC	Office of the Comptroller of the Currency
OIG	Office of Inspector General
OTS	Office of Thrift Supervision
PCA	Prompt Corrective Action
Plan	Joint Implementation Plan
Recovery Act	American Recovery and Reinvestment Act of 2009
SBA	Small Business Administration
SBLF	Small Business Lending Fund
SSBCI	State Small Business Credit Initiative
TARP	Troubled Asset Relief Program
TEICAM	Treasury Enterprise Identity, Credential and Access Management
TNet	Treasury Network
WCF	Western Currency Facility





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