

# Annual Plan Fiscal Year 2017

OIG-CA-17-002

Office of Inspector General  
Department of the Treasury



# Foreword

This annual plan outlines the fiscal year (FY) 2017 Department of the Treasury (Treasury or the Department) Office of Inspector General (OIG) audit and investigative priorities. The planned work focuses on Treasury's major initiatives and challenges, and takes into consideration OIG's *Strategic Plan for Fiscal Years 2016–2020*.

As this plan illustrates, we have prioritized our resources to provide oversight of the most significant and highest-risk Treasury programs and operations under our jurisdiction. For FY 2017, our oversight efforts will place top priority on the following areas: (1) cyber threats, (2) the continued implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act, (3) management of Treasury's authorities intended to support and improve the economy, (4) anti-money laundering and terrorist financing/Bank Secrecy Act enforcement, (5) efforts to promote spending transparency and prevent and detect improper payments, and (6) administration of the Gulf Coast Restoration Trust Fund.

Other areas of emphasis for FY 2017 include mandated audits, such as those required by the Government Management Reform Act of 1994, the Federal Information Security Modernization Act of 2014 (FISMA), the Cybersecurity Act of 2015, the Federal Deposit Insurance Act, and the Improper Payments Elimination and Recovery Act of 2010 (IPERA). Additionally, we will continue to perform audit work related to Treasury's responsibilities under the Digital Accountability and Transparency Act of 2014 (DATA Act).

The projects described in this plan address areas of known and emerging risk and vulnerabilities. As in the past, we encourage Department and bureau management to use this plan for areas of self-assessment.

October 2016

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## Overview

### Mission Statement

The Department of the Treasury (Treasury or the Department) Office of Inspector General (OIG) conducts independent and objective audits and investigations to promote integrity, efficiency, and effectiveness in programs and operations across its jurisdictional boundaries.

### Background

In 1989, the Secretary of the Treasury established the OIG in accordance with the 1988 amendments of the Inspector General Act. The OIG is to accomplish the following:

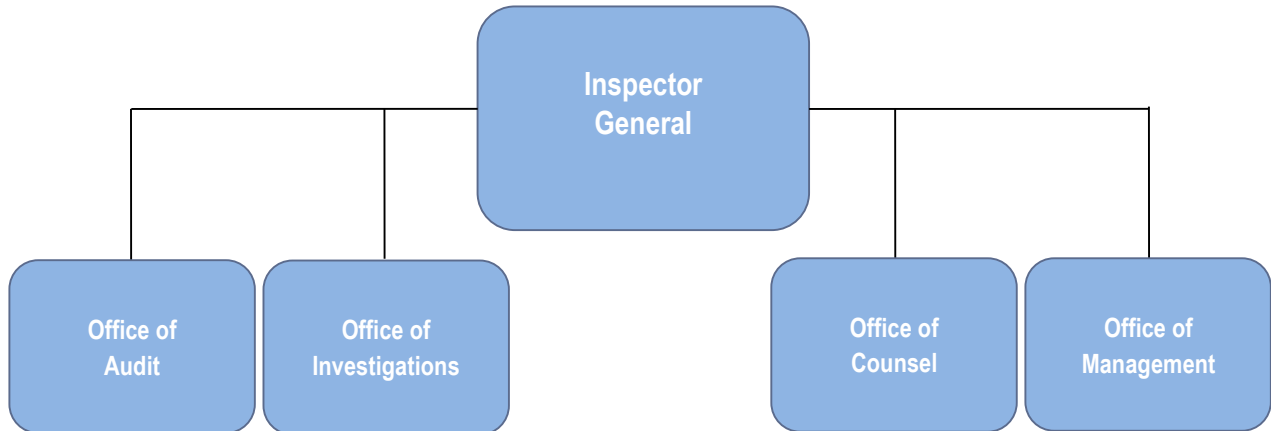
- Conduct and supervise audits and investigations of Treasury programs and operations except for the Internal Revenue Service (IRS), which operates under the jurisdictional oversight of the Treasury Inspector General for Tax Administration (TIGTA), and the Troubled Asset Relief Program (TARP), which operates under the jurisdictional oversight of a Special Inspector General.
- Provide leadership and coordination of policies that (1) promote economy, efficiency, and effectiveness in Treasury programs and operations, and (2) prevent and detect fraud and abuse in Treasury programs and operations.
- Keep the Secretary of the Treasury and Congress fully and currently informed about problems and deficiencies in Treasury programs and operations.

The OIG also has audit and investigative oversight for both the Gulf Coast Ecosystem Restoration Council (Council), an independent Federal entity chaired by the Secretary of Agriculture, and the Gulf Coast Ecosystem Restoration Science, Observation, Monitoring, and Technology Program (Science Program), which is administered by the National Oceanic and Atmospheric Administration (NOAA), under the U.S. Department of Commerce.

### Organizational Structure and Fiscal Resources

OIG is headed by an Inspector General appointed by the President with the advice and consent of the Senate. As shown below, OIG's organization includes four offices headquartered in Washington, D.C. OIG also has an audit field office

in Boston, Massachusetts; a Resident Office in Greensboro, North Carolina, which houses the North Carolina Treasury Financial Crimes Task Force; and a Northern Florida Resident Office in Jacksonville, Florida.



For fiscal year (FY) 2017, the President requested approximately \$37.0 million in direct appropriations for OIG. Up to \$2.8 million of that total is to be available for audits and investigations conducted pursuant to Section 1608 for the Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012 (RESTORE Act). Audits and investigations of the Small Business Lending Fund (SBLF) and the State Small Business Credit Initiative (SSBCI) are funded on a reimbursable basis by the SBLF and SSBCI program offices. Annual financial statement audits of Treasury and certain components are funded by the annual salaries and expenses appropriation for Treasury’s Departmental Offices.

## Performance Measures

OIG established the following FY 2017 performance measures for the Offices of Audit and Investigations:

### Office of Audit Performance Measures

- Complete 86 audit products.
- Complete 100 percent of mandated audits by the required date.
- Identify monetary benefits where appropriate.

### Office of Investigations Performance Measure

- Ensure 80 percent of investigative work product is referred for civil or criminal prosecution or administratively to a Treasury bureau for appropriate action.

## Fiscal Year 2017 Priorities

### Audit Priorities

OIG established three audit priorities for FY 2017:

#### **Priority 1 Audit Products Mandated by Law**

OIG allocates significant resources to meet mandated audit requirements, which include (1) audited financial statements and financial-related review work; (2) information security; (3) Treasury programs authorized by the Small Business Jobs Act; and (4) bank failures, pursuant to requirements in the Federal Deposit Insurance Act. We also perform work in response to Congressional directives and support the Council of Inspectors General on Financial Oversight (CIGFO)<sup>1</sup> by leading or participating on working groups established to evaluate the effectiveness and internal operations of the Financial Stability Oversight Council (FSOC).

#### **Priority 2 Work Requested by Treasury Management, Congress, or Other External Source**

OIG typically receives two to three requests each year from Treasury management or Congress to perform specific work. Often a subject already provided for in our plan, the requested work requires only that we adjust the schedule or scope. If the request pertains to a new area, we assess whether the work should be performed.

#### **Priority 3 Self-directed Work in Treasury's Highest-risk Areas**

With the resources available after we have completed mandated audits and requested work, we conduct audits to assess Treasury's progress in addressing significant known and emerging risks and vulnerabilities. For FY 2017, our self-directed work focuses on Treasury's responsibilities for cybersecurity, anti-money laundering/terrorist financing programs, and administration of programs authorized by the RESTORE Act, the Do Not Pay Initiative, and the Digital Accountability and Transparency Act of 2014 (DATA Act).

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<sup>1</sup> CIGFO derives its authorities from the Dodd-Frank Wall Street Reform and Consumer Protection Act.



For details of planned FY 2017 OIG staff resource utilization, by audit priority, see Appendix A.

### Treasury OIG Strategic Plan

OIG aligned its *Strategic Plan for Fiscal Years 2016–2020* with Treasury’s mission to maintain a strong economy and create economic and job opportunities by promoting conditions that enable economic growth and stability at home and abroad, strengthen national security by combating threats and protecting the integrity of the financial system, and manage U.S. Government finances and resources effectively. OIG works to promote the integrity, efficiency, and effectiveness of programs and operations across its jurisdictional boundaries. We accomplish our mission through four strategic goals:

- Promote program and operation integrity, efficiency and effectiveness through audits and investigations.
- Proactively support and strengthen the ability of programs across OIG’s jurisdictional boundaries to identify challenges and manage risks.
- Fully and currently inform stakeholders of OIG findings, recommendations, investigative results, and priorities.
- Enhance, support, and sustain a workforce and strengthen internal operations to achieve the OIG mission, vision, and strategic goals.

### Relationship Between Treasury’s Strategic Goals and OIG’s Annual Plan Issue Areas

To accomplish its mission, Treasury identified five strategic goals for FY 2014–FY 2017. OIG will focus its FY 2017 work on ten issue areas shown in the table below as they relate to Treasury’s strategic goals.

Treasury Strategic Goal	OIG Issue Area
Promote domestic economic growth and stability while continuing reforms of the financial system.	<ul style="list-style-type: none"><li>• Safety, Soundness, and Accessibility of Financial Services</li><li>• Domestic and International Assistance Programs</li><li>• Bill and Coin Manufacturing, Marketing, and Distribution Operations</li><li>• Gulf Coast Restoration Trust Fund Oversight</li></ul>

	<ul style="list-style-type: none"><li>• Small Business Lending Fund and State Small Business Credit Initiative Programs</li></ul>
Enhance U.S. competitiveness and job creation and promote international financial stability and more balanced global growth.	<ul style="list-style-type: none"><li>• Domestic and International Assistance Programs</li><li>• Terrorist Financing, Money Laundering, and Foreign Assets Control</li></ul>
Fairly and effectively reform and modernize Federal financial management, accounting, and tax systems.	<ul style="list-style-type: none"><li>• Government-wide Financial Services and Debt Management</li><li>• Revenue Collection and Industry Regulation</li></ul>
Safeguard the financial system and use financial measures to counter national security threats.	<ul style="list-style-type: none"><li>• Terrorist Financing, Money Laundering, and Foreign Assets Control</li></ul>
Create a 21st century approach to government by improving efficiency, effectiveness, and customer interaction.	<ul style="list-style-type: none"><li>• Treasury Resource Management and Infrastructure Support</li></ul>

## Office of Audit Initiatives

The Office of Audit plans to start 107 projects in FY 2017 and complete 68 projects started in prior years. We have identified 179 high-priority projects that must be deferred beyond FY 2017. For descriptions of our in progress and planned work, as well as projects for future consideration, see the Planned Projects by OIG Issue Area section of this document.

## Investigative Priorities

OIG established seven investigative priorities for FY 2017.

### Priority 1 Threats Against Treasury Employees and Facilities

Our investigative efforts into threats against Treasury employees and facilities are critical in ensuring safety for the Department. These matters require prompt attention and coordination with Federal, State, and local authorities. OIG also has responsibilities in connection with the Department's Continuity of Operations Plan.

### **Priority 2 Criminal and Serious Employee Misconduct**

Our highest priority is investigating complaints involving alleged criminal and other serious misconduct by Treasury employees. OIG investigates allegations of the general crimes enumerated in Title 18 of the U.S. Code, other Federal crimes, alleged violations of the Ethics in Government Act, and allegations of serious misconduct prohibited by the Standards of Ethical Conduct for Employees of the Executive Branch. Several Treasury bureaus and offices have additional rules and regulations relating to ethical standards for their own employees, and OIG investigates complaints of alleged violations of these rules and regulations.

### **Priority 3 Fraud Involving Contracts, Grants, Guarantees, and Funds**

We conduct investigations into allegations of fraud and other crimes involving Treasury contracts, grants, loan guarantees, and Federal funds. Such allegations often involve contractors, entities, and individuals who are providing or seeking to provide goods or services to the Department. We receive complaints alleging criminal or other misconduct from employees, contractors, members of the public, and Congress. We also investigate criminal activity associated with improper payments made due to false claims to the Treasury in relation to grant programs, such as the American Recovery and Reinvestment Act.

### **Priority 4 Financial Programs and Operations Crime**

We conduct and supervise criminal investigations relating to Treasury financial programs and operations. These programs and operations involve issuing licenses, providing benefits, and exercising oversight of U.S. financial institutions. We investigate criminal activity associated with improper payments made due to false claims to the Treasury and stolen, altered, counterfeited, and fraudulently redirected Treasury payments.

### **Priority 5 Investigating Fraud Related to Criminals Impersonating Treasury Agents and Employees**

We conduct investigations into criminal activity associated with individuals who attempt to scam citizens by fraudulently purporting to be Treasury agents or employees. These matters have become more prevalent and require prompt coordination with Federal, State, and local authorities to protect the targets of the scams.

### **Priority 6 Investigating Fraud Related to Persons Representing Themselves as “Sovereign Citizens” Submitting Fictitious Financial Instruments to Treasury, Financial Institutions, and Private Companies**

We conduct investigations into criminal activity associated with individuals who attempt to scam the Treasury, financial institutions, private companies, and citizens by submitting fictitious financial instruments purporting to be issued by the Treasury or other counterfeit documents to perpetrate a variety of fraud schemes. These matters have become more prevalent and require prompt coordination with Federal, State, and local authorities to protect the targets of the scams.

### **Priority 7 Identifying and Investigating Fraud Related to the RESTORE Act**

The RESTORE Act commits 80 percent of all administrative and civil penalties related to the Deepwater Horizon spill to the Gulf Coast Restoration Trust Fund. It also outlines a structure for using the funds to restore and protect the natural resources, ecosystems, fisheries, marine and wildlife habitats, beaches, coastal wetlands, and economy of the Gulf Coast region. As such, the act assigns Treasury several roles in administering the Trust Fund, including authorizing the Inspector General to investigate projects, programs, and activities funded under the act.

## **Counsel Initiatives**

The Office of Counsel supports OIG investigative, oversight, and audit activities by responding to requests for legal advice and reviewing and processing requests for the issuance of Inspector General subpoenas. In the area of disclosure, it provides timely responses to Freedom of Information Act and Privacy Act requests. The office also carries out litigation responsibilities in cases related to the Merit Systems Protection Board and Equal Employment Opportunity Commission.

Based on experience, the Office of Counsel expects to process 50 initial Freedom of Information Act/Privacy Act requests and 3 appeals from those initial responses in FY 2017. With regard to the Electronic Freedom of Information Act, the office expects to review approximately 80 audit, evaluation, and oversight reports posted on OIG’s website. The Office of Counsel also fulfills these additional roles and responsibilities:

- provides ethics and standards of conduct training for all employees and timely review of all required confidential and public financial disclosure reports
- reviews and updates, as needed, Privacy Impact Assessments for all OIG operations and provides procedural review and training services
- respond to *Giglio*<sup>2</sup> requests, coordinates responses to document requests from Congress, responds to media inquiries, and responds to discovery requests arising from litigation involving the Department and its bureaus
- provides training on the Inspector General Act and other subjects in connection with new employee orientation and in-service training
- serves as Whistleblower Ombudsman, as defined in the Whistleblower Protection Enhancement Act
- reviews, as statutorily mandated, legislative and regulatory proposals and coordinates comments; reviews all allegations of misuse of the Treasury seal, name, and identification; and prepares cease-and-desist orders and penalty assessments necessary for OIG to enforce 31 USC 333 (Prohibition of misuse of Department of the Treasury names, symbols, etc.)
- conducts, manages, and advises on inquiries and other activities undertaken at the request of Congress, the Office of Special Counsel, and other stakeholders concerning Treasury programs and operations

## Management Initiatives

The Office of Management provides a range of support to OIG offices, including administrative, budget and finance, facilities management, procurement, human resources (HR), security, records management, asset management, and information technology (IT) services. A working agreement with the Treasury's Bureau of the Fiscal Service (Fiscal Service) Administrative Resource Center provides augmented support for travel, HR, procurement, budget execution, and accounting services.

During FY 2017, the Office of Management will focus on continued service following the consolidation of OIG's three Washington, D.C., offices into a single location. The office will also lead an effort to acquire office space in Greensboro, North Carolina, for an expansion of the Office of Investigations.

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<sup>2</sup> *Giglio* refers to information that may call into question the character or testimony of a prosecution witness in a criminal trial.

The office's administrative services component manages the purchase-card program, the travel program, and all contracts valued at more than \$3,000. It will also administer the public transit program and oversees security and safety initiatives. Administrative services will continue to maintain an active program for the economical and efficient management of OIG records, including implementing presidential directives for electronic records management. In addition, during FY 2017, administrative services will maintain an effective and comprehensive safety and health program to comply with regulations promulgated under the Occupational Safety and Health Act of 1970.

During FY 2017, the office's security services component will continue to manage the Personal Identity Verification (PIV) Data Synchronization business process map, which shows linkages to HRConnect and USAccess for employee sponsorship and PIV card issuance. Security services will also continue to design and execute measures to prevent unauthorized access to OIG facilities, equipment, and resources to ensure the protection of personnel and property from damage or harm, including:

- initiating and adjudicating required background investigations
- granting security clearances for access to classified information
- maintaining electronic database records
- providing verification of security clearances for customers and processing requests for access to Sensitive Compartmented Information

The Office of Management's budget and finance component will work with the Administrative Resource Center to increase the timeliness of financial information and accuracy of budget projections, while adapting to the uncertainties of the Federal budgeting process. The office will continue to carry out responsibilities to accomplish the following:

- efficiently and effectively reconcile financial transactions
- provide monitoring and oversight of billing and invoice approvals to ensure full compliance with the Prompt Payment Act and Do Not Pay list procedures issued by the Office of Management and Budget (OMB)
- prepare and execute interagency agreements for services provided or rendered
- respond to budget data calls
- interact with the Administrative Resource Center for any system changes that affect OIG budgeting or accounting, such as establishing new cost



centers to better and more accurately account for oversight of new programs and responsibilities

The Management Office's HR component will continue to assist hiring managers to recruit, hire, and retain employees within existing budget constraints.

The Management Office's IT component will continue to seek efficiencies through virtualization, cloud computing, and service consolidation. Efforts continue to enhance OIG's general support system; improve the ability of OIG employees to collaborate, either on site or remotely; enhance the quality and choice of mobile communications; and ensure that all systems are fully maintained, operational, and in compliance with information security requirements. IT will deploy electronic records management tools to support OIG's records-management initiatives and provide information management tools to ensure personnel have the resources and ability to access OIG information and make timely decisions.

## Management and Performance Challenges

In accordance with the Reports Consolidation Act of 2000, the Treasury Inspector General provides perspective each year on the most serious management and performance challenges facing the programs and operations across OIG's jurisdictional boundaries. The Inspector General's annual Management and Performance Challenges Letters are available at OIG's website.

### Treasury

In a letter to Secretary of the Treasury Jacob Lew, dated October 30, 2015, Inspector General Eric Thorson reported five challenges facing the Department—all repeat challenges from last year. Although we categorized the challenge of implementing the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) separately last year, we now include it within the broader category, "Management of Treasury's Authorities Intended To Support and Improve the Economy." Many Dodd-Frank requirements directed to Treasury and the Secretary of the Treasury have been addressed, and the offices and functions called for by the act have now been in place for a number of years.

#### Cyber Threats (Repeat Challenge)

For the past several years, we have reported our growing concern with cybersecurity. Again, this year, cyber threats pose the Department's top challenge because they represent one of the most serious problems facing the nation. The nation depends on a reliable critical infrastructure, including information systems and networks, to manage national security and economic threats. This challenge focuses on Treasury's ability to provide effective leadership to financial institutions and, more generally, to the financial sector to strengthen awareness of and preparedness for cyber threats.

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

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, as well as the American Recovery and Reinvestment Act of 2009 (Recovery Act) and the Small Business Jobs Act of 2010. In response to the call for financial reform, Congress passed Dodd-Frank in July 2010. This challenge focuses on Treasury's management of associated programs; on management of outstanding investments; and on an effective FSOC process, supported by Treasury's Office of Financial Research

(OFR) and Federal Insurance Office (FIO), that timely identifies and appropriately responds to emerging risks.

### **Efforts To Promote Spending Transparency and To Prevent and Detect Improper Payments (Repeat Challenge)**

The DATA Act, signed into law in May 2014, is intended to increase and improve the public availability of information about Federal spending by ensuring that the Federal Government provides consistent, reliable, and useful online data about how it spends taxpayer dollars. The DATA Act imposes certain requirements on the Secretary of the Treasury, the OMB Director, the Inspectors General of each Federal agency, and the Comptroller General of the United States. In addition, extreme pressure on the budget has intensified efforts to reduce improper payments in major Federal programs. Given the broad Government-wide implications and critical roles assigned to Treasury by the DATA Act, we consider this a high-risk implementation project and management challenge.

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

This challenge focuses on the difficulties Treasury faces to ensure criminals and terrorists do not use the U.S. financial system to sustain their operations or launch attacks against the U.S. Other concerns on the horizon include the increasing use of mobile devices for banking, Internet banking, Internet gaming, and peer-to-peer transactions, as well as virtual currencies. Given the potential impact of this technology on Treasury's mission, we consider anti-money laundering and combating terrorist financing to be inherently high-risk areas.

### **Gulf Coast Restoration Trust Fund Administration (Repeat Challenge)**

This challenge focuses on Treasury's administration of the Gulf Coast Restoration Trust Fund, established by the RESTORE Act in response to the April 2010 Deepwater Horizon oil spill. Treasury announced that, as of October 2014, eligible states and local governments could apply for and receive grants to support the recovery of affected communities. The appropriate disbursement and use of these funds will be a focus of our work going forward.

### **Additional Areas of Concern**

We also are concerned with ongoing challenges with currency and coin production and lapses by the Department in maintaining a complete and concurrent record of key activities and decisions.

### **Gulf Coast Ecosystem Restoration Council**

In an October 30, 2015, letter to Secretary of Commerce Penny Pritzker, who is the former chair of the Gulf Coast Ecosystem Restoration Council, Inspector General Thorson acknowledged the continuing challenges of establishing a relatively new Federal entity and, in particular, one management and performance challenge repeated from the prior year.

#### **Implementing an Infrastructure To Administer Gulf Coast Restoration Activities**

The Gulf Coast Ecosystem Restoration Council administers two critical RESTORE Act components: the Comprehensive Plan Component and the Spill Impact Component. Together, these components will receive more than half of the monies deposited into the Gulf Coast Restoration Trust Fund. The Council faces the challenges of operating in an environment where its actions are subject to RESTORE Act mandates, including high levels of scientific review, environmental regulatory oversight, and public transparency. The Council still needs to develop the infrastructure—including permanent staffing, information technology, and sound internal controls—and put the necessary policies and procedures in place to administer grants and interagency agreements under the Comprehensive Plan and Spill Impact Components.

# In Progress and Planned Projects, by OIG Issue Area

## Treasury General Management and Infrastructure Support: Financial Management

### Background

#### Mandates

Financial audits of the Department and certain component entities are conducted pursuant to various statutes and other reporting requirements. For example, the Government Management Reform Act requires an annual audit of Treasury's consolidated financial statements. OMB or other laws require the following Treasury components to issue stand-alone audited financial statements:

- Internal Revenue Service (IRS)
- Bureau of Engraving and Printing (BEP)
- Federal Financing Bank
- U.S. Mint (Mint)
- Treasury Forfeiture Fund
- Office of D.C. Pensions
- Community Development Financial Institutions (CDFI) Fund
- Office of Financial Stability

Audits of the financial statements of the Office of the Comptroller of the Currency (OCC), Exchange Stabilization Fund, and Alcohol and Tobacco Tax and Trade Bureau (TTB) are conducted as management initiatives.

Independent certified public accounting firms, under contracts supervised by the OIG, audit the Department's consolidated financial statements and the financial statements of component entities, with some exceptions. The Government Accountability Office (GAO) audits the financial statements of the IRS and Office of Financial Stability, as well as the Fiscal Service's Schedule of Federal Debt. Additionally, OIG staff audit the Mint's Schedule of Custodial Deep Storage Gold and Silver Reserves and Treasury's Schedule of United States Gold Reserves Held by Federal Reserve Banks (FRB).

### Program Responsibilities

Treasury also has responsibility for certain programs that will be reviewed as part of the audit of the FY 2017 Department-wide financial statements, including programs established by the following acts:

- Housing and Economic Recovery Act of 2008
- Emergency Economic Stabilization Act of 2008
- American Recovery and Reinvestment Act of 2009
- Small Business Jobs Act of 2010
- Terrorism Risk Insurance Act of 2002, as extended and reauthorized by the Terrorism Risk Insurance Reauthorization Act of 2007 and Terrorism Risk Insurance Program Reauthorization Act of 2015

The terrorism risk insurance program was enacted under the Terrorism Risk Insurance Act to stabilize market disruptions that result from acts of terrorism. With a cap on annual liability for insured losses of \$100 billion, the program is in place to pay 84 percent of the insured losses arising from acts of terrorism above insurers' deductibles until it expires December 31, 2020. For discussion of other programs established by the acts listed above, see the section of this plan on Domestic and International Assistance and the section on Small Business Lending Fund (SBLF) and State Small Business Credit Initiative (SSBCI) Programs.

### Treasury Franchise Fund Shared Services Programs

The Treasury Franchise Fund Shared Services Programs (SSPs) provide common administrative services across the Department, achieving economies of scale and eliminating duplication of effort. These services are provided on a reimbursable basis to Treasury components at rates that recover SSP operating expenses. For FY 2017, the SSP budgeted \$230 million in program costs.

### Improper Payments

The Improper Payments Information Act of 2002 (IPIA) requires Federal agencies to annually review and identify programs and activities susceptible to improper payments. Agencies must report estimates of improper payments to Congress along with actions to reduce estimated improper payments that exceeded \$10 million. Executive Order (E.O.) 13520, "Reducing Improper Payments and Eliminating Waste in Federal Programs," signed by the President in 2009, requires Federal agencies to intensify their efforts to eliminate payment error,



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waste, fraud, and abuse in major Federal programs and provide their inspectors general with detailed information on efforts to identify and reduce the number of improper payments in Federal programs.

The Improper Payments Elimination and Recovery Act of 2010 (IPERA) amended IPIA and expanded requirements for the reporting and recapture of improper payments. IPERA requires each agency to periodically review all programs and activities susceptible to significant improper payments. If a program is found to be susceptible to significant improper payments, the agency must (1) estimate the amount of the improper payments, (2) report on actions being taken to reduce improper payments, (3) report on actions being taken to recover improper payments, and (4) include this information in materials accompanying the annual financial statements. IPERA also requires agencies to conduct recovery audits of each program and activity that expends more than \$1 million annually, if not prohibited by law and if considered to be cost effective. The inspectors general must determine whether their agencies are in compliance with IPERA each year.

The Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) further expanded agency requirements to foster greater accountability for improper payments. Similar to E.O. 13520, IPERIA requires the OMB Director to identify high-priority programs and coordinate with agencies to establish annual targets and semiannual or quarterly actions for reducing improper payments. Agencies must submit an annual report to their inspectors general on actions taken or planned (1) to recover improper payments and (2) to prevent future improper payments. The report is required to be available to the public on a central website, and be included in the Agency Financial Report.

### Known Weaknesses

The Department received an unmodified audit opinion on its FY 2015 consolidated financial statements. The independent public accounting firm's audit report disclosed the following internal control deficiencies:

- material weakness in internal control over financial reporting at IRS (repeat condition)
- significant deficiency in internal control in information systems controls at Fiscal Service (repeat condition)

The auditor also reported a finding that the Department's financial management systems did not substantially comply with the requirements of the Federal

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Financial Management Improvement Act related to Federal financial management system requirements and accounting standards.

## In Progress and Planned FY 2017 Projects

### **Audits of Treasury Financial Statements and of Financial Statements or Schedules for Component Entities and Activities (In Progress)**

During FY 2017, we will complete audit work for the FY 2016 financial statements and schedules and begin audit work for the FY 2017 financial statements and schedules. These audits will determine whether the financial statements and schedules are fairly presented in all material respects and will report on internal control and on compliance with laws and regulations that could have a direct and material effect on the financial statements.

### **Improper Payments**

We plan to assess Treasury compliance with IPERA and other improper payment reporting requirements for FY 2016 included in E.O. 13520 and IPERIA. We plan to work with TIGTA to provide an overall assessment of Treasury's compliance and identify high-priority Treasury programs for review.

### **Controls Over the Review of Unliquidated Obligations**

Unliquidated obligations are obligations of budgetary resources that have been designated for a specific purpose but not yet disbursed, such as an account payable for an item ordered or received but not yet paid for. As of September 30, 2015, Treasury's total unpaid obligations were \$138 billion. Reviews of unliquidated obligations are necessary to properly report obligation balances, certify the validity of obligated balances, and make funds available for expenditures that otherwise would not be used.

We plan to assess management controls and procedures that guide the review of unliquidated obligations by Treasury and non-IRS component entities.

## Projects Under Consideration for Future Fiscal Years

### **Office of D.C. Pensions' Quality Assurance for Annuitant Benefit Payments**

The Office of D.C. Pensions implements the Secretary's responsibilities under the Balanced Budget Act of 1997 to make timely and accurate Federal benefit payments associated with the D.C. Retirement Programs for police officers, firefighters, teachers, and judges. These benefit payments totaled \$685 million in FY 2015. During past financial statement audits, the auditor identified errors

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in annuitant payment amounts. We plan to assess whether the Office of D.C. Pensions' quality assurance program is designed and operating effectively to detect and correct mistakes in the processing of annuitant benefit payments.

### Treasury Franchise Fund Shared Services Programs

We plan to determine whether the Treasury Franchise Fund established adequate controls over its SSPs. As part of our audit, we plan to assess the following:

- SSP activities are appropriate for inclusion in the program,
- reconciliations between actual costs incurred by SSP and costs billed to participating Treasury bureaus exist, are timely prepared, and consistent,
- costs incurred by SSP are appropriate,
- fees charged by SSPs to users are supported by appropriate documentation, and
- assumptions, data, processes, and models used by SSPs to estimate annual costs are reasonable.

We will coordinate our work as necessary with TIGTA.

### Administrative Resource Center's Services and Billing

Fiscal Service's Administrative Resource Center (ARC) is a shared service provider that offers a range of financial management, human resources, IT, investment accounting, procurement, and travel services to more than 75 Federal customers. In FY 2015, ARC collected more than \$309 million in revenue from customers.

We plan to assess the controls that ARC has adopted to ensure it provides and properly bills customers for cost-effective services that meet customer expectations. Specifically, we will determine whether (1) reconciliations between actual costs incurred and costs billed to participating Treasury bureaus exist and are prepared timely and consistently; (2) costs charged by ARC are appropriate; and (3) costs charged by ARC to specific bureaus are supported by appropriate documentation.

### Cash Discounts

A cash discount is a reduction to the amount of an invoice that a seller offers a buyer in exchange for paying an invoice before its scheduled payment due date. Treasury can achieve significant savings by taking advantage of cash discounts across the high volume of bills it pays. The Treasury Financial Manual (TFM)

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provides a methodology for determining whether a cash discount should be taken. TFM requires that agency payment systems incorporate procedures that regularly take advantage of cash discounts.

We plan to assess Treasury's cash-discount policy and determine whether Treasury and its components implement it to take full advantage of cash-discount opportunities.

### **Managerial Cost Accounting**

Managerial cost accounting should be a fundamental part of a financial performance management system. It involves the accumulation and analysis of financial and nonfinancial data, resulting in the allocation of costs to organizational pursuits, such as performance goals, programs, activities, and outputs. Both our office and GAO have reported the need for Treasury to more effectively implement managerial cost accounting and revise policy to improve accounting practices to promote consistency throughout Treasury.

We plan to assess whether Treasury comprehensively and effectively implements managerial cost accounting.

### **Fiscal Service Reporting of Treasury Managed Accounts Activity to Program Entities**

Fiscal Service provides accounting services for non-entity assets, non-entity costs, and custodial revenue accounts. These accounts are held or managed on behalf of other program entities and are referred to as Treasury Managed Accounts (TMAs). TMAs consist of deposit funds, receipt accounts, and appropriated accounts requiring functions such as the issuance of payments, deposits, and collections. As of September 30, 2015, TMA revenue totaled \$102.7 billion and TMA costs or payments totaled \$13.6 billion.

We plan to assess whether Fiscal Service is providing appropriate, useful, and accurate reports on TMA activity to program agencies for use in managing their programs.

### **Treasury Use of Official Reception and Representation Funds**

Expenditures for entertainment must be authorized by Congress. For example, Congress may appropriate amounts for "official reception and representation expenses." These sums are traditionally sought, justified, and granted in the context of an agency's need to interact with various nongovernment individuals or organizations. Precisely who these individuals or organizations are may vary by agency. An agency has wide discretion in the use of its official reception and

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representation appropriation. The President's Budget for FY 2017 includes \$403,500 for official reception and representation expenses for Treasury.

We plan to assess whether Treasury has adequate controls over the expenditure of official reception and representation funds and whether these funds are used to further Treasury's mission.

### **Agreed-upon Procedures for Intra-governmental Transactions**

OMB selects for review agencies with significant reconciliation differences. Inspectors General may be selected to review their agencies' intragovernmental transactions to identify, analyze, and facilitate the correction of underlying internal control or process weaknesses. OMB selection will be based on prior-year, fourth-quarter intragovernmental transaction reporting. Upon selection, we plan to perform agreed-upon procedures to identify, analyze, and facilitate the correction of the underlying internal control or process weaknesses.

## Treasury General Management and Infrastructure Support: Information Security

### Background

Cybersecurity is one of the most serious challenges facing our nation. The dynamics of cyberspace and rapidly changing technologies (such as open-source software, cloud computing, virtual technologies, social networking, and mobile devices) provide for greater convenience and accessibility but render information and information systems more vulnerable. Cyber threats to U.S. national and economic security continue to grow in number and sophistication, increasing the risk that essential services could be degraded or interrupted or that sensitive information could be stolen or compromised. In April 2015, the President authorized Treasury to impose sanctions on individuals or entities behind cyberattacks and cyber espionage in E.O. 13694, “Blocking the Property of Certain Persons Engaging in Significant Malicious Cyber-Enabled Activities.”

Mounting cyber threats from foreign intelligence services, terrorists, organized groups, hacktivists, and hackers pose significant risks to the confidentiality, integrity, and availability of Treasury’s information and infrastructure and to the nation’s financial sector that it oversees. Insider threats pose further significant risks to Treasury’s mission and operations. Insiders have institutional knowledge and a level of trust associated with their authorized access to Treasury’s critical systems and sensitive information. A successful cyberattack could result in:

- disruption of key Treasury functions (such as collecting revenues, issuing payments, managing the Government’s cash and debt, producing coins and currency, and preventing financial crimes)
- compromise of classified or sensitive Treasury information
- disclosure of information on private citizens
- destruction or alteration of information needed to accomplish Treasury’s missions
- theft of valuable equipment or technology
- inappropriate use of Treasury resources

Our recent penetration tests of selected Treasury bureaus and offices found that security measures were not sufficient to fully prevent and detect intrusions to



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networks and systems. In one case, we found that a default configuration setting provided public access to personally identifiable information.

Accordingly, Inspector General Thorson has reported cyber threats as Treasury's top management and performance challenge for the past two years in his annual memorandum to the Secretary. Because cybersecurity is critical to Treasury's mission and operations, Treasury management must ensure an effective information security program to mitigate cybersecurity risks and ensure proper protections for Treasury's information and information systems.

### **Mandates**

#### ***Federal Information Security Modernization Act of 2014 (FISMA)***

FISMA requires Federal agencies to have an annual independent evaluation of their information security program and practices and to report the results of the evaluations to OMB. An independent certified public accounting firm, under a contract supervised by the OIG, performs the annual FISMA evaluations of Treasury's unclassified systems (except those used by IRS) and collateral national security systems. TIGTA conducts the evaluation of the IRS' information security program and practices. We may exercise the contract options for the FISMA evaluations or audits of Treasury's unclassified and collateral national security systems for FY 2017. Currently, our staff conducts the FISMA audit of Treasury's intelligence systems.

Based on the results of FY 2015 evaluations, KPMG LLP, under our supervision, concluded that consistent with applicable FISMA requirements, OMB policy and guidance, and the National Institute of Standards and Technology standards and guidelines, Treasury's information security program and practices for its unclassified systems had been established and maintained. However, the program was not fully effective in four areas: identity and access management, risk management, Plan of Action and Milestones, and contractor systems.

#### ***Cybersecurity Act of 2015 (Pub. L. No. 114-113)***

On December 18, 2015, the President signed into law the Cybersecurity Information Sharing Act of 2015. Under Division N, Section 406 of the act directs the inspectors general of the appropriate Federal entities to report to Congress, not later than 240 days after enactment, on cybersecurity policies, procedures, practices, and capabilities for national security systems and systems that provide access to personally identifiable information. Section 107 of Title I of the act directs the inspectors general, in consultation with the Inspector

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General of the Intelligence Community and the Council of Inspectors General on Financial Oversight (CIGFO), to submit a biennial joint interagency report to Congress on the actions of the executive branch of the Federal Government in implementing cyber security information sharing. The act sets forth the content requirements of the report, and the first biennial report is due to Congress on December 18, 2017.

### Cross-agency Priority Goals

The Government Performance and Results Modernization Act of 2010 (GPRA Modernization Act) requires that the Federal Government set two types of cross-agency priority (CAP) goals:

- outcome-oriented goals that cover a limited number of crosscutting policy areas
- management improvements across the Federal Government in information technology, finance, human resources, and real property

The 14 identified CAP goals relate to areas where increased cross-agency coordination focused on outcomes is likely to improve progress. The Cybersecurity CAP Goal helps Federal agencies improve cybersecurity performance by focusing on the type and volume of data and information entering and exiting their networks, the users who access their systems, the components on their information networks, and changes in their systems' security status. Executive branch departments and agencies were directed to achieve 95 percent implementation of the Administration's priority cybersecurity capabilities by the end of FY 2014, including the following:

- **trusted Internet connections**—to consolidate external Internet traffic and ensure a set of common security capabilities for situational awareness and enhanced monitoring
- **continuous monitoring of Federal information systems**—to allow agencies to maintain an ongoing, near-real-time awareness and assessment of information security risk and to rapidly support organizational risk-management decisions
- **strong authentication**—to ensure authorized access to Federal information systems that adheres to standards established in Homeland Security Presidential Directive-12, "Policy for a Common Identification Standard for Federal Employees and Contractors"

### Continuous Monitoring

OMB Memorandum M-14-03, "Enhancing the Security of Federal Information and Information Systems," requires agencies to implement continuous monitoring of security controls as part of a phased approach through FY 2017. Agencies are required to develop and maintain an Information Security Continuous Monitoring strategy and implement an Information Security Continuous Monitoring program in accordance with the National Institute of Standards and Technology (NIST) Special Publications. This strategy allows agencies to maintain ongoing awareness of information security, vulnerabilities, and threats to support organizational risk-management decisions.

### Critical Infrastructure Protection

The U.S. critical cyber infrastructure is comprised of Government and private-sector systems and assets that are vital to public confidence and the nation's safety, prosperity, and well-being. These systems are increasingly vulnerable to cyberattacks that could cripple the nation's infrastructure and economy—particularly the financial sector. In response to this threat, the President signed E.O. 13636, "Improving Critical Infrastructure Cybersecurity," and Presidential Policy Directive-21, "Critical Infrastructure Security and Resilience," to promote a cybersecurity partnership between the Government and private companies that oversee U.S. critical infrastructure. The directive requires Treasury to collaborate with the Department of Homeland Security and financial sector organizations to identify and protect critical cyber infrastructure. In April 2015, E.O. 13694, "Blocking the Property of Certain Persons Engaging in Significant Malicious Cyber-Enabled Activities," gave Treasury the authority to impose sanctions on individuals or entities behind cyberattacks and cyber espionage.

Effective public-private coordination will be required to address the growing threat of cyberattacks against the nation's critical infrastructure. Treasury interconnected systems are critical to the core functions of the Government and the U.S. financial infrastructure. Information security remains a constant area of concern and potential vulnerability for Treasury's network and systems, and the Department must be prepared to provide leadership to defend against cyber threats to the nation's financial institutions.

### **In Progress and Planned FY 2017 Projects**

#### **FISMA Independent Evaluation—Unclassified Systems (In Progress)**

An independent certified public accounting firm, under a contract supervised by the OIG, will assess the effectiveness of the Treasury's information security programs and practices for its unclassified systems as well as compliance with FISMA requirements and related information security policies, procedures, standards, and guidelines. As part of its evaluation, the contractor will follow up on Treasury's progress in resolving previously reported FISMA weaknesses. During FY 2017, evaluation work for FY 2016 will be completed and planned work for FY 2017 will begin.

#### **FISMA Independent Evaluation—Collateral National Security Systems (In Progress)**

An independent certified public accounting firm, under a contract supervised by the OIG, will assess Treasury's compliance with FISMA requirements and related information security policies, procedures, standards, and guidelines, as well as the effectiveness of Treasury's information security programs and practices. As part of its evaluation, the contractor follow up on Treasury's progress in resolving previously reported FISMA weaknesses. During FY 2017, evaluation work will be completed for FY 2016 and planned work will begin for FY 2017.

#### **FISMA Independent Audit—Intelligence National Security Systems**

We plan to assess the effectiveness of Treasury's information security programs and practices for its intelligence national security systems and assess compliance with FISMA requirements and related information security policies, procedures, standards, and guidelines. In addition, we will follow up on Treasury's progress in resolving previously reported FISMA weaknesses cited in our prior-year report.

#### **Evaluation of Treasury's Security Policies and Practices for Computer Systems (In Progress)**

We plan to assess whether Treasury has appropriate information security management policies, procedures, and practices for controlling access to national security systems and systems that store personally identifiable information, as described in Section 406 of Title IV of the Cybersecurity Act of 2015 (Public Law 114-113), Division N.

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### **Audit of Treasury's Compliance With Cybersecurity Information Sharing (Public Law 114-113), Division N, Title I, Section 107**

We plan to determine whether Treasury has taken appropriate actions relating to the sharing of cyber threat indicators or defensive measures as required by the Cybersecurity Act of 2015, Section 107.

### **Council of the Inspectors General on Integrity and Efficiency Joint Project—Web Application Security**

We plan to assess whether Treasury has implemented security measures to protect its publicly accessible web applications. Our evaluation will include vulnerability assessments of Treasury's publicly accessible web applications.

### **Network and System Vulnerability Assessments and Penetration Testing (In Progress)**

We plan to determine whether sufficient protections exist to prevent and detect unauthorized access to Treasury bureau networks and systems. To accomplish this objective, we plan to identify and exploit existing vulnerabilities in IT infrastructure to determine whether information and systems are (1) secure from unauthorized intrusion and misuse, (2) vulnerable to malicious security attacks, or (3) accessible through unauthorized or misconfigured paths (such as back doors into the network from the Internet or adjacent networks). This will include a coordinated network security test involving automated and manual vulnerability assessments and exploitation. For FY 2017, we plan to complete our audit of the Financial Crimes Enforcement Network (FinCEN) Bank Secrecy Act networks and systems and begin audit work at TTB and OIG.

### **Corrective Action Verification—OCC Network and Systems and Security Controls**

In 2013, we reported that OCC's security measures were not sufficient to prevent and detect unauthorized access into its network and systems by internal threats or external threats that gained an internal foothold. Additionally, OCC's security measures were not adequate to protect PII from Internet-based threats. *Information Technology: OCC's Network and Systems Security Controls Were Deficient* (OIG-14-001, issued October 17, 2013).

We plan to determine whether OCC implemented planned corrective actions to address these deficiencies.

### **Disaster Recovery Exercises (In Progress)**

We plan to determine whether Treasury's offices and bureaus provide adequate contingency planning controls and successfully perform disaster-recovery

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exercises to regain operations in the event of a disaster (such as terrorist attacks, severe weather events, and pandemics). During FY 2017, we plan to complete our observation of Departmental Offices' disaster-recovery exercise.

### Public Web Server Security (In Progress)

We plan to determine whether Treasury and bureaus ensure effective management practices and controls over public-facing web servers. For FY 2017, we plan to complete work at Fiscal Service and begin work at Departmental Offices.

### Corrective Action Verification—Cloud Computing

We plan to assess whether Fiscal Service implemented corrective actions to address deficiencies we reported in 2014. *Information Technology: Fiscal Services Management of Cloud Computing Services Needs Improvement* (OIG-15-003; issued Oct. 8, 2014).

### Continuous Monitoring

We plan to determine whether Treasury has established a continuous monitoring management program that meets current Federal standards and guidelines.

### Software License Management

We plan to determine whether Treasury is paying for all software installed on its network and effectively tracking software licenses.

### Intrusion Detection and Incident Response

We plan to assess whether Treasury's intrusion detection and incident response programs meet Federal reporting requirements.

## Projects Under Consideration for Future Fiscal Years

### Enterprise Patch Management

We plan to determine whether Treasury's offices and bureaus have an effective patch-management program to ensure timely and secure installation of software patches.

### Mobile Device Security

We plan to determine whether Treasury has provided proper safeguards for organization-issued devices.



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### **Equipment Sanitization and Disposal**

We plan to determine whether Treasury's offices and bureaus use media sanitization and disposal techniques appropriate to the security categorization of the associated system's confidentiality.

### **Management of Cloud Computing Services**

We plan to determine whether Treasury ensures effective management of cloud computing services.

### **OCC Examination of Third-party Providers**

We plan to determine whether OCC has ensured proper direct examinations of third-party technology service providers used by financial institutions.

### **Top 20 Critical Security Controls**

We plan to determine whether Treasury has ensured effective critical security controls over its information systems, as recommended by the Council on Cybersecurity's Top 20 Critical Security Controls.

### **Wireless Local Area Network Security**

We plan to determine whether Treasury has implemented appropriate security management practices and controls over wireless local area networks to meet Federal guidelines.

### **Trusted Internet Connection Compliance**

We plan to determine whether Treasury's offices and bureaus have complied with OMB's Trusted Internet Connection (TIC) initiative. We will also determine whether Treasury's offices and bureaus have connections to the Internet outside of the approved TIC and how vulnerabilities associated with unapproved access are mitigated.

### **Supply Chain Security**

We plan to assess whether Treasury's acquisition process mitigates supply chain threats to computer hardware and software procured for its use.

### **Firewall Security**

We plan to determine whether Treasury has properly configured firewalls to prevent unauthorized access attempts into its network and systems.

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### **Social Media**

We plan to determine whether Treasury's social media sites comply with policy guidance and applicable laws.

### **Voice Over Internet Protocol**

We plan to determine whether Treasury has ensured effective security controls over Voice Over Internet Protocol phones.

### **Open-source Software Risk Assessment and Mitigation**

We plan to determine whether sufficient protections exist to minimize risk associated with Treasury's use of open-source software.

### **Security Controls Over Virtual Systems**

We plan to determine whether effective security controls are in place for securing information systems employing virtualization technology.

### **Security Controls Over Treasury's Industrial Control Systems**

Industrial Control Systems in a manufacturing environment encompass several types of control systems, including supervisory control and data acquisition systems and distributed control systems.

We plan to determine whether Treasury has provided effective security controls over its Industrial Control Systems.

### **Security Assessment of Treasury Foreign Intelligence Network**

We plan to determine whether sufficient protections exist to prevent intrusions into the Treasury Foreign Intelligence Network.

### **Telework and Remote-access Infrastructure Security**

We plan to determine whether Treasury has effective security controls in place to protect Treasury's telework and remote-access infrastructure.

### **Multi-function Printer Security**

We plan to determine whether Treasury's offices and bureaus use security controls consistent with Government and Treasury guidance to protect multifunction printers.

### **Rogue Device Detection and Prevention**

We plan to determine whether Treasury's offices and bureaus prevent rogue devices from gaining access to Treasury's network and systems.

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### **Protection of Treasury's Designated Cyber Critical Infrastructure**

We plan to determine whether Treasury has ensured adequate protection for its designated cyber critical infrastructure.

### **TTB Controls Over the Integrated Revenue Information System**

We plan to determine whether TTB has established effective security controls over the Integrated Revenue Information System.

## Treasury Resource Management and Infrastructure Support

### Background

Treasury's Resource Management and Infrastructure Support issue area encompasses other management activities to ensure that resources are used efficiently and effectively to carry out Treasury programs and operations. Examples of broad management activities that warrant audit coverage are discussed below.

#### IT Investment Acquisition and Management

Sound business practices for the acquisition and maintenance of information systems (including hardware and software) are necessary to support Treasury's mission to effectively manage resources and avoid the following risks:

- inadvertent development or acquisition of duplicate or incompatible systems
- missed discounts associated with buying commercial off-the-shelf products in volume
- development of systems that do not address Treasury's needs or provide management with information needed to accomplish key missions
- unreasonable or higher-than-projected costs to develop, acquire, or maintain systems
- acquisition or development of systems that do not secure and protect Treasury's classified, confidential, or sensitive information
- implementation of systems that do not readily integrate with existing systems

Under the Clinger-Cohen Act of 1996, agencies are required to submit business plans for IT investments to OMB. In 2009, OMB instituted the IT Dashboard website, where agencies report details of their IT investments. This site allows users to track the progress of IT projects over time. Costs and progress are rated against the agency's plan to identify IT projects at risk for excess costs or schedule delays. As of July 2016, Treasury bureaus other than IRS reported 36 major IT investments. Of these projects, the Treasury Chief Information Officer reported the following five IT projects as having medium risk to accomplishing their goals:

- Central Accounting and Reporting System

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- Departmental Offices IT Infrastructure End User Systems and Support
- Departmental Offices IT Infrastructure Mainframes and Servers Services and Support
- Departmental Offices IT Infrastructure Telecommunications
- Treasury Enterprise Identity, Credential, and Access Management

Departmental Offices IT Infrastructure Mainframes and Servers Services and Support is expected to be delayed and exceed projected costs. The Departmental Offices IT Infrastructure End Users Systems and Support project is also behind schedule. Although projects identified with medium overall risk and high-risk in cost and scheduling require special attention from the highest level of agency management, they are not necessarily at risk for failure.

Past audits showed that Treasury did not always effectively manage its capital investments, but later audits found improved management in place. Certain capital investments, such as those for telecommunications, are funded through the Working Capital Fund. These projects do not receive the same scrutiny by OMB and Congress as projects directly funded through the annual appropriations process.

### Procurement Programs and Operations

Procurements are a major Treasury activity. For example, from October 1, 2015, through July 31, 2016, Treasury bureaus other than IRS issued \$3.4 billion in contract actions, which included \$2.4 billion issued by the Mint. In addition, the use of Government charge cards for micropurchases (generally goods and services under \$3,500) is extensive. Provisions of the Government Charge Card Abuse Prevention Act of 2012 call for strong control over this activity to prevent abuse.

Treasury's procurement activities are performed partly by the bureaus and Departmental Offices and by Treasury shared service providers via agreements with Fiscal Service's ARC or the IRS.

OIG performs pre-award, costs incurred, and other contract audits as requested by Treasury offices and the bureaus (except IRS).

### Climate Change

Climate change poses a global problem with significant implications for the environment, society, the economy, politics, and the distribution of goods. It represents one of the principal challenges facing humanity today, with the worst

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impact probably being felt by developing countries for years to come. Changes to lifestyle, production, and consumption are needed to combat global warming and the human causes that produce or aggravate it. Treasury plays a key role in supporting the domestic and international environment and energy agendas of the U.S.

### **Non-appropriated Activities**

Three Treasury bureaus—BEP, the Mint, and OCC—operate on revolving, rather than appropriated funds. BEP and the Mint charge the Board of Governors of the Federal Reserve System for manufactured goods, and OCC assesses fees to banks under its supervision for regulatory activities. These three bureaus generally have greater latitude than Treasury’s appropriated bureaus in how they finance their operations. Other revolving funds are administered by the Deputy Chief Financial Officer, such as the Working Capital Fund, and shared service providers, such as ARC.

### **Potential Integrity Risks**

Potential integrity risks may result from the actions of external parties (contractors, terrorists, drug lords, and hackers) or internal personnel (disgruntled or unethical employees). Internal personnel, for example, can disrupt Treasury functions, violate laws, award contracts for less than best value, receive bribes or kickbacks, steal or reveal sensitive data, and cost taxpayers money through the theft of materials and machinery, finished products, and mutilated products.

## In Progress and Planned FY 2017 Projects

### **Treasury’s Controls Over Processing Transactions Specific to Reimbursable Agreements (In Progress)**

We recently initiated an audit of Treasury’s Office of Budget and Travel’s controls over processing transactions specific to reimbursable agreements with other Treasury bureaus and offices. We plan to assess whether transactions to transfer funds between bureaus and other Treasury components were done in accordance with laws, regulations, policies, procedures, and respective reimbursable agreements.

### **Controls Over Conferences, Travel, and Employee Award Programs (In Progress)**

We plan to determine whether Treasury bureaus have effective policies and procedures in place to ensure compliance with applicable laws, regulations, and

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E.O.s on travel, conferences, and employee award programs. We have one audit in progress at TTB and plan to initiate an audit of OCC during FY 2017.

### **Controls Over Purchase and Travel Cards**

As required by the Government Charge Card Abuse Prevention Act of 2012, we plan to assess the Treasury purchase card and travel card programs to identify and analyze risks of illegal, improper, or erroneous purchases, travel charges, or payments. The results of these assessments will help us develop a plan for determining the scope, frequency, and number of periodic audits of transactions made with purchase cards, convenience checks, and travel charge cards. We also plan to issue joint reports with the Department on violations or other actions related to Treasury guidance for the use of purchase cards and convenience checks. This includes reporting on illegal, improper, or erroneous purchases made with purchase cards or convenience checks.

### **Treasury Enterprise Identity, Credential, and Access Management**

In 2012, the Treasury Chief Information Officer identified scheduling problems with fully implementing Treasury's Enterprise Identity, Credential, and Access Management system. Since 2007, Treasury has spent approximately \$321 million to implement the requirements of Homeland Security Presidential Directive-12 for a common identification standard. Treasury received funding of \$54 million in FY 2015 and \$21 million in FY 2016. Implementation for most of Treasury is targeted for completion in 2018.

We plan to determine whether sound project management principles are being followed in carrying out the project.

### **Audit Resolution and Follow-up**

We plan to determine whether Treasury's audit follow-up system, including policies and procedures, helps to ensure that audit recommendations are promptly and properly acted on and that progress on corrective actions is adequately monitored. This project is intended to complement our corrective action verifications on specific audits. As part of this audit, we plan to follow up on recommendations made in our prior report, *General Management: Office of Management Needs to Improve Its Monitoring of the Department's Audit Follow-up Process* (OIG-08-037; issued June 23, 2008).



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### **Contractor Clearance and Background Investigations**

We plan to determine whether controls are in place to ensure that Treasury's contractor personnel, who have access to Treasury data and other information, have current and appropriate security clearances and background investigations.

### **Treasury's Environmental and Sustainability Program**

We plan to determine Treasury's compliance with applicable laws, regulations, E.O.s, and agency directives with respect to managing its environmental and climate change programs. As part of this work, we will assess Treasury's progress toward meeting sustainability goals identified in its *Strategic Sustainability Performance Plan*.

### **Review of Treasury's Electronic Records Management Practices**

In accordance with the President's memorandum of November 28, 2011, "Managing Government Records," OMB and the National Archives and Records Administration issued the joint "Managing Government Records Directive" (OMB Directive M-12-18) in 2012, instructing agencies to eliminate paper and use electronic recordkeeping. To ensure openness and accountability and to reduce costs, the directive requires that, (1) by December 31, 2016, Federal agencies manage both permanent and temporary email records in an electronically accessible format and (2) by December 31, 2019, Federal agencies manage all permanent electronic records in an electronic format. OMB issued additional guidance in 2014 to assist in meeting these goals.

We plan to assess whether Treasury offices and bureaus have procedures and initiatives in place to comply with OMB Directive M-12-18.

### **Administration of the Financial Empowerment Innovation Fund**

Treasury's Office of Consumer Policy (OCP) is responsible for developing and coordinating Treasury's legislative and regulatory policies as they relate to retail financial services provided by banks and nonbank financial services companies. As part of its duties, OCP administers the Financial Empowerment Innovation Fund. This fund supports the development, testing, and evaluation of new strategies to promote access to financial services and improve the financial capability of American families. Through this fund, Treasury has awarded contracts for 11 research projects, totaling more than \$6.2 million.

We plan to assess OCP's administration of the Financial Empowerment Innovation Fund.

### **Treasury's Activities To Execute Emergency Management and Preparedness**

Treasury's Office of Emergency Preparedness is responsible for management of the Treasury Operations Center and the development and implementation of continuity plans that provide for occupant safety, continuity of operations, emergency communications for Treasury leadership, and early notification and detection capabilities. Treasury Directive 23-01, "Responsibilities With Respect to Emergency Programs" (January 2012) outlines the responsibilities and discusses the roles of the bureaus and Departmental Offices for emergency management and continuity coordination. The directive seeks to maintain effective capabilities to prepare for, respond to, and recover from natural and man-made disasters that impact Treasury personnel, facilities, and interests to ensure the performance of Treasury's primary missions at all times.

We plan to assess Treasury's activities to execute emergency management and preparedness in accordance with Treasury Directive 23-01.

### **Use of Administrative Leave**

We plan to review Treasury's administrative leave policies and practices to ensure proper and limited use of administrative leave across the Department.

### **External Executive Training Costs**

We plan to assess whether Treasury (1) tracks the cost of external executive training at the department level, (2) reports accurate training cost data per OPM requirements, and (3) has controls in place to ensure that best-value analyses are performed in selecting executive training options across all bureaus.

### **Contract Audit Activities**

We plan to perform pre-award, costs incurred, and other contract audits requested by Treasury offices and the bureaus (except IRS). Typically, we receive two such requests per year.

### **Treasury's Progress in Reducing Underperforming IT Investments**

In 2009, OMB launched the IT Dashboard, which allowed OMB and the public to monitor IT investments across all agencies in the Federal Government. As a result of OMB's analysis of this information, in January 2010, the Federal Chief Information Officer (CIO) initiated the first OMB-led "TechStat" reviews with agency CIOs and members of their leadership team. The "TechStat" review is a face-to-face, evidence-based accountability review of an IT investment. It

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enables the Federal Government to intervene to turn around, halt, or terminate IT projects that are failing or are not producing results for the American people.

In 2010, OMB launched a “25-Point Implementation Plan to Reform Federal Information Technology Management,” including a requirement for Federal agencies to conduct ongoing “TechStats” reviews on troubled investments. In 2011, OMB took an additional step to support the rollout of the TechStat governance model to the agency level with the issuance of the Chief Information Office Authorities Memorandum. OMB memorandum M-11-29 directs “changing the role of Agency CIOs away from just policymaking and infrastructure maintenance, to encompass true portfolio management for all IT.” From a governance perspective, the guidance requires CIOs to drive the investment review process for IT investments. In accordance with the IT Reform Plan, it also requires agency CIOs to lead TechStat sessions to improve line-of-sight all the way through completion of the project. As noted in the memorandum, the goal of such reviews was to terminate or turn around “one-third of all underperforming IT investments by June 2012.”

We plan to assess Treasury’s execution of the 25-point Implementation Plan to Reform Federal Information Technology Management.

## Projects Under Consideration for Future Fiscal Years

### Evaluation of Treasury’s Whistleblower Program

We plan to evaluate Treasury’s whistleblower program to determine whether (1) the rules and regulations are clearly defined, (2) the policy is easily accessible and well communicated; and (3) complaints are handled and processed efficiently.

### Treasury Procurement Activities

We plan to determine whether selected Treasury bureaus and offices, when procuring goods and services, follow logical and prudent business practices that comply with laws and regulations and Treasury policies and procedures.

### Telework Program Oversight

We plan to determine whether Treasury bureaus other than IRS have policies, procedures, and controls over employee telework.

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### **Physical Access Controls Over Treasury Facilities**

We plan to determine whether sufficient protections exist to prevent unauthorized access into Treasury facilities.

### **Treasury's Reliance on Contractors To Perform Inherently Governmental Activities**

We plan to determine whether Treasury relies on contractors to perform inherently Governmental activities.

### **Treasury's Use of Social Media**

We plan to determine whether Treasury's use of social media complies with policy guidance and applicable laws.

### **Employee Bonus Policies at Non-Appropriated Entities**

We plan to determine whether Treasury's non-appropriated entities (1) have established policies for employee bonuses in accordance with applicable laws and regulations and (2) paid bonuses in compliance with applicable laws, regulations, and policies and procedures. Separate audits are planned at the Mint, OCC and BEP.

### **Resolution of Accountable Officer Irregularities**

Accountable officers include certifying officers, disbursing officers, collecting officials, and other officers or employees who are responsible for or have custody of public funds. Treasury Directive 32-04, "Settlements of Accounts and Relief of Accountable Officers," established policy and procedures to settle irregularities (erroneous or improper payments) in the accounts of accountable officers. Requests for relief of accountable officers (except for those in Fiscal Service) from liability for irregularities resulting in major loss must be referred to Treasury's Deputy Chief Financial Officer for resolution. Requests for relief of Fiscal Service accountable officers with Government-wide fiscal responsibilities must be referred to the Fiscal Assistant Secretary for resolution. The resolution of irregularities constituting a minor loss has been delegated to other Treasury officials.

We plan to determine whether irregularities in the accounts of Treasury accountable officers are resolved in accordance with Treasury Directive 32-04.

### **Strategic Human Capital Management**

We plan to determine whether the Office of the Deputy Assistant Secretary for Human Resources and Chief Human Capital Officer identified any existing critical

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skill gaps at Treasury and modified the strategic human capital management plan accordingly.

### **Mandated Reports**

We plan to determine whether Treasury has adequate monitoring controls in place to ensure the completion of presidentially and Congressionally mandated reports. As part of this project, we will assess Treasury's progress in reducing, eliminating, or consolidating reports pursuant to the GPRA Modernization Act of 2010.

### **Work-Life Programs**

We plan to determine whether Treasury tracks and evaluates data on the implementation and assessment of its work-life programs.

### **Review of Treasury International Capital System**

The Treasury International Capital system collects data for the U.S. on cross-border portfolio investment flows and positions between U.S. residents (including U.S.-based branches of firms headquartered in other countries) and foreign residents (including offshore branches of U.S. firms).

This system provides:

- monthly data on transactions in long-term securities
- monthly and quarterly position data on claims and liabilities (including some short-term securities) reported by banks and broker/dealers of securities
- quarterly position data on selected claims and liabilities reported by non-banks and non-broker/dealers
- annual position data on holdings or long-term and short-term securities
- quarterly position and transactions data on financial derivatives

Besides being reported on the Treasury's website, detailed data from the monthly and quarterly forms are combined and presented in several tables in the Capital Movements section of the quarterly Treasury Bulletin. The system data, including the data from the periodic surveys of holdings of securities, provide a primary input to the U.S. Net International Investment Position reported by the Bureau of Economic Analysis. The Federal Reserve's Flow of Funds accounts for financial positions and flows of the Rest of the World sector draw indirectly on the Treasury International Capital system data because the Flow of Funds accounts use as their primary input the data published by the Bureau of

## **In Progress and Planned Projects**

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Economic Analysis in its international transactions accounts. System data is also used to compute the U.S. Gross External Debt position, which is published as part of the International Monetary Fund's Special Data Dissemination Standard.

We plan to (1) review the data in the Treasury International Capital system for reliability and completeness; (2) review the process for accumulating data in the system for compliance with applicable laws, regulations, policies, and procedures; and (3) determine whether controls are in place to safeguard financial data and any sensitive information.

### **Website Compliance With Section 508 of the Rehabilitation Act**

Section 508 of the Rehabilitation Act of 1973, as amended, contains accessibility requirements for Federal departments and agencies that develop, procure, maintain, or use electronic and information technology. The purpose of Section 508 is to ensure that individuals with disabilities have access to and use of information and data in electronic format comparable to that of members of the public who do not have disabilities.

We plan to determine whether Treasury's main website and those of its bureaus conform to the technical standards of Section 508 for web-based intranet and Internet information.

### **Treasury's Multilateral Financial Mechanisms That Support Environmental Goals**

We plan to determine Treasury's compliance with applicable laws, regulations, E.O.s, and agency directives with respect to how it manages U.S. interests and obligations in multilateral financial mechanisms that support environmental goals.

### **Treasury's Enterprise Architecture Program**

We plan to determine whether Treasury complies with established Federal guidance and Treasury's enterprise architecture policies and procedures, and to determine whether Treasury aligned its strategic plans and individual business priorities within an appropriate enterprise architecture framework.

### **Treasury's Management of Facilities**

The Federal Government is the biggest property owner in the U.S. The President proposed a Civilian Property Realignment Board to sell or otherwise dispose of property it no longer needs. The Presidential Memorandum, "Disposing of Unneeded Real Estate," issued in 2010, required Federal agencies to save no less than \$3 billion by the end of FY 2012. In May 2012, OMB issued Memorandum M-12-12, "Promoting Efficient Spending to Support Agency

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Operations,” which prevents agencies from increasing square footage and requires agency reporting on real property. Treasury reported \$24 million in real property cost savings through FY 2012.

We plan to assess Treasury’s effort to implement the President’s and OMB’s memoranda.

### **Corrective Action Verification- Treasury’s Office of Minority and Women Inclusion Contract Proposal Review**

We plan to assess whether management took corrective action responsive to our recommendation to develop and implement procedures for determining whether contractors are making a good faith effort to include minorities and women in their workforce. (*Treasury’s DO Office of Minority and Women Inclusion Is Generally Carrying Out Its Functions Consistent with Dodd-Frank* (OIG-16-054; issued August 30, 2016).

### **Treasury’s Human Resource Succession Planning**

We plan to determine whether Treasury established human resource succession plans.

### **Capital Planning and Investment Control Process**

We plan to assess Treasury’s management of its capital planning and investment process for IT projects.

### **Freedom of Information Act Requests**

We plan to determine whether the Department and non-IRS bureaus (1) have adequate systems to record, track, and timely complete Freedom of Information Act requests, including an assessment of fees and fee waivers and the use of exemptions; (2) provide points of contact and monitoring systems to ensure that inquiries regarding requests have been properly addressed with the requesters; (3) ensure proper collection of fees and the granting of fee waivers; (4) ensure compliance with the 2011 Supreme Court decision *Milner v. Department of the Navy*, the 1996 Electronic Freedom of Information Act amendments, and Treasury directives; and (5) report required Freedom of Information Act statistics annually to the Department of Justice.

### **Integrating Information Security Into Capital Planning**

We plan to determine whether Treasury has properly integrated information security into the capital planning and investment control process in accordance with Federal guidelines.



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### **Treasury's Oversight of the Job Classification Process**

We plan to assess Treasury's oversight of the job classification process to determine (1) whether positions are being properly classified based on position descriptions and (2) if the grade level of positions are properly determined based on job classifications.

### **Process To Release Economic Indicators and Market Information**

We plan to assess the controls that Treasury has in place to safeguard sensitive information such as economic indicators, statistics, and market information that has not yet been released to the public.

## Terrorist Financing, Money Laundering, and Foreign Assets Control

### Background

Preventing terrorism, money laundering, and other criminal activity is a global effort. Treasury's role in this effort is to safeguard the U.S. financial system and protect it from illicit use. Treasury coordinates with other law enforcement agencies, intelligence agencies, foreign governments, and the private sector to add transparency to the financial system and help detect those who would try to exploit that system for their own illicit purposes. Within Treasury, this effort is led by the Office of Terrorism and Financial Intelligence, which oversees several components with wide-ranging responsibilities.

- **Office of Terrorist Financing and Financial Crimes**—responsible for policy and outreach
- **Office of Intelligence and Analysis**—responsible for intelligence functions, integrating Treasury into the larger intelligence community, and providing support to Treasury leadership
- **FinCEN**—responsible for Treasury's effort to enforce the Bank Secrecy Act (BSA) and the USA PATRIOT Act
- **Office of Foreign Assets Control (OFAC)**—administers laws that impose economic sanctions against hostile targets to further U.S. foreign policy and national security objectives
- **Treasury Executive Office for Asset Forfeiture (TEOAF)**—administers the Treasury Forfeiture Fund, a receipt account for deposit of non-tax forfeitures made pursuant to laws enforced or administered by participating agencies

The BSA requires financial institutions to file Currency Transaction Reports (CTRs) for currency transactions exceeding \$10,000 and Suspicious Activity Reports (SARs) for transactions that are suspicious in nature. Law enforcement agencies use the information from these reports as leads for potential fraud, money laundering, terrorist financing, and other types of illicit finance.

Title III of the USA PATRIOT Act requires each financial institution to establish an anti-money laundering program, extends the SAR filing requirement to broker-dealers, requires financial institutions to establish procedures to verify the identities and addresses of customers seeking to open accounts, and requires

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FinCEN to maintain a highly secure network that allows financial institutions to file BSA reports electronically.

OFAC's authority to impose controls on transactions and to freeze foreign assets is derived from the President's constitutional and statutory wartime and national emergency powers. OFAC relies principally on authority under the Trading with the Enemy Act, International Emergency Economic Powers Act, and United Nations Participation Act to prohibit or regulate commercial or financial transactions involving specific foreign countries, entities, or individuals. In addition, E.O. 13694, "Blocking the Property of Certain Persons Engaging in Significant Malicious Cyber-Enabled Activities," provided OFAC with authority to impose sanctions on those persons engaging in significant malicious cyber-enabled activities. OFAC works with other Federal agencies to implement and enforce these programs.

### Areas of Concern

Terrorism, narcotics trafficking, human smuggling and trafficking, and other organized criminal activities remain high-priority concerns for the U. S. These activities involve movement of funds and use of financial systems. Continued instability in the Middle East remains a significant challenge, and increasing drug smuggling and violence related to drug cartels in Mexico have increased crimes in the United States.

Over the last decade, the U.S. and other countries in the global community have required increased reporting and monitoring of financial institution transactions, particularly activities occurring in Middle East countries. Terrorists and criminals react to the increased financial institution monitoring by looking for other ways to move funds to support their illicit activities. They include, among other things, the use of electronic transactions (online and mobile) and prepaid instruments that make it increasingly difficult for financial institutions and law enforcement agencies to detect illicit transactions. The use of the nonbank financial sector is also increasing because of decreased monitoring and increased opportunities to hide transactions, including money services businesses and informal value-transfer systems.

In 2013, FinCEN addressed the emerging risks associated with virtual currencies in guidance that designates currency exchangers as money services businesses subject to BSA and USA PATRIOT Act requirements. FinCEN also focused its attention on the importance of financial institutions knowing their customers. In

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May 2016, FinCEN issued the final rules clarifying and strengthening customer due-diligence requirements for banks, securities brokers or dealers, mutual funds, futures commission merchants, and commodities brokers. The rules contain explicit customer due-diligence requirements and include a new requirement to identify and verify the identity of beneficial owners of legal entity customers. The purpose is to enhance identification and verification of accountholders and beneficial owners, an individual or group of individuals who, either directly or indirectly, have the power to vote or influence transaction decisions. The risk is that nominal accountholders can enable individuals and business entities to conceal the identity of the true owner of assets or property derived from or associated with criminal activities. FinCEN's rules and regulations are designed to protect U.S. financial institutions and financial systems from money laundering and terrorist financing.

In 2014, FinCEN issued an advisory flagging trade-based money laundering and funnel accounts—monies being hidden through the exchange of goods and services. This guidance advised financial institutions to monitor account activities for types of deposit and wire transfer representing monies that are being acquired through the exchange of goods to hide money laundering.

Anti-money laundering and combating terrorist financing remain high priorities for OIG. Our prior audits have revealed problems related to the detection of BSA violations, the timely enforcement of the BSA, SAR data quality, BSA system development efforts, and administration of sanctions. Moreover, the universe of financial institutions required to comply with BSA requirements grows as nonbank financial institutions are required to report CTR and SAR data. The universe also includes the insurance industry and dealers of precious stones and metals.

### Potential Integrity Risks

Treasury's efforts to support law enforcement agencies in the fight against terrorist financing, money laundering, and other financial crimes are dependent on honest and complete reporting of currency transactions and suspicious financial activities. Potential integrity risks include (1) the failure by financial institutions to file required BSA reports because of poorly managed anti-money laundering programs or corrupt bank officials who are involved in the schemes; (2) filing of false or fraudulent BSA reports; (3) internal and external misuse or illegal disclosure of sensitive BSA information; and (4) improper handling or use

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of sensitive but unclassified, law enforcement sensitive, or classified information.

### In Progress and Planned FY 2017 Projects

#### **Terrorist Finance Tracking Program (In Progress)**

In 2001, following the 9/11 terrorist attacks, Treasury initiated the Terrorist Finance Tracking Program to identify, track, and pursue terrorists and their networks. In 2010, the U. S. and the European Union entered into a new agreement on the transfer and processing of data in the Terrorist Finance Tracking Program. As specified in the agreement, we plan to provide ongoing and appropriate oversight of the program.

#### **Operation Inherent Resolve (In Progress)**

Since 2001, many countries have broadened their efforts to combat and disrupt terrorist activities. Over the past several years, the Islamic State of Iraq and the Levant (ISIL) has expanded its reach and gained access to people and significant, diverse sources of funding to support its activities. In 2014, the U.S. adopted a comprehensive strategy to combat ISIL in nine major areas including, among other things, disrupting ISIL finances, protecting the homeland, and providing humanitarian aid. To provide oversight of the agencies involved these lines of efforts, including military action under Operation Inherent Resolve, the Department of Defense Inspector General was designated as Lead Inspector General for the contingency operation, pursuant to section 8L of the Inspector General Act of 1978, as amended. The Inspectors General for Department of Defense, the Department of State, and the U.S. Agency for International Development work as close oversight partners and provide support for quarterly reports to Congress on U.S. programs and operations. In 2015, the DoD Inspector General requested our office's support in reporting Treasury efforts to disrupt ISIL financing. We will be conducting ongoing work and provide appropriate oversight of Treasury's involvement in Operation Inherent Resolve in support of the Lead Inspector General's effort.

#### **OFAC Licensing Programs (In Progress)**

We will determine (1) the universe of licensing programs under OFAC's jurisdiction; (2) the related laws, regulations, and OFAC policies and procedures for these programs; and (3) whether the programs are administered in an appropriate manner.

### **OCC's BSA and USA PATRIOT Act Compliance Examinations and Enforcement Actions (In Progress)**

We plan to determine the effectiveness of OCC's programs to conduct supervisory activities and, when necessary, take enforcement actions to ensure that national banks and federal savings associations have controls in place and provide the requisite notices to law enforcement agencies to deter and detect money laundering, terrorist financing, and other related criminal acts. The scope of this review will also include national bank trust departments and banks offering both private banking services and correspondent bank accounts (which make payments or handle transactions on behalf of a foreign bank).

### **FinCEN Implementation of USA PATRIOT Act Information-sharing Procedures (In Progress)**

The USA PATRIOT Act provides for the sharing of information between the Government and financial institutions, and among financial institutions, regarding individuals, entities, and organizations engaged in or reasonably suspected of engaging in terrorist acts or money-laundering activities. In 2005, FinCEN implemented a web-based secure communications system to expedite information sharing.

We plan to determine the extent to which information sharing is occurring among the Government and financial institutions.

### **Financial Institutions Filing of Reports to OFAC and FinCEN on Blocked Transactions (In Progress)**

In 2004, FinCEN advised financial institutions subject to BSA suspicious activity reporting that, under certain circumstances, reports filed with OFAC related to blocked transactions with designated terrorists, foreign terrorist organizations, narcotics traffickers, and trafficker kingpins should fulfill the requirement to file SARs with FinCEN. This meant that a separate SAR to FinCEN on the same blocked transaction would no longer be required. However, if the institution has information not included on the blocking report filed with OFAC, a SAR containing that information must still be filed with FinCEN.

We plan to determine whether OFAC and FinCEN implemented controls to ensure that the information in reports filed with OFAC on blocked transactions is made available to law enforcement agencies through FinCEN databases as appropriate.

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### **FinCEN Civil Penalties for BSA Program Violations (In Progress)**

We plan to determine FinCEN's process for assessing and collecting civil penalties when BSA program violations occur.

### **FinCEN SAR Data Quality (In Progress)**

In 2012, FinCEN introduced a new SAR form designed for use by all industry members and directed that these SARs begin to be filed electronically. FinCEN made the filing of universal SARs mandatory for all industry members in 2013 as part of its efforts to transition to a more modern and efficient system for both Government and industry.

We plan to assess whether the quality of the data provided by SAR filers has improved since the implementation of FinCEN's universal SAR and electronic filing mandates.

### **Office of Terrorist Financing and Financial Crimes Interagency Collaboration With the National Security Community (In Progress)**

The Office of Terrorist Financing and Financial Crimes develops initiatives and deploys strategies to combat money laundering, terrorist financing, proliferation of weapons of mass destruction, and other criminal and illicit activities, both domestically and abroad. This effort requires the office to work within the national security community—including law enforcement, regulatory, policy, diplomatic and intelligence communities—and with foreign governments and the private sector to identify and address threats of illicit finance to the international financial system.

We plan to determine how and the extent to which the Office of Terrorist Financing and Financial Crimes collaborates with the national security community to identify and address threats to the international financial system from money laundering and other forms of illicit finance.

### **FinCEN's Regulatory Helpline (In Progress)**

FinCEN's Regulatory Helpline provides regulatory assistance to financial institutions seeking clarification of their obligations under the BSA and certain requirements under the USA PATRIOT Act. FinCEN's goal is to provide financial institutions with understandable guidance for complying with related regulations.

We plan to determine and assess the controls over the Regulatory Helpline for providing guidance to users that is responsive and consistent with the BSA, USA PATRIOT Act, and related regulations.



### **FinCEN's Implementation of Section 311 of the USA PATRIOT Act (In Progress)**

Section 311 of the USA PATRIOT Act grants the Secretary of the Treasury the authority to require domestic financial institutions to take certain special measures with respect to foreign jurisdictions, foreign financial institutions, classes of transactions, or types of accounts identified as primary money laundering concerns. The Secretary has delegated to FinCEN the authority to propose and implement the special measures under Section 311. Special measures that may be implemented by FinCEN include recordkeeping and reporting on certain financial transactions, collecting information relating to certain accounts, and enforcing prohibitions or conditions on opening or maintaining certain accounts. FinCEN proposes such measures through Notices of Proposed Rule Making. After receiving and reviewing comments in response to these notices and considering any other available information, FinCEN may promulgate final rules, withdraw the findings and proposed rules, or keep matters open for further review.

We plan to assess the mechanisms FinCEN has in place to implement actions under Section 311 of the USA PATRIOT Act.

### **Responsibilities of the Office of Intelligence and Analysis Under the Intelligence Authorization Act (In Progress)**

The Intelligence Authorization Act for Fiscal Year 2004 established the Office of Intelligence and Analysis and assigned the office responsibilities for receiving, analyzing, collating, and disseminating foreign intelligence and foreign counterintelligence information related to Treasury operations.

We plan to assess the office's progress toward meeting its responsibilities.

### **OFAC's Implementation of Changes to the Cuban Sanctions Program**

We plan to determine whether changes made by OFAC to the Cuban sanctions program (1) reflect administration policy changes designed to ease sanctions against Cuba and (2) were properly documented and approved by appropriate OFAC officials.

### **Classified Program**

We plan to assess the program and determine whether corrective actions were implemented in response to previous recommendations.

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### **OFAC's Implementation of Changes to the Iran Sanctions Program**

We plan to determine whether changes made by OFAC to the Iran Sanctions Program (1) reflect administration policy changes designed to ease sanctions against Iran and (2) were properly documented and approved by appropriate OFAC officials.

### **Treasury's Efforts and Guidance on Banks Use of De-risking and Its Impact to BSA/Anti-Money Laundering**

We plan to determine (1) the effect of bank's de-risking of certain financial sectors on FinCEN's anti-money laundering and counter-terrorist financing efforts and (2) the measures FinCEN is taking to limit de-risking activities of domestic and international financial institutions.

### **FinCEN's Guidance on Expectations Regarding Marijuana-related Businesses**

Twenty (20) states and the District of Columbia have legalized certain marijuana-related activities. In February 2014, FinCEN issued guidance to clarify how financial institutions can provide services to marijuana-related businesses consistent with their BSA obligations, including customer due diligence and reporting requirements. These businesses are required to file a SAR on activity involving any marijuana-related business, even if the business is duly licensed under state law.

We plan to determine the impact of FinCEN's guidance on financial institutions' compliance with BSA requirements for marijuana-related businesses.

### **TEOAF Management Controls over the Security of Forfeited Property**

We plan to determine whether TEOAF has established an effective system of internal controls for maintaining accountability and control of property stored in warehouses.

## **Projects Under Consideration for Future Fiscal Years**

### **Effectiveness of FinCEN Actions in Response to Panama Papers Issues**

We plan to determine whether FinCEN adequately identifies, prioritizes, and addresses money-laundering and terrorist financing risks associated with the issues surrounding the Panama Papers leak.

### **Implementation of FinCEN BSA IT Modernization Program**

Pursuant to a Congressional directive, we conducted six audits to determine whether FinCEN was (1) meeting cost, schedule, and performance benchmarks

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for the BSA IT Modernization program, and (2) providing appropriate contractor oversight. We reported on these objectives until the system development was completed in April 2014.

Among other uses, FinCEN plans to report certain cross-border electronic transmittals of funds through the system as part of Treasury's efforts to combat money laundering and terrorist financing. The Intelligence Reform and Terrorism Prevention Act of 2004 (Public Law 108-458), which amended the BSA, requires FinCEN to propose regulations for financial institutions to report certain cross-border electronic transmittals of funds. FinCEN plans to issue a final rule once the IT system is able to fully collect, maintain, and disseminate the data.

We plan to determine how well the BSA IT Modernization program is meeting the needs of FinCEN and other users for reporting of areas, including cross-border electronic transmittals of funds.

### **Treasury's Enhanced Personnel Security Program**

We plan to assess the effectiveness and fairness to covered individuals of Treasury's enhanced personnel security program in accordance with performance measures and standards established by the Director of National Intelligence (DNI).

### **Office of Technical Assistance's Economic Crimes Team Effectiveness**

We plan to determine the effectiveness of the Office of Technical Assistance's Economic Crimes Team's actions in foreign countries to decrease money laundering and terrorist financing.

### **FinCEN Target on Real Estate Identification**

We plan to assess the effectiveness of the Geographic Targeting Orders in gaining the appropriate identification information on all-cash real estate purchases.

### **FinCEN's Administration of the Financial Fraud Kill Chain**

We plan to determine (1) how FinCEN is administering the financial fraud kill chain and how it differs from other payment stopping authorities; (2) the reliability of data from foreign Financial Intelligence Units; and (3) the effectiveness of the program at stopping fraudulent transactions.

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### **FinCEN's Final-rule Process**

We plan to assess FinCEN's process for developing, issuing, interpreting, amending, and repealing final rules.

### **FinCEN's Guidance on Virtual Currencies**

Electronic money—also known as e-money, e-currency, electronic cash, electronic currency, digital money, digital cash, digital currency, or cyber currency—typically involves the use of computer networks, the Internet, and digital stored value systems. Electronic funds transfer, direct deposit, digital gold currency, and virtual currencies are examples of electronic money. Digital currencies provide a potential money laundering instrument because they facilitate international payments without the transmittal services of traditional financial institutions.

In March 2013, FinCEN issued *Application of FinCEN's Regulations to Persons Administering, Exchanging, or Using Virtual Currencies*. This interpretive guidance clarifies the applicability of implementing the BSA regulations to persons creating, obtaining, distributing, exchanging, accepting, or transmitting virtual currencies.

We plan to determine how FinCEN identifies, prioritizes, and addresses money laundering and terrorist financing risks associated with virtual currencies.

### **OFAC's Management of the Specially Designated Nationals and Blocked Persons List**

OFAC is responsible for enforcing economic and trade sanctions against targeted foreign countries, terrorists, and international narcotics traffickers. A major component to these sanctions is the Specially Designated Nationals and Blocked Persons List (SDN List), which includes more than 3,500 names of individuals, governments, and companies who serve as agents or representatives of countries with which U.S. businesses and citizens are prohibited from engaging in trade. In consultation with the Departments of State and Justice, OFAC relies on both public and classified data to include an entity on the SDN List. Entities that wish to challenge OFAC's designation can apply to OFAC for delisting. They must credibly demonstrate that they no longer engage in or plan to engage in the sanctioned activity, and that the circumstances resulting in the designation no longer apply.

We plan to determine and assess OFAC's management controls over the process of listing and delisting individuals and entities from the SDN List and assess the effectiveness of the new data system in helping OFAC to manage the process.

### **FinCEN's Memorandum of Understanding With the National Counterterrorism Center**

A 2010 memorandum of understanding between FinCEN and the National Counterterrorism Center sets conditions for searching BSA data, some of which is provided as bulk data to the center. The memorandum requires intelligence agencies to search for data that is valuable for specific cases and to immediately destroy data obtained in error. Redistribution information is also limited.

We plan to determine how FinCEN has implemented the memorandum of understanding with the National Counterterrorism Center and the controls over the sharing of BSA data to prevent and detect the misuse of that data.

### **FinCEN's Monitoring Over the Use of BSA Data**

We plan to assess FinCEN's controls over the sharing of BSA data to prevent and detect the misuse of that data.

### **FinCEN Guidance on Prepaid Access**

Prepaid access is defined as access to funds (or the future value of funds) that have been paid in advance and can be retrieved or transferred in the future through an electronic device or vehicle, such as a card, code, electronic serial number, mobile identification number, or personal identification number. In 2011, FinCEN issued a final rule to clarify the definition of prepaid access and impose suspicious activity reporting, customer identification, and recordkeeping requirements on both providers and sellers of prepaid access, and to impose registration requirements to sellers.

We plan to assess FinCEN's actions to address money laundering and terrorist financing risks associated with prepaid access.

### **FinCEN's Oversight of Casino Compliance With BSA**

Casinos with annual gaming revenue in excess of \$1 million are subject to BSA reporting and recordkeeping requirements. The definition of a casino has changed over the years to include state-licensed casinos, tribal casinos, and card clubs. As part of their compliance with the BSA, casinos are required to implement and maintain an anti-money laundering program, file CTRs and SARs, and maintain records.

We plan to assess FinCEN's oversight of BSA compliance in the casino industry.

### **FinCEN and OFAC's Oversight of the Insurance Industry**

We plan to review FinCEN's guidance for the insurance industry regarding BSA compliance and OFAC's activities to educate the industry about compliance with sanctions programs.

### **OFAC's Efforts To Identify Terrorist Activities in Charities**

Charitable organizations are vulnerable to terrorist activities because of the types of service they provide and the ways in which money is donated and passed through them. Protecting charities from terrorist abuse is a critical component of the global fight against terrorism. U.S. persons, including U.S.-based charities and donors, are generally prohibited from supporting charities or other organizations working in sanctioned jurisdictions, or those designated by OFAC as supporting terrorist activities, unless they have acquired the appropriate registrations and licenses from OFAC. Charities should ensure that grantees do not appear on OFAC's SDN List and are not otherwise subject to OFAC sanctions. Since 2005, OFAC has added 41 charities to the SDN list because of their support for terrorist activities.

We plan to assess OFAC's process for monitoring charities for compliance with foreign sanction programs.

### **FinCEN's Protection of Information Shared With Foreign Financial Intelligence Units**

FinCEN serves as the Foreign Financial Intelligence Unit for the United States and is one of more than 100 Foreign Financial Intelligence Units making up the Egmont Group, an international entity focused on information sharing and cooperation. FinCEN exchanges financial information with its counterparts around the world in support of U.S. and foreign financial crime investigations.

We plan to determine how FinCEN protects information shared with Foreign Financial Intelligence Units from unauthorized disclosure.

### **OFAC Implementation of the Foreign Sanctions Evaders List**

In 2012, E.O. 13608, "Prohibiting Certain Transactions and Suspending Entry into the United States of Foreign Sanctions Evaders with Respect to Iran and Syria", authorized OFAC to impose sanctions on foreign persons who have facilitated deceptive transactions for or on behalf of persons subject to U.S. sanctions. In 2014, OFAC began to keep a separate listing of these individuals and entities called the Foreign Sanctions Evaders List. Assets of these individuals and entities are not blocked, but a U.S. citizen or entity may not provide or

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procure goods or services, including financial services or technology, for or from a listed person without authorization from OFAC. In addition, financial institutions must reject any wire transfer involving a listed person and file a report with OFAC within 10 days.

We plan to determine OFAC's process for maintaining the Foreign Sanctions Evaders List and for monitoring activity of these designated individuals and entities.

### **OFAC Civil Penalty Cases**

OFAC enforces economic sanctions by issuing civil and criminal penalties to deter acts that violate sanction programs. Past audits have revealed that some civil and criminal cases have not been acted upon in a timely manner and allowing the cases' statute of limitations to expire. In 2006, we reported that OFAC had allowed hundreds of enforcement cases to expire without issuing civil money penalties because of poor case management.

We plan to determine whether OFAC has implemented case-management processes to ensure timely action for its civil and criminal penalty activities.

### **FinCEN's Analysis and Dissemination of Report of International Transportation of Currency or Monetary Instruments Data**

In accordance with 31 USC 5316(a), a person who physically transports, mails, or ships, currency or other monetary instruments in an aggregate amount exceeding \$10,000 at one time to or from the United States is required to file a Currency or Monetary Instruments report with the Department of Homeland Security's Customs and Border Protection (CBP). These reports are useful for identifying money laundering schemes.

We plan to assess FinCEN's efforts to analyze the report's data and coordinate with CBP to detect and pursue money laundering schemes.

### **Treasury's Compliance With Intelligence Reporting Requirements**

E.O. 13462, "President's Intelligence Advisory Board and Intelligence Oversight Board", as amended, requires Treasury to report intelligence-gathering activities to the President's Intelligence Advisory Board and its component, the Intelligence Oversight Board. The Intelligence Advisory Board is responsible for keeping the President apprised of issues discovered through intelligence-gathering activities throughout the Federal Government. Treasury's Office of Intelligence and Analysis reports quarterly to the President's Intelligence Advisory Board and the



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DNI on intelligence activities it has reason to believe may be unlawful or contrary to executive orders or presidential directives. The report covers other matters considered significant or highly sensitive as well. The E.O. also requires Treasury to act on any recommendations made by the board and the DNI, including instructions to discontinue activities that may be unlawful or contrary to E.O.s or other presidential directives.

We plan to assess Treasury's processes for identifying reportable matters under E.O. 13462 and related directives.

### **TEOAF's Controls Over Super Surplus and the Secretary's Enforcement Fund**

The Super Surplus Fund is a special receipt account, established in 31 USC, to allow TEOAF to provide funds to other Federal entities for priority law enforcement initiatives. The Super Surplus Fund was used to fund high-priority information technology projects multiyear criminal investigations, pilot programs, and urgent homeland security needs. TEOAF is responsible for managing the fund. In FY 2014, the Fund expensed \$155 million in Super Surplus funds, up from \$44 million in FY 2013. Due to shortages of resources, the Fund had no money in FY 2015, and that continued in FY 2016. Because of these shortages, TEOAF requested \$100 million in Super Surplus Funds in the FY 2017 budget.

Similarly, the Secretary's Enforcement Fund is available for law enforcement purposes of Federal law enforcement organizations that participate in the fund. TEOAF is also responsible for determining how the Secretary Enforcement Fund money are spent. In FY 2015, the Fund expensed \$21 million. In FY 2016, TEOAF planned to expend \$66 million in Secretary Enforcement Funds and it also included a request for \$30 million in its FY 2017 budget.

We plan to identify the controls in place over the use of the funds from the Super Surplus and Secretary's Enforcement Funds.

## Government-wide Financial Services and Debt Management

### Background

Through its Fiscal Service, Treasury borrows the money needed to operate the Federal Government, accounts for the resulting debt, and provides reimbursable support services to Federal agencies. Fiscal Service also provides central payment services to Federal agencies, operates the Federal Government's collections and deposit systems, provides Government-wide accounting and reporting services (including preparation of the Financial Report of the U.S. Government), and manages collection of delinquent debt owed to the Federal Government.

The goal of Treasury debt management is to achieve the lowest borrowing costs over time by committing to regular and predictable debt issuance. The Federal debt has two major components: Debt Held by the Public and Intra-governmental Holdings. Debt Held by the Public is the debt held by individuals, corporations, state or local governments, foreign governments, and other entities outside the U.S. Government. Securities held by the public include Treasury Bills, Treasury Notes, Treasury Bonds, Treasury Inflation-Protected Securities, U.S. Savings Bonds, State and Local Government Series Securities, Foreign Series Securities, and Domestic Series Securities. Intra-governmental Holdings are primarily Government Account Series Securities held by Federal Government trust funds, revolving funds, and special funds. As of September 15, 2016, the total Federal debt outstanding was \$19.5 trillion, of which \$14.1 trillion was Debt Held by the Public and \$5.4 trillion as Intra-governmental Holdings. The interest expense on the Federal debt for FY 2015 was \$402.4 billion and \$445 billion for FY 2016. Fiscal Service's debt operations depend on modernized electronic and information system technology. Implemented in 2002, the TreasuryDirect system maintains approximately 583,000 funded accounts and holds \$27 billion.

Another of Fiscal Service's primary goals is to provide reliable and accurate processing of Federal payments, which is an essential part of supporting the U.S. economy. As of September 30, 2015, these payments exceed \$2.5 trillion annually. Fiscal Service issues more than one billion payments each year by paper check, electronic funds transfer, and Fedwire, and has increased its efforts to make payments electronically. In FY 2015, approximately 98 percent of benefit payments and 97 percent of total non-tax payments were made electronically. Fiscal Service also collects more than \$3 trillion per year in

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Government receipts from individual and corporate income taxes, social security and other payroll taxes, excise taxes, and duties. Approximately 98 percent of this amount is collected electronically.

Prompt referral of eligible delinquent debts to Treasury by Federal program agencies is critical to the success of collection efforts. In FY 2015, delinquent non-tax debt owed to the U.S. totaled \$162.1 billion, 58 percent of which was over 2 years delinquent. Fiscal Service collected \$7.3 billion in delinquent debt in FY 2015, including approximately \$3.3 billion in Federal non-tax debt.

### Digital Accountability and Transparency Act of 2014

Enacted in May 2014, the DATA Act seeks to accomplish several objectives:

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

To fulfill its purpose, the DATA Act imposes certain requirements on the Secretary of the Treasury, the Director of OMB, the inspector general of each Federal agency, and the Comptroller General of the United States. Under the act, Treasury and OMB are responsible for the following:

- establishing, by May 2015, Government-wide financial data standards for any Federal funds made available to or expended by Federal agencies and entities receiving Federal funds

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- ensuring this financial data is accurately posted and displayed on USASpending.gov or a successor system by May 2017
- ensuring the data standards established are applied to the data made available on the website by May 2018

Inspectors general must accomplish the following:

- review a statistically valid sampling of the spending data submitted under this act by their respective agencies
- submit to Congress, and make publicly available by November 2016, a report assessing the implementation and use of data standards by their agencies, as well as the completeness, timeliness, quality, and accuracy of the data sampled<sup>3</sup>

The DATA Act places major responsibilities for the promulgation of data standards and public reporting of Government spending primarily on Treasury. Implementing the DATA Act is an extremely complex undertaking involving the overhaul of the existing reporting systems, implementation of new data standards and data-handling methodologies, and significant interagency coordination and cooperation. We anticipate that our office will continue to provide significant resources to oversee Treasury's responsibilities under the DATA Act.

Treasury OIG, in collaboration with the Federal Audit Executive Council DATA Act Working Group developed a common methodology for Readiness Reviews that inspectors general can use to develop agency-specific audit programs for assessing their agency's progress in implementing the DATA Act. The first iteration of this common methodology was distributed to the council's membership on December 3, 2015. The second iteration was released on

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<sup>3</sup> The Council of the Inspectors General on Integrity and Efficiency (CIGIE) identified a timing anomaly with the oversight requirements contained in the DATA Act. Although the first inspectors general reports are due to Congress in November 2016, Federal agencies have until May 2017 to report spending data. The inspectors general now plan to provide Congress with their first required reports in November 2017, a 1-year delay from the statutory due date, with subsequent reports to follow every 2 years thereafter. CIGIE determined the best course of action was to delay the IG reports, but it encouraged IGs to undertake DATA Act "Readiness Reviews" at their respective agencies well in advance of the first November 2017 report. The CIGIE chair issued a letter on December 22, 2015, communicating the strategy for dealing with the delay and also informed the Senate Committee on Homeland Security and Government Affairs and House Committee on Oversight and Government Reform.

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June 2, 2016. We will continue to work within the inspectors general community to develop a comprehensive audit methodology that allows agency inspectors general to comply with their responsibilities under the act while maximizing the use of resources.

### **“Do Not Pay” Initiative**

In E.O. 13520, “Reducing Improper Payments and Eliminating Waste in Federal Programs” (November 2009), the President directed agencies to identify ways that information sharing may improve payment eligibility verification and pre-payment scrutiny. The President directed the establishment of a “single point of entry” through which agencies would access relevant data to determine eligibility for a Federal award or payment. In a 2012 memorandum, OMB described the efforts of OMB and Treasury to establish the Do Not Pay Initiative. The memorandum directed Federal agencies to develop a plan for using the Do Not Pay system for pre-payment eligibility reviews. In 2013, IPERIA was enacted, codifying the ongoing efforts to develop and enhance the initiative. Additionally, IPERIA required that, not later than June 1, 2013, agencies review all payments and awards for all programs through the system established by OMB. As the Federal Government takes these important steps to prevent waste, fraud, and abuse in Federal spending, agencies must ensure that individual privacy is fully protected.

The Do Not Pay Initiative includes multiple resources designed to help agencies confirm that the right recipient obtains the right payment for the right reason at the right time. IPERIA provides the Federal Government with new tools and authorities to help agencies effectively implement the initiative. IPERIA also establishes new standards and procedures for computer matching programs conducted as part of the Do Not Pay Initiative. As required by IPERIA, OMB issued implementation guidance for the initiative in OMB memorandum M13-20, “Protecting Privacy while Reducing Improper Payments with the Do Not Pay Initiative” (August 2013).

Treasury’s Do Not Pay Business Center is designed to help reduce improper payments by providing critical information to paying agencies through the Do Not Pay Portal and Do Not Pay Data Analytics Services. Each agency can choose to use any combination of Do Not Pay services to best meet its needs. The Do Not Pay Portal provides users with a single entry point to search for entities that may be listed in a variety of data sources, including:

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- Credit Alert System
- Social Security Administration's Death Master File
- List of excluded Individuals/Entities
- Office of Foreign Assets Control
- System of Award Management, formerly known as Central Contractor Registry
- System of Award Management Exclusion Records

Four types of searches allow agencies to customize use of the portal to align with their business needs: online, batch processing, continuous monitoring, and payment integration match results.

Given its potential to significantly reduce improper payments and its responsibility to ensure appropriate privacy, we anticipate that our office will need to continue to provide significant resources to oversee Treasury's Do Not Pay Initiative.

### Economic Policy Programs

Economic policy programs are responsible for analyzing and reporting on current and prospective economic developments in the U.S. and world economies through Treasury programs. These offices conduct research to assist in the formulation and articulations of public policies and positions of Treasury on a wide range of microeconomic issues. Recent examples include terror risk insurance, financial disclosure and auditing, retirement income security, and long-term care.

### Potential Integrity Risks

Integrity risks associated with Government-wide financial services and debt management affecting Fiscal Service include fraud and abuse by means of (1) unauthorized access to sensitive information, (2) filing of false applications and claims, (3) provision of false statements to obtain Federal assistance or funds, (4) diversion of benefit proceeds, (5) check forgery, (6) promised services not delivered, and (7) misuse and mismanagement of Federal funds. Program risks related to this issue area include the inability to collect debt, inability to recover in a disaster, misallocation of program costs, and disruption of the Federal payment function and service to the public.

To minimize potential integrity risks, we plan to explore the use of data-mining methods to analyze Fiscal Service payments and reveal hidden patterns relating

## In Progress and Planned Projects

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to trends, relationships, and correlations between the data. These data-mining methods have the potential to reveal trends and patterns that could identify ongoing fraud and abuse directed against or occurring within Fiscal Service.

### In Progress and Planned FY 2017 Projects

#### **myRA Financial Agent Selection (In Progress)**

In late 2014, Treasury rolled out My Retirement Account (myRA), a retirement savings account that provides a simple, safe, and affordable way to save.

We plan to assess Treasury's process for selecting the financial agent (Comerica Bank) to manage the myRA accounts and the controls in place to safeguard the accounts. We will also evaluate Treasury's oversight of the financial agent's compliance with contractual agreements.

#### **Treasury's Implementation of the DATA Act (In Progress)**

Treasury, working in conjunction with OMB, is leading the Government-wide implementation of the DATA Act. Through a series of audits, we plan to determine the sufficiency of plans and actions taken by Treasury to timely comply with the DATA Act.

#### **Treasury's Readiness for the DATA Act (In Progress)**

In addition to leading the Government-wide implementation of the DATA Act, Treasury is required under the act to submit agency spending data no later than May 2017. CIGIE has encouraged agency IGs to undertake DATA Act "Readiness Reviews" at their respective agencies well in advance of the first inspectors general report on implementation and data accuracy, due in November 2017. Through a series of audits, we plan to assess Treasury's efforts to implement its requirements under the DATA Act.

#### **Administrative Resource Center's Readiness for the DATA Act (In Progress)**

As part of our ongoing oversight of Treasury's DATA Act implementation efforts, we plan to assess the sufficiency of plans and actions taken by the Fiscal Service's Administrative Resource Center to facilitate timely compliance with the act, including the reporting of financial and payment information on behalf of its customer agencies.

#### **Delinquent Debt Referrals (In Progress)**

We plan to evaluate Fiscal Service's efforts to work with creditor Federal agencies on referring more timely to Fiscal Service any delinquent non-tax debt.

## **In Progress and Planned Projects**

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Additionally, we plan to assess the sufficiency of actions taken to facilitate timely compliance with section 5 of the DATA Act, including the update of the Treasury Report on Receivables system to capture the 120-day reporting requirement.

### **Controls Over Conferences, Travel, and Employee Awards Programs (In Progress)**

We plan to determine whether Treasury bureaus have effective policies and procedures in place to ensure compliance with applicable laws, regulations, and executive orders on travel, conferences, and employee award programs. At the beginning of FY 2016, we had an audit in progress at TTB, and we plan to initiate an audit of OCC in FY 2017.

### **Use of Permanent and Indefinite Appropriation Funds (In Progress)**

During FY 2016, Treasury has used approximately \$1 billion dollars in permanent and indefinite appropriations for FRB services, reimbursements to the FRB, financial agent services, and government losses in shipment.

We plan to evaluate whether selected Fiscal Service permanent and indefinite appropriations are used in accordance with the underlying legislation. As part of this work, we plan to review Treasury's actions surrounding the payment of approximately \$1.3 billion from a Judgment Fund to Iran. This specific part of our audit is in response to a Congressional request.

### **Terrorism Risk Insurance Program**

We plan to determine the effectiveness of the Terrorism Risk Insurance Program.

### **Government Agency Investment Services**

As of July 29, 2016, Fiscal Service manages approximately \$5.6 trillion in securities for Federal agencies that have the legislative authority to invest, including Government trust funds and tribal funds held on behalf of Treasury. Fiscal Service also offers flexible investment alternatives for state and local governments and administers loans to Federal agencies with the legislative authority to borrow.

We plan to assess the adequacy of controls in place over (1) Federal investments, (2) Special Purpose Securities, and (3) the Federal Borrowing Program.



## In Progress and Planned Projects

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### **Treasury's DATA Act Submission**

As required by the DATA Act, we plan to (1) review a statistically valid sampling of the spending data submitted under this act by Treasury and (2) submit to Congress, and make publicly available, a report assessing Treasury's implementation and use of data standards, as well as the completeness, timeliness, quality, and accuracy of the data sampled. We plan to start our first audit under this requirement in FY 2017.

### **Payments to Grantees and Financial Agents**

As of February 2016, 48 programs used the Automated Standard Application for Payments (ASAP) for grant payment, reimbursements to financial agents, and program payments. GAO reported in April 2012 that ASAP held \$126 million in grant accounts for which there had been no activity for 2 years or more. To help reduce unused funding, Fiscal Service issues dormant account reports to agencies that own the funds.

We plan to assess controls over funds held and payments made to grantees and financial agents using ASAP. Additionally, we will assess efforts to work with agencies to resolve dormant accounts with balances.

### **Debt Collection Cross-servicing**

As the Government's central debt collection agency, Fiscal Service uses a number of tools to collect non-tax debt delinquencies. These tools include direct debtor contact and demand letters, referral to the Treasury Offset Program, use of private collection agencies, administrative wage garnishments, and credit bureau reporting.

We plan to assess Fiscal Service's controls over debt collection.

### **Do Not Pay Program and Data Analytics Services**

The Do Not Pay Business Center provides automated tools, including a web-based portal with single-entry access, that Federal agencies can use to access an array of data sources that assist in determining whether an individual or entity is eligible to receive Federal payments or engage in Federal contracts or grants.

We plan to assess the effectiveness of Fiscal Service's Do Not Pay program as a tool to assist agencies in identifying and preventing improper payments, including an evaluation of the Do Not Pay Business Center's analytical activities.

## Projects Under Consideration for Future Fiscal Years

### Review of Consolidated Post Payment Systems

Fiscal Service has invested in the consolidation of post payment processing into a single, centralized Post Payment System (PPS) which is currently under development. The new PPS investment will reduce duplication of functionality, eliminate redundancy of data across systems, and provide a single source for aftermath payment processing for Federal program agencies.

We plan to evaluate whether Fiscal Service has successfully consolidated other systems into the PPS and assess whether controls are sufficient to ensure prompt, accurate processing of payment claims, inquiries, returns, and reclamations.

### USASpending.gov System and Controls

As part of our ongoing oversight over Treasury's DATA Act implementation efforts we plan to assess the sufficiency of plans and actions taken by Treasury to implement a Government-wide broker<sup>4</sup> that displays Federal spending and payment information on USASpending.gov.

### Fiscal Service Auction Process

We plan to (1) determine the controls in place over the auction process and (2) assess whether those controls are consistent with the Secretary of the Treasury's authorities to issue U.S. obligations.

### Federal Finance Bank

We plan to determine whether Treasury is effectively managing the Federal Financing Bank—including approvals of the methods, sources, and speed of financing—relative to market conditions and financing by other Federal agencies.

### Survey of Payment Systems and Payment Information Repository

We plan to gain an understanding of Fiscal Service's payment infrastructure and identify key processes, systems, and controls that, based on our assessment of risk, should be audited in more depth. In addition, we plan to identify and develop opportunities to monitor payment activity through data mining.

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<sup>4</sup> A broker is an information system that collects, maps, takes in, transforms, validates, and submits agency data into a format consistent with the proposed taxonomy.

## In Progress and Planned Projects

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### Survey of Collection Systems and the Collection Information Repository

We plan to gain an understanding of Fiscal Service's revenue-collection infrastructure and identify key processes, systems and controls that, based on our assessment of risk, should be audited in more depth. In addition, we plan to identify and develop opportunities to monitor collection activity through data mining.

### Treasury's Tribal Policy

On behalf of Treasury, the Office of Economic Policy is responsible for implementing E.O. 13175, "Consultation and Coordination with Indian Tribal Governments" (November 2000). The order requires meaningful consultation and collaboration with tribal officials in the development of Federal policies with tribal implications. The order is meant to strengthen the U.S. relationship with tribal governments and reduce the imposition of unfunded mandates on Indian tribes. In 2009, the President issued a memorandum directing department and agency heads to submit to OMB a detailed plan of action for carrying out the requirements of the order.

We plan to assess Treasury's process for carrying out the policy to consult and collaborate with tribal governments and officials when developing Federal legislation, regulation, and policy with tribal implications and for resolving any issues and concerns raised by tribal officials.

### Managing Interchange Fees

In FY 2015, the Fiscal Service collected approximately \$11.8 billion in revenue through credit and debit cards and paid interchange fees of approximately \$143 million. Interchange fees are payments that card-acquiring banks make to banks that issued the cards.

We plan to determine how Fiscal Service manages costs associated with interchange fees. As part of the audit, we plan to follow up on findings and recommendations from GAO's 2008 report, *Credit and Debit Cards: Federal Entities Are Taking Actions to Limit Their Interchange Fees, but Additional Revenue Collection Cost Saving May Exist* (GAO-08-558; issued May 15, 2008).

### Direct Express Debit Card Program Service Level Requirements

We plan to determine whether the financial agent for the Direct Express Debit Card Program is meeting the service level requirements set forth in the financial agency agreement.

## In Progress and Planned Projects

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### Use of Beneficiary Data

We plan to assess controls to prevent financial agents from using customer data obtained through activities under financial-agent agreements to market other financial products.

### Treasury Checks and the Check Forgery Insurance Fund

Although the vast majority of Government payments are made electronically, Fiscal Service disbursed 60.6 million payments by paper check in FY 2015. The Check Forgery Insurance Fund is a revolving account administered by Fiscal Service to settle claims of non-receipt of Treasury checks. The fund's purpose is to ensure that intended payees whose checks were fraudulently negotiated receive timely settlement. The Check Forgery Insurance Fund's balance at the end of FY 2015 was nearly \$3.1 million. During the fiscal year, approximately 20,844 claims for lost, stolen, or forged checks were filed. Reimbursements totaled \$14.9 million, and recoveries totaled \$14.5 million. The OIG Office of Investigation is currently involved in a joint initiative with Fiscal Service to combat Treasury check fraud.

We plan to determine whether the Check Forgery Insurance Fund is administered in accordance with legislation.

### Survey of Invoice Processing Platform

The Invoice Processing Platform is an Internet-based electronic invoicing and payment information solution/portal provided by Fiscal Service for use, free of charge, to Federal agencies and their vendors. It was established to improve the flow of information between Federal agencies and suppliers by providing a centralized location to exchange electronic purchase orders, invoices, and related payment information.

We plan to gain an understanding of security measures and controls Fiscal Service uses for the portal to identify areas that, based on our assessment of risk, should be audited in more depth.

### Fiscal Agent Business Lines

Fiscal Service has established approximately 35 fiscal agent relationships with the FRBs to acquire various support and operational services. In FY 2016, Fiscal Service paid the FRBs more than \$661 million for these services.

We plan to determine the nature of the fiscal agent relationships and assess Fiscal Service's monitoring of the services provided by the fiscal agents.

## In Progress and Planned Projects

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### **Debt Collection through TOP**

We plan to determine whether processes and controls over Fiscal Service's Treasury Offset Program are sufficient to ensure effective collection of delinquent non-tax Government debt.

### **State Reciprocal Program Initiative**

We plan to determine whether Fiscal Service aggressively pursues states for participation in the State Reciprocal Program, to assess the results achieved by the program, and to determine whether the controls implemented by Fiscal Service ensure accurate accounting of funds offset by and for the states.

### **Debt Collection Improvement Act Exemptions**

We plan to study the level of collection success and contributing factors/challenges of exempted agencies/programs compared to Fiscal Service's collection success on referred non-tax delinquent debt.

### **Vendor Identity**

We plan to assess the Fiscal Service's controls to ensure vendors provide correct taxpayer information as required by the Debt Collection Improvement Act of 1996.

### **Corrective Action Verification—Direct Express**

We plan to determine whether (1) Fiscal Service accurately monitors and assesses the costs and burden of the Direct Express program to their cardholders on an ongoing basis; (2) customer feedback from surveys is communicated to the appropriate parties for action, prioritized, and addressed timely; and (3) customers receive satisfactory service with the Direct Express program.

## Safety, Soundness, and Accessibility of Financial Services

### Background

One of Treasury's strategic goals is to promote domestic economic growth and stability while continuing reforms of the financial system. Two of Treasury's strategies to reach that goal are to (1) complete implementation of financial regulatory reform initiatives, continue monitoring capital markets, and address threats to stability and (2) develop a sustainable housing finance system that meets the needs of a diverse population of borrowers, including long-term reform of the mortgage finance system and the smooth wind-down of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac).

Dodd-Frank made sweeping changes to the U.S. financial regulatory framework, affecting all financial regulatory agencies, including OCC. It also established two offices within Treasury:<sup>5</sup>

- **Office of Financial Research (OFR)** - established by Title I of Dodd-Frank, supports the activities of the Financial Stability Oversight Council (FSOC) and its member agencies by, among other things, collecting data on behalf of the council, providing data to the council and member agencies, standardizing the types and formats of data reported and collected, and performing essential long-term research.
- **Federal Insurance Office (FIO)** - established by Title V of Dodd-Frank, is tasked with addressing problems in the regulation of insurers that could contribute to a systemic crisis in the insurance industry or the U.S. financial system.

OCC is responsible for licensing, regulating, and supervising nearly 1,100 nationally chartered banks, 410 federal savings associations, and 50 federal branches or agencies of foreign banks. OCC-supervised banks hold more than \$11.1 trillion in total assets. OCC, which has more than 3,900 employees, has three strategic goals: (1) a vibrant and diverse system of national banks and federal savings associations that supports a robust U.S. economy; (2) "One OCC" focused on collaboration, innovation, coordination, and process efficiency; and (3) the ability to operate independently and effectively into the future.

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<sup>5</sup> Dodd-Frank also established two other offices within Treasury: the Office of Minority and Women Inclusion within Departmental Offices and OCC.

## In Progress and Planned Projects

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During September 2007–June 2016, 518 commercial banks and federal savings associations failed, resulting in an estimated \$87.7 billion in losses to the Deposit Insurance Fund. Of these 518 failures, 140 were banks or federal savings associations regulated by OCC or the former Office of Thrift Supervision.<sup>6</sup>

Pursuant to Section 38(k) of the Federal Deposit Insurance Act, OIG must review and produce a written report on failures of OCC-regulated financial institutions that result in material losses to the fund. The law also requires that the report be completed within 6 months after it becomes apparent that the material loss has occurred. Dodd-Frank raised the threshold loss amount triggering a material loss review to \$50 million in 2014 and thereafter, with a provision for increasing the threshold to \$75 million under certain circumstances. We completed 56 material loss reviews during the recent economic downturn.

For any failure of an OCC-regulated bank or thrift with a loss to the Deposit Insurance Fund under the triggering threshold, Dodd-Frank also requires us to conduct a limited review to determine (1) the grounds identified by OCC for appointing Federal Deposit Insurance Corporation (FDIC) as receiver, and (2) any unusual circumstances that might warrant an in-depth review of the loss. During the economic downturn, we completed 75 limited reviews for these types of losses.

## In Progress and Planned FY 2017 Projects

### OFR Procurement Activities (In Progress)

We plan to determine whether OFR's procurement process ensures that OFR effectively and efficiently acquires the goods and services needed to accomplish its mission and that procurements are made in compliance with applicable regulations.

### Supervision of Student Loan Products (In Progress)

We plan to assess OCC's supervision of financial institutions' student-loan lending activities.

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<sup>6</sup> Dodd-Frank abolished Office of Thrift Supervision in 2011. Most of the former agency's functions and personnel moved to OCC.

## In Progress and Planned Projects

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### **Identification and Reduction of Regulatory Burdens (In Progress)**

We plan to assess OCC's decennial review of its regulations pursuant to the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (through the notice and public-comment process) to eliminate unnecessary regulations.

### **OFR Performance Measures (In Progress)**

We plan to assess the design and implementation of performance measures by OFR.

### **OCC Oversight of Servicer's Operational Improvements Required by the 2011 Foreclosure Related Consent Orders (In Progress)**

We plan to assess OCC's oversight of actions taken by mortgage servicers to address those articles of the 2011 foreclosure-related consent orders designed to correct unsafe and unsound operational practices.

### **Oversight of In-scope Borrowers Related to Foreclosure Consent Orders (In Progress)**

We plan to determine (1) the facts and circumstances surrounding the increase in Citibank's in-scope population, (2) the methodology used and procedures performed by OCC to test and validate the universe of in-scope borrowers and whether such borrowers were appropriately sent checks for the five servicers not covered in a prior OIG review, (3) OCC's process for vetting any individual questions, complaints, or requests from borrowers for appeal related to the scope population, (4) any direction that OCC has provided to servicers outlining how the servicer should process questions, complaints, or requests to appeal the determination of the in-scope population that they receive from borrowers, and (5) what data gaps existed within servicer systems that made identification of in-scope borrowers difficult and whether such gaps or system integration issues have been corrected. We initiated this audit in response to a request by the Ranking Member of the House Committee on Financial Services.

### **Supervision of Federal Branches of Foreign Banks (In Progress)**

We plan to assess OCC's supervision of foreign banking organizations operating in the U.S.

### **Corrective Action Verification—CIGFO Audit of FSOC's Designation of Financial Market Utilities (In Progress)**

We plan to determine whether FSOC has taken corrective actions responsive to CIGFO recommendations made in the July 2013 *Audit of the Financial Stability Oversight Council's Designation of Financial Market Utilities*.



## In Progress and Planned Projects

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### **OCC's Supervision of Wells Fargo Bank (In Progress)**

We plan to assess (1) OCC's supervision of incentive-based compensation structures within Wells Fargo Bank and (2) the timeliness and adequacy of OCC's actions taken related to Wells Fargo's sales practices, including the opening of accounts.

### **OCC and De-risking**

We plan to review whether OCC has encouraged banks to exit certain lines of business or terminate banking relationships, to reduce risks in a process come to be known as de-risking. This review is in response to a Congressional request.

### **Reviews of Failed OCC-Regulated Financial Institutions**

In the event of a failure of an OCC-regulated financial institution with an estimated loss to the Deposit Insurance Fund exceeding \$50 million, we will perform a material loss review to (1) determine why the institution failed and resulted in a material loss (2) evaluate OCC's supervision of the institution and, (3) as appropriate, make recommendations to prevent similar losses in the future.

For failed financial institutions with estimated losses under the material loss review threshold, we plan to (1) determine the grounds identified by OCC for appointing FDIC as receiver and (2) identify any unusual circumstances that might warrant an in-depth review of the loss.

### **CIGFO Working Group Review**

We plan to lead or participate in at least one working group convened by CIGFO to evaluate the effectiveness and internal operations of the FSOC.

### **Supervision of Large Institutions**

We plan to assess OCC's examinations of large institutions (those with assets exceeding \$100 billion) conducted after implementation of recommendations from its 2013 peer review.

### **OCC Supervision of Financial Institutions' Foreign-country Risk**

We plan to evaluate OCC's supervision of financial institutions' international exposures to determine whether (1) guidance promoting effective assessment and control of financial institutions' country risk are followed, (2) existing OCC monitoring, risk assessment, and examination procedures are sufficient to address country risk; (3) the procedures have been applied effectively, and

## In Progress and Planned Projects

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(4) deficiencies identified during the examination process result in appropriate supervisory actions that are tracked and satisfactorily resolved.

### **Review of OCC's Implementation of Joint Standards for Assessing Diversity and Inclusion**

We plan to review OCC's efforts to assess the diversity policies and practices of the entities it regulates.

### **OFAC and OCC's Monitoring of JP Morgan Chase Bank Compliance With Sanctions Programs**

In 2011, JP Morgan Chase Bank agreed to remit \$88.3 million to settle potential civil liability for apparent violations of multiple OFAC sanctions programs. According to Treasury's website, the bank violated the Cuban Assets Control Regulations; the Weapons of Mass Destruction Proliferators Sanctions, the "Blocking Property of Weapons of Mass Destruction Proliferators and Their Supporters" (E.O. 13382), the Iranian Transactions Regulations, and other sanctions programs. The violations occurred between 2005 and 2011. In a January 2014 consent order for the assessment of a civil money penalty, OCC cited the bank for inadequate testing of OFAC compliance.

We plan to assess OFAC and OCC oversight of JP Morgan Chase's actions to implement adequate controls with respect to OFAC compliance.

### **OCC Implementation of Recommendations Made by the Permanent Subcommittee on Investigations in Response to the HSBC Case**

In 2012, the Permanent Subcommittee on Investigations of the Senate Committee on Homeland Security and Governmental Affairs reported that lax oversight by top HSBC Bank executives allowed terrorists and drug cartels to access the U.S. financial system. The subcommittee recommended that OCC take the following actions:

- follow the practice of other Federal bank regulators by treating anti-money laundering deficiencies as a safety and soundness matter, rather than a consumer compliance issue
- establish a policy to conduct institution-wide examinations of bank anti-money laundering programs
- consider using formal or informal enforcement actions to act on anti-money laundering problems
- strengthen anti-money laundering examinations

In 2012, HSBC agreed to pay \$1.9 billion to settle money laundering and sanctions violations.

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We plan to determine OCC's responses to each of the subcommittee's recommendations and the status of its efforts to implement them.

### **Corrective Action Verification—FIO's Consultation With State Insurance Regulators**

We plan to determine whether FIO management has taken corrective action responsive to OIG's recommendation made in the report, *FIO's Consultation Process with State Insurance Regulators Could Be Improved* (OIG-15-032; issued May 15, 2015).

### **Implementation of Legal Entity Identifier**

We plan to assess the progress made by the OFR to implement a Legal Entity Identifier regiment as a universal standard for identifying all parties to financial contracts.

### **OCC Consideration of BSA and Anti-money Laundering Examination Findings in a Safety and Soundness Context**

We plan to determine whether OCC is considering BSA and anti-money laundering examination findings in a safety and soundness context as part of the management component of a bank's examination CAMELS<sup>7</sup> rating.

### **Treasury Implementation of Regulatory Initiatives**

E.O. 12866, "Regulatory Planning and Review," issued in September 1993, established the regulatory planning process and guiding principles that agencies must follow when developing regulations. The objectives of the order are to (1) enhance planning and coordination with respect to both new and existing regulations, (2) reaffirm the primacy of Federal agencies in the regulatory decision-making process, (3) restore integrity and legitimacy of regulatory oversight, and (4) make the process more accessible and open to the public.

To improve the transparency and accountability of agency rulemaking, the President issued E.O. 13563, "Improving Regulation and Regulatory Review," in January 2011. The order calls on agencies to promote public participation and an open exchange of information and perspectives among state, local, and tribal officials; experts in relevant disciplines; and other stakeholders in the importance of retrospective analyses of existing rules. It directs agencies to develop, within 120 days, a preliminary plan to facilitate the periodic review of existing significant regulations and promote retrospective analysis of rules that may be

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<sup>7</sup> CAMELS rating refers to capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk (rating).

## **In Progress and Planned Projects**

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outdated, ineffective, insufficient, or excessively burdensome, and to modify, streamline, expand, or repeal them in accordance with what has been learned.

In May 2012, the President issued E.O. 13610, "Identifying and Reducing Regulatory Burdens," to modernize the regulatory systems and reduce unjustified regulatory costs and burdens. The order requires agencies to conduct retrospective analyses of current rules to examine whether they should be modernized. The order also states that agencies should promote public participation in retrospective review and report biannually on the status of their efforts to the Office of Information and Regulatory Affairs.

We plan to assess Treasury's and OCC's implementation of E.O. 13563 and E.O. 13610.

### **OFR Participation in National Science Foundation's EAGER Program**

We plan to assess OFR participation in the National Science Foundation's Early Concept Grant for Exploratory Research (EAGER) program.

### **OCC Office of Enterprise Governance and the Ombudsman**

OCC's Office of Enterprise Governance and the Ombudsman serves as an independent arbiter of OCC-regulated banks and their customers. The Ombudsman operates apart from the OCC bank supervision function and reports directly to the Comptroller of the Currency. The office provides customer service and resolves consumer and bank supervisory disputes through two distinct units: the Customer Assistance Group and the Bank Appeals program.

We plan to assess the OCC's Office of Enterprise Governance and the Ombudsman.

## **Projects Under Consideration for Future Fiscal Years**

### **Supervision of Bank Cybersecurity**

We plan to assess OCC's supervision of banks' cybersecurity and related activities.

### **OCC Examination of Third-party Technology Service Providers**

We plan to determine whether OCC has ensured adequate direct examinations of third-party technology service providers used by financial institutions.

### **Corrective Action Verification—OCC Oversight of Revised Foreclosure Consent Orders**

We plan to determine whether OCC has taken corrective action responsive to recommendations we made in our report, *OCC Needs to Ensure Servicers Implement Amended Foreclosure Consent Orders and Act on Identified Weaknesses* (OIG-14-044, issued August 6, 2014).

### **OCC Use of Matters Requiring Attention To Address Large-bank Deficiencies**

OCC defines Matters Requiring Attention as practices that (1) deviate from sound governance, internal control, and risk-management principles, which may adversely impact a bank's earnings or capital, risk profile, or reputation if not addressed; or (2) result in substantive noncompliance with laws and regulations, internal policies or processes, OCC supervisory guidance, or conditions imposed in writing in connection with the approval of any application or other request by a bank.

We plan to assess OCC's use of Matters Requiring Attention to address deficiencies identified through the examination and other supervisory activities at large banks.

### **OCC Response to Risks Identified in Its Semiannual Risk Assessment**

We plan to assess OCC's response to the risks identified in its semiannual risk assessment.

### **Examination Coverage of Identity Theft Risk at Financial Institutions**

We plan to determine whether OCC examinations of financial institutions are adequate to address privacy risks, including identity theft.

### **Supervision of Small Banks**

We plan to assess safety and soundness challenges facing small banks and OCC's supervisory response to those challenges. We will focus primarily on institutions with total assets of \$250 million or less.

### **Development, Training, Rotation, and Performance Evaluations of OCC Examiners**

We plan to assess OCC's processes for developing, training, rotating, and evaluating the performance of bank examiners.

### **OCC Supervision of Insider Activities**

We plan to assess OCC's supervision of insider activities at financial institutions.

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### **OCC Supervision of Financial Institutions' Stress-testing Programs**

We plan to assess OCC's oversight of financial institutions' stress-testing programs.

### **Development and Communication of OCC Issuances and Comptrollers Handbook**

We plan to assess OCC's processes to develop, update, communicate, and promote the consistent use of OCC issuances, including bulletins, alerts, and the Comptrollers Handbook.

### **Supervision of Real Estate Appraisal Activities**

We plan to assess OCC's supervision of financial institution policies and procedures for real estate appraisal.

### **Supervision of Incentive-based Compensation Provisions of Dodd-Frank**

Section 956 of Dodd-Frank requires financial institutions with total consolidated assets of \$1 billion or more to disclose to the appropriate regulator the structures of all incentive-based compensation arrangements. The disclosure should allow the regulator to determine whether the incentive-based compensation structure (1) provides executives, employees, directors, or principal shareholders with excessive compensation, fees, or benefits or (2) could lead to material financial losses to the financial institution. Further, the law requires the Federal regulators to jointly prescribe regulations or guidelines to provide for the disclosure of compensation arrangements and to prohibit any types of incentive-based payment arrangement that encourages inappropriate risks by the covered financial institution.

After the prescribed regulations or guidelines are in place, we plan to assess OCC's supervision of incentive-based compensation structures in OCC-regulated financial institutions.

### **OCC Supervision of Social Media Usage in Financial Institutions**

We plan to evaluate OCC supervision of financial institutions' risk-management programs that identify, measure, monitor, and control the risks related to social media.

### **OCC Oversight of Leveraged Loans**

In March 2013, OCC, FRB, and the Federal Deposit Insurance Corporation issued guidelines to banks to limit their risk-taking for leveraged loans. Financial institutions are expected to properly evaluate and monitor underwritten credit

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risks in leveraged loans, to understand how changes in borrower enterprise values affect the quality of credit portfolios, and to assess the sensitivity of future credit losses to these changes in enterprise values. The final guidance is intended to be consistent with sound industry practices and to expand on recent interagency issuances on stress testing.

We plan to assess OCC's supervision of financial institution implementation of guidance relating to leveraged loans.

### **OCC's Licensing and Charter Approval Process**

We plan to assess OCC's licensing and bank charter conversion process for financial institutions.

### **Safeguards Over Financial Institutions' Sensitive Information**

We plan to determine whether OCC's examiners adhere to applicable laws, regulations, and policies and procedures for safeguarding the privacy and confidentiality of sensitive information provided by financial institutions during the examination process.

### **Supervision of Nonbanking Activities of Financial Institutions**

We plan to assess OCC's supervision of nonbanking activities of regulated financial institutions and their affiliates.

### **OCC Supervision of Bank Compliance With the Community Reinvestment Act**

We plan to determine OCC's (1) process for assessing bank activities to help meet the credit needs of the community, (2) consideration of Community Reinvestment Act examination results when evaluating bank applications for new branches, branch relocations, mergers and consolidations, and other corporate activities; and (3) compliance with Community Reinvestment Act oversight guidance.

### **OCC Alternatives to the Use of Credit Ratings**

Under section 939A of Dodd-Frank, all Federal agencies, including the OCC, must accomplish the following:

- review, no later than 1 year after enactment, any regulation that requires the use of an assessment of creditworthiness of a security or money market instrument, as well as any references to, or requirements in, such regulations regarding credit ratings

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- remove any references to, or requirements of reliance on, credit ratings and substitute such standard of creditworthiness as each agency deems appropriate

The statute further provides that the agencies must seek to establish, to the extent feasible, uniform standards of creditworthiness, taking into account the entities the agencies regulate and the purposes for which those entities would rely on such standards.

We plan to assess OCC's implementation of guidance on alternatives to the use of credit ratings by financial institutions to determine the creditworthiness of securities and money market instruments.

### **Supervisory Use of Individual Minimum Capital Requirements**

We plan to assess how OCC applies capital restrictions and risk-weighting to institutions it supervises, including (1) its use of individual minimum capital requirements as an enforcement action, (2) its criteria for calculating the capital requirement, and (3) its enforcement of minimum capital requirements.

### **Supervision of Internal Audit Functions in Large Banks**

We plan to assess the effectiveness and adequacy of OCC's supervision of the overall audit function of banks with assets exceeding \$100 billion.

### **OCC Oversight of Credit Risk Retention**

Section 941 of Dodd-Frank requires securitizers of mortgages not meeting criteria associated with lower default rates to retain at least 5 percent of the credit risk, but Federal rulemaking agencies specify differing amounts. Dodd-Frank also charges the Federal rulemaking agencies with formulating rules that require lenders to retain a 5 percent interest in any assets not held on their books, while authorizing exemptions for loans with the lowest credit risk, particularly for qualified residential mortgages. We plan to assess OCC's oversight of credit-risk retention in financial institutions once the final rules are issued.

### **OCC Enforcement Practices**

We plan to assess OCC's enforcement practices, including (1) factors used to determine the use of formal and informal enforcement actions, (2) timeliness of enforcement actions, (3) controls to ensure consistency in the use of enforcement actions, and (4) activities to ensure compliance with enforcement actions.



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### **OCC Efforts To Address Emerging High-risk BSA/Anti-Money Laundering Areas**

We plan to assess OCC's efforts to provide guidance to its examiners related to monitoring areas of risk in the financial institutions, such as prepaid access, mobile banking, and suspicious-activity monitoring systems.

### **Federal Insurance Office Performance Measures**

We plan to assess the design and implementation of performance measures by the Federal Insurance Office.

### **Supervision of Interest Rate Risk**

We plan to assess OCC's oversight of financial institution's management of interest rate risk.

### **OCC Participation in the Shared National Credit Program**

The Shared National Credit Program was established by OCC, FDIC, and FRB in 1977 to provide an efficient and consistent review and classification of large syndicated loans. The program covers any loan or loan commitment of at least \$20 million shared by three or more supervised institutions. Agencies are required to review loans annually.

We plan to evaluate OCC participation in the Shared National Credit Program. Our specific objectives are to (1) identify the guidance promoting effective review of shared national credits; (2) determine whether existing monitoring, risk assessments, and examination procedures are sufficient to address risk to the banking industry by shared national credits; (3) determine whether the procedures are applied effectively; and (4) determine whether deficiencies identified during the examination process resulted in appropriate supervisory actions that are tracked and satisfactorily resolved.

## Revenue Collection and Industry Regulation

### Background

TTB collects Federal excise taxes on tobacco products, alcohol, firearms, and ammunition. The bureau also ensures (1) compliance with permitting requirements for tobacco and alcohol, (2) that alcohol products are properly labeled, advertised and marketed; and (3) fair trade practices and the facilitation of the international trade of alcohol beverage products. TTB administers and enforces the (1) Internal Revenue Code pertaining to the excise taxation and authorized operations of alcohol and tobacco producers and related industries, (2) the Federal Alcohol Administration Act, (3) the Alcohol Beverage Labeling Act, and (4) the Webb-Kenyon Act, which prohibits the shipment of alcohol beverages into a state in violation of that state's laws.

TTB maintains a workforce of approximately 470 employees, most of whom either report to TTB headquarters office in Washington, D.C., or perform tax and permit processing at the National Revenue Center in Cincinnati, Ohio. TTB has 10 offices in cities across the United States and Puerto Rico for its auditors, investigators, and agents. These offices are located in close proximity to centers of trade and industry activity. Additionally, TTB has alcohol and tobacco laboratories in Maryland and California.

TTB is the third-largest tax collection agency in the Federal Government behind IRS and CBP. Annual revenues collected by TTB average approximately \$22.3 billion for 11,689 taxpayers. TTB's tax collections on tobacco products have declined since FY 2010, apparently caused, at least in part, by the significantly increased tax rate on cigarettes and other tobacco products imposed by the Children's Health Insurance Program Reauthorization Act of 2009 (CHIPRA). In FY 2015, TTB collected \$13.6 billion in tobacco tax revenue. Its tax collections on alcohol, firearms, and ammunition products, however, have steadily increased.

In 2010, Congress authorized specialized funding for TTB to establish a Criminal Enforcement Program to address tobacco smuggling and other diversion activity. TTB entered into an agreement with the IRS Criminal Investigation office for criminal investigative services to enforce its criminal jurisdiction. Congress has continued this specialized funding in each fiscal year since 2010. In FY 2015, TTB received \$5.4 million in law enforcement services from IRS.

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According to TTB's *Annual Report for Fiscal Year 2015*, in its 4 years of operation, TTB's Criminal Enforcement Program has opened a total of 91 cases with identified liabilities of more than \$551 million in estimated alcohol, tobacco, firearms, and ammunition excise taxes and approximately \$124 million in criminal seizures. Of the 91 cases presented to the U.S. Attorney's Office, 89 have been accepted for further investigation.

TTB processes applications for 23 types of permits or registrations for the alcohol, tobacco, firearms, and ammunition industries. Industry members must obtain permits from TTB to operate legally in these industries. In FY 2013, TTB completed two major releases of its Permits Online electronic filing system designed to help industry members file permit applications electronically and download encrypted copies of application data for use in obtaining equivalent state licenses. Even as electronic filing rates reached 84 percent in FY 2015, the average processing time for a new permit application increased from 84 days in FY 2014 to 94 days in FY 2015. The electronic filing system does not diminish the time needed by TTB to review each application. With applications increasing nearly 40 percent in five years, TTB resources have not adequately met demand for service.

TTB uses its Formulas Online electronic filing system to receive applications for beverage formula approvals from alcohol industry members. In FY 2013, TTB enhanced Formulas Online with the intent to provide industry members with a more efficient, user-friendly environment for submitting applications. As increases in formula submissions from the spirits and wine industries continue to increase, TTB plans to proceed with guidance and rulemaking beginning in FY 2016 and continuing through FY 2017 to reduce formula submissions across the alcohol beverage commodities.

TTB also reviews labels and formulas for domestic and imported beverage alcohol products and maintains public access to approved Certificates of Label Approval (COLA), which are required for every alcohol beverage. TTB processed nearly 240,000 labels and nearly 18,000 formula applications in FY 2015. TTB has continued to introduce system enhancements to draw industry members to electronic filing, including updating processing information and adding new system validations to check the completeness of applications. According to TTB, although workloads have continued to increase since FY 2015, TTB has been able to improve its processing times through the first half of FY 2016 primarily through the increased productivity of new staff hired in 2015. TTB also initiated

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the recruitment of 13 additional label and formula specialists after receiving \$5 million in additional funding in the FY 2016 budget to improve the processing of label and formula applications. Plans called the funding to support other processing improvements as well, such as the development of system releases for Formulas Online and COLAs Online and various rulemaking and guidance initiatives.

TTB monitors labeling compliance through the Alcohol Beverage Sampling Program and tests samples of wine, distilled spirits, and malt beverages for content in its laboratories.

Federal excise taxes on firearms and ammunition are remitted to the Fish and Wildlife Restoration Fund. The U.S. Fish and Wildlife Service oversees the fund and apportions money to state governments for programs to research and restore wildlife and educate hunters. Collections almost tripled in the last decade, increasing from \$225 million in FY 2005 to \$639 million in FY 2015. TTB attributes this growth to increased sales and TTB's enforcement presence.

The Secretary of the Treasury has delegated authority for customs revenue functions to the Office of Tax Policy. In March 2003, the Homeland Security Act of 2002 transferred the legacy U.S. Customs Service from Treasury to the Department of Homeland Security, where it became CBP. As provided by the act, Treasury retained sole authority to approve any regulations concerning import quotas or trade bans, user fees, marking, labeling, copyright and trademark enforcement, and the completion of entry or substance of entry summary, including duty assignment and collection, classification, valuation, application of the U.S. Harmonized Tariff Schedules, eligibility or requirements for preferential trade programs, and the establishment of related recordkeeping requirements. Treasury also reviews CBP rulings involving these topics if they constitute a change in practice.

### Potential Integrity Risks

The major integrity risks for TTB involve not collecting all revenue rightfully due and having alcohol products in the marketplace that are improperly labeled. TTB's tax collection activity could be seriously undermined if industry members fail to pay all taxes due (either intentionally or otherwise), if the TTB tax verification and audit program fails to detect underpayments, or if industry attempts to corrupt government officials through bribery or other means.

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Similarly, fraudulent manufacturers or distributors could attempt to place untaxed, unsafe, or deceptively advertised products into the marketplace.

By increasing the Federal excise tax on all tobacco products, including an increase of more than 150 percent on cigarettes, CHIPRA provided additional incentive to evade tobacco taxes. When the intrinsic value of commodities like tobacco are dwarfed by their tax value, the risks for tax evasion and illegal profiteering rise. Decreased consumption, significant shifts in demand, and lower-priced tobacco products may explain part of the continuing decline in tobacco tax revenue, but it may also be reflective of increased illicit activity. The growing popularity of untaxed products, such as electronic cigarettes, and the misclassification of higher-taxed tobacco as lower-taxed tobacco may further contribute to declining tobacco revenue.

Although manufacturers and importers of tobacco products and processed tobacco must have permits to operate, and are subject to recordkeeping requirements, the same is not true of tobacco brokers, wholesalers, and retailers of tobacco products. Manufacturers and importers of processed tobacco must report on the first removal, transfer, or sale of processed tobacco. Once the processed tobacco is removed, however, its manufacture into taxable products may never be reported or subject to tax. TTB estimated that, in FY 2013, more than 277 million pounds of untaxed processed tobacco shipped to these non-permitted entities could be destined for illicit production of tobacco products, representing a significant revenue risk.

The use of machinery to manufacture untaxed cigarettes was long considered a revenue risk. The proliferation and technological advances in these machines followed the passage of CHIPRA, allowing customers to manufacture their own cigarettes at a much faster rate using pipe or roll-your-own tobacco. In many cases, the manufactured cigarettes were either untaxed or taxed at lower rates based on the type of tobacco used. The Moving Ahead for Progress in the 21st Century Act (MAP-21), enacted in 2012, addressed the legal status of retailers that provide cigarette-making equipment on their premises for use by customers to manufacture cigarettes using roll-your-own or pipe tobacco. Under MAP-21, any person who, for commercial purposes, makes available for consumer use a machine capable of making tobacco products (including cigarettes) is a manufacturer of tobacco products under the Internal Revenue Code. These manufacturers, however small, must comply with all applicable statutory and regulatory requirements. In 2012, TTB also issued guidance clarifying that these

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retailers—including non-profit organizations, social clubs, cooperatives, and similar organizations making roll-your-own machines available to members—were not exempt from TTB regulatory requirements. Identifying these establishments and determining their tax liabilities continue to be enforcement challenges for TTB.

TTB's efforts to streamline the permit application process through its Permits Online system have reduced the burden on applicants in submitting information needed to obtain new or updated permits. Despite these efforts, which have resulted in an electronic filing rate of 84 percent, the average time for processing new permit applications increased from 84 days in FY 2014 to 94 days in FY 2015. Although electronic processing reduces application errors as well as the time and resources needed to return incomplete applications, it does not decrease the time needed by TTB to review each application. As a result, addressing delays in application processing requires broader reforms in TTB's business processes. Processing delays can pose hardships to industry members and delay their entry or continuation in the business community.

## In Progress and Planned FY 2017 Projects

### **TTB Procedures To Collect Revenue (In Progress)**

We plan to assess TTB's collection procedures for delinquent accounts, including write-offs of delinquent debts that are no longer collectable. We also plan to assess TTB's use of offers in compromise in its collection activities.

### **TTB's Online Certificate of Label Approval and Formulas Online Programs (In Progress)**

We plan to determine whether the COLA Online and Formulas Online applications process are operating as intended, including whether any user problems have been identified and, if so, corrected.

### **TTB Designation of American Viticulture Areas (In Progress)**

An American Viticulture Area is a designated wine-grape-growing region. It is defined by features that affect growing conditions (climate, soil, elevation, physical features) and that distinguish it from surrounding areas.

We plan to assess the controls in place over TTB's program to designate American Viticulture Areas.

## In Progress and Planned Projects

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### **Department of Homeland Security and CBP Oversight of Revenue Protection and Enforcement Measures (In Progress)**

The Trade Facilitation and Trade Enforcement Act of 2015 (Public Law 114-125), was enacted on February 24, 2016. Sections 112 and 115 of this Act require OIG to submit to the Senate Committee on Finance and House Committee on Ways and Means a report on the effectiveness of CBP enforcement measures and other activities to protect the revenue of the U. S. Section 112 requires recurring reports on CBP's duty collection, use of bonds, and other monitoring responsibilities, due on June 30, 2016, and March 31, 2018, with subsequent reports to be published every other March. Section 115 requires a one-time report on the establishment of an importer risk-assessment program, due by February 24, 2018.

We plan to assess oversight of customs revenue in accordance with the act.

### **TTB Permit Program**

We plan to assess TTB's controls over application processing and the issuance of permits and registrations to industry members. As part of this work, we plan to assess TTB's Permits Online Program.

### **Effect of CHIPRA on Tax Paid Removals of Tobacco Products**

Federal excise taxes are imposed on tobacco products when they are removed for sale from manufacturers or when they are imported into the U.S. In 2009, CHIPRA significantly increased the tax rates on all tobacco products. The tax rate for pipe tobacco increased to \$2.83 per pound, and the rate for roll-your-own tobacco increased to \$24.78 per pound. Previously, they were taxed at similar rates. TTB data suggests dramatic shifts in post-CHIPRA removals—away from roll-your-own tobacco and toward lower-taxed pipe tobacco, and from small cigars to lower-taxed large cigars. Revenue loss estimates associated with these transitions may exceed \$1 billion. A 2012 study by GAO confirmed TTB's revenue loss estimates and concluded that TTB will face significant challenges ensuring the proper amounts of tax are paid.

We plan to assess TTB's efforts to ensure proper reporting of removals and payment of all appropriate taxes, and determine the impact of CHIPRA tax increases on reported removals of other products, such as large and small cigars that are subject to different tax rates.



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### **Use of TTB Criminal Investigators**

We plan to assess (1) TTB efforts in implementing its Criminal Enforcement Program with funding provided by Congress and (2) TTB's plans for handling investigative caseload if IRS discontinues providing the services of agents to conduct criminal investigations on behalf of TTB.

### **TTB Efforts To Implement Controls Over Exports of Alcohol and Tobacco Products**

Exports of alcohol and tobacco products are generally exempt from Federal excise tax. TTB proposed new processes be developed to ensure that documentation on alcohol and tobacco exports were maintained by exporters and subject to verification by TTB audits and investigations.

We plan to assess TTB's procedures implemented to ensure proper tracking of export data, as well as TTB audits and investigations, to determine whether exemptions claimed on exports are appropriate.

### **TTB Oversight of Manufacturers of Processed Tobacco**

CHIPRA established TTB's responsibility for oversight of manufacturers of processed tobacco. These manufacturers receive tobacco plants from growers, remove the stems, and cut the tobacco leaves. The processed tobacco is used by manufacturers who produce tobacco products and generally is not subject to Federal excise tax until manufactured into products and removed for consumption in the U.S. Manufacturers of processed tobacco can legally sell processed tobacco to product manufacturers and other businesses that further process the tobacco, or tobacco brokers. Manufacturers of processed tobacco are required to notify TTB when processed tobacco are sold to businesses without TTB permits.

We plan to (1) determine the actions TTB has taken to regulate manufacturers of processed tobacco, (2) determine how TTB has used its authority to detect and prevent processed tobacco from entering the illicit market, and (3) identify regulatory-related issues that affect TTB's ability to prevent illicit tobacco trade related to processed tobacco.

## **Projects Under Consideration for Future Fiscal Years**

### **TTB Oversight of Newly Defined Manufacturers of Tobacco Products Under MAP-21**

We plan to assess TTB's efforts to (1) identify new tobacco product manufacturers defined under MAP-21, (2) enforce regulatory requirements on



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these new manufacturers, and (3) monitor the labeling of tobacco used in the on-site manufacturing of tobacco products.

### **TTB Use of Collateral To Protect Revenue**

TTB protects excise tax revenue by mandating that taxpayers pledge collateral (such as bonds, notes, or securities) to offset tax liability if payments are not made.

We plan to determine whether collateral requirements are sufficient to meet TTB's needs and whether TTB is ensuring that taxpayers maintain adequate collateral to protect tax revenue.

### **TTB Oversight of Alcohol Beverage Market Compliance**

We plan to assess TTB's market compliance programs on the alcohol beverage industry to determine if they are adequate in protecting the public against false and misleading statements in the advertising and labeling of alcohol beverages.

### **TTB Efforts To Ensure the Accurate Collection of Federal Excise Taxes on Imports**

We plan to assess (1) TTB's efforts to identify Federal excise taxes due on undeclared and misclassified alcohol and tobacco product imports and (2) TTB coordination with CBP to ensure all Federal excise taxes are paid by importers.

### **TTB Control Over Manufacturer Non beverage Drawback and 5010 Tax Credit Claims**

When a manufacturer uses alcohol to produce a food, flavor, medicine, or perfume that is certified by TTB's Non beverage Products Laboratory as unfit for beverage purposes, the manufacturer can claim a return, or drawback, on most of the distilled spirits excise tax paid. For a 5010 tax credit, producers and importers of distilled spirits must show their products contain an eligible wine or eligible flavor that has been approved by the Non beverage Products Laboratory.

We plan to assess TTB's controls over Non beverage product manufacturer claims.

### **TTB Controls for Cover-over Payments**

Tax collected on rum produced in Puerto Rico or the U.S. Virgin Islands and transported to the U.S. are "covered over" or transferred to the territory where the rum is produced. Taxes collected on rum imported into the U.S. from foreign countries are also covered over to the two territories, with these payments split between Puerto Rico and the U.S. Virgin Islands. In FY 2015, TTB processed

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cover-over payments totaling \$350.5 million to the treasuries of Puerto Rico and the U.S. Virgin Islands.

We plan to determine whether TTB's controls ensure that cover-over reimbursements are made timely and in the correct amounts.

### **TTB Oversight of Alcohol Industry Members' Facilities**

We plan to determine whether TTB has controls to ensure that new and existing alcohol industry members have adequate production facilities, are maintaining proper production and inventory records, and have adequate security measures in place.

### **Impact of TTB's National Revenue Center Tax Services Branch Reorganization on Excise Tax Collections**

We plan to determine whether (1) processing of tax returns and collection of taxes due has been enhanced and (2) taxpayer accounts are being properly monitored for tax collection. In addition, we will determine whether standard operating policies and procedures have been established.

### **Oversight of New Firearm and Ammunition Manufacturers**

We plan to determine how TTB (1) identifies firearm and ammunition manufacturers, producers, and importers subject to taxation and (2) ensures taxes are collected from the sale of firearms and ammunition.

### **TTB Alcohol and Tobacco Laboratory Services**

We plan to assess TTB's alcohol and tobacco laboratories service to TTB program units. As part of the audit, we plan to assess TTB's efforts to ensure the safety of imported beverage products through pre-import activities, post-market sampling, and laboratory analysis.

### **Controls Over Refunds of Excise Taxes to Businesses Incurring Losses of Products Due to Natural Disasters and Other Casualties**

We plan to determine how TTB ensures that claims for payment refunds or allowance of credit for products lost due to natural disasters are legitimate and accurate.

## Bill and Coin Manufacturing, Marketing, and Distribution Operations

### Background

The BEP produces U.S. currency and other security documents issued by the Federal Government. Its primary mission is to print Federal Reserve Notes for delivery to the Federal Reserve System, the nation's central bank. To meet its primary mission, BEP has production facilities in Washington, D.C., and Fort Worth, Texas. BEP also processes claims for the redemption of mutilated paper currency and provides technical assistance and advice to other Federal agencies on the design and production of documents requiring deterrence against counterfeiting.

During FY 2016, BEP expects to produce and deliver 8.3 billion notes to the Federal Reserve system to meet currency demand, this order represents a 13 percent increase over the number of notes expected to be delivered in the FY 2015 program.

The Mint's principal mission is to produce the nation's circulation coinage for trade and commerce. The Mint also produces commemorative and investment products for collectors and investors. In addition to its headquarters in Washington, D.C., the Mint has four production facilities located in Philadelphia, Pennsylvania; West Point, New York; Denver, Colorado; and San Francisco, California. It also maintains the U.S. bullion depository at Fort Knox, Kentucky. FY 2015 circulating coin shipments to the FRB totaled 16.2 billion coins, an increase of 3.2 billion units (24 percent) from the prior year. Shipments of quarters increased by 57.2 percent, and dime shipments rose 29 percent, contributing significantly to increases of revenue and seigniorage from the prior year.

The Mint Public Enterprise Fund was created in FY 1996 to enable the Mint to operate as a revolving fund. All receipts deposited into the fund are available for operating the Mint and safeguarding Federal Government assets in the Mint's custody, without fiscal year limitations. Although the Mint is not dependent on appropriated funds, Congress approves its spending authority each year. The Secretary of the Treasury must determine the excess amount in the fund not needed for Mint operations in the coming year and have that amount transferred to the Treasury General Fund. On September 30, 2015, the Mint made a

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non-budget transfer of \$550 million to the General Fund, compared to \$250 million transferred the prior year.

A continuing challenge facing the Mint is the rising cost of metals. For the past 9 years, the cost to produce the penny and nickel continue to exceed the coins' face value.

### Potential Weaknesses

Because their operations are financed through revolving funds, BEP and the Mint may be subject to less congressional scrutiny through the budget process than annual appropriated agencies. The Mint also has greater flexibility in conducting its procurement activities because it is exempt from the Federal Acquisition Regulation. Prudent use by the Mint of its flexible funding authorities is necessary to ensure a maximum return to the Treasury General Fund.

In the next several years, BEP will be awarding two contracts for construction management administrative support and facility design for its Washington, D.C. facility. The new production building is projected to be completed around 2022, with the new facility fully operational by 2025. This timeline is subject to change as the project evolves.

### Continuing Issue With BEP Concerning Currency Products That Cannot Be Readily Recognized by Blind and Visually Impaired Individuals

In 2006, a Federal judge ruled that Treasury's failure to design, produce, and issue paper currency that is readily distinguishable to blind and visually impaired individuals violates Federal law. Two years later, a Federal appeals court ruled that the United States discriminates against blind and visually impaired individuals by producing currency that they cannot recognize without the assistance of others. In conjunction with this decision, and in consultations with BEP and Department of Justice attorneys, a Federal judge ruled that the next generation of \$5, \$10, \$20, and \$50 notes must be manufactured so that blind and visually impaired individuals can tell them apart. This ruling did not affect the design of the new \$100 note, but future designs must ensure that all denominations be distinguishable from other notes.

GAO issued an opinion that BEP may use appropriated funds to purchase and give currency readers to blind and visually impaired individuals as part of its compliance with the Federal district court order to provide such individuals with meaningful access to U.S. currency. In 2015, BEP began processing applications to provide blind and visually impaired individuals with a free currency reader

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called the iBill Currency Identifier. BEP also developed a smartphone app, called EyeNote, in 2011 to assist individuals in recognizing U.S. currency denominations. In the long term, BEP plans to include tactile features in the redesign of notes, starting with the new \$10 note approved for production in 2020.

## In Progress and Planned FY 2017 Projects

### **BEP Project Management of the BEN Enterprise (In Progress)**

The BEP Enterprise (BEN) project is intended to simplify and standardize procedures, increase efficiency, and eliminate unnecessary processes at BEP to increase product quality, reduce spoilage, and improve accountability.

We plan to determine whether (1) the BEN project business case is based on appropriate and supportable assumptions and cost/benefit estimates, (2) sound project management principles are followed in carrying out BEN, and (3) Federal regulations and guidance, Treasury directives, and BEP policies and procedures are followed in conjunction with the project.

### **Physical Security at Mint Facilities (In Progress)**

Mint facilities house precious metals (gold, silver, and platinum), investment-grade bullion products, and billions of circulating coins, products which must be protected from theft and other unauthorized access.

We plan to (1) assess the Mint's physical security policies and procedures and (2) determine whether the facilities' physical security conforms to those policies and procedures.

### **Mint Controls Over the Sales of Limited-Production, Investment-grade Products (In Progress)**

In addition to manufacturing circulating coins and numismatic products made available to the public, the Mint sells investment-grade bullion coins—made of precious metals, such as gold, silver, and platinum—to prequalified authorized purchasers for resale to the public.

We plan to determine whether the Mint has adequate controls to ensure the broadest and fairest access to its products.

### **Pitney Bowes Contract With the Mint (In Progress)**

The Mint uses Pitney Bowes to fulfill orders for precious metals (gold, silver, and platinum), investment-grade bullion, and commemorative products at a non-Mint location.

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We plan to assess controls of the contractor's facility operations.

### **Mint Human Resource Practices (In Progress)**

We plan to determine whether the Mint conducts human resources activities, with respect to hiring senior-level positions, in accordance with Federal and Treasury requirements, and the Mint's policies and procedures.

### **BEP Capital Investments (In Progress)**

We plan to determine whether BEP's capital investment program ensures that all current and future capital needs are identified and that sufficient funds are allocated and set aside to meet them.

### **BEP Continuity of Operations (In Progress)**

We plan to determine whether BEP comprehensively developed and tested continuity of operations plans for currency production should a major disruption occur at one or both of its production facilities in Washington, D.C., and Fort Worth, Texas.

### **BEP and Mint Contract Price Proposals (In Progress)**

We plan to determine whether BEP and Mint contract price proposals comply with the Federal Acquisition Regulations and Department of the Treasury Acquisition Regulations, if applicable. We perform these audits at the request of bureau procurement officers.

### **BEP Human Resource Practices**

We plan to determine whether BEP conducts the human resources activities with respect to hiring senior-level positions in accordance with Federal and Treasury requirements, as well as BEP policies and procedures.

### **Corrective Action Verification—Bill Manufacturing: Improved Planning and Production Oversight Over NexGen \$100 Note Is Critical**

We plan to assess whether management took corrective action responsive to recommendations we made in the audit, *Bill Manufacturing: Improved Planning and Production Oversight Over NexGen \$100 Note Is Critical* (OIG-12-038, issued January 24, 2012).

### **BEP Project Management Process for New Note Design**

We plan to determine whether BEP is (1) properly overseeing the incorporation of tactile features and high-contrast numerals in future currency designs to improve

## **In Progress and Planned Projects**

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meaningful access for blind and visually impaired individuals and (2) ensuring the new currency meets requirements approved by the Secretary of the Treasury.

### **Mint's Order Management System**

We plan to determine whether the Mint's Order Management System is working as intended to handle orders for collector coins.

### **Mint Offering of Limited Mintage Coins for Purchase**

We plan to determine whether the Mint provides adequate opportunities for collectors to purchase limited-mintage coins.

### **Improvement of Security and Safeguards Over the Mint Coin Exchange Program**

We plan to assess the new controls established for the Mint's coin exchange program.

### **BEP and Mint Employee Safety**

We plan to determine whether BEP and Mint policies, procedures, and practices ensure safe working conditions in its two production facilities in Washington, D.C., and Fort Worth, Texas.

### **Management of the Commemorative Coin Programs**

Congress authorizes commemorative coins that celebrate and honor American people, places, events, and institutions. Although these coins are legal tender, they are not intended for general circulation. The Mint produces limited quantities of commemorative coins and makes them available for a short period of time.

We plan to assess the Mint's management of the commemorative coin programs and related surcharges.

### **Mint Contracting Practices**

We plan to determine whether the Mint adheres to policies and procedures for contract competition and award, justifies costs incurred under contracts and purchase orders, and maintains documentation of these costs.

## **Projects Under Consideration for Future Fiscal Years**

### **BEP Currency Programs To Provide Access to Blind and Visually Impaired Persons**

We plan to determine whether BEP's plan to create meaningful access to U.S. currency for blind and visually impaired individuals (1) meets the terms of the

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court order issued in 2008 and the needs of users and (2) utilized proper cost/benefit analysis.

### **BEP Small Business Program and Contracting Practices**

We plan to determine whether BEP (1) adheres to policies and procedures for small-business contract competition and award and (2) manages contracts effectively to meet Treasury goals for the program.

### **Controls Over the BEP Office of Compliance and Its Monitoring Activities**

We plan to determine whether BEP's Office of Compliance is adequately monitoring BEP compliance with Federal and Treasury regulations and BEP policies.

### **BEP Controls Over the Currency Redemption Program**

We plan to assess controls in place over BEP's currency exchange program to ensure only valid claims are redeemed.

### **BEP Controls Over Test Notes Sent to Banknote Equipment Manufacturers**

We plan to determine whether (1) BEP has adequate controls over the process of releasing test bank notes and (2) the notes are monitored to ensure they are not released to the public or treated as the equipment company's money.

### **BEP Controls Over the Office of Financial Management Invoice and Payment Process**

We plan to determine whether the Office of Financial Management reviews and processes invoices in accordance with Federal, Treasury, and bureau guidelines.

### **BEP Management of Wastewater Treatment Project**

We plan to determine whether BEP's wastewater treatment initiative/study is managed properly and meets Federal environmental standards and BEP's environmental goals.

### **BEP Facilities Study**

We plan to determine whether BEP's facilities study and resulting investment decisions are based on appropriate and supportable assumptions and cost/benefit estimates.

### **BEP and Mint Strategic Planning: Impact of Electronic Payments**

We plan to assess efforts to strategically analyze currency and coin needs based on consumer usage preferences, and to determine how BEP and the Mint



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incorporate changing payment trends (such as cash vs. electronic payments) into their long-range planning activities.

### **Mint Production Case Studies**

The Coin Modernization, Oversight, and Continuity Act of 2010 authorized Treasury to conduct research and development on circulating coin compositions to reduce production costs. In FY 2014, the Mint's cost to produce the penny was \$0.017, and \$0.081 for the nickel, exceeding the coins' face value for the ninth consecutive fiscal year. The two denominations were produced at approximately \$90.5 million less than their combined face value. Between FY 2006–FY 2014, production of the penny and nickel generated negative receipts of \$664 million.

In response to the act, the Mint established a laboratory at the Philadelphia Mint and hired a contractor to perform research and development on the metallic compositions for all circulating coins. In a 2014 report to Congress, the Mint offered several possible options to alter the metallic compositions and lower the costs of U.S. coins. However, the Mint does not recommend adopting any of these options until ongoing research is completed. The Mint planned to continue this research in 2015.

We plan to assess the actions by the Mint to comply with the intent of the Coin Modernization, Oversight, and Continuity Act of 2010.

### **Mint Sales, General and Administrative Expense Allocation**

In 2011, the Mint reported a change to its allocation methodology for general, administrative, and sales expenses, which was intended to more accurately represent costs incurred for each coin denomination.

We plan to determine whether the Mint's recent changes to the allocation of general, administrative, and sales expenses are consistent with managerial cost-accounting principles.

## Domestic and International Assistance Programs

### Background

Treasury plays an important role in domestic and international assistance programs that have a significant impact on the economy. Domestic programs range from those assisting in coping with the effects of current economic conditions to programs that enhance the availability of financial education, credit, investment capital, and financial services to communities around the United States. Treasury's role in these areas programs expanded under HERA, EESA (which created TARP), the Recovery Act, and the Small Business Jobs Act of 2010. International programs address international financial institutions' role in promoting economic stability and growth in other countries.

#### Housing and Economic Recovery Act of 2008

The purpose of HERA was to address problems and concerns in the mortgage and banking industries. Among other things, the act established the Federal Housing Finance Agency as an independent agency to oversee Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. The act also established the Federal Housing Finance Oversight Board to advise the agency on overall strategies and policies for carrying out its responsibilities. The Secretary of the Treasury is a member of this board. The act assigned Treasury new authorities and responsibilities, and although certain purchase authorities under HERA expired in December 2009, Treasury maintains a sizeable investment in Fannie Mae and Freddie Mac:

- **Government Sponsored Enterprises.** HERA increased Federal regulatory oversight of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks (collectively referred to as Government Sponsored Entities, or GSEs), giving Treasury authority over existing lines of credit to the entities and the Secretary of the Treasury standby, unlimited authority to buy stock or debt in them. To do so, the Secretary made an emergency determination required by the act that use of the authority was necessary to stabilize markets, prevent disruptions in mortgage availability, and protect the taxpayer. Through Senior Preferred Stock Purchase Agreements, Treasury provides financial support to Fannie Mae and Freddie Mac after any quarter the entities report deficiencies in net worth. In exchange, the liquidation preference of Treasury-owned senior preferred stock is increased. In 2012, Treasury announced a set of modifications to the Senior Preferred Stock Purchase

Agreements to facilitate the wind-down of Fannie Mae and Freddie Mac and support the continued flow of mortgage credit toward a responsible transition to a reformed housing finance market. The modified agreements required Fannie Mae and Freddie Mac to accelerate the reduction of their investment portfolios—increasing the reduction rate from 10 percent annually to 15 percent annually. As a result, GSE investment portfolios are to be reduced to the \$250 billion target set in the previous agreements 4 years earlier than previously scheduled. The modified agreements also require each GSE to submit an annual plan to Treasury on its strategy to reduce financial and operational risk, as well as an assessment of performance relative to its prior-year plan. The modified agreements replaced the 10 percent dividend payments made to Treasury on its preferred stock investments in Fannie Mae and Freddie Mac with a quarterly sweep of the net worth amount less a capital reserve amount, which begins at \$3 billion and reduces annually by an equal amount until it reaches zero, beginning January 1, 2018. As of March 31, 2016, Treasury reported investments of approximately \$189 billion in senior preferred stock issued by the two GSEs.

- **Housing Finance Agencies Initiative.** Treasury implemented the Housing Finance Agencies Initiative with two programs to support state and local Housing Finance Agencies. Through those programs, Treasury purchased securities from Fannie Mae and Freddie Mac backed by state and local Housing Finance Agency bonds (New Issue Bond Program) and participation interests in liquidity facilities provided to the Housing Finance Agencies by Fannie Mae and Freddie Mac (Temporary Credit and Liquidity Program). As of March 31, 2016, Treasury owned \$6.6 billion of Fannie Mae and Freddie Mac securities supporting the New Issue Bond Program. The Temporary Credit and Liquidity Program is now at zero.
- **Capital Magnet Fund.** HERA authorized a new program for the CDFI Fund to administer, the Capital Magnet Fund, which is intended to create a new source of grants for rental and for-sale housing as well as community and economic development. The program aims at increasing the flow of capital to organizations that will engage in housing-related investments. The Capital Magnet Fund is a competitive grant program expected to attract private capital from two types of eligible grantees: (1) CDFIs that have been certified by the CDFI Fund and (2) nonprofit organizations with a principal purpose of developing or managing affordable housing. The eligible grant activities and entities eligible to receive grants through the

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Capital Magnet Fund represent a significant expansion for the CDFI Fund's core programs. Under HERA, the Capital Magnet Fund is to be financed through appropriations and transfers from Fannie Mae and Freddie Mac. For its inaugural award round in FY 2010, the Capital Magnet Fund received appropriations of \$80 million. In December 2014, FHFA lifted its prohibition on the GSEs allocating funds to the program but no allocations have been made as of September 2016.

### Recovery Act

The purpose of the Recovery Act was to provide relief during the economic downturn by expanding tax, bond, and cash assistance to segments of the economy most affected. Treasury is responsible for overseeing an estimated \$150 billion provided through tax relief and Recovery Act funding. An estimated \$25 billion in Recovery Act Funds, administered by Departmental Offices through two tax-credit exchange programs, provided payments in lieu of tax credits for specified energy properties and payments to the states in lieu of tax credits for rehabilitation and development of low-income housing projects.

### Other Domestic Assistance

Treasury provides assistance to promote economic growth and raise the standard of living in distressed communities in the U.S. by increasing the availability of business capital and financial services. The CDFI Fund, for example, promotes access to capital and local economic growth by (1) directly investing in, supporting, and training CDFIs that provide loans, investments, financial services, and technical assistance to underserved populations and communities; (2) providing incentives to banks to invest in their communities and in other CDFIs; and (3) providing financial and other assistance to Native CDFIs and other Native entities proposing to become or create Native CDFIs through its Native Initiatives. The CDFI Fund's activities have been affected by economic events, resulting in significant funding increases and new program initiatives. Funding for the competitive grant programs doubled in FY 2009 with a \$100 million increase provided through the Recovery Act. Since then, the CDFI Fund programs continue to receive increased levels of support with funding of \$230 million in FY 2015 and \$234 million in FY 2016.

The New Markets Tax Credit Program (NMTC) provides investors with a tax credit for investing in communities that are economically distressed or comprise low-income populations. The CDFI Fund is authorized to allocate tax credit authority under the program to community development entities, which manage

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the program's investments in low-income community development projects. In return for a tax credit, investors supply capital to Community Development Entities. The NMTC Program was also expanded with additional allocation authority provided through the Recovery Act that increased the 2008 and 2009 allocation rounds to \$5 billion each. During FY 2010–FY 2015, the program received \$3.5 billion of allocation authority each year. On December 18, 2015, Congress extended the authorization for \$3.5 billion per year through 2019. Since the program's inception in 2000, the CDFI Fund has awarded \$43.5 billion of tax credit allocations to Community Development Entities.

The Small Business Jobs Act of 2010 authorized Treasury to guarantee all notes and bonds issued by CDFIs that make investments in eligible community and economic development opportunities. Guarantees in total may not exceed \$1 billion in any fiscal year and are available through September 30, 2015. As administrator, the CDFI Fund was required to establish the program's regulations. A key component of the CDFI Bond Guarantee Program is the financing vehicle used by CDFIs issuing bonds and notes that are 100 percent guaranteed by the Federal Government. The CDFI Fund committed to guarantee \$325 million in bonds for FY 2013, \$200 million for FY 2014, and \$327 million for FY 2015, bringing the total guaranteed to \$852 million.

Consistent with Federal credit policy contained in the OMB's Circular A-129, the Federal Financing Bank is to purchase the CDFIs' 100 percent guaranteed issues. Created by Congress in 1973, the Federal Financing Bank is a Government corporation under the general supervision of the Secretary of the Treasury. Its mission is to reduce the costs of Federal and federally assisted borrowings, to coordinate those borrowings with Federal fiscal policy, and to ensure that those borrowings are done in ways least disruptive to private markets. To accomplish this mission, the Federal Financing Bank has broad statutory authority to purchase obligations issued, sold, or guaranteed by Federal agencies.

### **International Assistance**

A prosperous world economy serves the U.S. in many ways, including creating markets for U.S. goods and services and promoting stability and cooperation among nations. Treasury focuses on preventing crises and minimizing the impact of those that occur. International financial institutions, such as the International Monetary Fund and the multilateral development banks, including the World Bank, play a key role in enabling global economic growth and stability. Recent

focus has been to resolve and prevent further spread of the financial crisis worldwide.

Treasury's Office of International Affairs oversees U.S. interests in international financial institutions. The U.S. participates in these institutions to support poverty reduction, private-sector development, the transition to market economies, and sustainable economic growth and development to advance U.S. economic, political, and commercial interests abroad. Treasury has the responsibility for reviewing how these institutions invest the resources contributed by the U.S. to ensure they are used appropriately. Improving the effectiveness of the multilateral development banks has been a high priority for the Administration. Accordingly, Treasury has been pursuing a reform agenda that emphasizes raising living standards and reducing poverty; measuring the results of U.S. contributions; and strengthening efforts to stimulate private-sector investment, promote good governance and the rule of law, and fight corruption.

### Exchange Stabilization Fund

The Gold Reserve Act of 1934 established the Exchange Stabilization Fund, a fund operated by the Secretary of the Treasury with the approval of the President. The act authorized the Exchange Stabilization Fund to use the assets to deal in gold and foreign exchange to stabilize the exchange value of the dollar. The fund is used to implement U.S. international monetary and financial policy, including exchange market intervention policy. The fund mainly comprises three types of assets: U.S. Government securities, foreign currency assets, and Special Drawing Rights.<sup>8</sup>

To ensure the highest degree of confidence in the underlying securities, investment guidelines for the Exchange Stabilization Fund require that investments be limited to claims on respective central banks, the Bank for International Settlements, and sovereign governments and their agencies.<sup>9</sup> The Exchange Stabilization Fund's foreign currency holdings are to be invested so

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<sup>8</sup> Special Drawing Rights is an international reserve asset created by the International Monetary Fund to supplement existing reserve assets. In addition to its role as a supplementary reserve asset, the Special Drawing Rights serves as a means of payment within the International Monetary Fund, as well as a unit of account for the fund and for several other international organizations.

<sup>9</sup> The Bank for International Settlements is an international central bank whose mission is to serve central banks in their pursuit of monetary and financial stability and to foster international cooperation in those areas.

## In Progress and Planned Projects

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that adequate liquidity is maintained to meet anticipated intervention financing needs. Investment maturities are to be timed such that substantial funds come available on a regular basis to meet potential intervention financing needs. In addition, the investment objective of the fund's portfolio is to seek the highest possible rate of return on each of its currency components over a full interest-rate cycle.

### Office of Technical Assistance

The Office of Technical Assistance provides technical assistance to developing and/or transitional countries to help strengthen their financial management capacities as authorized under Section 129 of the Foreign Assistance Act of 1961. The office focuses on five core development program areas: (1) budget and financial accountability, (2) Government debt issuance and management, (3) banking and finance services, (4) revenue policy and administration, and (5) economic crimes. Treasury provides on-site resident advisors, as well as temporary advisors, to work with finance ministries and central banks in developing countries to strengthen their capacity to manage public financial resources. The office's staff also monitors and evaluates projects in each developing and transitional country selected to receive assistance under one or more of Treasury's five core development areas.

### Committee on Foreign Investment in the United States

The Committee on Foreign Investment in the United States was delegated the presidential function, authorized by Section 721 of the Defense Production Act of 1950, to investigate for national security implications, the merger or acquisition of U.S. companies by foreign persons. The Secretary of the Treasury chairs the committee, and the Office of International Affairs manages this function on the Secretary's behalf. The committee is required to report annually on whether (1) there is credible evidence of a coordinated strategy by one or more countries or companies to acquire U.S. companies involved in research, development, or production of critical technologies for which the United States is a leading producer; and (2) there are industrial espionage activities directed or directly assisted by foreign governments against private U.S. companies aimed at obtaining commercial secrets related to critical technologies.

### Potential Integrity Risks

Integrity risks for domestic and international assistance programs include the potential for (1) unauthorized release of sensitive or classified data; (2)



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falsification of applications or statements; (3) misuse or mismanagement of Federal funds, including irregularities in the award of contracts and misallocation of grant proceeds, Federal tax credits, or payments in lieu of tax credits; and (4) failure by assisted entities to deliver on promised services. Of particular concern would be contracts, grants, tax credits, or cash payments in lieu of tax credits that may be awarded without following standard operating procedures, including appropriate monitoring of funded activities. Program risks include the potential failure to promote economic growth within financially underserved areas of the U.S. or to foster economic stability in other nations. There may also be a corresponding loss of credibility with U.S. taxpayers or within the international community if these Treasury programs do not function as intended or with the appropriate transparency.

## **In Progress and Planned FY 2017 Projects**

### **ASI Federal Credit Union Awards Under the CDFI Fund Program (In Progress)**

We plan to assess ASI Federal Credit Union's award eligibility under the CDFI Fund Program and use of grant funds for meeting its target markets in accordance with its assistance agreements.

### **CDFI Fund's Administration of the Healthy Foods Financing Initiative (In Progress)**

We plan to evaluate CDFI Fund program administration of the Healthy Food Financing Initiative. Specifically, we plan to (1) determine whether the CDFI Fund awarded funds to eligible recipients in accordance with applicable laws and regulations, (2) determine whether the CDFI Fund has established and maintained proper internal control procedures and oversight over grants to determine whether program recipients meet eligibility requirements and properly comply with award agreements, and (3) assess the CDFI Fund process for measuring the initiative's performance outcomes to ensure that program objectives are achieved.

### **Awardee Compliance Under CDFI Fund Technical Assistance Awards (In Progress)**

We plan to assess whether awardees are meeting CDFI Fund's certification requirements outlined in their assistance agreements and CDFI Fund's monitoring activities for ensuring awardees' overall compliance.



## In Progress and Planned Projects

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### **Payments to States for Low-income Housing Projects in Lieu of Low-income Housing Credit (In Progress)**

We plan to assess Treasury's continued administration and monitoring of payments to the states in lieu of tax credits for low-income housing projects under the Recovery Act. Specifically, for selected states, we will assess (1) the eligibility of grant applicants at both the state and sub-award level, (2) sub-awardees' compliance with award requirements, and (3) internal control procedures to determine whether sub-awardees are receiving both tax credits and payments. Audit work for the project began in April 2009 and will continue in FY 2017.

### **CDFI Fund Bond Guarantee Program**

We plan to assess CDFI Fund program activities to administer the CDFI Bond Guarantee Program as required by the Small Business Jobs Act of 2010.

### **CDFI Fund Closeout of Recovery Act Grants**

We plan to evaluate CDFI Fund activities for the closeout of grants issued using Recovery Act funding.

### **CDFI Fund Grant Closeout Process**

We plan to evaluate the CDFI Fund's process for closeout of grants as well as its reporting required for the Grants Oversight and New Efficiency Act.

### **Corrective Action Verification—EcoGrove LLC Payment Under 1603 Program**

We plan to determine whether Treasury management took corrective action responsive to recommendations made in our audit, *Recovery Act: Audit of EcoGrove LLC Payment Under 1603 Program* (OIG-11-103, issued September 11, 2011).

### **Corrective Action Verification—Penascal Wind Power LLC Payment Under 1603 Program**

We plan to determine whether Treasury management took corrective action responsive to recommendations made in our audit, *Recovery Act: Audit of Penascal Wind Power LLC Payment Under 1603 Program* (OIG-15-045, issued September 3, 2015).

### **Corrective Action Verification—MSL Development LLC Payments Under 1603 Program**

We plan to determine whether Treasury management took corrective action responsive to recommendations made in our audit, *Recovery Act: Audit of MSL*

## In Progress and Planned Projects

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*Development LLC Payment Under 1603 Program* (OIG-14-039, issued June 18, 2014).

### **CDFI Fund Administration of the Capital Magnet Fund**

We plan to determine whether the CDFI Fund established adequate controls for awarding and administering the Capital Magnet Fund grant activities. Specifically, we plan to assess CDFI Fund processes to (1) review whether funds were awarded properly and timely to eligible recipients and (2) determine awardee compliance with program requirements, including leveraging award dollars intended to provide a dedicated source of funding. We also plan to assess the programs resulting from any future funding from Fannie Mae and Freddie Mac.

### **New Markets Tax Credit Program Award Process and Compliance Monitoring**

We plan to assess the effectiveness of the NMTC Program's (1) application and tax-credit allocation process, (2) assessment of the eligibility of potential award recipients, (3) internal control over and monitoring of program tax allocations, and (4) process for ensuring recipient compliance with tax credit allocation agreements. As part of this audit, we will follow up on issues identified in GAO's 2010 and 2014 reports on the New Market Tax Program. In addition, we plan to determine whether CDFI Fund management took corrective action responsive to our recommendations in the audit report *Recovery Act: The Community Development Financial Institutions Fund Should Revise Policies and Procedures to Clarify Eligibility Reviews Under the New Markets Tax Credit Program* (OIG-12-065, issued August 3, 2012).

### **CDFI Fund Recertification Process**

We plan to assess the CDFI Fund process for recertifying CDFIs to ensure entities remain eligible to receive funding under the CDFI Fund's financial assistance and Native American Initiative grant programs.

### **CDFI Grant Administration**

We plan to assess the CDFI Fund's overall administration of grants awarded under the CDFI Program. Specifically, we plan to evaluate the CDFI Fund process for awarding grants and the effectiveness of internal control over grant awards to ensure recipient compliance with award agreements.

## In Progress and Planned Projects

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### Survey of the Committee on Foreign Investment in the United States

We plan to assess how Treasury supports the Committee on Foreign Investment in the United States in identifying and addressing national security concerns arising from covered transactions with foreign investors. We will also assess whether measures have been implemented to identify foreign investors who have not filed with the committee.

### Office of Technical Assistance Programs

We plan to assess Treasury's Office of Technical Assistance administration of programs established to provide technical assistance to foreign governments and foreign central banks in developing and transitional countries. As part of this audit, we plan to evaluate the office's processes for selecting foreign governments and foreign central banks for assistance under the office's five technical assistance programs and for selecting technical experts. We also plan to assess the office's monitoring of its program projects.

## Projects Under Consideration for Future Fiscal Years

### Bank Enterprise Awards

We plan to assess CDFI Fund processes for approving and monitoring awards made through the Bank Enterprise Awards Program. Specifically, we plan to (1) determine whether CDFI Fund awarded the appropriated funds to eligible recipients based on qualified activities in accordance with applicable laws and regulations; (2) determine whether the CDFI Fund established and maintained proper internal control procedures and oversight over program awards, and (3) assess the CDFI Fund process for measuring the Bank Enterprise Award program's performance outcomes to ensure that the program objectives are achieved. We also plan to assess whether CDFI Fund management took corrective action responsive to recommendations made in our audit, *Awards Made to OneUnited Bank Were Consistent with Requirements But Certain Aspects of CDFI Fund Program Administration Need To Be Revisited* (OIG-11-091, August 3, 2011).

### CDFI Fund's Tracking of Awardees Across Multiple Assistance Programs

We plan to assess the effectiveness of CDFI Fund's coordination for the tracking of awardees with multiple program awards to determine whether funds are used appropriately in target markets.

## In Progress and Planned Projects

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### **Treasury Monitoring of Government Sponsored Enterprises**

We plan to evaluate Treasury's continued monitoring of its investment in the Government Sponsored Enterprises and the overall housing finance markets.

### **Treasury Monitoring of the Housing Finance Agency Initiative's Performance**

We plan to assess Treasury's monitoring of housing-finance market indicators to evaluate the health of the housing-finance agencies participating in the Housing Finance Agencies Initiative. We will also determine whether Treasury management took corrective action responsive to our recommendations in the audit report *Treasury Needs Written Policies and Procedures for Its Oversight of the Housing Finance Agency Initiative* (OIG-13-040; issued May 30, 2013).

### **Payments in Lieu of Tax Credits for Specified Energy Properties**

We plan to evaluate Treasury's ongoing administration of the specified energy program and compliance monitoring of payments in lieu of tax credits for specified energy properties under the Recovery Act.

### **Survey of Treasury Participation in the International Monetary Fund**

We plan to gain an understanding of Treasury's role for promoting U.S. policy with respect to the International Monetary Fund in order to identify potential risks related to the U.S. financial system.

### **Survey of Multilateral Development Banks**

We plan to gain an understanding of Treasury's process for ensuring U.S. policy is carried out through the multilateral development banks. As part of this project, we plan to assess Treasury's participation, role, and risk exposure associated with respect to global initiatives.

### **Survey of Treasury's Global Agriculture and Food Security Program**

We plan to gain an understanding of Treasury's role in the Global Agriculture and Food Security Program and Climate Investment Funds, including how funds are granted in accordance with applicable guidance and collectively how funds are used to improve impoverished nations.

### **Debt Relief Programs**

We plan to gain an understanding and perform appropriate independent oversight of Treasury's role in debt-reduction programs for nations indebted to the U.S., its process to ensure indebted nations meet eligibility requirements for relief, and the risks associated with these programs.

### **Treasury's Role in the Middle East and North Africa Transition Fund**

The Middle East and North Africa Transition Fund is a multi-donor trust fund administered by the World Bank to assist members of the Deauville Partnership with Arab Countries in Transition (currently Egypt, Tunisia, Jordan, Morocco, Libya, and Yemen). The Transition Fund provides small grants to help countries put in place economic policies and government reforms that will allow the countries to attract greater flows of capital while they address diverse economic challenges during their political transition. The agreed contribution from the U.S. is 20 percent of total donor contributions to the Transition Fund, or up to \$50 million of an anticipated \$250 million, over several years.

We plan to gain an understanding of Treasury's role in the Middle East and North Africa Transition Fund, which provides grants and technical assistance to Arab countries in political transition, and to identify the risks to Treasury's investment.

### **Transfer of Funds Under the Foreign Assistance Act of 1961**

The U.S. Agency for International Development transferred \$66.6 million to Treasury in FY 2010 for contributions to the Global Agriculture and Food Security Program Trust Fund. The agency transferred another \$125 million in FY 2011 funds to Treasury for contributions to the Haiti Reconstruction Fund. Under memoranda of understanding between the U.S. Agency for International Development and Treasury, we are responsible for performing periodic program and financial audits of the use of the transferred funds, and the cost of the audits may be paid from transferred funds.

We plan to assess whether Treasury administered funds transferred from the U.S. Agency for International Development in accordance with applicable laws.

### **Treaties and International Agreements**

We plan to gain an understanding of the treaties and international agreements with foreign governments Treasury entered into on behalf of the U.S. Government and Treasury's coordination and consultation with the Department of State in connection with those agreements.

### **Exchange Stabilization Fund Investment Portfolio**

We plan to (1) gain an understanding of the policy for the Exchange Stabilization Fund's investments in securities and foreign-currency-denominated assets and the factors considered in implementing the investment policy and (2) determine whether the Fund complied with the investment policy on its purchase,

## **In Progress and Planned Projects**

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management, and sales of investments and foreign-currency-denominated assets.

### **Reviews of Single Audits**

We plan to perform quality control reviews to determine whether audits obtained by CDFIs were performed in accordance with the Single Audit requirements and applicable professional standards and may be relied upon for ensuring accountability of CDFI Fund awards.

### **Survey of the Federal Financing Bank**

We plan to perform a survey of the Federal Financing Bank to identify and assess areas of high risk that should be audited in more depth.

# Gulf Coast Restoration Trust Fund Oversight

## Background

The Resources and Ecosystems Sustainability, Tourist Opportunities and Revived Economies of the Gulf Coast States Act of 2012 (RESTORE Act) established the Gulf Coast Restoration Trust Fund (Trust Fund) within Treasury to provide funds for the environmental and economic restoration of the Gulf Coast region that was damaged by the 2010 Deepwater Horizon oil spill. Deposits into the Trust Fund will comprise 80 percent of all civil and administrative penalties paid after July 6, 2012, under the Federal Water Pollution Control Act (Clean Water Act). As of April 2016, the Trust Fund had received approximately \$935 million as a result of the Federal Government's settlements with Anadarko Petroleum Corporation and Transocean defendants. In July 2015, BP Exploration and Production Inc. agreed to settle with the Federal Government and the Gulf Coast States. A U.S. District Judge from the Eastern District of Louisiana approved the terms of the settlement on April 4, 2016, in which BP Exploration and Production Inc. agreed to pay \$20.8 billion. Of the \$20.8 billion, \$5.5 billion plus interest relates to civil and administrative penalties under the Clean Water Act. Of this amount, \$4.4 billion (80 percent) will be deposited into the Trust Fund over 15 years.

The RESTORE Act also established the Gulf Coast Ecosystem Restoration Council (Council), an independent entity within the Federal Government that includes as members the governors from the five affected Gulf Coast States (Alabama, Florida, Louisiana, Mississippi, and Texas); the Secretaries from the U.S. Departments of the Interior, Commerce, and Agriculture; the head of the department under which the Coast Guard reports (currently the Secretary of the Department of Homeland Security); the Secretary of the Army; and the Administrator of the U.S. Environmental Protection Agency.

The RESTORE Act allocates money in the Trust Fund to five components:

- 35 percent to the Gulf Coast States in equal shares under the Direct Component (administered by Treasury)
- 30 percent, plus 50 percent of interest earned on the Trust Fund, for grants under the Council-Selected Restoration Component (administered by the Council)
- 30 percent for grants under the Spill Impact Component (administered by the Council)

## Planned Projects by OIG Issue Area

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- 2.5 percent, plus 25 percent of interest earned on the Trust Fund, to the Centers of Excellence Research Grants Program Component (administered by Treasury)
- 2.5 percent, plus 25 percent of interest earned on the Trust Fund, to the Gulf Coast Ecosystem Restoration Science, Observation, Monitoring, and Technology Program (Science Program) Component (administered by the National Oceanic and Atmospheric Administration (NOAA))

Treasury's authority to administer the Trust Fund terminates on the date all amounts are expended from the Trust Fund. The RESTORE Act provides Treasury with remedies for a State's noncompliance with the conditions of the Trust Fund. Specifically, Treasury may cut off funding to a State until the State either repays the Trust Fund or substitutes an ineligible activity with an eligible activity.

The RESTORE Act authorized OIG to conduct, supervise, and coordinate audits and investigations of projects, programs, and activities funded under the act.

### Potential Integrity Risks

The integrity risks for the Gulf Coast Restoration projects, programs, and activities include the potential (1) falsification of applications or statements; (2) failure by grantees or contractors to deliver on promised goods or services; (3) misuse or mismanagement of Trust Funds, including irregularities in the award of contracts, misallocation of grant proceeds, and duplication of funding for projects or programs; (4) award of grants or contracts without following laws, regulations, or standard operating procedures; (5) failure to properly monitor funded activities; and (6) funding of programs that fail to promote the restoration of the Gulf Coast region.

## In Progress and Planned FY 2017 Projects

### Audit of Financial Statements of the Gulf Coast Ecosystem Restoration Council (In Progress)

During FY 2017, an independent certified public accounting firm, working under a contract supervised by our office, will complete audit work for the Council's FY 2016 financial statements and begin work for the FY 2017 financial statements. These audits will determine whether the financial statements are fairly presented in all material respects and will report on internal control and compliance with laws and regulations that could have a direct and material effect on the financial statements.



## Planned Projects by OIG Issue Area

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### **Capability Audits of RESTORE Act Fund Grant Applicants (In Progress)**

We engaged a contractor, under our supervision, to assess selected grant applicants' readiness to receive, expend, and monitor funds in accordance with the RESTORE Act, applicable regulations, and policies and procedures. We have audits in progress of the State of Mississippi, Escambia and Santa Rosa Counties, and St. Bernard and Jefferson Parishes.

### **Compliance Audit of Mississippi's Direct Component Planning Grant To Prepare a Multiyear Implementation Plan (In Progress)**

We engaged a contractor, under our supervision, to assess whether Mississippi has used awarded Direct Component RESTORE Act funds in compliance with applicable Federal statutes, regulations, and its award agreement with Treasury.

### **Compliance Audit of Gulf County's Direct Component Planning Grant To Prepare a Multiyear Implementation Plan (In Progress)**

We engaged a contractor, under our supervision, to assess whether Gulf County has used awarded Direct Component RESTORE Act funds in compliance with applicable Federal statutes, regulations, and its award agreement with Treasury.

### **Gulf Coast Ecosystem Restoration Council's Implementation of a Grants Management System for Administration and Oversight of Federal Awards (In Progress)**

We engaged a contractor, under our supervision, to assess the Council's ability to administer and oversee grants for the Council-Selected Restoration Component and the Spill Impact Component in accordance with the RESTORE Act, Federal grant regulations, and applicable policies and procedures.

### **NOAA Administration of the Gulf Coast Ecosystem Restoration Science Program (In Progress)**

We plan to complete our assessment of whether NOAA is administering the Science Program Component of the Trust Fund in accordance with the RESTORE Act, applicable laws and regulations, and program policies and procedures.

### **Subsea Systems Institute Compliance With Center of Excellence Research Grants Program Sub-award Requirements (In Progress)**

We plan to complete our assessment of whether Subsea Systems Institute has used awarded RESTORE Act funds in compliance with applicable Federal statutes, regulations, and its award agreement with the Texas Commission on Environmental Quality.

## Planned Projects by OIG Issue Area

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### **Treasury Assessment of RESTORE Act Direct Component Multiyear Implementation Plans (In Progress)**

We plan to complete our assessment of Treasury's review and acceptance of Direct Component multiyear implementation plans to ensure that only eligible activities are included and that the plans comply with requirements of the RESTORE Act; other applicable Federal laws and regulations; and Treasury program policies, procedures, and guidelines.

### **Hernando County Development of a RESTORE Act Direct Component Multiyear Implementation Plan (In Progress)**

We plan to complete our assessment of Hernando County's process to develop a multiyear implementation plan to ensure that it complies with the RESTORE Act; other applicable Federal laws and regulations; and Treasury program policies, procedures, and guidelines.

### **Gulf Coast Ecosystem Restoration Council's Information Security Program and Practices**

We plan to engage a contractor, under our supervision, to assess the effectiveness of the Council's information security programs and practices, including compliance with FISMA requirements and related information security policies, procedures, standards, and guidelines.

### **Improper Payments**

We plan to assess the Council's compliance with IPERA and other improper payment reporting requirements included in E.O. 13520 "Reducing Improper Payments and Eliminating Waste in Federal Programs" and IPERIA for FY 2016.

### **Treasury Administration of Planning Grants To Prepare Multiyear Implementation Plans Under the Direct Component**

We plan to determine whether Treasury has administered the Direct Component Multiyear Implementation Planning Assistance grants in accordance with applicable Federal statutes, regulations, and program policies and procedures.

### **Compliance Audit of Tangipahoa Parish's Direct Component Grants**

We plan to engage a contractor, under our supervision, to assess whether Tangipahoa Parish has used awarded Direct Component RESTORE Act funds in compliance with applicable Federal statutes, regulations, and its award agreement with the Department of the Treasury.

## Planned Projects by OIG Issue Area

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### **Compliance Audit of Levy County's Direct Component Planning Grant To Prepare a Multiyear Implementation Plan**

We plan to engage a contractor, under our supervision, to assess whether Levy County has used awarded Direct Component RESTORE Act funds in compliance with applicable Federal statutes, regulations, and its award agreement with Treasury.

### **Compliance Audit of Lafourche Parish's Direct Component Grants**

We plan to engage a contractor, under our supervision, to assess whether Lafourche Parish has used awarded Direct Component RESTORE Act funds in compliance with applicable Federal statutes, regulations, and its award agreement with Treasury.

### **Compliance Audit of Livingston Parish's Direct Component Grants**

We plan to engage a contractor, under our supervision, to assess whether Livingston Parish has used awarded Direct Component RESTORE Act funds in compliance with applicable Federal statutes, regulations, and its award agreement with Treasury.

### **Compliance Audit of Plaquemines Parish's Direct Component Grants**

We plan to engage a contractor, under our supervision, to assess whether Plaquemines Parish has used awarded Direct Component RESTORE Act funds in compliance with applicable Federal statutes, regulations, and its award agreement with Treasury.

### **DATA Act Readiness Audit of the Gulf Coast Ecosystem Restoration Council**

We plan to gain an understanding of the processes, systems, and controls that the Council has implemented, or plans to implement, to report financial and payment data in accordance with the requirements of the DATA Act.

### **Corrective Action Verification—Gulf Coast Ecosystem Restoration Council's Challenges in Completing the Initial Comprehensive Plan**

We plan to determine whether the Council took corrective action responsive to our recommendations in our audit report *RESTORE Act: Gulf Coast Ecosystem Restoration Council Faces Challenges in Completing Initial Comprehensive Plan* (OIG-14-003, issued October 25, 2013).

## Planned Projects by OIG Issue Area

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### **Corrective Action Verification—Gulf Coast Ecosystem Restoration Council’s Records Management System Needs Improvement**

We plan to determine whether the Council took corrective action in response to the recommendation in our report *RESTORE Act: The Gulf Coast Ecosystem Restoration Council’s Records Management System Needs Improvement* (OIG-16-051, issued July 27, 2016)

### **Gulf Coast Ecosystem Restoration Council’s Travel and Conference Expenditures**

We plan to assess whether the Council’s travel and conference expenditures are in accordance with Federal travel regulations and Council policies and procedures.

### **Treasury, NOAA, and Gulf Coast Ecosystem Restoration Council’s Internal Controls To Eliminate Duplication of Funding for RESTORE Act Programs**

We plan to assess whether Treasury, NOAA, and the Council implemented controls to prevent duplication of funding with the Oil Spill Liability Trust Fund created under the Oil Pollution Act and other Gulf Coast restoration funding sources.

### **Gulf Coast Ecosystem Restoration Council’s Evaluation of Gulf Coast State Expenditure Plans Under the Spill Impact Component**

We plan to assess the Council’s evaluation of each Gulf Coast State’s expenditure plan submitted in conjunction with the Spill Impact Component. We will provide contractor oversight of the technical assessments.

### **Florida Centers of Excellence Compliance With the Research Grants Program Sub-award Requirements**

We plan to determine whether the Florida Centers of Excellence have used RESTORE Act funds in compliance with applicable Federal statutes, regulations, and award agreements with the Florida Institute of Oceanography.

### **Gulf Coast Ecosystem Restoration Council’s Consultation and Coordination Process With Indian Tribal Governments**

We plan to assess whether the Council’s consultation and coordination process with Indian tribal governments complies with E.O. 13175 “Consultation and Coordination with Indian Tribal Governments.”

### Projects Under Consideration for Future Fiscal Years

#### **Water Institute Compliance With Centers of Excellence Research Grants Program Sub-award Requirements**

We plan to determine whether the Water Institute has used awarded RESTORE Act funds in compliance with applicable Federal statutes, regulations, and award agreements with the Louisiana Coastal Protection and Restoration Authority.

#### **Texas OneGulf Compliance With Centers of Excellence Research Grants Program Sub-award Requirements**

We plan to determine whether Texas OneGulf has used RESTORE Act funds in compliance with applicable Federal statutes, regulations, and award agreements with the Texas Commission on Environmental Quality.

#### **MBRACE Compliance With Centers of Excellence Research Grants Program Sub-award Requirements**

We plan to determine whether the Mississippi-Based RESTORE Act Center of Excellence (MBRACE) has used RESTORE Act funds in compliance with applicable Federal statutes, regulations, and award agreements with the Mississippi Department of Environmental Quality.

#### **Gulf Coast Ecosystem Restoration Council's Administration of Planning Grants Under the Spill Impact Component**

We plan to assess whether the Council's administration of planning grants under the Spill Impact Component is in accordance with the RESTORE Act, applicable laws and regulations, and Council policies and procedures.

#### **Treasury Review of "Best Available Science" To Support Projects and Activities Under the Direct Component**

We plan to assess Treasury's process to review Direct Component grant applications for compliance with the "best available science" requirement for natural resource protection and restoration projects in accordance with the RESTORE Act, applicable laws and regulations, and program policies and procedures.

#### **Treasury Administration of the Direct Component of the Gulf Coast Restoration Trust Fund**

We plan to assess Treasury's administration of the Direct Component to ensure it complies with the RESTORE Act, applicable regulations, and Treasury policies and procedures.

## Planned Projects by OIG Issue Area

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### **Gulf Coast Ecosystem Restoration Council Administration of the Council-selected Restoration Component of the Gulf Coast Restoration Trust Fund**

We plan to assess the Council's administration of the Council-selected Restoration Component to ensure it complies with the RESTORE Act, applicable regulations, and Council policies and procedures.

### **Gulf Coast State Entities' Internal Controls Over the Center of Excellence Research Grants Program**

We plan to determine whether the Gulf Coast State entities have proper and sufficient internal controls in place over the Center of Excellence Research Grants Program in accordance with the RESTORE Act and applicable Federal and state regulations.

### **Treasury, NOAA, and Gulf Coast Ecosystem Restoration Council Internal Controls for Pre-award Review and Post-award Monitoring of Grantee Risk**

We plan to assess whether Treasury, NOAA, and the Council established internal controls related to pre-award review and post-award monitoring of RESTORE Act grantee risk as required by OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (December 2013), and agency implementing regulations.

### **Gulf Coast Ecosystem Restoration Council's Administrative Expenses**

We plan to assess whether the Council has designed adequate internal controls for the Council-Selected Restoration Component to comply with the 3 percent administrative expense limitation outlined in the RESTORE Act and applicable regulations, policies, and procedures.

### **NOAA Administrative Expenses**

We plan to assess whether NOAA has designed adequate internal controls for the Science Program Component to comply with the 3 percent administrative expense limitation outlined in the RESTORE Act and applicable regulations, policies, and procedures.

### **Compliance of Federal, State, and Local Entities With RESTORE Act Public Input Requirements**

We plan to determine whether the Federal, state, and local entities have complied with required public input requirements in accordance with the RESTORE Act and applicable Federal and state regulations.

## Planned Projects by OIG Issue Area

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### **Gulf Coast Ecosystem Restoration Council's Procurement Practices**

We plan to assess the Council's ability to follow logical and prudent procurement practices that comply with the RESTORE Act and applicable Federal and state regulations.

### **Sub-recipient Monitoring Process of the Gulf Coast State and Local Governments Receiving RESTORE Act Funding**

We plan to determine whether the state and local governments receiving RESTORE Act funding have sub-recipient monitoring controls in place in accordance with applicable Federal law and regulations.

### **Fiscal Service's Compliance With the Investment Strategy for the Gulf Coast Restoration Trust Fund**

We plan to determine whether the Fiscal Service is investing the Trust Fund in accordance with the RESTORE Act and regulations and Treasury's *Gulf Coast Restoration Trust Fund Investment Strategy*.

### **Gulf Coast Ecosystem Restoration Council's Administration of the Spill-impact Component**

We plan to assess the Council's administration of the Spill Impact Component of the Trust Fund in accordance with the RESTORE Act, applicable laws and regulations, and Council policies and procedures.

### **Quality Control Review of Single Audit Reports for the RESTORE Act Grants**

We plan to perform quality control reviews to determine whether audits obtained by RESTORE Act program grantees were performed in accordance with the Single Audit requirements and applicable professional standards and may be relied on for ensuring accountability of RESTORE Act awards.

### **Treasury Administration of the Centers of Excellence Research Grants Program Component**

We plan to assess Treasury's administration of the Centers for Excellence Research Grants Program Component to ensure it complies with the RESTORE Act, applicable laws and regulations, and Treasury policies and procedures.

### **Treasury, NOAA, and Gulf Coast Ecosystem Restoration Council Compliance With Requirements Under the Grants Oversight and New Efficiency Act**

We plan to determine whether the RESTORE Act administrators have complied with requirements under the Grants Oversight and New Efficiency Act.

## Planned Projects by OIG Issue Area

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### **Gulf Coast Ecosystem Council's 5-year Update of the Comprehensive Plan**

We plan to assess whether the Council updated the Comprehensive Plan in a timely manner and in accordance with the requirements in the RESTORE Act and applicable regulations, policies, and procedures.

### **Survey of Gulf Coast State and Local Government Controls for Information Systems**

We plan to gain an understanding of controls put in place by Gulf Coast state and local governments for information systems used in administering Federal awards and to determine whether any risks warrant further review.

### **Grantee Compliance With RESTORE Act Land Purchase Requirements**

We plan to determine whether grant recipients complied with land purchase requirements stipulated in the RESTORE Act and grant agreements.



# SBLF and SSBCI Programs

## Background

The Small Business Jobs Act of 2010 established the SBLF and the SSBCI programs. The act also created within OIG the Office of SBLF Program Oversight, which operates under the direction of the Assistant Inspector General for Audit (who reports directly to the Inspector General). OIG is to report at least twice a year to the Secretary of the Treasury and Congress on the results of oversight activities involving the SBLF program. We also perform audits of States' use of SSBCI funds to identify instances of intentional or reckless misuse of those funds.

## SBLF Program

The SBLF program was created to provide capital to community banks and community development loan funds (CDLF) so that those institutions can increase small-business lending. For banks, the program is structured to encourage small-business lending through a dividend or interest-rate incentive structure. The more banks increase lending over a baseline level, the lower the interest rate, regardless of small-business lending levels. Generally, the SBLF program was open only to institutions with aggregate assets less than \$10 billion. The SBLF program also provided an option for community banks to refinance preferred stock issued to Treasury through the TARP Capital Purchase Plan or the Community Development Capital Initiative if the banks had not missed more than one dividend payment under either of these two programs. Under the SBLF Program, institutions may not make loans to entities with more than \$50 million in revenues or in amounts over \$10 million.

Treasury invested more than \$4 billion in 332 financial institutions across the country, reporting the following outcomes as of March 2016:

- Institutions participating in SBLF had increased their small-business lending by \$4.3 billion over a \$5.1 billion baseline.
- 94 percent of the SBLF participants had increased their small-business lending by 10 percent or more over the baseline.

As of June 2016, Treasury reported that 250 of 332 institutions with aggregate investments of \$3.5 billion had fully redeemed their SBLF securities and exited the program. Of the remaining institutions, eight had partially redeemed

## Planned Projects by OIG Issue Area

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\$49 million of their securities, though they continued to participate in the program.

Under the terms of the authorizing legislation, the SBLF funds were intended to stimulate lending to small businesses, but participating institutions have no obligation to increase their small-business lending activity or report how they used Treasury investments. Further, because the SBLF Program is a capital investment program and not a direct-lending program, the capital invested in banks is leveraged and not traceable to individual loans. As a result, the direct effect of SBLF funds on small business lending cannot be isolated from other factors.

Although the direct effect of the SBLF Program is not measurable, Treasury evaluates program outcomes based on gains in small-business lending reported quarterly by participants using the calculation method prescribed by the act.

Treasury investments in some banks are in the form of noncumulative preferred stocks. For these investments, institutions are under no obligation to pay previously missed payments before exiting the program. According to Treasury, when dividend payments are missed, additional measures may be taken, ranging from requiring an explanation for the missed payment to naming an observer to an institution's board of directors. However, these measures are less effective if an institution's regulator has already restricted it from making dividend payments.

It should also be noted that some institutions may be unable to redeem their SBLF securities and thereby unable to exit the program. Dividend and interest rates automatically rose to 9 percent for C corporations and 13.8 percent for S corporations and mutual institutions in the program for 4.5 years, which occurred in early 2016. Interest rates for CDLFs rise to 9 percent after 8 years in the program. These rate increases have already prompted some institutions to redeem their securities; however, Treasury will need to prepare for the possibility that some institutions may be unable to redeem or pay the higher dividend rate.

## In Progress and Planned FY 2017 Projects

### SBLF Asset Management and Consultant Fees

We plan to (1) assess the process used to procure services from asset managers and other consultants and (2) determine whether services provided were consistent with contractual terms and whether fees paid to the providers were reasonable.

## Planned Projects by OIG Issue Area

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### Impact of the Dividend and Interest Rate Increases

We plan to evaluate the impact of the mandatory dividend and interest rate increases on banks, including determining how many institutions have redeemed their securities and whether Treasury is collecting the additional interest and dividends from institutions remaining in the program.

## Projects Under Consideration for Future Fiscal Years

### Audit of CDLF Participants

We plan to determine (1) how effective CDLFs have been in increasing lending to small businesses and (2) whether CDLFs have accurately reported qualified small-business lending to Treasury.

### The SBLF Program Exit Process

We plan to (1) determine whether institutions that exited SBLF were in compliance with program requirements, including repayment of funds to Treasury and (2) identify Treasury's plans for winding down the program.

## SSBCI Program

SSBCI is a \$1.5 billion initiative that provides participating States, territories, and eligible municipalities with funding to support State programs that provide lending to, and investment in, small businesses. SSBCI builds on new and existing models for State small-business programs, including those that finance loan loss reserves and provide loan insurance, loan guaranties, venture capital funds, and collateral support. Under the program, Treasury awarded 57 States, territories, and municipalities the \$1.5 billion of available SSBCI funding and, as of March 31, 2016, had disbursed approximately \$1.4 billion of the amounts awarded. Funds are disbursed to the participating States in three increments and are to be used for the programs and activities approved by Treasury in each state's Allocation Agreement. Participating States must report quarterly on their use of SSBCI funds and provide Treasury an annual report, no later than March 31 of each year, with transaction-level data for each loan or investment made with SSBCI funds.

According to Treasury, primary oversight of the use of SSBCI funds is the responsibility of each participating State. Beginning in April 2011, and as recently as July 2014, Treasury issued and amended policy guidelines, standards, and Frequently Asked Questions for states to carry out their oversight responsibilities. It is imperative that participating states keep up with these

## Planned Projects by OIG Issue Area

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guidelines, especially in areas that have changed significantly. For example, effective July 2014, the rules governing conflict of interest in state venture-capital programs prohibit SSBCI funds from being used to make or support investments in a company or venture-capital fund when an SSBCI insider, or a family member or a business partner of an insider, has a personal financial interest in that company or venture-capital fund. Treasury reported that, as of March 31, 2016, \$442 million, or nearly one-third of total SSBCI funds, had been allocated to State venture-capital programs.

Treasury monitors participating States' compliance with the program by verifying annual report data against loan or investment documentation. Treasury also requires States to certify quarterly to their compliance. In a few instances, Treasury requested that OIG review specific transactions to identify reckless or intentional misuse, and some OIG audits have identified instances where states made inaccurate or lacked compliance certifications.

## In Progress and Planned FY 2017 Projects and Projects Under Consideration for Future Fiscal Years

### Audits of States Participating in SSBCI (In Progress)

We have several audits in progress and planned of participating States' use of SSBCI funds. These audits, whether self-initiated or initiated at the request of Treasury, test participant compliance with program requirements and prohibitions to identify intentional or reckless misuses of SSBCI funds, which, by law, Treasury is required to recoup. We have audits in progress of Arkansas, New Hampshire, New York, Oregon, Rhode Island, Oklahoma and Wisconsin.

## Appendix A: Office of Audit FY 2017 Resource Allocation

The following table shows our planned OIG staff resource allocation for FY 2017, by priority area.

<b>Audit Priority</b>	<b>Percentage of Planned Audit Resources</b>
Audit products mandated by law	16
Work requested by Congress or externally driven	2
Self-directed work in Treasury's highest-risk areas	82
<b>Total</b>	<b>100</b>

The following table shows our planned OIG audit staff resource allocation for FY 2017, by OIG issue area.

<b>OIG Issue Area</b>	<b>Percentage of Planned Audit Resources</b>
Treasury General Management and Infrastructure Support:	
Financial Management	6
Information Security	8
General Management	5
Terrorist Financing, Money Laundering, and Foreign Assets Control	8
Government-Wide Financial Services and Debt Management	9
Safety, Soundness, and Accessibility of Financial Services	19
Revenue Collections and Industry Regulation	7
Bill and Coin Manufacturing, Marketing, and Distribution Operations	10
Domestic and International Assistance Programs	7
Small Business Lending Fund and State Small Business Credit Initiative Operations	7
Gulf Coast Restoration Trust Fund Oversight	14
<b>Total</b>	<b>100</b>

## Appendix A: Office of Audit FY 2017 Resource Allocation

The following table shows our planned OIG audit staff allocation for FY 2017, by Treasury headquarters operational component, Treasury bureaus, and other federal and state entities.

Treasury Departmental Offices, Treasury Bureaus, and Other Federal and State Entities	Percentage of Planned Audit Resources
<b>Treasury Departmental Offices</b>	
Domestic Finance	4
Office of the Assistant Secretary for Management and Chief Financial Officer	9
Small Business Lending Fund	3
State Small Business Credit Initiative	4
Community Development Financial Institutions Fund	5
Office of the Chief Information Officer	7
Office of Gulf Coast Restoration*	7
Other Departmental Offices	18
<b>Treasury Bureaus</b>	
Office of the Comptroller of the Currency	17
Bureau of the Fiscal Service	9
Financial Crimes Enforcement Network	4
Mint	1
Bureau of Engraving and Printing	2
Alcohol and Tobacco Tax and Trade Bureau	1
<b>Other Federal and State Entities*</b>	
Gulf Coast Ecosystem Restoration Council*	7
Other*	2
<b>Total</b>	<b>100</b>

\* Treasury's Office of Gulf Coast Restoration administers the Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012 (RESTORE Act) grants programs for the Direct Component and the Centers of Excellence Component. The RESTORE Act authorized Treasury OIG to conduct, supervise, and coordinate audits and investigations of projects, programs, and activities funded under the act, including Treasury and other Federal, state, and local government entities. The RESTORE Act established the Gulf Coast Ecosystem Restoration Council, a new independent entity within the Federal Government, comprising governors from the five affected Gulf Coast States; the Secretaries from the U.S. Departments of the Interior, Commerce, and Agriculture; the head of the department housing the Coast Guard (currently the Secretary of the Department of Homeland Security); the Secretary of the Army; and the Administrator of the U.S. Environmental Protection Agency. In accordance with the RESTORE Act, our office performs audits of the National Oceanic and Atmospheric Administration's Science Program Component and the Gulf Coast State and Local Government grantees.

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## Abbreviations

ARC	Administrative Resource Center
BEP	U.S. Bureau of Engraving and Printing
BSA	Bank Secrecy Act
CBP	Customs and Border Protection
CDFI	Community Development Financial Institution
CDLF	community development loan fund
CHIPRA	Children’s Health Insurance Program Reauthorization Act of 2009
CIGFO	Council of Inspectors General on Financial Oversight
CIO	Chief Information Officer
DATA Act	Digital Accountability and Transparency Act of 2014
Dodd-Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act
EESA	Economic Stabilization Act of 2008
E.O.	Executive Order
Fannie Mae	Federal National Mortgage Association
FinCEN	Financial Crimes Enforcement Network
FIO	Federal Insurance Office
Fiscal Service	Bureau of the Fiscal Service
FISMA	Federal Information Security Modernization Act of 2014
FRB	Federal Reserve Bank
Freddie Mac	Federal Home Loan Mortgage Corporation
FSOC	Financial Stability Oversight Council
FY	fiscal year
GAO	Government Accountability Office
HERA	Housing and Economic Recovery Act of 2008
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012

## Abbreviations

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IRS	Internal Revenue Service
ISIL	Islamic State of Iraq and the Levant
IT	information technology
MAP-21	Moving Ahead for Progress in the 21 <sup>st</sup> Century Act
Mint	U.S. Mint
NOAA	National Oceanic and Atmospheric Administration
OCC	Office of the Comptroller of the Currency
OFAC	Office of Foreign Assets Control
OFR	Office of Financial Research
OIG	Office of Inspector General
OMB	Office of Management and Budget
Recovery Act	American Recovery and Reinvestment Act of 2009
RESTORE Act	Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012
SAR	Suspicious Activity Report
SBLF	Small Business Lending Fund
SIGTARP	Special Inspector General for the Troubled Asset Relief Program
SSBCI	State Small Business Credit Initiative
SSP	Treasury Franchise Fund Shared Services Program
TARP	Troubled Asset Relief Program
TEOAF	Treasury Executive Office for Asset Forfeiture
TIC	Trusted Internet Connection
TIGTA	Treasury Inspector General for Tax Administration
TMA	Treasury Managed Account
Treasury or the Department	Department of the Treasury
TTB	Alcohol and Tobacco Tax and Trade Bureau