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BEFORE THE HOUSE FINANCIAL SERVICES COMMITTEE
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS
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Chairman Wagner, Ranking Member Green, and Members of the Subcommittee, thank you for the opportunity to provide this statement for the hearing on "Examining the Office of Financial Research." I will discuss our office's investigative and audit oversight of the Department of the Treasury's (Treasury) Office of Financial Research (OFR).

TREASURY OFFICE OF INSPECTOR GENERAL

Before I discuss the details of our oversight work, I would like to give you some background about our office. Our office provides independent audit and investigative oversight of the Department of the Treasury's programs and operations as well as its bureaus, excluding the Internal Revenue Service and the Troubled Asset Relief Program. We oversee Treasury programs and operations to manage Federal collections and payments systems, manage and account for the public debt, maintain government-wide financial accounting records, regulate national banks and federal savings associations, manufacture the Nation's currency and coins, collect excise taxes on alcohol and tobacco products and regulate those industries, operate the Federal sanctions and anti-money laundering and anti-terrorist financing programs, provide domestic assistance through the Office of the Fiscal Assistant Secretary and the Community Development Financial Institutions Fund and international assistance through multilateral financial institutions, and promote lending to small businesses through the Small Business Lending Fund. We also oversee the Gulf Coast Restoration Trust Fund and the Gulf Coast Ecosystem Restoration Council, an independent Federal entity.

OFFICE OF FINANCIAL RESEARCH

Title I of Dodd-Frank Wall Street Reform and Consumer Protection Act,¹ enacted July 21, 2010, created the Office of Financial Research within Treasury. OFR's mission from Fiscal Years 2012 to 2014 was to support the Financial Stability Oversight Council (FSOC),² its member agencies,³ and the public by (1) improving the quality, transparency, and accessibility of financial data and information; (2) conducting and sponsoring research related to financial stability; and (3) promoting best practices in risk management. As part of its Strategic Plan for Fiscal Years 2015 – 2019, OFR updated its mission. Its current mission is to promote financial stability by delivering high-quality financial data, standards, and analysis for the Financial Stability Oversight Council and the public.

TREASURY OFFICE OF INSPECTOR GENERAL OFR OVERSIGHT

Although OFR has always been a part of our annual audit plan and risk assessment, in 2016 our office began receiving information that prompted an increased audit and investigative focus on OFR. Specifically, beginning in early February 2016, our counsel, who also serves as Treasury's Whistleblower Protection Ombudsman, was contacted by OFR employees seeking information about whistleblower protection. In addition, in early June 2016, the Government Accountability Office (GAO) contacted me about concerns with OFR.

GAO received information from a whistleblower while they were conducting an audit of OFR. GAO's audit was initiated in February 2015 and focused on the examination of (1) OFR's function, (2) OFR's activities since it was established, and (3) any challenges OFR had faced in carrying out its activities to date and potential challenges it might face in its future effort. Based on the whistleblower concerns GAO decided to stand down their audit and reach out to us. The process of getting the particulars from GAO, as well as access to their evidence,

¹ P.L. 111-203, July 21, 2010.

² FSOC, also established by Dodd-Frank, is charged with identifying threats to the financial stability of the U.S.A., promoting market discipline, and responding to emerging risks to the financial stability of the U.S. financial system.

³ FSOC members are the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Director of the Bureau of Consumer Financial Protection, the Chairman of the Securities and Exchange Commission, the Chairperson of the Federal Deposit Insurance Corporation, the Chairperson of the Commodity Futures Trading Commission, the Director of the Federal Housing Finance Agency, the Chairman of the National Credit Union Administration, an independent member with insurance expertise, the Director of the Office of Financial Research, the Director of the Federal Insurance Office, a state insurance commissioner, a state banking supervisor, and a state securities commissioner.

progressed throughout the summer. In early September 2016 we asked to meet with GAO to clarify what concerns prompted them to stand down their audit and reach out to us. The clearances needed for that consumed some time, and we were able to pose our questions to their auditors at the end of November 2016. The meeting with GAO revealed that while the GAO team had no specific evidence to verify Whistleblower complaints received, they believed that the allegations warranted further review and that our office was in the best position to perform this investigation.

The following is a summary of the oversight activities related to OFR for the Office of Investigations and the Office of Audit.

OFFICE OF INVESTIGATIONS

Investigations - Whistleblower Retaliation

As a result of the information received from OFR employees, our office has been investigating multiple issues of whistleblower retaliation at the Office of Financial Research. Among the issues raised and being reviewed are claims of wrongful intervention in performance ratings, wrongfully pressuring employees to request transfers, and wrongful intervention in a promotion decision.

While conducting this extensive investigation, which included many witness interviews and reviews of considerable documentary evidence including thousands of emails, I must report that there is still more work to be done. Our investigators are still carefully evaluating whether their interviews and review of materials clearly support a conclusion of unlawful whistleblower retaliation, or any other prohibited personnel practices. The key issue in retaliation cases is, after finding a protected disclosure and a subsequent personnel action, to prove that the personnel action was taken as retaliation for the disclosure, and lacked another, proper purpose. And, as we must remember, interpretations of actions are not always objective, nor borne out by rigorous analysis.

On the ratings issues, I must advise that, based on what our investigators know at this time, the rating direction could be convincingly argued to be the act of a senior executive assuring that ratings are justified and appropriate.

Similarly, the transfer action could be convincingly argued, at this time, as a managerial decision to assure positions are filled with the most qualified people. And on the promotion matter, the evidence indicates that the decision was made by a five member panel which was unanimous in its promotion decision,

which argues strongly that the decision was not tainted. While the participation of a supervisor who was aware of protected disclosures participating in the promotion process is from an appearance standpoint problematic, it would only violate prohibited personnel practices if that supervisor influenced the selection process.

This investigation is currently continuing and we expect to begin reporting on the results of our work later this month with work continuing into early 2018.

Investigation- Vandalism Incident

In addition to the investigation noted above, in December 2016 my office opened an investigation regarding a vandalism incident where phallic symbols and the words "get fired" were drawn on the windows of several OFR supervisory personnel. Our investigation into that matter identified the subject who drew the offensive symbols and words. That subject no longer works for OFR or the Treasury. During that investigation multiple interviews of OFR employees were conducted and widespread issues of mismanagement and low morale were alleged, which appeared consistent with problems identified in previous federal employee viewpoint surveys, and which are the subject of the current audit and investigative work described in this testimony.

OFFICE OF AUDIT

Our office has audited OFR since early 2011. Following is a summary of our audit work.

Audit- Treasury Has Made Progress to Stand-up OFR

In June of 2012, our office reported on the effectiveness and status of Treasury's process to establish the Office of Financial Research. We reported that as of April 2012, 21 months after OFR was created, efforts to establish the office were still in progress. The officials responsible for establishing the office initially engaged in high-level strategic and organizational planning and sought to hire key personnel. They also focused on developing and facilitating the global acceptance of a universal Legal Entity Identifier⁴ while leveraging Treasury's Departmental Offices to support administrative functions. In the summer of 2011, after key operational personnel were brought on board, progress toward establishing a comprehensive implementation planning and project management process accelerated. This

⁴ Legal Entity Identifier is being developed as the universal standard for identifying all parties to financial contracts. It is a key element in OFR's effort to understand and monitor risks to financial stability and meet its statutory mandate to develop and promote data standards.

culminated in the approval of OFR's Project Management Methodology in January 2012, OFR's Strategic Framework in March 2012, and OFR's Strategic Roadmap in April 2012. While not finalized until well over a year after it was established, these documents and methodology, taken together, provide OFR with a comprehensive implementation plan.

Concurrent with the development of its comprehensive implementation plan, OFR also began to develop its analytic and data support for FSOC. As of April 2012, its Research and Analysis Center had sponsored seminars and published two working papers on risk assessment topics.

We recommended that OFR monitor its progress in carrying out the activities in the comprehensive implementation plan and take actions timely to address any slippages or otherwise make adjustments so as to achieve the objectives and timeframes in the plan. The office's planned corrective action was responsive to our recommendation. **(OIG-12-057)**

As of August 2012, OFR reported that it has a system in place to ensure that it monitors its progress. OFR senior managers hold regular meetings to review OFR's activities. As of this date, we have not performed a corrective action verification relating to the action taken to address our recommendation.

Audit - Office of Financial Research Funds and Activities Were Separate from Treasury's Departmental Offices

In March 2015, our office reported on Treasury's controls over the separation of funds and activities between OFR, the Office of Domestic Finance (ODF), and the Office of Economic Policy (OEP) within Treasury's Departmental Offices. 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.

We found that the funds and activities of OFR were separate from ODF and OEP. In accordance with Dodd-Frank, Treasury established the Financial Research Fund 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 Departmental Offices' labor expenses could have been applied to the Financial Research Fund. 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 recommended that Treasury enhance controls over the coding of payroll transactions by Departmental Offices' personnel who provide support to OFR and FSOC. Treasury's planned corrective actions met the intent of our recommendation. **(OIG-15-027)**

As of October 2015, OFR reported that training had been developed and implemented for all Departmental Office personnel that allocate time to the OFR payroll code. Additionally, OFR reported a process was established to review payroll charges to the OFR Intra-agency Agreement before such transactions are approved.

Audit - Financial Stability Oversight Council and Office of Financial Research Data Requests Are Not Duplicative

In August 2015 we issued a report responsive to the directive in House Report 113-508 on the Financial Services and General Government Appropriations Bill, 2015, which required us to assess whether data reporting required by FSOC and OFR from financial companies, or any related entities, is duplicative of data reporting required by other regulators and burdensome. Based on our inquiries and review, we found no indications that data reporting required or requested of financial companies by FSOC and OFR has been duplicative of data required by primary financial regulatory agencies or unduly burdensome on those companies or any related entities. We did not make any recommendations to FSOC or OFR. **(OIG-15-043)**

Audit - Performance Measures

One of our ongoing audits is an audit to assess the design of Office of Financial Research's performance measures and the implementation of these measures. As a result of the whistleblower information received from GAO, this work was put on hold. Additionally, as required by Government Auditing Standards, our auditors must conduct additional procedures to determine the effect, if any, the information provided by the whistleblowers will have on the results of the audit.

Audit - Procurement Activities

Another ongoing audit engagement is seeking to determine if (1) the Office of Financial Research's procurement activities ensure that the Office of Financial Research effectively and efficiently acquires the goods and services needed to

accomplish its mission and (2) whether these acquisitions are made in compliance with applicable procurement regulations. As a result of information received from the whistleblowers, we expanded the scope of this audit and decided to conduct this audit in two phases. The first report will discuss the OFR's Government Purchase Card transactions. The second report will cover OFR's contracting practices. We expect to issue our first report in January 2018.

Audit - Review of the Office of Financial Research's Hiring Practices and OFR's Response to Its Federal Employee Viewpoint Survey (FEVS) Results

Lastly, in August of this year our office initiated an audit of OFR's Hiring Practices and response to its Federal Employee Viewpoint Survey Results. The objectives of this audit are to determine whether (1) OFR's hiring practices are in accordance with Office of Personnel Management, Treasury, OFR, and other Federal requirements; and (2) OFR's process for reviewing and responding to FEVS results are in accordance with Federal requirements including Treasury policies and procedures. This work is currently being conducted and we expect to begin reporting on the results of our work in early 2018.

CONCLUSION

In the spring of 2017 we provided updates on our work to your staff and advised on what we had learned from GAO and our work. At the end of June 2017 Chairwoman Wagner and I discussed the matter, and in October 2017 I and my Counsel briefed your staff as well as minority staff on where we were and what we had found.

Thus, we have to advise that, at this time, we cannot say that there is clear evidence of whistleblower retaliation and other instances of prohibited personnel practices. And information about further, and more widespread, management deficiencies must still await the completion of the on-going audit work, and receipt of further allegations that are substantiated upon further investigation.