Audit Report

OIG-15-027

OFR Funds and Activities Were Separate from Treasury's Departmental Offices

March 4, 2015

Office of Inspector General

Department of the Treasury

Contents

Abbreviations and Acronyms

ARC	Administrative Resource Center
DO	Departmental Offices, Department of the Treasury
Dodd-Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act
FRB	Board of Governors of the Federal Reserve System
FRF	Financial Research Fund
FSOC	Financial Stability Oversight Council
IAA	intra-agency agreement
ODF	Office of Domestic Finance, Department of the Treasury
OEP	Office of Economic Policy, Department of the Treasury
OFR	Office of Financial Research
OFS	Office of Financial Stability

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OIG

Audit Report

The Department of the Treasury
Office of Inspector General

March 4, 2015

Matthew Rutherford
Acting Under Secretary for Domestic Finance

Richard Berner
Director, Office of Financial Research

This report represents the results of our audit of the Department of the Treasury's (Treasury) controls over the separation of funds and activities between the Office of Financial Research (OFR), the Office of Domestic Finance (ODF), and the Office of Economic Policy (OEP) within Treasury's Departmental Offices (DO). We initiated this audit in response to Congressional interest in the separation of funds and activities between mandatory-funded offices, such as OFR, and discretionary-funded offices that carry out potentially related or overlapping work, such as ODF and OEP.[1]

Discretionary spending uses budgetary resources provided in appropriations acts (except those provided to fund mandatory spending programs). Mandatory spending refers to spending enacted by law, but not dependent on an annual or periodic appropriations bill. Our audit objective was to assess the controls over the separation of funds and activities between OFR (funded with mandatory spending/non-appropriated funds) and ODF and OEP (both these offices are funded with discretionary spending/appropriated funds). To accomplish our objective, we reviewed relevant documentation, interviewed OFR management and staff, and interviewed other Treasury personnel involved in maintaining separation between appropriated and non-appropriated funds within the budget and the accounting systems. We

[1] A committee recommendation in House Report 112-550, *Financial Services and General Government Appropriations Bill, 2013*, directed the Treasury Office of Inspector General to report on the separation of funds and activities between mandatory-funded offices and discretionary-funded offices that carry out related or overlapping work. The bill did not pass, but we conducted this audit to address continuing Congressional interest as well as to determine whether controls were functioning properly to ensure the proper separation of appropriated and non-appropriated funds and activities.

conducted our field work from April 2013 through February 2014. Appendix 1 contains a more detailed description of our objective, scope, and methodology.

In brief, we found that the funds and activities of OFR were separate from ODF and OEP. In accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank),[2] Treasury established the Financial Research Fund (FRF) to account for the financial activity of OFR and the Financial Stability Oversight Council (FSOC). Activities such as assessments and outlays for labor and non-labor expenditures were properly posted to the fund; however, we did note a weakness in the coding of certain payroll transactions that increased the risk that certain DO labor expenses could have been applied to the FRF. Furthermore, while the OFR Director is organizationally located within ODF, we found no evidence of commingling of resources among projects undertaken by OFR and projects undertaken by ODF and OEP. We are recommending that Treasury enhance controls over the coding of payroll transactions by DO personnel who provide support to OFR and FSOC.

In a written response, which is included as Appendix 2, OFR and DO management agreed with the recommendation and stated that training had been developed and implemented for all DO users that allocate time to the OFR payroll code. Additionally, a process had been developed that includes the review of payroll charges to OFR before those payroll transactions are approved. We consider management's actions to be responsive to our recommendation.

Background

Dodd-Frank, among other things, created FSOC in response to the financial crisis of 2008 to monitor the stability of the U.S. financial system. FSOC, chaired by the Secretary of the Treasury, is a group of financial regulators charged with identifying and responding to risks to the stability of the financial system, and with promoting market discipline. Dodd-Frank, Title I, Subtitle B, Office of Financial Research, created OFR to support FSOC and its members. The act details the types of support to be provided by OFR, including data

[2] Public Law 111-203, Section 155, Funding

collection, research, and risk measurement and monitoring. OFR is expected to improve the quality of financial data available to policymakers and facilitate a more robust and sophisticated analysis of the financial system. OFR is headed by a Director who is appointed by the President and confirmed by the Senate.

Dodd-Frank required the Board of Governors of the Federal Reserve System (FRB) to fund OFR's operations for an initial period of 2 years, through July 21, 2012.[3] After the initial funding period, the Secretary of the Treasury established, by regulation, and with the approval of FSOC, a schedule to collect assessments equal to the total expenses of OFR. This schedule included the assessment base and rates for bank holding companies with total consolidated assets of $50 billion or greater and non-bank financial companies supervised by the FRB.[4] Treasury issued a final rule establishing the key elements of the assessment program for bank holding companies and an interim final rule establishing the assessment for non-bank financial companies on May 21, 2012.[5] Included in OFR's expenses are the expenses of FSOC and certain expenses of the Federal Deposit Insurance Corporation (FDIC).[6] The first collection of semiannual assessment fees occurred on July 20, 2012.

ODF and OEP are discretionary-funded offices within Treasury's DO.[7] ODF, headed by the Under Secretary for Domestic Finance, advises and assists the Secretary of the Treasury and Deputy Secretary on the domestic financial system, fiscal policy and operations, governmental assets and liabilities, and related economic and financial matters. OEP analyzes and reports on current and prospective economic developments in the U.S. and world economies and assists in the determination of appropriate economic policies. The Assistant Secretary for Economic Policy

[3] Section 155 (c), Interim Funding

[4] Section 155 (d), Permanent Self Funding

[5] Federal Register Volume 77, No. 98 (May 21, 2012), page 29884, Department of the Treasury, *Assessment of Fees on Large Bank Holding Companies and Nonbank Financial Companies Supervised by the Federal Reserve Board To Cover the Expenses of the Financial Research Fund*.

[6] Sections 118, Council Funding, and 210, Powers and Duties of the Corporation

[7] The Balanced Budget and Emergency Deficit Control Act of 1985 divides spending into two types – discretionary and direct/mandatory. Discretionary spending is controlled through annual appropriations acts. Congress provides spending authority for almost all discretionary programs 1 year at a time. Direct/mandatory spending is controlled by permanent law. Generally, direct spending programs continue as specified by current law.

reports directly to the Secretary of the Treasury and is responsible for the review and analysis of both domestic and international economic issues and developments in the financial markets. DO offices, such as ODF and OEP, are funded by congressional appropriations which are administered through various DO funds.

The Consolidated Appropriations Act, 2014, includes a provision that, not later than 2 weeks after the end of each quarter, the Office of Financial Stability (OFS)[8] and OFR shall submit reports on their activities to the House and Senate Committees on Appropriations, the Committee on Financial Services of the House of Representatives, and the Senate Committee on Banking, Housing, and Urban Affairs.[9] The Consolidated Appropriations Act, 2014, was passed after the fieldwork on our audit was substantially complete, and compliance with the provision was not within our scope.

Results of Audit

OFR Funds Were Separate from Departmental Offices Funds

Treasury established the FRF as a repository for the funds collected for use by FSOC and OFR; it is funded with dedicated collections.[10] A budget was established for the FRF under the President's Budget

[8] The Office of Financial Stability (OFS) was created within Treasury in October of 2008 following the passage of the Emergency Economic Stabilization Act of 2008. The mandate of OFS is to implement the Troubled Asset Relief Program (TARP) to help stabilize the U.S. financial system and promote economic recovery, following the 2008 financial crisis. Organizationally, OFS is part of ODF.

[9] The Consolidated Appropriations Act, 2014 was enacted on January 17, 2014, as Public Law 113-76.

[10] According to Statement of Federal Financial Accounting Standards 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds*, generally, funds from dedicated collections are financed by specifically identified revenues provided to the government by non-federal sources, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits or purposes, and must be accounted for separately from the government's general revenues. The three required criteria for a fund-dedicated collection are (1) a statute committing the Federal government to use specifically identified revenues or other financing that are originally provided to the Federal government by a non-federal source only for designated activities, benefits or purposes; (2) explicit authority for the fund to retain funds not used in the current period for future use; and (3) a requirement to account for and report on the receipt, use, and retention of the revenues or financing that distinguishes the fund from the Federal government's general revenues.

and the fund has been maintained on the Department's financial systems with its own account code.[11]

Financial activity for FRF consists primarily of an inflow of funds from the assessments of financial institutions, outlays for expenses directly incurred by OFR and FSOC, and expenses incurred by Treasury's DO on behalf of OFR and FSOC, which are reimbursed by FRF through Intra-Agency Agreements (IAA).[12] OFR and FSOC rely on DO personnel to provide accounting and finance support, information systems, human resource support, and legal counsel. The nature and extent of these services and the rationale for the associated costs are spelled out in the IAAs.

FRF activity is accounted for using the same systems and controls as those for all Treasury financial activity. OFR and FSOC use payroll and procurement systems operated by the Bureau of the Fiscal Service's Administrative Resource Center (ARC) under the Treasury Franchise Fund to initiate payroll and non-payroll transactions.[13] These systems interface with Treasury's accounting systems. Specific transaction codes for OFR and FSOC activity facilitate the proper posting of these transactions to FRF.

The following table presents a comparison of the IAA to the budget of OFR and FSOC taken from Treasury's Fiscal Year 2014 Congressional Budget Justification. In general, a greater degree of DO support was required during the standup of the OFR and FSOC.

[11] Bureau of the Fiscal Service assigns account symbols and titles, fund groups, and fund account definitions accordance with the principles and guidelines in Title 7 of the *GAO Policy and Procedures Manual for Guidance of Federal Agencies*. A listing of all assigned symbols and titles are provided in the *Federal Account Symbols and Titles (FAST) Book*, which is *Supplement 1* to the *Treasury Financial Manual Volume I*.

[12] An IAA is a written agreement that specifies the goods to be furnished or services to be provided by one agency (the seller) in support of another (the buyer). DO has entered into separate IAAs with FSOC and OFR.

[13] ARC's Procurement Request Information System is the system of record for FRF's non-salary expenditures with the exception of miscellaneous obligations which are generally related to General Service Administration rent and Homeland Security guard charges. ARC's WebTA time and attendance system is used to enter FRF payroll transactions.

Fiscal Year	Full-Time Equivalent (FTE) Staff	Total Budget	IAA Total Amount	IAA Salaries and Benefits
OFR				
2012	65*	$39,574,000	$3,636,111	$3,200,000
2013	167*	78,186,000	4,797,403	2,891,863
2014	250*	88,985,000	3,041,550	2,244,296
FSOC				
2012	16	10,144,000	2,632,783	2,386,940
2013	26	15,536,000	469,977	146,090
2014	29	19,429,000	1,181,232	696,391

*OFR's FTE includes detailed and reimbursable staff.
Source: Fiscal Year 2014 Congressional Budget Justification

OFR's Financial Management Review Processes Detected and Corrected Erroneous Payroll Expenditures

As part of our audit, we reviewed individual transactions posted to the FRF for evidence of appropriated transactions being incorrectly posted to the FRF. Our review of 15 non-payroll outlays posted to the FRF in FY 2013 found no evidence that the FRF was charged for DO non-payroll expenditures. Documentation supporting each outlay confirmed that it was for an OFR or FSOC activity.

We also reviewed 71 payroll transactions posted to the FRF.[14] We confirmed that the payroll transactions for 56 of these employees were appropriately charged to the FRF. However, OFR officials notified us that the other 15 employees' salaries were initially charged incorrectly to the FRF through the IAA.

The IAA describes how the overall labor costs charged to the supported customer agency are based off the FTEs detailed in the agreement and that an FTE can be the aggregated time of multiple individuals charging their salaries through the payroll system to the agreement. Employees facilitate the posting of salary and expenses via the entry of account codes in WebTA, Treasury's electronic time and attendance system. OFR officials told us that they are not aware of another separate time allocation or tracking system, other than WebTA, for employees providing support in accordance with the OFR and FSOC IAAs. DO employees supporting OFR or FSOC

[14] We reviewed payroll transactions of 25 employees with salary charged directly to OFR, 23 employees with salary charged directly to FSOC, and 23 employees with salary charged to the IAA between OFR and DO.

under the IAA should enter the OFR or FSOC payroll account codes for time spent supporting OFR or FSOC.

OFR Financial Management personnel told us they performed and documented monthly reviews of payroll charges made to the IAA specifically designed to detect and correct errors. An OFR official told us that they had detected and corrected the payroll transaction errors for the 15 employees discussed above through this review process. We obtained and reviewed documentation supporting this statement. The official also told us that any changes made after the amount of the reimbursable agreement was set would require a reassessment and re-approval of the IAA.[15] We noted that the total amount paid to DO from the FRF in fiscal year 2013, $4,746,694, did not exceed the total amount established in the OFR and FSOC IAAs, $5,267,380.[16]

The payroll errors identified by OFR personnel and noted during our testing indicated weaknesses in employees' entry of codes and controls over the authorization of WebTA timesheets by the employees' supervisor. While OFR Financial Management has implemented detect and correct controls in an effort to mitigate the risk posed by these weaknesses, there remains a risk that similar transactions could be charged to the wrong fund.

OFR's Semi-Annual Assessment Was Properly Applied to the Financial Research Fund

In July 2012, OFR assessed large financial institutions $137 million to cover the expenses of OFR and FSOC. OFR followed the methods for calculation and collection of the initial assessment established in the final rule issued by Treasury.

The composition of the projected expenses used in calculating the initial assessment amount generally complied with the final rule. The assessment projections for fiscal year 2012 projected

[15] The OFR official said that if the customer agency nears the amount indicated, the terms of the agreement need to be renegotiated and an amendment to the initial agreement must be completed and approved within the financial system before it is allowed. Any funds not used are to be de-obligated.

[16] The total amount of $5,267,380 represents the fiscal year 2013 OFR IAA amount of $4,797,403 and the fiscal year 2013 FSOC IAA amount of $469,977.

operating and capital expenses approximated those presented in the fiscal year 2012 President's Budget. The fiscal year 2013 operating expenses and capital expenditures used to determine the assessment were less than those presented in the fiscal year 2013 President's Budget. The $137 million expense amount projected by OFR included:

- $32 million estimated for 6-months OFR and FSOC operating expenses.[17]

- $44 million for estimated capital expenditures for OFR and FSOC. The 12 month estimate of capital expenditures was $70 million; however, this amount was reduced by $26 million, shifting 5 months of projected capital expenditures to future assessments. This transitional measure was called for in the final rule to smooth the initial assessment and bring the FRF up to the full 12 months of capital expenses over two assessments.

- $61 million estimated expenses for (1) the remainder of fiscal year 2012 and (2) estimates for contractual obligations incurred during the first 2 years of operations but not yet outlaid at the time the initial assessment was calculated.

No amount for reimbursement of FDIC's Dodd-Frank implementation expenses was included in the July 2012, $137 million assessment.[18] Collections were expected to begin with later assessments.

OFR followed the methodology set down in the final rule to assess and collect the initial assessment.

- OFR sent confirmation statements notifying 50 institutions that they were eligible for assessment. OFR's notice included

[17] The final rule calls for 6 months of expenses as there are two assessments every year.

[18] In accordance with the final rule, calculation of the assessment basis shall include an amount necessary to reimburse reasonable implementation expenses of FDIC as provided under Dodd-Frank, Title II, Orderly Liquidation Authority. Section 210(n)(10) states "…'implementation expenses' (i) means costs incurred by [FDIC] beginning on the date of enactment of this Act, as part of its efforts to implement [Title II] that do not relate to a particular covered financial company; and (ii) includes the costs incurred in connection with the development of policies, procedures, rules, and regulations and other planning activities of [FDIC] consistent with carrying out [Title II]."

each institution's total assessable assets. Twenty-three institutions (23) requested redeterminations of the amount of their assessable assets. Based on information provided by 18 institutions, OFR revised the amount of their assessable assets. For the other 5 institutions, OFR determined that the amount of their assessable assets should not be revised. The revised amounts of assessable assets for the 18 institutions reduced the total of assessable assets for all 50 institutions from $18.4 trillion to $17.8 trillion.

- The assessment for each institution was calculated using an assessment rate based on the total assessable assets of $17.8 trillion and the total assessment amount of $137 million.

- After the Notice of Fees for the first assessment was published, one foreign banking organization was removed from the list of assessable companies because new information demonstrated that its assets were below the assessment threshold.[19] As a result of this and other adjustments made through the redetermination process, the total assessable assets declined by $62 billion when compared with the data published in the Notice of Fees and total assessments declined by $475,000.

- The assessment amounts on the institutions' assessment invoices matched the total amount credited to the FRF in Treasury's Oracle Federal Financials system.[20]

The initial assessment resulted in an FRF balance that was greater than was necessary to fund OFR and FSOC operations over the assessment period. OFR did not make an assessment for the next 6-month assessment period ending March 15, 2013, after determining that replenishment of the FRF would not be needed until September 2013. According to OFR documentation, this determination was based on an available positive balance in the

[19] The Notice of Fees is an assessment fee rate published prior to each assessment period which is used to calculate the semiannual assessment fee that Treasury collects from each assessed company.

[20] ARC's Accounting Services Division uses the Oracle Federal Financials system to record financial transactions, including allocations, revenue agreements, collections, commitments, obligations, and disbursements.

FRF and revised projected spending for fiscal years 2013 and 2014 budgeted estimates. OFR documentation cites work done in fiscal year 2012 to refine and validate needs that substantially reduced the estimated costs for fiscal year 2013 Data Center spending as a factor in the reduced spending. In September 2013, OFR assessed financial institutions $35 million. In March 2014, OFR assessed financial institutions $48 million. OFR personnel told us that since the spending in fiscal year 2014 was closer to budget estimate projections, an increase in the assessment to replenish the fund would be necessary.

No Indication of Overlap between the Projects Undertaken by OFR, Office of Economic Policy, and Office of Domestic Finance

According to the ODF Organization Chart, the OFR Director reports to the Under Secretary for Domestic Finance. However, according to ODF officials, OFR's work is not subject to the review or approval of the Under Secretary.[21] The OFR Director does, nonetheless, regularly brief the Under Secretary on OFR activities. Our review of documents prepared for three of these briefings revealed that they dealt entirely with the stand-up of OFR and OFR support for FSOC; and did not contain any material that would suggest that OFR was performing work at the direction of ODF or OEP. It should be noted that the Under Secretary for Domestic Finance also serves as Chair of the FSOC Deputies Committee.[22] The OFR Director provides direct support to FSOC and specifically

[21] It should be noted that Dodd-Frank, Title I, Subtitle B, provides that the OFR Director has the sole discretion in the manner in which the OFR Director fulfills the responsibilities and duties and exercises the authorities of the office.

[22] The Deputies Committee coordinates and oversees the work of the interagency staff committees. The members of the Deputies Committee include a senior official from each member agency. The Deputies Committee convenes approximately every 2 weeks to discuss FSOC's agenda and to direct the work of the Systemic Risk Committee and the 5 other functional committees, which consists of the following: Designations of Nonbank Financial Companies; Designations of Financial Market Utilities & Payment, Clearing, & Settlement Activities; Heightened Prudential Standards; Orderly Liquidation Authority, Resolution Plans; and Data.

to FSOC's Committee on Data. The Committee on Data is one of five standing FSOC committees.[23]

We interviewed personnel in OFR, OEP, and ODF to gain an understanding of the nature of activities undertaken by each office and reviewed documentation related to projects that were representative of these activities. In addition, we reviewed five OFR projects/initiatives from OFR's March 2013 Book of Work, an internal document detailing the project status, risks, and issues for programs and projects that OFR is pursuing to achieve its strategic objectives. Our review found no evidence that OEP or ODF activities overlapped with OFR.

Recommendation

We recommend that the Director of OFR, working with the heads of the Treasury offices that provide support to OFR and FSOC, ensure that controls are strengthened over the coding of payroll transactions for employees who charge time to the IAAs discussed in this report. Management should, at a minimum, reinforce to employees and their supervisors the need to be diligent in using the correct codes for charging and certifying time in WebTA.

Management Response

OFR and DO management agreed with the recommendation. Training has been developed and implemented for all DO users that allocate time to the OFR payroll code. Additionally, a process has been established that includes the review of payroll charges to the OFR IAA before those payroll transactions are approved.

OIG Comment

Management's actions are responsive to our recommendation.

[23] The standing Committee on Data supports FSOC's coordination of, and consultation on, FSOC federal agency members' rulemakings on data collection, and seeks to minimize duplication of data gathering operations. The committee supports a coordinated approach to information sharing and provides direction to and requests data from OFR. Additionally, the committee works with OFR on data standardization efforts.

* * * * *

We appreciate the courtesies and cooperation provided to our staff during the audit. If you wish to discuss the report, you may contact me at (202) 927-5400 or Jeffrey Dye, Audit Director, at (202) 927-0384. Major contributors to this report are listed in appendix 3.

Marla A. Freedman /s/
Assistant Inspector General for Audit

Our audit objective was to assess the controls over the separation of funds and activities between the Office of Financial Research (OFR) and the Office of Domestic Finance (ODF) and the Office of Economic Policy (OEP) within the Treasury's Departmental Offices (DO). We initiated this audit in response to Congressional interest regarding the separation of funds and activities between mandatory-funded offices, such as OFR, and discretionary-funded offices that may carry out potentially related or overlapping work, such as the ODF and OEP.

To accomplish our objectives, we:

- Reviewed the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), Title I, to gain an understanding of the functions and funding of OFR and the Financial Research Fund (FRF); Dodd-Frank, Title II, regarding implementation expenses for FDIC; and, Treasury's final rule entitled *Assessment of Fees on Large Bank Holding Companies and Nonbank Financial Companies Supervised by the Federal Reserve Board To Cover the Expenses of the Financial Research Fund* to gain an understanding of the regulation governing the FRF assessment process.

- Reviewed documentation related to the roles, responsibilities, policies, procedures, and organizational structure of OFR, OEP, and ODF, and Treasury's accounting process for appropriated and non-appropriated funds.

- Interviewed the Chief Counsel for OFR, a Policy Advisor for OFR, Senior Advisor for the ODF, Director of Macroeconomic Analysis (OEP), Special Assistant to the Assistant Secretary for the OEP, the Associate Director of Data Services for OFR, Supervisory Management and Program Analyst for the Financial Research Fund (FRF), Senior Accountant for the Office of Deputy Chief Financial Officer, and Assistant Director of Accounting for the Office of Deputy Chief Financial Officer. The purpose of our interviews with these individuals was to gain an understanding of how each office interacts with the OFR and how funding sources are applied to the various fund codes/fund symbols used to maintain the separation of appropriated and non-appropriated funds. Topics discussed included the organizational structure of each office, interaction with OFR, the purpose of each office, accounting policies and procedures followed, employee timekeeping, the accounting structure within each fund, types of reconciliations performed, the assessment and appropriation process, how funds are utilized, and systems used to manage the funds.

- Reviewed 5 projects selected from the population of 33 projects/initiatives listed in OFR's March 2013 Book of Work. We selected those projects that we deemed to have a higher risk of overlap or commingling of resources between FSOC/OFR and DO. We obtained and reviewed project documentation to assess whether any overlap or commingling of resources had, in fact, occurred.

- Reviewed the June 2012 FRF Assessment Overview, an OFR-prepared document describing the assessment calculation methodology. Compared the total assessment amounts identified in this overview to the fiscal years 2013 and 2014 President's Budgets, the fiscal year 2013 Budget in Brief for FSOC, and the fiscal year 2014 Budget in Brief for OFR to determine the reasonableness of the assessment amount.

- Reviewed confirmation statements, Notice of Fees, financial institutions' redetermination requests, documentation supporting assessment rates, assessment invoices and accounting records to determine that the July 2012 semi-annual assessment was approved and correctly billed, collected, and posted to the FRF.

- Reviewed 71 payroll transactions selected from the population of payroll transactions posted to the FRF in three pay periods during December 2012 and January 2013. Approximately 160 employees were paid in each pay period. These included both transactions posted directly to the FRF and those posted indirectly through OFR/FSOC IAAs with DO. For each transaction selected, we reviewed documentation confirming that the individual paid was reflected in the OFR or FSOC organizational structure.

- Reviewed 15 non-payroll expenditures selected from the population of non-payroll transactions posted to the FRF during Fiscal Year 2013. Approximately 1,458 non-payroll transactions were posted during Fiscal Year 2013. These included both transactions posted directly to the FRF and those posted indirectly through OFR/FSOC IAAs with DO. For each transaction selected, we reviewed documentation confirming that the expenditure paid was associated with the OFR/FSOC.

We conducted our field work from April 2013 through February 2014.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

December 19, 2014

Mr. Jeffrey Dye
Director, Banking Audits
Office of Inspector General
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Mr. Dye:

I write in response to your draft audit report, The Separation of Funds between the Office of Financial Research (OFR), the Office of Domestic Finance (ODF) and the Office of Economic Policy (OEP), collectively (Departmental Offices). The Departmental Offices values the important work of the Office of Inspector General (OIG) and your review of Treasury's controls over the separation of funds and activities between the Departmental Offices. This letter provides Treasury's official response to the OIG audit report.

The report found that the OFR funds and activities are separate from ODF and OEP. Separate Financial Research Fund (FRF) accounts have been established and maintained to account for the financial activities of the OFR. Any expenses incurred by Treasury on behalf of OFR are reviewed and approved by OFR before funds are transferred from the OFR account pursuant to policies designed to assure proper use of FRF funds. Upon receipt of OFR approval, Treasury is then reimbursed as agreed to in the Inter Agency Agreement between OFR and DO.

Certain DO employees who work on OFR projects have the ability to allocate, in the Treasury payroll system, their time to the OFR payroll code. As you stated in your report, OFR currently has an audit process in place to review payroll transactions to assure that DO employees' time conducted for OFR activities is properly recorded. The audit occurs after the transactions have been processed. Despite these existing controls, we agree with the report's recommendation that we should look for further ways to strengthen existing controls over the payroll coding process. We have developed and implemented training for all DO users that allocate time to the OFR payroll code. We also developed a process that includes review of all payroll charges to the OFR IAA before those payroll transactions are approved. We are confident that the pre review of payroll charges, user training, and post payroll audit reviews significantly minimizes the risk that non OFR expenses will be charged to OFR's IAA or paid for by the FRF.

Thank you for your effort in conducting this audit. We greatly appreciate your oversight role and we look forward to working with your office in the future.

Sincerely,

Matthew Rutherford
Acting Under Secretary for Domestic Finance

Richard Berner
Director, Office of Financial Research

James Lisle, Audit Manager
Christen Janell Stevenson, Auditor-in-Charge
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United States Senate

Chairman and Ranking Member
Committee on Appropriations

Chairman and Ranking Member
Subcommittee on Financial Services and General Government
Committee on Appropriations

U.S. House of Representatives

Chairman and Ranking Member
Committee on Appropriations

Chairman and Ranking Member
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Committee on Appropriations