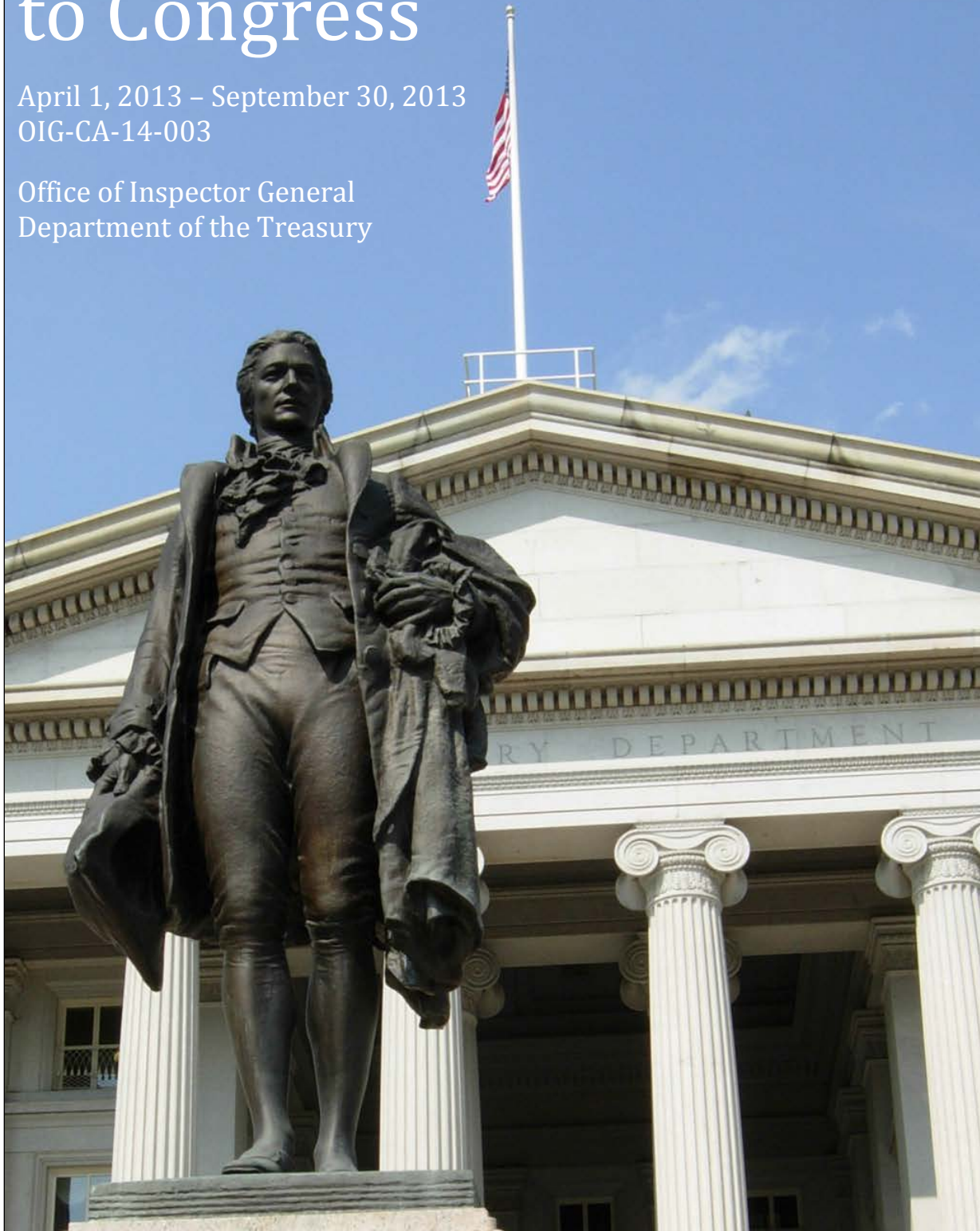


Semiannual Report to Congress

April 1, 2013 – September 30, 2013
OIG-CA-14-003

Office of Inspector General
Department of the Treasury



Highlights

During this semiannual reporting period, our Office of Audit issued 21 products and our Office of Small Business Lending Fund (SBLF) Program Oversight issued 8 products. The two Offices also identified \$33.2 million in monetary benefits. Work by our Office of Investigations resulted in 14 arrests and 22 convictions. Some of these results are described below.

- Our Office of Audit found that Treasury did not meet a key statutory requirement to establish procedures for administration of the Gulf Coast Restoration Trust Fund (Trust Fund) within 180 days after enactment of the Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012 (RESTORE Act) (by January 2, 2013). In a subsequent audit, we found Treasury's Bureau of the Fiscal Service established the Trust Fund and was able to receive the first deposit in March 2013. However, as of June 12, 2013, Treasury had not established procedures necessary to expend amounts from the Trust Fund, or developed an investment strategy that takes into account projected outlays from the Trust Fund. After the completion of our audit fieldwork, Treasury published the draft procedures in the Federal Register, in the form of proposed regulations, for public comment.
- The Office also reported that the Bureau of Engraving and Printing did not properly administer a 2006 contract with Young & Rubicam, Inc., doing business as Burson-Marsteller for which it spent \$33 million. Deficiencies included: (1) missing contract documentation; (2) inadequate subcontractor oversight; (3) no evidence of price negotiations for certain task orders; (4) non-compliance with the Federal Acquisition Regulation in soliciting, awarding, and administering the task order for materials fulfillment; (5) a lax process for approving payments; and (6) improper contracting officer's representative contact with the contractor when developing government cost estimates.
- Treasury reported that institutions participating in SBLF had increased their small business lending by \$8.9 billion. However, our Office of SBLF Oversight found that approximately \$3.4 billion of this amount occurred prior to when most participants received their SBLF funds, and Treasury could not identify how much of the gains reported by participants were attributable to the SBLF funding. In another audit, the SBLF Office found that the State of Missouri properly used over 96 percent of the \$7.3 million in State Small Business Credit Initiative funds it expended, and all related administrative costs were compliant with program requirements. However, the Office identified a \$240,000 venture capital investment that constituted a reckless misuse of funds, as defined by Treasury guidance.
- Our Office of Investigations opened an investigation after receiving information indicating that a former bank teller abused her position, negotiating 28 stolen U.S. Treasury checks worth \$109,818. The individual pled guilty and was sentenced to 15 months' incarceration in federal prison to be followed by 3 years of supervised release, 50 hours of community service, and an order to make restitution to Treasury in the amount of \$54,614 and to the Georgia Department of Revenue in the amount of \$23,566.

The Council of Inspectors General on Financial Oversight convened a working group led by Treasury Inspector General Thorson to audit the Financial Stability Oversight Council's (FSOC) designation of financial market utilities (FMU) as systemically important. The working group found that FSOC did not establish a formal structure for its Financial Market Utilities and Payment, Clearing, and Settlement Activities Committee and that FSOC did not consider the systemic designation for foreign-based FMUs; retail FMUs; or financial institutions' payment, clearing, and settlement activities.



Message from the Inspector General

I am pleased to present the Treasury Office of Inspector General's Semiannual Report to Congress for the six-month period ending September 30, 2013. The audits, reviews, and investigations described in this report illustrate our office's commitment to promoting the integrity, efficiency, and effectiveness of Treasury programs and operations under our jurisdictional oversight.

One such commitment is our responsibility for conducting audits and investigations of projects and activities authorized by the Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012 (RESTORE Act). The act established the Gulf Coast Restoration Trust Fund (Trust Fund) within Treasury. The Trust Fund will be funded from 80 percent of the administrative and civil penalties paid by responsible parties in connection with the April 2010 *Deepwater Horizon* disaster. The purpose of the Trust Fund is to support the environmental and economic restoration of the Gulf Coast region. To that end, we are actively engaged in (1) coordinating with impacted federal, state, and local government entities to ensure effective oversight of programs established by the act; (2) assessing Treasury's progress in establishing procedures to distribute monies from and manage investments in the Trust Fund; and (3) assessing the Gulf Coast Ecosystem Restoration Council's (Council) establishment of a Comprehensive Plan and infrastructure. During this period, we completed two audits of Treasury's RESTORE Act activities, which are summarized in this Semiannual Report.

To meet our oversight responsibilities under the RESTORE Act, and without additional funding, we have reallocated existing resources. For example, in fiscal year 2013, we established a dedicated audit directorate to support this effort. Additionally in fiscal year 2013, we requested and Congress approved the reprogramming of \$659 thousand of fiscal year 2012 lapsed appropriations which we used to train staff, perform essential travel, and contract for expert reviews of the environmental and economic feasibility of the Council's Comprehensive Plan as well as for assistance in completing a risk analysis of RESTORE Act funds. We appreciate the support by the Congress to obtain these resources. Looking forward to fiscal year 2014, the President's budget request includes \$2.8 million in additional funding for our RESTORE Act oversight responsibilities.

In closing, I think it is important to acknowledge Treasury Office of Inspector General staff for their continued dedication to the work and mission of our office. I want to express my appreciation to John Phillips, Acting Assistant Inspector General for Investigations, for providing stability and leadership to investigations staff as the office undergoes a change in senior management. I also want to recognize Marla Freedman, Assistant Inspector General for Audit, who in May 2013 received the Treasury Office of Inspector General Leadership Award for her commitment to excellence to both the work of our office and that of the entire Inspector General Community.

A handwritten signature in black ink, appearing to read "Eric M. Thorson", written over a light blue horizontal line.

Eric M. Thorson
Inspector General

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Contents

Highlights	i
Message from the Inspector General	ii
Office of Inspector General Overview	1
Treasury’s Management and Performance Challenges	3
Office of Audit – Significant Audits and Other Products.....	5
Programs and Operations	5
Financial Management.....	15
Office of SBLF Program Oversight – Significant Audits.....	17
Small Business Lending Fund.....	17
State Small Business Credit Initiative.....	19
Office of Investigations – Significant Investigations	24
Other OIG Accomplishments and Activity.....	29
Statistical Summary	35
Summary of OIG Activity.....	35
Significant Unimplemented Recommendations.....	36
Summary of Instances Where Information Was Refused.....	37
Listing of Audit Products Issued.....	38
Audit Reports Issued With Questioned Costs	40
Audit Reports Issued With Recommendations That Funds Be Put to Better Use	41
Previously Issued Audit Reports Pending Management Decisions (Over 6 Months)	41
Significant Revised Management Decisions	41
Significant Disagreed Management Decisions.....	42
Peer Reviews.....	42
Bank Failures and Nonmaterial Loss Reviews	43
References to the Inspector General Act.....	44
Abbreviations.....	45
Representing Treasury History.....	46

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Office of Inspector General Overview

The Department of the Treasury's (Treasury) Office of Inspector General (OIG) was established pursuant to the 1988 amendments to the Inspector General Act of 1978. OIG is headed by an Inspector General appointed by the President, with the advice and consent of the Senate.

OIG performs independent, objective reviews of Treasury programs and operations, except for those of the Internal Revenue Service (IRS) and the Troubled Asset Relief Program (TARP), and keeps the Secretary of the Treasury and Congress fully informed of problems, deficiencies, and the need for corrective action. The Treasury Inspector General for Tax Administration (TIGTA) performs oversight related to IRS. A Special Inspector General and the Government Accountability Office perform oversight related to TARP.

OIG has five components: (1) Office of Audit, (2) Office of Investigations, (3) Office of Small Business Lending Fund (SBLF) Program Oversight, (4) Office of Counsel, and (5) Office of Management. OIG is headquartered in Washington, D.C., and has an audit office in Boston, Massachusetts.

The Office of Audit, under the leadership of the Assistant Inspector General for Audit, performs and supervises audits, attestation engagements, and evaluations. The Assistant Inspector General for Audit has two deputies. One is primarily responsible for performance audits and the other is primarily responsible for financial management, information technology (IT), and financial assistance audits.

The Office of Investigations, under the leadership of the Assistant Inspector General for Investigations, performs investigations and conducts initiatives to detect and prevent fraud, waste, and abuse in Treasury programs and operations under our jurisdiction. The Office of Investigations also manages the Treasury OIG Hotline to facilitate reporting of allegations involving Treasury programs and activities.

The Office of SBLF Program Oversight, under the leadership of the Special Deputy Inspector General, conducts, supervises, and coordinates audits and investigations of SBLF and the State Small Business Credit Initiative (SSBCI).

The Office of Counsel, under the leadership of the Counsel to the Inspector General, provides legal advice to the Inspector General and all OIG components. The office represents the OIG in administrative legal proceedings and provides a variety of legal services including (1) processing Freedom of Information Act and *Giglio*¹ requests; (2) conducting ethics training; (3) ensuring compliance with financial disclosure requirements; (4) reviewing proposed legislation and regulations; (5) reviewing

¹ *Giglio* is information that refers to material that may call into question the character or testimony of a prosecution witness in a criminal trial.

administrative subpoena requests; and (6) preparing for the Inspector General's signature, cease and desist letters to be sent to persons and entities misusing the Treasury seal and name.

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

OIG's fiscal year 2013 appropriation is \$28.1 million. As of September 30, 2013, OIG had 179 full-time staff of which 19 of those staff work for the Office of SBLF Program Oversight and are funded on a reimbursable basis.

Treasury's Management and Performance Challenges

In accordance with the Reports Consolidation Act of 2000, the Treasury Inspector General annually provides the Secretary of the Treasury with his perspective on the most serious management and performance challenges facing the Department. Inspector General Thorson was preparing the 2013 memorandum to Secretary Lew at the time this semiannual report was published. The following is a synopsis of the matters that were included in the 2012 memorandum. The Inspector General's annual Management and Performance Challenges Memoranda are available, in their entirety, on the Treasury OIG [website](#).

Transformation of Financial Regulation (Repeat Challenge)

This challenge focuses on the responsibilities of Treasury and the Secretary under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank).

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

This challenge focuses on the administration of broad authorities given to Treasury by the Congress to address the financial crisis under the Housing and Economic Recovery Act of 2008, the Emergency Economic Stabilization Act of 2008, the American Recovery and Reinvestment Act of 2009, and the Small Business Jobs Act of 2010.

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 our financial networks to sustain their operations and/or launch attacks against the U.S.

Gulf Coast Restoration Trust Fund Administration

This challenge focuses on Treasury's administration of a new activity, the Gulf Coast Restoration Trust Fund, established by the Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012 (RESTORE Act) in response to the April 2010 *Deepwater Horizon* disaster.

Other Areas of Concern

Our memorandum also highlighted three areas of concern—cyber threats, challenges with currency and coin production, and lapses by the Department in maintaining a complete and concurrent record of key activities and decisions.

We also noted challenges faced by the Department as it undertakes the consolidation and restructuring of the Bureau of the Public Debt and Financial Management Service into the Bureau of the Fiscal Service (BFS).

Office of Audit – Significant Audits and Other Products

Programs and Operations

RESTORE Act Audits

During this semiannual reporting period, we issued two audit reports on the programs and activities established under the RESTORE Act. The act put the Gulf Coast Restoration Trust Fund (Trust Fund) within Treasury for the purpose of providing funds for the environmental and economic restoration of the Gulf Coast region damaged by the April 2010 *Deepwater Horizon* oil spill. Pursuant to a court order or negotiated settlement under the Federal Water Pollution Control Act, 80 percent of the administrative and civil penalties paid after July 6, 2012, will be deposited into the Trust Fund. Expenditures from the Trust Fund are to be used for restoring and protecting the natural resources, ecosystems, fisheries, marine and wildlife habitats, beaches, coastal wetlands, and economies of the Gulf Coast states (Alabama, Florida, Louisiana, Mississippi, and Texas) impacted by the oil spill.

The RESTORE Act provided that expenditures from the Trust Fund be used for specific purposes of restoring and protecting the Gulf Coast region and allocated in the following manner:

- 35 percent is to be distributed to the Gulf Coast states, in equal shares, for expenditure for ecological and economic restoration of the Gulf Coast region;
- 30 percent is to be distributed to the Gulf Coast Ecosystem Restoration Council (Council) established by the RESTORE Act to carry out projects and programs in its Comprehensive Plan;
- 30 percent is to be distributed to the Gulf Coast states under the oil spill restoration impact allocation based on a formula established by the Council pursuant to the RESTORE Act and the Council's approval of the states' plans for improving the ecosystems and economy of the Gulf Coast region;
- 2.5 percent is to be distributed to the National Oceanic and Atmospheric Administration for the establishment and administration of the Gulf Coast Ecosystem Restoration Science, Observation, Monitoring, and Technology Program; and
- 2.5 percent is to be distributed to the Gulf Coast states, in equal shares, exclusively for competitive grants to nongovernmental entities and consortia in the Gulf Coast region to establish centers for excellence to conduct research only on the Gulf Coast region.

The RESTORE Act provided our office with audit and investigative authority over programs, projects, and activities funded by the Trust Fund.

Treasury Missed Its Statutory Deadline for Establishing Procedures Governing RESTORE Act Programs and Activities

Under the RESTORE Act, the Secretary of the Treasury was given administrative responsibilities to establish procedures, in consultation with the Secretary of Commerce and the Secretary of the Interior, for depositing amounts in and expending amounts from the Trust Fund including procedures for determining compliance and auditing requirements of programs and activities established under the RESTORE Act. The Secretary was also required to establish procedures for identifying and allocating funds available to the Secretary under other provisions of law to pay the administrative expenses for management of the Trust Fund.

We found that Treasury did not meet a key statutory requirement to establish procedures for Trust Fund administration within 180 days after enactment of the RESTORE Act (by January 2, 2013). At the time of our review, regulations had yet to be issued in draft for public comment due to delays in concluding a consultative process with the Departments of Commerce and the Interior. Also, we were told that certain matters with the administration of the Trust Fund were under review by the Office of Management and Budget and the Department of Justice. Treasury experienced delays in concluding the consultative process with the Departments of Commerce and the Interior. We recommended that the Fiscal Assistant Secretary continue to work with the Department of Commerce, the Department of the Interior, and the Office of Management and Budget to expedite the issuance of RESTORE Act regulations. Treasury management agreed with our recommendation. **(OIG-13-038)**

Treasury Needs to Establish Procedures to Expend and Invest Gulf Coast Restoration Trust Fund Monies

We found that BFS established the Trust Fund and was able to receive the first deposit in March 2013. However, as of June 12, 2013, Treasury had not established procedures necessary to expend amounts from the Trust Fund, or developed an investment strategy that takes into account projected outlays from the Trust Fund. According to a Treasury official, Treasury planned to issue those procedures in the form of regulations in September or October 2013. On September 6, 2013, subsequent to the completion of our audit fieldwork, Treasury published the draft procedures in the Federal Register, in the form of proposed regulations, for a 60-day public comment period.²

To address these matters, we recommended that the Fiscal Assistant Secretary: (1) take necessary action to establish regulations for the Trust Fund, and to finalize internal Treasury procedures for the Trust Fund, (2) ensure that Treasury's proposed regulations address how Treasury intends to meet the requirements of 31 U.S.C. §9702 for investment of the Trust Fund, and (3) ensure that BFS, working with the administrators of each Trust Fund Component, establishes an investment strategy that takes into account projected outlays. Treasury management agreed with our recommendations. **(OIG-13-052)**

² 78 FR 54801, Gulf Coast Restoration Trust Fund

Failed Bank Reviews

In 1991, Congress enacted the Federal Deposit Insurance Corporation Improvement Act following the failures of about a thousand banks and thrifts from 1986 to 1990. Among other things, the act added Section 38, Prompt Corrective Action, to the Federal Deposit Insurance Act. Section 38 requires federal banking agencies to take specific supervisory actions in response to certain circumstances.³ Within Treasury, the Office of the Comptroller of the Currency (OCC) is the regulator for national banks. Effective July 21, 2011, OCC assumed the regulatory responsibility for federal savings associations that were previously regulated by the former Office of Thrift Supervision (OTS).

Section 38 also requires the Inspector General for the primary federal regulator of a failed financial institution to conduct a material loss review (MLR) when the estimated loss to the Deposit Insurance Fund (DIF) is “material.” As part of an MLR, we determine the causes of the failure and assess the supervision of the institution, including the implementation of the Section 38 Prompt Corrective Action provisions. Section 38, as amended by Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank), defines a material loss as a loss to the DIF that exceeds \$150 million for 2012 and 2013, and \$50 million in 2014 and thereafter, with a provision for increasing the threshold to \$75 million under certain circumstances. Section 38 also requires a review of all bank failures with losses under those threshold amounts for the purposes of (1) ascertaining the grounds identified by the primary federal regulator for appointing the Federal Deposit Insurance Corporation (FDIC) as receiver, and (2) determining whether any unusual circumstances exist that might warrant a more in-depth review of the loss. This provision applies to bank failures from October 1, 2009, forward.⁴

From the beginning of the economic crisis in 2007 through September 2013, FDIC and other banking regulators closed 488 banks and thrifts. Treasury, through OCC and the former OTS, was responsible for regulating 131 of those institutions. Of the 131 failures, 55 resulted in a material loss to the DIF, of which we completed MLRs for 54 in prior semiannual reporting periods. There was one new failure of a Treasury-regulated bank that required an MLR during this semiannual reporting period, which was in progress at the end of the semiannual reporting period.

During this period, we completed 2 reviews of failed Treasury-regulated banks that did not meet the material loss threshold as defined in Dodd-Frank: First Side Savings Bank, Tamarac, Florida (Estimated Loss to the DIF - \$12.3 million) and First Federal Bank, Lexington, Kentucky (Estimated Loss to the DIF - \$9.7 million). **(OIG-13-043, OIG-13-045)**

³ Prompt Corrective Action is a framework of supervisory actions for insured institutions that are not adequately capitalized. It was intended to ensure that action is taken when an institution becomes financially troubled in order to prevent a failure or minimize resulting losses. These actions become increasingly more severe as the institution falls into lower capital categories. The capital categories are well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized.

⁴ Prior to Dodd-Frank, an MLR was required if loss to the DIF from a bank failure exceeded the greater of \$25 million or 2 percent of the institution’s total assets. There was also no requirement for us to review bank failures with losses less than this threshold.

Other Banking-Related Audits

Review of OCC Identification of Emerging Risks

During our MLRs, we found that OCC did not always identify and address emerging risks to financial institutions in a timely manner. Accordingly, we performed an audit to determine how OCC identifies emerging risks to financial institutions' safety and soundness and then translates the risks identified into action.

We found that while OCC had processes in place to identify emerging safety and soundness risks to financial institutions and took actions to address those risks, OCC was unable to prevent the failure of 75 OCC-regulated banks between 2008 and May 2012. Many of the banks that failed during this timeframe were susceptible to the same risks that gave rise to the bank failures of the 1980s and 1990s. We noted that OCC issued guidance during September 2011 incorporating lessons learned from the recent failures, which included the need to assign an adverse rating to bank management for poor or missing risk management practices. With regard to current risks, OCC identified the reliance on fees and exotic instruments as well as strategic risks associated with banks' entry into new business products posed the greatest risks to banks' safety and soundness.

We recommended (1) OCC periodically assess the effectiveness of guidance it issued to ensure examination staff are assigning management component ratings based on actions and results rather than commitments, and that adverse ratings are appropriately assigned for poor or missing practices identified in examinations; and (2) ensure that banks and examiners are responding appropriately to risks identified such as over-reliance on fees and exotic instruments. OCC's management response identified corrective actions that met the intent of our recommendations. **(OIG-13-037)**

Improvement Needed in OCC's Oversight of Foreclosure Related Consent Orders

In April 2011, OCC in conjunction with the Board of Governors of the Federal Reserve System (FRB) and the former OTS issued consent orders against 14 major mortgage servicers for unsafe and unsound practices in residential mortgage servicing and foreclosure processing. FRB later issued consent orders against 2 additional servicers bringing the total of servicers subject to a set of consent orders to 16. Among other things, the consent order required the servicers to implement an independent foreclosure review (IFR) process using independent consultants to determine financial injury to affected borrowers. We conducted an audit to assess OCC's: (1) oversight of servicers' efforts to comply with consent orders; (2) determination of qualifications and independence of consultants hired by servicers in accordance with consent orders; (3) oversight of consultants' efforts to perform outreach, conduct file reviews, and review homeowner claims of financial harm; and (4) oversight of the single integrated claims process established by OCC, servicers, and the consultants.

We found that OCC had developed a framework to monitor servicers' corrective action plans and oversee the IFR process. However, we noted certain areas where OCC oversight needed strengthening. Specifically, OCC had not performed comprehensive direct testing of individual IFRs to assess whether

independent consultants were performing the reviews objectively, consistently, and in compliance with OCC guidance. In addition, improvements were needed in the documentation of various aspects of OCC oversight.

Subsequent to the completion of our fieldwork, OCC sought to end the IFR process because the reviews were taking longer than anticipated and delaying compensation to affected borrowers. In January 2013, OCC and FRB negotiated a change to the terms of the original consent orders with 13 of the 16 servicers. Those amended orders were issued in February 2013. Amended consent orders were issued for 10 of the 12 servicers under OCC supervision and 3 of the 4 servicers under FRB supervision. The new terms provided for an immediate cessation of the IFR process, required that servicers make direct cash payments to potentially harmed borrowers, and required servicers to initiate a range of foreclosure relief actions. Three servicers, two of which were supervised by OCC, did not agree to change their consent orders and were planning to continue the IFR process to completion.

We recommended that OCC (1) develop and implement examiner guidance defining the timing and scope of OCC's direct testing of individual foreclosure reviews at the two⁵ OCC-supervised servicers who are continuing the IFR process to ensure compliance and consistency, and (2) improve documentation of OCC oversight activities. We consider the actions taken by OCC to be responsive to our recommendations. **(OIG-13-049)**

Because of the changes that took place when OCC and FRB ended the foreclosure review process, we are undertaking a separate audit to assess the events leading to and the decisions made to change the terms of the consent orders, to include how the new settlement amounts were derived, and OCC's monitoring of servicer compliance with the amended consent orders.

Status of the Transfer of OTS Functions

During this semiannual period, our office issued its sixth joint review of the transfer, pursuant to Title III of Dodd-Frank, of the functions, employees, funds, and property of the former OTS to FRB, FDIC, and OCC. In accordance with Title III of the act, the transfer occurred in July 2011.

Our joint reviews are mandated by Section 327 of Title III of the act. During our first review, we determined the Joint Implementation Plan (Plan) for the transfer prepared by FRB, FDIC, OCC, and OTS generally conformed to relevant Title III provisions. Since then, in accordance with Section 327, we have completed five joint reviews to report every 6 months on the status of the Plan's implementation. We jointly reported that the Plan was implemented for the most part, as the functions, people, and property of OTS were transferred to FRB, FDIC, and OCC in accordance with Title III and the Plan. We also reported that procedures and safeguards were in place at FDIC and OCC as outlined

⁵ In August 2013, OCC announced that one of the two servicers agreed to a change in its consent order that will effectively end the IFR process for this servicer. Once the consent order is amended, recommendation number 1 will apply to the remaining OCC-supervised servicer.

in the Plan to ensure that transferred employees are not unfairly disadvantaged, a key requirement in Title III. However, there did remain certain open items and time-limited provisions impacting former OTS employees that we continue to monitor. For this 6-month period, we concluded that FRB's implementation of section 318 of Dodd-Frank related to supervisory assessments was completed. Our most recent joint report did not include any recommendations. **(OIG-13-054)**

Information Technology Audit

Fiscal Year 2013 Audit of Treasury's Federal Information Security Management Act Implementation for Intelligence Systems

The Federal Information Security Management Act requires each Inspector General to perform an annual independent evaluation of their agency's information security program and practices. For fiscal year 2013, we determined that Treasury's information security program and practices as they relate to its intelligence systems are adequate, but improvements were needed. Due to the sensitive nature of these systems, this report is classified. **(OIG-13-048)**

Other Performance Audits and Evaluations

BEP's Administration of the Burson-Marsteller Public Education and Awareness Contract Was Deficient

We performed an audit of the Bureau of Engraving and Printing's (BEP) contracting activities related to the 2006 Public Education and Awareness Program contract with Young & Rubicam, Inc., doing business as Burson-Marsteller, in response to concerns raised by FRB regarding BEP's contracting practices. The contract award to Burson-Marsteller was for 5 years with an initial ceiling of \$36.2 million which was raised over the contract period to \$57.5 million. The contract was to assist BEP in conducting the public education and awareness program for the introduction and release of the redesigned, or NexGen, \$5 and \$100 notes. In total, BEP spent about \$33 million for the contracted services.

We found that BEP did not properly administer the 2006 contract with Burson-Marsteller. Deficiencies included: (1) missing contract documentation; (2) inadequate subcontractor oversight; (3) no evidence of price negotiations for certain task orders; (4) non-compliance with the Federal Acquisition Regulation in soliciting, awarding, and administering the task order for materials fulfillment; (5) a lax process for approving payments; and (6) improper contracting officer's representative contact with the contractor when developing government cost estimates. We also found that BEP did not address known contracting problems, effectively manage acquisition personnel and staffing levels, nor implement necessary policies and procedures.

To address these matters, we recommended that the Director of BEP (1) determine whether the problems identified with the Burson-Marsteller contract are systemic to overall contracting practices and constitute a reportable material weakness in program administration under Treasury's Federal Managers Financial Integrity Act process; (2) direct the BEP Office of Acquisitions to establish standard policies

and procedures, train employees in the new policies and procedures, and implement an accountability plan to ensure they are followed; (3) direct the Office to inventory all contract files, identify any missing documents, and reconstruct the files as necessary; (4) implement accountability mechanisms to ensure BEP executives and managers timely and comprehensively address deficiencies and recommendations identified by internal and external reviews, such as acquisition assessments by the Treasury Office of Procurement Executive; (5) direct the BEP Office of Compliance to increase the frequency and scope of the monitoring of operational effectiveness, internal control, and compliance with laws and regulations by the Office of Acquisitions; (6) ensure that staffing in the Office of Acquisitions is commensurate with the BEP's acquisition activities in light of a March 2013 transfer of non-manufacturing activities to a Treasury shared service provider and work with the Treasury Office of Procurement Executive to identify appropriate recruiting and retention strategies when faced with acquisition staffing challenges; and (7) direct the Office of Acquisitions to determine whether Burson-Marsteller made a good faith effort to comply with its subcontracting plan for the 2006 contract. BEP concurred with our recommendations and management's actions taken and planned are responsive to our recommendations. **(OIG-13-046)**

Treasury Needs Written Policies and Procedures for Its Oversight of the Housing Finance Agency Initiative

We performed an audit of Treasury's participation in the Housing Finance Agency (HFA) Initiative, one of several programs authorized under the Housing and Economic Recovery Act of 2008 (HERA). Treasury entered into the HFA Initiative with the Federal Housing Finance Agency, Federal National Mortgage Association (Fannie Mae) and the Federal Loan Mortgage Corporation (Freddie Mac) for the purpose of supporting state and local housing finance agencies that were experiencing challenges in providing finance for affordable housing. The HFA Initiative is comprised of two programs— New Issue Bond Program (NIBP) and the Temporary Credit and Liquidity Program (TCLP) which were intended to provide HFAs with a temporary supplemental market for newly issued HFA bonds and temporary credit and liquidity facilities similar to letters of credits.

Prior to the expiration of its purchase authority in 2009, Treasury purchased \$15.3 billion of government sponsored enterprise securities supporting the NIBP and committed approximately \$8.2 billion⁶ for a 100 percent participation in the credit and liquidity facilities established by the government sponsored enterprises under the TCLP. To carry out its custodial and managerial responsibilities, Treasury amended existing Financial Agency Agreements with JPMorgan Chase Bank N.A. and State Street Bank and Trust.

We assessed whether the two components of the HFA Initiative—NIBP and the TCLP—were being administered consistent with Treasury's authority under HERA. Specifically, we assessed Treasury's

⁶ As of May 2013, Treasury's commitment decreased to \$2.8 billion as a result of some HFAs withdrawing from the program and bond repayments.

process for (1) monitoring the performance of the financial agents hired to carry out Treasury's purchases of securities and to serve as custodian of the purchased securities and (2) determining whether the HFA Initiative was achieving its stated program objectives.

We found that Treasury's administration of the NIBP and the TCLP was consistent with its authority under HERA and that the programs were meeting their stated objectives. Although we found that Treasury did monitor the performance of the financial agents overseeing the HFA Initiative, there were no written policies and procedures governing Treasury's monitoring process. Additionally, Treasury did not sufficiently document the results of various reviews and oversight activities performed specific to the NIBP and TCLP. We recommended that the Fiscal Assistant Secretary establish and implement written policies and procedures specific to the HFA Initiative for ensuring its comprehensive monitoring of the financial agents' performance. Procedures should include a requirement that Treasury personnel responsible for overseeing the HFA Initiative document key meetings and decisions, as well as the results of various reviews of the NIBP and the TCLP program outcomes to ensure that the HFA Initiative continues to meet program objectives. Treasury management's planned corrective action was responsive to our recommendation. **(OIG-13-040)**

FinCEN's BSA IT Modernization Program Was within Budget and on Schedule But Users Suggest Enhancements

To improve the collection, analysis, and sharing of Bank Secrecy Act (BSA) data, the Financial Crimes Enforcement Network (FinCEN) began a system development effort in November 2006 referred to as the BSA IT Modernization program (BSA IT Mod). The intent of the system was, among other things, to transition BSA data from IRS to FinCEN. BSA IT Mod is estimated to cost \$120 million and is to be completed in 2014. Pursuant to a Congressional directive,⁷ we completed a fourth audit in a series of audits of FinCEN's BSA IT Mod. Consistent with the directive, the objectives of the audit were to determine if FinCEN is (1) meeting cost, schedule, and performance benchmarks for the program and (2) providing appropriate oversight of contractors. We also assessed program oversight provided by Treasury's Office of the Chief Information Officer. The period covered by this audit was January through June 2013.

As of June 2013, we found that the BSA IT Mod program was within budgeted costs and that all planned milestones were completed except one, the Broker Information Exchange project. The schedule for this milestone, the last one for the BSA IT Mod program, was modified to incorporate phases and adjusted from April 2013 to April 2014 because of a reorganization of FinCEN that required additional time to define the project's requirements and align with the new organization areas and priorities.

⁷ House Report 112-331 directed our office to report on BSA IT Mod, including contractor oversight and progress regarding budget and schedule semiannually. Our prior reports were issued on March 26, 2012, September 27, 2012, and March 28, 2013.

While FinCEN met all major milestones, risks remain to the program. One risk is the interdependency between the component projects. Future enhancements and modifications made to one component could affect others. Another risk concerns differences among users' needs and how FinCEN must consider, prioritize, and accommodate those needs. Some users also reported that BSA IT Mod features are difficult to use. We found that although FinCEN Query users from law enforcement and regulatory agencies we interviewed were generally satisfied with the system, they expressed some limitations and suggested enhancements. FinCEN analysts we interviewed told us that Advanced Analytics met their needs, although it was somewhat complex and additional training would be beneficial.

We also found that the level of program oversight by FinCEN and Treasury's Office of the Chief Information Officer had not changed since our previous report, and we consider the level of oversight to be appropriate.

We recommended that FinCEN (1) when making changes to BSA IT Mod, communicate the changes to users; (2) continue to engage users to address their concerns and suggested enhancements to BSA IT Mod through the Data Management Council and periodically communicate the status of these suggestions to users; and (3) ensure that training and support is provided to internal and external BSA IT Mod users that addresses their business needs. FinCEN's planned corrective actions were responsive to our recommendations. **(OIG-13-053)**

Treasury Has Policies and Procedures to Safeguard Classified Information But Implementation Needs to Be Improved

The Reducing Over-Classification Act requires the Inspector General of each department or agency with an officer or employee who is authorized to make original classifications to (1) assess whether applicable classification policies, procedures, rules, and regulations have been adopted, followed, and effectively administered; and (2) identify policies, procedures, rules, regulations or management practices that may be contributing to persistent misclassification of material. The act called for two evaluations to be completed—the first by September 30, 2013, and the second by September 30, 2016.

We completed the first review under this statute which found that Treasury has policies and procedures in place to safeguard classified materials, but the implementation of these policies and procedures needs improvement. Heightened attention should be given to (1) marking classified emails; (2) completing the annual Standard Form 311, *Agency Security Classification Management Program Data*; and (3) complying with self-inspection requirements.

We recommended that the Assistant Secretary for Intelligence and Analysis direct the Deputy Assistant Secretary for Security to remind employees who work with classified information about the requirement in the *Treasury Security Manual* to properly mark classified emails and provide initial training on marking requirements when an employee is first given access to Treasury classified email systems and periodic refresher training thereafter. We also recommended controls be implemented to ensure that an accurate and complete Treasury consolidated Standard Form 311 is submitted to the Information Security

Oversight Office. In this regard, Treasury’s Office of Security Programs should review Treasury’s Departmental Offices’ and bureaus’ internally reported information on classification decisions and other classification information for reasonableness, and also ensure that those offices expected to have classification information submit the required information for the consolidated Standard Form 311. Additionally, we recommended that controls be implemented to ensure that Treasury bureaus with employees who handle and generate classified information conduct annual self-inspections in accordance with the *Treasury Security Manual*, document the results, and submit reports to the Office of Security Programs. The scope of inspections performed by the Office should include reviews of both emails and documents created outside the electronic environment. Treasury management’s corrective actions taken and planned are responsive to our recommendations. **(OIG-13-055)**

Community Development Financial Institutions Fund Implemented Corrective Actions to Address Contract and Personnel Management Deficiencies

We reviewed the corrective actions taken by the Community Development Financial Institutions Fund management in response to a prior audit on contract and personnel management issued in September 2009.⁸ We followed up on the six recommendations made in that report: four recommendations to address contract administration deficiencies—we reported that the Fund could not provide documentary evidence supporting the contract administration activities for IT development and support contracts and therefore could not demonstrate that the contractor provided the services required by the contracts or the necessity of using three non-Treasury agencies to perform the contracting officer functions; and two recommendations to address personnel administration deficiencies—we reported that the Fund did not document justification nor had a position description for a noncompetitive promotion of a Fund contract specialist. We found that Fund management had taken steps to ensure that the deficiencies were corrected. Fund management improved contract oversight and now uses a Treasury source for contracting officer services. Additionally, Fund management posted all vacancy announcements to Treasury’s Career Connector system to ensure a competitive, documented hiring process as well as to ensure all employees had a valid position description. **(OIG-13-042)**

Other Products

Response to Inquiry Regarding Cash Discounts

In response to an inquiry regarding Treasury’s effective annual discount rate (EADR) included in the *Treasury Financial Manual, Volume 1, Part 6, Chapter 8000 Cash Management, Section 8040.40 – Cash Discounts* (TFM), we provided information on the calculation of the payment period for cash discounts and on the annual calendar days used to compute the EADR formula, and our conclusion that the EADR formula in the TFM is correct. The EADR formula is used by federal agencies to assess whether discounts offered by vendors for early payment of invoices should be taken. **(OIG-CA-13-008)**

⁸ OIG-09-048, *CDFI Fund Contract Administration and Personnel Management Practices Need Improvement* (Sep. 17, 2009)

Inquiry into Restricted and Classified Matters (Sensitive But Unclassified)

We issued a memorandum to the Inspector General of the Intelligence Community in response to a request for information related to the U.S. Government’s handling of information leading up to the Boston Marathon bombings. The information provided included data from suspicious activities reports submitted to FinCEN. Due to the sensitive nature of the information, the memorandum is restricted. **(OIG-CA-13-010)**

Financial Management

Audit of the Office of D.C. Pensions’ Treasury Reconciliation Report for the Period October 1, 1997, through December 31, 2007

Lani Eko & Company, CPAs, PLLC, under a contract issued by the Office of D.C. Pensions, performed an audit of the office’s Treasury Reconciliation Report for the period October 1, 1997, through December 31, 2007. Identified in the report was approximately \$31 million in District of Columbia (D.C., or District) benefit payments due from the D.C. Retirement Board to Treasury for the period. The auditor found that the Treasury Reconciliation Report presented fairly, in all material respects, the total District benefit payments, the amounts paid by the Board for estimated District benefit payments, and the amount due from the Board to Treasury for District benefit payments for the period. The audit did not identify any matters involving internal control and its operation that are considered material weaknesses or any instances of reportable noncompliance with laws and regulations tested. **(OIG-13-039)**

Attestation Engagements

Reports on the Processing of Transactions by the Bureau of the Fiscal Service

We completed the three reports described below in support of the audit of Treasury’s fiscal year 2013 consolidated financial statements and the financial statement audits of certain other federal agencies.

KPMG LLP (KPMG), under a contract with our office, examined the accounting and procurement processing, and general computer controls related to financial management services provided to various federal agencies by BFS’ Administrative Resource Center for the period beginning July 1, 2012, and ending June 30, 2013. KPMG found, in all material respects, that the controls were fairly presented in the description of controls for these activities and suitably designed. The auditor also found that controls tested operated effectively throughout the period. **(OIG-13-047)**

KPMG, under a contract with our office, examined general computer and trust funds management processing controls used for various federal and state agencies’ transactions by the BFS’ Trust Funds Management Branch, and general computer and investment/redemption processing controls used for

various federal agencies’ transactions by the bureau’s Federal Investments Branch for the period beginning August 1, 2012 and ending July 31, 2013. KPMG found, in all material respects, that the controls were fairly presented in the description of controls for these activities and suitably designed. The auditor also found that controls tested operated effectively throughout the period. **(OIG-13-050, OIG-13-051).**

Financial Audits of Treasury

Audits of the fiscal year 2013 financial statements or schedules of the Department and component reporting entities were in progress at the end of this semiannual reporting period.

The following instances of noncompliance with the Federal Financial Management Improvement Act of 1996, which all relate to IRS, were reported in connection with the audit of the Department’s fiscal year 2012 consolidated financial statements.

Condition	Type of noncompliance
Internal control deficiencies in automated systems for tax-related transactions continue to exist. As a result of these deficiencies, IRS was unable to (1) rely on its general ledger system for tax transactions and underlying subsidiary records to report federal taxes receivable, compliance assessments, and write-offs in accordance with federal accounting standards without significant compensating procedures; (2) trace reported balances for taxes receivable from its general ledger to underlying source documents; and (3) effectively prevent or timely detect and correct errors in taxpayer amounts. (first reported in fiscal year 1997)	Federal financial management systems requirements
Automated systems for tax-related transactions did not support the net federal taxes receivable amount on the balance sheet and required supplementary information disclosures for uncollected taxes – compliance assessments and write-offs – as required by <i>Statement of Federal Financial Accounting Standards No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting</i> . (first reported in fiscal year 1997)	Federal accounting standards

The status of these instances of noncompliance, including progress in implementing remediation plans, will be evaluated as part of the audit of the Department’s fiscal year 2013 consolidated financial statements.

Office of SBLF Program Oversight – Significant Audits

Small Business Lending Fund

The Small Business Jobs Act of 2010 established the SBLF program. The SBLF program was created to provide capital to small banks, with incentives for those banks to increase small business lending. Treasury disbursed more than \$4 billion to 332 financial institutions across the country, of which 137 were institutions that used their SBLF investment to refinance securities issued under the Troubled Asset Relief Program (TARP). The 137 TARP banks received two-thirds of the \$4 billion invested in participating banks. Institutions receiving investments under the SBLF program are expected to pay dividends to Treasury at rates that will decrease as the amount of their qualified small business lending increases. Under Section 4107(a) of the act, the Special Deputy Inspector General for SBLF Program Oversight is responsible for audit and investigations related to the SBLF program and must report at least twice a year to the Secretary of the Treasury and the Congress on the results of oversight activities involving the program. During this semiannual reporting period, the Office of SBLF Program Oversight completed three audits on small business lending.

Reported SBLF Program Accomplishments Are Misleading Without Additional Reporting

In April 2013 Treasury reported that institutions participating in SBLF had increased their small business lending by \$8.9 billion. However, approximately \$3.4 billion of this amount occurred prior to when most participants received their SBLF funds, and Treasury cannot identify how much of the gains reported by participants were attributable to the SBLF funding. In addition, three prior audits showed that 50 percent or more of participants reviewed misreported their lending gains. Treasury's report also characterizes the small business lending gains as being widespread across SBLF participants with 90 percent of participants increasing their small business lending. While this is true, half of the increases were attributable to 11 percent of the 320 participants.

Treasury also reported on participant progress in achieving lending growth estimates made at the time of application to the program. However, the information was inaccurate, as institutions used different periods over which to make their lending projections. Treasury intended that participant lending forecasts include the period from the baseline to funding, but most of the participants in our sample did not include the baseline period in their forecasts. By comparing this longer period of gains to the banks' shorter projection period, Treasury overstated participant progress toward their projected lending levels. When we reviewed actual lending gains achieved during the period that 77 participants used for their forecasts, we found that 56 percent were not on track to meet their projections. We also noted that Treasury's June 2013 report, *Results of the First Annual SBLF Lending Survey*, made the same misrepresentations.

We recommended that to increase transparency in its reporting, Treasury should retitle the Use of Funds Report to better reflect the report's contents, report only lending gains realized after SBLF funding, disclose that reported lending gains cannot be directly linked to SBLF funds, and indicate

whether gains were concentrated among a few institutions or more widely distributed. We also recommended that Treasury make comparable changes to its 2013 *Results of the First Annual SBLF Lending Survey* report. Treasury should either amend the survey report to acknowledge that progress reported may not be accurate due to variances in projection periods or conduct an individualized analysis of lending gains using the time period that served as the basis for each participant's lending forecasts. Treasury agreed with all but one recommendation, and through the audit resolution process, arrived at responsive planned actions for all of the recommendations. **(OIG-SBLF-13-012)**

Accuracy of Fourth-Quarter 2012 Dividend Rate Adjustments

Our audit determined that 19 of the 22 financial institutions reviewed inaccurately reported qualified small business lending gains for the quarter ended June 30, 2012. In aggregate the errors noted resulted in the over-reporting of qualified lending by approximately \$8.8 million, but did not affect the dividend/interest rates on January 1, 2013, payments made by financial institutions participating in the SBLF program. Fourteen (14) over-reported their gains by approximately \$12.6 million and 5 under-reported their gains by approximately \$3.8 million. The errors observed were similar to those noted in our January 2013 report on initial dividend rates and were largely caused by institutions (1) incorrectly recording Call Report loan volumes on the initial supplemental reports and quarterly supplemental reports, (2) improperly adjusting lending volumes on the reports, and (3) incorrectly classifying loans on Call Reports.

We recommended that Treasury follow up with the 19 institutions that made reporting errors to determine whether corrected reports should be submitted; review the submissions of these institutions for additional errors and make the necessary adjustments to dividend rates, as appropriate; and ensure that the October 2013 *Use of Funds Report* contains corrections for errors identified by the audit. Treasury planned corrective action that is responsive to our recommendations. **(OIG-SBLF-13-010)**

Accuracy of First-Quarter 2013 Dividend Rate Adjustments

We determined that 17, or 77 percent, of the 22 financial institutions reviewed inaccurately reported qualified lending gains for the quarter ended September 30, 2012. Of these institutions, 10 over-reported their gains by approximately \$14.3 million and 7 under-reported their gains by approximately \$1.0 million. Overall, the errors resulted in the over-reporting of qualified lending by approximately \$13.3 million, but did not affect the dividend/interest rates on April 1, 2013, payments to Treasury. Similar to our August 9, 2013, report on 2012 fourth-quarter dividend rate adjustments, the errors observed were largely caused by institutions (1) incorrectly recording Call Report loan volumes on the initial supplemental reports and quarterly supplemental reports, (2) improperly adjusting lending volumes on the initial supplemental reports and quarterly supplemental reports, and (3) incorrectly classifying loans on Call Reports.

Because the errors we identified need to be corrected and will affect the reporting of loan activity to Congress, we recommended that Treasury follow up with the 17 institutions that made reporting errors to determine whether corrected reports should be submitted, review the submissions of these institutions for additional errors, and make the necessary adjustments to dividend rates, as appropriate.

We also recommended that Treasury ensure the January 2014 *Use of Funds Report* correctly identifies qualified lending activity for the 17 institutions. Treasury agreed to take all of our recommended actions. **(OIG-SBLF-13-014)**

Following is an update to a significant SBLF Program Oversight audit reported in a prior semiannual report.

Accuracy of Third-Quarter 2012 Dividend Rate Adjustments

As discussed in our March 2013 semiannual report, we determined that 10 of 19 financial institutions reviewed inaccurately reported qualified small business lending gains for the quarter ended March 31, 2012. The errors noted resulted in the underreporting of qualified lending by approximately \$15.3 million, but did not affect the dividend/interest rates on October 1, 2012, payments made by financial institutions participating in the SBLF program. The errors we observed were largely caused by institutions (1) incorrectly recording Call Report loan volumes on the initial supplemental reports and quarterly supplemental reports, (2) improperly adjusting lending volumes on the reports, and (3) incorrectly classifying loans on Call Reports. As part of our recommendations, we asked that Treasury determine whether corrected initial supplemental reports and quarterly supplemental reports should be submitted for the 10 institutions that made errors, review the submissions of these institutions for additional errors, and adjust dividend rates, as appropriate. Treasury agreed with the recommendation.

Update: Treasury reviewed the reporting discrepancies identified by our office and directed the 10 financial institutions to resolve errors in their reporting. The 10 institutions submitted corrected initial supplemental reports and quarterly supplemental reports. For 1 of the 10 institutions, Treasury considered its correction significant to its dividend/interest rate payment, and recouped an additional \$1.2 million from the institution.

State Small Business Credit Initiative

The Small Business Jobs Act of 2010 also established the SSBCI program, which awarded \$1.5 billion to states, territories, and eligible municipalities to support state programs that lend to and invest in small businesses. Under the initiative, participating states use the federal funds for programs that leverage private lending to help finance small businesses and manufacturers that are creditworthy, but are not getting the loans they need to expand and create jobs. 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. To date, Treasury has disbursed approximately \$802 million of the funds awarded under the program to 57 states, territories, and municipalities that are participating in SSBCI. Recipients must report quarterly and annually on their use of the funds.

The act also created within OIG the Office of Small Business Lending Fund (SBLF) Program Oversight. This office is responsible for identifying instances of intentional or reckless misuse of SSBCI funds. Program funds are disbursed in three allotments and are subject to being withheld pending the results of an audit by the Office of SBLF Program Oversight. During this semiannual reporting period, the Office of SBLF Program Oversight completed four audits on states' use of federal funds.

Missouri's Use of Federal Funds for Other Credit Support Programs

The State of Missouri properly used over 96 percent of the \$7.3 million in SSBCI funds it expended, and all related administrative costs were compliant with program requirements. However, we identified a \$240,000 venture capital investment that constituted a reckless misuse of funds, as defined by Treasury. A Director of the Missouri Technology Corporation (MTC) Board that approved the investment had a prohibited party relationship with the company that received the investment based on the Director's controlling interest in the investee. The transaction constituted a reckless misuse of funds as MTC officials exhibited an act of omission by not securing the required assurances from the investee that such a relationship did not exist, and both the State and the MTC Board failed to ascertain whether they were in compliance. Additionally, MTC did not sufficiently explore the relationship between the conflicted Board Director and the investee, or document the material facts of the conflict in the Board minutes as its policy required. We noted other instances where members of the MTC Board of Directors had conflicts of interest that required their recusal from voting, but determined that the conflicts did not constitute prohibited related interests.

Additionally, MTC had not obtained all of the required borrower or investee assurances by the time of loan or investment closing for 15 (or 88 percent) of the 17 transactions reviewed. Missouri has since obtained 14 of the 15 missing assurances, but has yet to secure an assurance from the company involved in the prohibited party relationship with the MTC Board member. Despite the inadequate assurances, the State inaccurately certified in June 2012 that it was in compliance with all SSBCI requirements.

We recommended that Treasury recoup the \$240,000 investment from the program and require Missouri to demonstrate that MTC is fully adhering to its conflict-of-interest policy and program requirements when investing SSBCI funds. We also recommended that Treasury determine whether there has been a general event of default under Missouri's Allocation Agreement and if so, whether it warrants a reduction, suspension, or termination of future funding to the State. Treasury planned corrective action that is responsive to our recommendations. **(OIG-SBLF-13-009)**

Massachusetts' Use of Federal Funds for Capital Access and Other Credit Support Programs

The Commonwealth of Massachusetts appropriately used most of the SSBCI funds it had expended as of June 30, 2012, but spent \$237,000 to participate in (i.e., credit enhancements) a Small Business Administration-guaranteed loan, which is prohibited. However, Treasury's guidance does not define "credit enhancement," prohibits the enrollment of only the "unguaranteed" portions of federally-guaranteed loans, and provides that applications will be evaluated on a case-by-case basis. Consequently, participating states may misinterpret Treasury's guidance to mean that participation in federally-

guaranteed loans may be approved in some instances or where just the “guaranteed” portion of such loans is enrolled.

Additionally, Massachusetts did not obtain complete borrower and lender assurances by the time of loan closings for 31 (or 89 percent) of the 35 loans tested, as required. Despite the incomplete assurances, the Commonwealth certified in March 2012 and June 2012 that it was in compliance with all SSBCI requirements. Massachusetts’ materially inaccurate certification constitutes a basis for finding the Commonwealth in default of its Allocation Agreement. Finally, Massachusetts reported to Treasury \$200,000 in administrative expenses that was not adequately supported; and did not report \$51,248 in program income to Treasury, as required by its Allocation Agreement.

We recommended Treasury revise program guidance to make the enrollment of federally-guaranteed loans a clear prohibition, disallow \$200,000 in administrative expenses unless the Commonwealth can provide adequate support for such costs, require the Commonwealth to demonstrate that it has a compliant system for allocating administrative costs, and determine whether there has been a general event of default of the Allocation Agreement. Treasury planned corrective action that was responsive to our recommendations. Additionally, Massachusetts clarified that it did not charge the SSBCI fund for the \$200,000 in administrative costs and does not intend to seek reimbursement from SSBCI for these expenses. **(OIG-SBLF-13-007)**

Kansas’ Use of Federal Funds for Other Credit Support Programs

The State of Kansas appropriately used most of the SSBCI funds it had expended as of March 31, 2012. However, the Kansas Multiplier Loan Fund extended three \$250,000 loans to affiliated entities as part of a \$31 million aggregate financial arrangement. In doing so, the State may have exceeded the \$20 million cap on SSBCI loans made under other credit support programs. Treasury’s guidance does not address how the cap should be applied when funds are used to make companion loans comprising a larger financial package or where multiple loans are made to affiliated entities. Nevertheless, in the absence of clear guidance, the State should have sought clarification from Treasury.

Also, in each of the 11 transactions reviewed, Kansas did not obtain assurances from companion lenders that participated in the Kansas Capital Multiplier Loan Fund as required by *SSBCI Policy Guidelines and National Standards*. Also 5 of 11 assurances obtained from borrowers were not obtained prior to loan closing, as required. Treasury initially advised Kansas officials that due to the program’s structure, the State was not required to obtain these assurances. The National Standards subsequently published by Treasury reversed this advice and required states to collect assurances from companion lenders. However, Treasury did not notify Kansas officials of the change.

Additionally, the State’s March 31, 2012, Quarterly Report to Treasury inaccurately reported the amount of SSBCI capital that the Kansas Capital Multiplier Loan Fund had extended to businesses as it included a \$173,822 advance to NetWork Kansas for administrative costs. While the \$173,822 constituted funds used per Treasury guidance, the Kansas Capital Multiplier Loan Fund reported the used funds as a loan

instead of administrative expenses. Kansas also understated administrative expenses on its June 30, 2012, Quarterly Report by \$29,247. Of the funds not reported, \$13,181 was used to pay audit and tax consulting fees for NetWork Kansas. These costs are not allowable as they had not been allocated through a cost allocation plan as required by Office of Management and Budget *Circular A-87*.

We recommended that Treasury clarify how the \$20 million cap on credit extended by other credit support programs should be applied to companion loans in a single financial arrangement and where multiple loans are made to affiliated parties. We also recommended that Treasury require Kansas to retroactively obtain lender assurances from the companion lenders that participated in existing Kansas Multiplier Loan Fund SSBCI transactions. Additionally, in all future transactions, Treasury should require the State to obtain lender assurances from its companion lenders. Further, we recommended that Treasury require Kansas to adjust the State's Quarterly Reports going forward to correct for inaccuracies in the March 31, 2012, and June 30, 2012, Quarterly Reports identified by the audit, determine whether a general event of default of the State's Allocation Agreement has occurred, and if so, take appropriate action. Finally, we recommended that Treasury disallow \$13,181 in audit and tax consulting costs that were not properly allocated, ensure that such costs are excluded from the State's restated and subsequent Quarterly Reports, and require that Kansas provide a cost allocation plan or indirect cost proposal for administrative costs incurred by NetWork Kansas. Treasury agreed to implement all of the recommendations, with the exception of retroactively obtaining lender assurances from relevant companion lenders because the State has no contract or other relationship with companion lenders to form the basis for retroactively requesting the assurances. We considered Treasury's planned actions to be fully responsive to all of the recommendations. **(OIG-SBLF-13-013)**

Washington's Use of Federal Funds for Capital Access and Other Credit Support Programs

We determined that all \$7 million in loans and investments enrolled in the Washington Enterprise Cascadia Fund and the W Fund as of June 30, 2012, complied with SSBCI program requirements and restrictions, and that borrower and lender assurances were complete and timely. However, the \$92,291 in administrative expenses the State reported to Treasury was overstated by \$5,779 as a result of an accounting change that was not reflected in the State's June 30, 2012, Quarterly Report.

We recommended that Treasury authorize an adjustment to Washington's June 30, 2012, Quarterly Report to remove the \$5,779 in administrative costs originally charged to SSBCI funds, but subsequently transferred to an alternative funding source.

Treasury planned corrective action that is responsive to our recommendation. **(OIG-SBLF-13-011)**

Alabama's Use of Federal Funds for Capital Access and Other Credit Support Programs

The State of Alabama complied with all program requirements in administering the \$3.8 million of SSBCI funds used as of June 30, 2012. The State's success in ensuring full compliance was attributable to its completion of a checklist prior to each loan enrollment to ensure loans were evaluated for compliance with SSBCI requirements and its timekeeping process for tracking administrative costs.

However, Alabama overstated the amount of SSBCI funds used by approximately \$1 million on its March 31, 2012, Quarterly Report, and by approximately \$4 million on its June 30, 2012, Quarterly Report. This occurred because the State incorrectly included private lender contributions to loss reserves for loans guaranteed with SSBCI funds. Inaccuracies were identified by Treasury and corrected prior to our audit; accordingly, we made no recommendations.

Treasury concurred with our report and stated that it will continue to encourage the use of compliance checklists prior to closing transactions, and to share Alabama’s successful timekeeping process with other participating states. **(OIG-SBLF-13-008)**

Office of Investigations – Significant Investigations

Gulf Coast Restoration Trust Fund Oversight Investigative Initiative

As discussed earlier in this report, the RESTORE Act established a Trust Fund within Treasury for the purpose of providing funds for the environmental and economic restoration of the Gulf Coast region, which was damaged by the April 2010 *Deepwater Horizon* disaster. Treasury manages the Trust Fund and our Office has audit and investigative authority over programs and activities funded by the Trust Fund. Specifically, our Office of Investigations is responsible for investigating complaints and information received on activity that may constitute

- a violation of law, rules, or regulations;
- mismanagement;
- gross waste of funds;
- abuse of authority; or
- a substantial and specific danger to public health and safety.

We are taking proactive steps to deter and identify potential fraud associated with RESTORE Act programs and activities. We are meeting with the respective state governments, agencies, municipalities, and potential business recipients, to explain our oversight role and fraud prevention strategies. The states we have visited have pledged to help account for and combat fraud through their audit agencies and Attorneys General offices. We have also established a hotline, 1-855-584-GULF, and an email address, gulfcoastrestorationhotline@oig.treas.gov, to report potential fraud, waste, and abuse specifically related to the RESTORE Act.

Significant Investigations

Misuse of Eagle Cash Card Program Leads to Guilty Plea and Sentence for Mississippi Soldier

As the result of our joint investigation with the Federal Bureau of Investigation (FBI), the U.S. Army Criminal Investigations Division, and the Special Inspector General for Afghanistan Reconstruction, a Specialist with the Mississippi Army National Guard's 220th Financial Management Detachment entered a guilty plea in the U.S. District Court for the Southern District of Mississippi. The Specialist's guilty plea was to 1 count of Conspiracy to Commit Theft and Wire Fraud and to 1 count of Theft of Government Property. In August 2013, the Specialist was sentenced to 3 months' incarceration and 3 years' supervised probation. The Specialist was also ordered to pay \$32,300 in restitution. He was fined \$7,500, and was required to pay an assessment of \$200. The Specialist was being investigated for the illegal transfer of funds from the Eagle Cash Card (ECC) Program; a program operated by Treasury. The Specialist was deployed as part of his Army National Guard unit to Afghanistan from about April 2010 to about March 2011. The Specialist was trained as a Financial Management Technician and

performed the function of cashier with the ECC Program. The stored-value ECCs are issued to Department of Defense civilians and to service members deployed overseas to reduce reliance on cash for purchases of goods and services at overseas military facilities, particularly in conflict zones. The cards are linked to the cardholders' personal bank accounts, and cardholders may transfer funds from their linked personal bank accounts to their cards by visiting a cashier on base. While serving as a cashier, the Specialist illegally added a total of \$32,300 onto his own ECC and to those of his 2 co-conspirators.

Individual Sentenced in a Stolen U.S. Treasury Check and Fraudulent Tax Refund Scheme

We opened an investigation after receiving information from Wells Fargo Bank indicating that a former bank teller abused her position in order to negotiate 28 stolen U.S. Treasury checks worth \$109,818. The investigation included multiple interviews, a consent search, and a review of bank records and evidence obtained during the consent search. We identified a computer that was being used to obtain a large number of fraudulent tax refunds to IRS. One individual pled guilty and was sentenced to 15 months' incarceration in federal prison to be followed by 3 years of supervised release, 50 hours of community service, and an order to make restitution to Treasury in the amount of \$54,614 and to the Georgia Department of Revenue in the amount of \$23,566.

Mint Employee Receives 45-Day Suspension for Misuse of Computer and Unauthorized Possession of Mint Property

We began an investigation based on allegations that a Mint employee was misusing his government-issued laptop computer during work hours to view pornography. We reviewed the employee's internet activity and identified the employee's most visited sites, which had a combined total of 5,406 times viewed in a single year and daily average use of 2 to 3 hours. We identified these websites as dating websites, and found no evidence of pornography. We interviewed the employee, who confessed to misusing his government-issued computer for personal use during work hours in violation of Mint policy. In January 2013, while disciplinary action was pending on this matter, the employee was stopped while leaving Mint grounds with unauthorized possession of government property. The employee admitted to removing government property from Mint grounds and in July 2013 received a 45-day suspension for his actions in both cases. The employee waived his right to appeal the disciplinary decision.

OCC Employee Receives 20-Day Suspension for Misuse of Government Travel Card

We received a complaint that an OCC employee had misused her government-issued travel card in excess of \$31,000. We reviewed the employee's Citibank travel card charges and travel vouchers and discovered that the employee was misusing her travel card for local purchases and cash advances while not on official travel. When interviewed, the employee admitted to misusing the travel card for personal use. The employee has repaid all outstanding debts on the travel card and was given a 20-day suspension by OCC.

Individual Indicted for Receiving Stolen U.S. Postal Service Disability Payments

We opened an investigation based on a request to assist in an investigation made by the U.S. Postal Service OIG. The investigation included multiple interviews, surveillance, and the execution of a federal search warrant. The investigation determined that the individual collected benefits fraudulently in the amount of \$103,228. The individual was indicted, arrested, pled guilty, and was sentenced to 1 year of imprisonment, which may be served at home, and 2 years of supervised probation. The subject was ordered to pay \$91,783 in restitution and to pay a fine of \$103,000.

BFS Employee Pleads Guilty and Is Sentenced in Forgery Investigation

Our office received information regarding an alleged insurance fraud scheme perpetrated by a BFS employee. Specifically, it was alleged that the subject created and faxed fraudulent Certificates of Insurance from her BFS fax machine to a carpet company in an effort to help her husband obtain employment as a subcontractor. In April 2013, the subject pled guilty to State of Maryland charges for Forgery. The subject was sentenced to 1 year of unsupervised release, and was ordered to pay a fine of \$500.

Following is information related to significant investigative activities from prior semiannual periods.

Accenture Pays \$12.7 Million in Settlement

Our office initiated a joint investigation with TIGTA concerning allegations of labor overcharging by Accenture LLP (Accenture), a Treasury contractor under the Treasury Information Processing Support Services (TIPPS) contracts, TIPPS-II and TIPPS-III. The investigation verified a final cost impact estimate, including interest, of \$12.7 million for Treasury. In March 2013, Accenture and the U.S. Attorney's Office for the Eastern District of Virginia agreed to a non-admission settlement whereby Accenture will repay approximately \$12.7 million to the federal government.

Individual Found Guilty and Sentenced for Misusing Treasury Name in Fraud Scheme

Our office received information regarding an individual who allegedly misused the Treasury name to create fraudulent money orders which were subsequently sent via U.S. mail to make payments on personal accounts. As a result of a joint investigation with the Doylestown Township, Pennsylvania, Police Department, the subject was arrested on Commonwealth of Pennsylvania charges of Writing Bad Checks and Theft of Services. In March 2013, the subject was found guilty via trial and was sentenced to serve a minimum of 14 days to 1 year of incarceration.

Gallup Settles as a Result of Civil Complaint

As reported in our March 2013 semiannual report, our office initiated a multi-year joint investigation with the FBI, the U.S. Department of State, the U.S. Department of Homeland Security, and the

General Services Administration involving a whistleblower complaint against the Gallup Organization (Gallup) alleging that the organization had overcharged federal agencies on hours and costs for its services. Gallup allegedly overcharged the Mint for a contract to provide surveys for the Presidential Dollar Program and allegedly violated the False Claims Act by giving the Mint and Department of State inflated estimates of the number of hours that its services would be required on projects, even though it had separate and lower internal estimates of the number of hours that would be required. The federal government paid Gallup based on the inflated estimates that it had submitted. The U.S. Department of Justice filed a civil complaint against Gallup seeking to recover treble damages and civil penalties for violations under the False Claims Act, the Procurement Integrity Act, and other violations of federal laws and regulations. As a result of this lawsuit, Gallup was suspended from future contracting with any agency in the executive branch of the federal government pending completion of the civil complaint; five members of Gallup's management team were suspended as well.

Update: In July 2013, the U.S. Department of Justice, U.S. Attorney's Office, Criminal Division, filed a Non Prosecution Agreement with Gallup. In the agreement, Gallup accepted responsibility for the information documented in the Statement of Facts; agreed to pay a monetary penalty of \$50,000; and agreed to strengthen its corporate compliance, internal control standards, and ethics program. On the same date, the U.S. Department of Justice Civil Division filed a Settlement Agreement for Gallup to pay the United States \$10.5 million plus accrued interest at the rate of 1.75 percent, from February 13, 2013, to the date of payment. The Mint will recover \$3 million from the civil case.

Ongoing, Sophisticated Identity Theft Tax Refund Fraud Investigation Results in 8 Guilty Pleas this Reporting Period

As reported in previous semiannual reports, our office initiated a multi-year joint investigation with the IRS-Criminal Investigations Division, U.S. Postal Inspection Service, U.S. Secret Service, Social Security Administration OIG, and U.S. Postal Service OIG into allegations concerning a group of more than 150 individuals connected to a massive and sophisticated identity theft tax refund fraud scheme involving more than \$50 million in fraud against the Treasury. Thus far, this investigation has resulted in 11 guilty pleas, 2 arrests, and 1 sentencing.

Update: During this reporting period, 8 individuals pled guilty and 1 individual was sentenced to 27 months' incarceration in federal prison, followed by 36 months' supervised release, and was ordered to make restitution in the amount of \$435,764 to Treasury. More than 50 individuals have been referred to and accepted for prosecution by the U.S. Attorney's Office including bank tellers and U. S. Postal Service employees with more to follow. One prominent subject in the conspiracy pled guilty and admitted his role in attempting to steal more than \$20 million from Treasury.

Investigation into Fraudulently Redirected Social Security Benefits Results in 2 Arrests

As reported in our March 2013 semiannual report, our office initiated a joint investigation with the Social Security Administration OIG into allegations that social security benefits were being fraudulently

redirected to pre-paid debit cards. The joint investigation led to a search warrant being served on an address that had received 17 fraudulently-obtained Direct Express pre-paid debit cards in 9 different beneficiaries' names. Subsequently, federal arrest warrants were obtained and executed on 2 individuals.

Update: During this reporting period, both individuals pled guilty and were sentenced in federal court. One defendant was sentenced to serve 2 years in federal prison beginning on September 11, 2013, followed by 1 year of supervised probation; and to pay restitution in the amount of \$6,480. The second defendant was sentenced to serve 10 months in federal prison followed by 1 year of supervised probation and deportation to Jamaica upon completion of the sentence; and to pay restitution in the amount of \$6,480.

Investigation into Theft of Tax Refund Fraud and Theft of Treasury Checks Results in 12 Arrests

As reported in previous semiannual reports, an investigation in Atlanta and Macon, Georgia, led to the execution of multiple federal and state search and arrest warrants during which more than 6,000 victims of identity theft were identified along with an estimated \$2.3 million in fraud against the federal government.

Update: Since reporting this information, 7 of the subjects have been charged federally after initially being charged with crimes at the state level. An additional subject has been sentenced to 19 months' imprisonment, 36 months' probation, and a \$100 fine.

American Recovery and Reinvestment Act

In a previous reporting period, we received an allegation of misuse of grant funds under the American Recovery and Reinvestment Act. We, along with other law enforcement entities, are investigating the allegation pursuant to Section 1553 of the act. This investigation is ongoing, and the complainant has agreed to a necessary time extension to carry out the investigation properly.

Other OIG Accomplishments and Activity

CIGFO Working Group Audit of the Financial Stability Oversight Council's Designation of Financial Market Utilities

Dodd-Frank created, among other things, the Council of Inspectors General on Financial Oversight (CIGFO) chaired by the Treasury Inspector General. One of CIGFO's statutory functions is to provide oversight of the Financial Stability Oversight Council (FSOC). Specifically, the law authorizes CIGFO to convene working groups, by a majority vote, for the purpose of evaluating the effectiveness and internal operations of FSOC. In early 2013, CIGFO convened a working group to examine FSOC's designation of financial market utilities (FMU) as systemically important. The Treasury Inspector General led the working group in this examination.

As background, Title VIII of Dodd-Frank authorizes certain activities for FSOC to perform during the FMU designation process. These activities include, among others, prescribing rules to administer FSOC's authority to designate FMUs as systemically important, requesting information from FMUs, consulting with regulatory agencies, and providing FMUs with notice of final determination of designation. To assist in carrying out the designation activities, FSOC created the Designations of Financial Market Utilities and Payment, Clearing, and Settlement Activities Committee (FMU Committee).

The CIGFO working group noted that the FMU Committee did not have a designated chairperson and did not keep a record of its meetings. Overall, the CIGFO working group determined that FSOC carried out the designation activities established in Title VIII. Additionally, the CIGFO working group found that FSOC intends to rely on the designated FMUs' regulators for ongoing reviews. At this time, however, there is no agreement or process established in writing that defines the nature, frequency, and communication of such updates.

The CIGFO working group also learned that during the FMU designation process, FSOC decided not to consider for designation at this time, foreign-based FMUs; retail FMUs; or payment, clearing, and settlement (PCS) activities conducted by financial institutions. However, deliberations continue within FSOC regarding foreign-based FMUs and the designations of PCS activities. Additionally, since the designation of eight FMUs in July 2012, FSOC has not conducted additional reviews of FMUs that may be systemically important, nor has it established a schedule for doing so.

Because of the critical role the FMU Committee will likely play in the future, CIGFO recommended in its July 2013 report on the working group review that FSOC establish a formal structure for the FMU Committee. Additionally, CIGFO recommended that FSOC (1) determine a course of action with regard to foreign-based FMUs consistent with the authorities of Title VIII of Dodd-Frank; (2) continue deliberations on the process and rules regarding possible future designation of PCS activities conducted by financial institutions as systemically important; (3) define the nature, frequency, and communication

of updates on designated FMUs from the respective regulators of the FMUs; and (4) establish a timeline for periodic reviews of non-designated FMUs that may be systemically important.

The working group participants were comprised of volunteers from the Offices of Inspector General for FRB, Commodity Futures Trading Commission, FDIC, Federal Housing Finance Agency, National Credit Union Administration, Securities and Exchange Commission, Treasury, and the Office of the Special Inspector General for the TARP.

OIG Audit Leadership Roles

Treasury OIG's audit professionals serve on various important public and private professional organizations supporting the federal audit community. Examples of participation in these organizations follow:

Marla Freedman, Assistant Inspector General for Audit, serves as co-chair of the Federal Audit Executive Council's (FAEC) Professional Development Committee. **Bob Taylor**, Deputy Assistant Inspector General for Audit, also serves on this committee. Among other activities, the committee completed a curriculum review on the Introductory Auditor Course offered by the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Training Institute's Audit, Inspection & Evaluation Academy. The committee also presented a white paper to the CIGIE Audit Committee and representative of the Office of Personnel Management which analyzed the current GS-0511 Auditor job series.

Bob Taylor, Deputy Assistant Inspector General for Audit, and **Kieu Rubb**, Audit Director, made presentations on external peer reviews of governmental audit organizations at the CIGIE Training Institute and before representatives of the audit organizations of the Intelligence Community Inspectors General.

Ms. Rubb is also leading an FAEC project to update the CIGIE Audit Committee's external peer review guide. Assisting her in this effort are **Colleen McElwee**, Audit Manager, and **W. Michael Wiley**, Manager. The update is incorporating changes to the financial statement audit and attestation engagement sections of the review guide that correspond to the standards in the 2011 Revision to *Government Auditing Standards*.

Jeff Dye, Audit Director, regularly taught modules of the Introductory Auditor course sponsored by the CIGIE Training Institute.

Mike Maloney, Audit Director, serves on the American Institute of Certified Public Accountants' Governmental Accounting and Auditing Committee. The committee held its annual National Governmental Accounting and Auditing Update Conference, in Washington, D.C., August 12-14, 2013. Mr. Maloney moderated two sessions at the conference.

Office of Investigations Case Management System Goes Paperless

During this semiannual reporting period, the Office of Investigations worked with the Office of Management, the Office of Counsel, and Treasury's Office of Privacy, Transparency, and Records to ensure its investigative case management system, Investigation Management Information System (IMIS) was properly scheduled and in compliance with Treasury policy and National Archives and Records Administration requirements. As a result, the Office received approval to use IMIS as the sole repository for its investigation case files and work product. The system replaces a paper tracking system and is intended to reduce the Office's paper usage by 50 percent, while increasing workflow and production. To further support paper reduction, the Office of Investigations is working with Treasury bureaus, developing protocols and procedures to electronically distribute IMIS work product (e.g., Reports of Investigations, referral memoranda, and supporting material) to the bureaus.

Office of Counsel Investigates Allegation of Missed Ethics Training

During this semiannual reporting period, the Office of Counsel was tasked to investigate an allegation filed with the U.S. Office of Special Counsel that a Treasury bureau failed to provide statutorily-required ethics training to senior employees. Counsel confirmed the allegation, monitored resolution of the problem, and prepared a report that the Deputy Secretary sent to the U.S. Office of Special Counsel, resolving the matter.

Office of Management Stands Up In-House OIG Human Resource and Procurement Operations

To reduce costs and provide for improved service, the Office of Management transitioned OIG's procurement and human resources from the BFS Administrative Resource Center, setting up in-house operations and developing specialized expertise. Effective April 1, 2013, all procurement functions are handled by the OIG Contracting Officer, including developing policies and procedures and executing contract awards. Human Resources services were transitioned in-house in two phases. Processing, including promotions, reassignments, payroll, WebTA (Web Time and Attendance), and worker's compensation activities, moved in-house effective April 28, 2013. All staffing operations, including recruitment and hiring, and oversight of the HR Connect System, moved in-house effective July 23, 2013.

Continuing Professional Education Symposium

In August 2013, 112 staff members from the Office of Audit and the Office of SBLF Program Oversight attended a biennial training symposium to meet *Government Auditing Standards* requirements for continuing professional education. The training was provided by a vendor, selected through a competitive bidding process, at the vendor's Washington, D.C., metropolitan area locations. The symposium included multiple training sessions over a 2-week period, and enhanced staffs' knowledge in the following areas: (1) planning and executing performance audits, (2) developing precise audit objectives, (3) writing reports, (4) keeping audits on schedule, (5) refining forensic audit skills, and (6) for new auditors, an introduction in government auditing.

The Office of Audit and Office of Investigation Present at the Fall 2013 Southeastern and Southwest Intergovernmental Audit Forum

The Gulf Coast Restoration Audit Directorate together with the Office of Investigations presented, *After the Deepwater Horizon Oil Spill: Oversight of Funds from the Gulf Coast Ecosystem Restoration Trust Fund* to state and local auditors participating in the Southeastern and Southwest Intergovernmental Audit Forum in Biloxi, Mississippi, September 16-18, 2013. The OIG presenters provided an overview of the environmental and economic impact of the 2010 *Deepwater Horizon* spill on the Gulf Coast region and discussed key provisions of the RESTORE Act to include the OIG's audit and investigative oversight responsibilities. This presentation was also given by **Deborah Harker**, Audit Director for the Office of Audits' oversight of the RESTORE Act activities, to the Gulf Coast Ecosystem Restoration Council comprised of six federal agencies and the five affected Gulf Coast states (Alabama, Florida, Louisiana, Mississippi, and Texas). Contributors and participants from the Office of Audit included **Donna Joseph**, Deputy Assistant Inspector General for Audit, **Ms. Harker**, **Eileen Kao**, Audit Manager, **Amni Samson**, Audit Manager, **Marco Uribe**, Auditor, **Eleanor Kang**, Program Analyst, **Dionne Smith**, Auditor, and **Marvin Bickham**, Senior Special Agent, from the Office of Investigations.



Pictured above are members of the Gulf Coast Restoration Audit Directorate.

The Third Annual Treasury OIG Awards

On May 1, 2013, Treasury OIG held its third annual awards program in the Cash Room of the Treasury Building. The program recognized the achievements and outstanding performance of OIG staff during calendar year 2012. Presented were nine Individual Achievement Awards, nine Teamwork Awards to 37 individuals, four Customer Service Awards, and two Rookie Awards. Also awarded was the Inspector General Leadership Award, the highest honor bestowed on an OIG employee.

Inspector General Eric Thorson presented awards to the following recipients:

Inspector General Leadership Award

Marla Freedman, Assistant Inspector General for Audit

Individual Achievement Award

Amy Altemus, Ava Maria Davis, Lisa DeAngelis, Mike Fitzgerald,
James Howell, Eileen Kao, Waleska McLellan, Andrew Morgan, and Sonja Scott

Intra-Component Teamwork Award

Housing and Economic Recovery Act Audit Team

Jennifer Adamson, Shaneasha Edwards, John Gauthier, and Myung Han

Debt Limit Audit Team

Jennifer Adamson, Susan Barron, and Kathryn Bustell

First CIGFO Working Group Audit Team

Theresa Cameron, Dana Duvall, and Patrick Gallagher

TNet Security Management Audit Team

Jason Beckwith, Tram Dang, Farbod Fakhrai, Don'te Kelley,
Rob Kohn, Jason Madden, and Mike Patel

Gold Reserves Audit Team

Ade Bankole, Rafael Cumba, Rufus Etienne, Myung Han,
Robert Hong, Mark Levitt, Alicia Weber, and Catherine Yi

Solyndra Audit Team

James Hodge, Donna Joseph, Nicholas Slonka, Erica Wardley, and
Alicia Weber

DO Network and System Security Audit Team

Jason Beckwith, Tram Dang, Farbod Fakhrai, Don'te Kelley,
Larissa Klimpel, and Mike Patel

SBLF Dividend Rate Audit Team

Joe Berman, Steve Encomienda, Shola Epemolu, Nicolas Harrison
William Malloy, and Anita Visser

SSBCI Funds Audit Team

Safal Bhattarai, Nicolas Harrison, Andrew Morgan, and John Rizek

Customer Service Award

Amy Altemus, Patricia Brown, Roderick Johnson, and Mark Ossinger

Rookie Award

Robert Oliveri and Mike Patel



*Pictured above is Marla Freedman receiving the
Inspector General Leadership Award from
Inspector General Thorson*

Statistical Summary

Summary of OIG Activity

For the 6 months ended September 30, 2013

OIG Activity	Number or Dollar Value
Office of Counsel Activity	
Regulation and legislation reviews	4
Instances where information was refused	0
Office of Audit Activities	
Reports issued and other products	21
Disputed audit recommendations	0
Significant revised management decisions	0
Management decision in which the Inspector General disagrees	0
Monetary benefits (audit)	
Questioned costs	\$30,893,814
Funds put to better use	\$1,708,969
Revenue enhancements	\$0
Total monetary benefits	\$32,602,783
Office of SBLF Program Oversight Activities	
Reports issued and other products	8
Disputed audit recommendations	0
Significant revised management decisions	0
Management decision in which the Inspector General disagrees	0
Monetary benefits (audit)	
Questioned costs	\$392,782
Funds put to better use	\$240,000
Revenue enhancements	\$0
Total monetary benefits	\$632,782
Office of Investigations Activities	
Criminal and judicial actions (including joint investigations)	
Cases referred for prosecution and/or litigation	64
Cases accepted for prosecution and/or litigation	36
Arrests	14
Indictments/informations	24
Convictions (by trial and plea)	22

Significant Unimplemented Recommendations

For reports issued prior to October 1, 2012

The following list of OIG audit reports with unimplemented recommendations is based on information in Treasury's automated audit recommendation tracking system, which is maintained by Treasury management officials.

Number	Date	Report Title and Recommendation Summary
OIG-06-030	05/06	<p data-bbox="532 583 1479 661"><i>Terrorist Financing/Money Laundering: FinCEN Has Taken Steps to Better Analyze Bank Secrecy Act Data but Challenges Remain</i></p> <p data-bbox="532 667 1479 871">FinCEN should enhance the current FinCEN database system or acquire a new system. An improved system should provide for complete and accurate information on the case type, status, resources, and time expended in performing the analysis. This system should also have the proper security controls to maintain integrity of the data. (1 recommendation)</p>
OIG-11-036	11/10	<p data-bbox="532 951 1479 1029"><i>Information Technology: Treasury is Generally in Compliance with Executive Order 13103</i></p> <p data-bbox="532 1035 1479 1480">The Chief Information Officer should (1) revise Treasury Directive 85-02 to (a) define authorized software more specifically, (b) require heads of bureaus and offices to ensure that software in their inventory is on the Treasury list of authorized software and remove it if it is not, (c) require the Chief Information Officer to perform periodic audit checks to determine if the bureaus and offices are only using software on the Treasury list of authorized software, and (d) require the bureaus and offices to reconcile their inventory with software license agreements rather than with software purchases; (2) develop procedures to create and manage a list of approved enterprise authorized software; and (3) ensure that bureaus remove unauthorized software from Treasury systems. (3 recommendations)</p>
OIG-12-010	11/11	<p data-bbox="532 1560 1479 1638"><i>Management Letter for the Audit of the Federal Financing Bank's Fiscal Years 2011 and 2010 Financial Statements</i></p> <p data-bbox="532 1644 1479 1843">Federal Financing Bank management should (1) implement controls to ensure that all inputs for fair value calculations are approved and verified and (2) check the accuracy of the automated calculations by re-performing one fair value calculation for each type of transaction that is included in the note disclosure. This could be done as part of the review and approval of</p>

the note disclosure. It should be noted that Treasury management reported these recommendations as implemented in December 2012. The corrective actions taken will be verified as part of the audit of the Federal Financing Bank’s fiscal year 2013 financial statements. (2 recommendations)

OIG-12-054 5/12 *Safety and Soundness: OCC’s Supervision of National Banks’ Foreclosure Practices*
 OCC should update the Mortgage Banking Comptroller’s Handbook to provide a more complete coverage of key processes and risks in the mortgage banking environment. (1 recommendation)

OIG-12-055 6/12 *Safety and Soundness: In-Depth Review of the First National Bank of Davis, Davis, Oklahoma*
 OCC should establish formal guidance to address OCC’s response to investigations and requests for information from law enforcement agencies. The guidance should address, for example, when examination procedures should be expanded based on information provided by law enforcement agencies as well as notification to OCC headquarters and OIG. (1 recommendation)

OIG-12-076 9/12 *Information Technology: Treasury’s Security Management of TNet Needs Improvement*
 The Treasury Chief Information Officer should ensure that (1) AT&T, in accordance with Treasury Network (TNet) program management office guidance, implements and documents all steps in the flaw remediation process for TNet; (2) security patches are implemented within 36 hours of availability in accordance with the contract; and (3) the TNet program management office, in coordination with the contracting officer and contracting officer’s representative, (a) review all security performance measures in the contract, (b) negotiate with AT&T the terms for when penalties are to be applied in the event a measure is not met, and (c) amend the contract accordingly. (3 recommendations)

Summary of Instances Where Information Was Refused

April 1, 2013, through September 30, 2013

There were no such instances during this semiannual period.

Listing of Audit Products Issued

April 1, 2013, through September 30, 2013

Office of Audit

Safety and Soundness: OCC Identification of Emerging Risks, OIG-13-037, 4/9/2013

RESTORE Act: Treasury Missed Its Statutory Deadline for Establishing Procedures Governing RESTORE Act Programs and Activities, OIG-13-038, 4/17/2013

Audit of the Office of D.C. Pensions' Treasury Reconciliation Report for the Period October 1, 1997 through December 31, 2007, OIG-13-039, 5/29/2013, **\$30,893,814 Questioned Cost**

Treasury Needs Written Policies and Procedures for Its Oversight of the Housing Finance Agency Initiative, OIG-13-040, 5/30/2013

Response to Inquiry Regarding TFM 8040.40 Cash Discounts, OIG-CA-13-008, 6/10/2013

Contract Audit: Crane & Co.'s Price Proposal in Response to Solicitation No. BEP-11-0004, OIG-13-041, 6/18/2013, **\$1,708,969 Funds Put to Better Use** (Sensitive But Unclassified)

Community Development Financial Institutions Fund Implemented Corrective Actions to Address Contract and Personnel Management Deficiencies, OIG-13-042, 6/27/2013

Safety and Soundness: Failed Bank Review of First East Side Savings Bank, Tamarac, Florida, OIG-13-043, 7/2/2013

Safety and Soundness: Failed Bank Review of First Federal Bank, Lexington, Kentucky, OIG-13-045, 7/31/2013

General Management: BEP's Administration of the Burson-Marsteller Public Education and Awareness Contract Was Deficient, OIG-13-046, 8/13/2013

Report on the Bureau of the Fiscal Service's Administrative Resource Center Description of its Financial Management Services and the Suitability of the Design and Operating Effectiveness of its Controls for the Period July 1, 2012, to June 30, 2013, OIG-13-047, 8/27/2013

OIG-CA-13-009, 8/28/2013 (Classified Report on the Terrorist Finance Tracking Program)

Information Technology: Fiscal Year 2013 Audit of Treasury's Federal Information Security Management Act Implementation for Intelligence Systems, OIG-13-048, 8/29/2013, (Classified)

Safety and Soundness: Improvement Needed in OCC's Oversight of Foreclosure-Related Consent Orders, OIG-13-049, 9/9/2013

Memorandum to the Inspector General of the Intelligence Community, OIG-CA-13-010, 9/18/2013 (Sensitive But Unclassified)

Report on the Bureau of the Fiscal Service Trust Funds Management Branch's Description of its Trust Funds Management Processing Services and the Suitability of the Design and Operating Effectiveness of its Controls for the Period August 1, 2012, to July 31, 2013, OIG-13-050, 9/23/2013

Report on the Bureau of the Fiscal Service Federal Investments Branch's Description of its Investment/Redemption Services and the Suitability of the Design and Operating Effectiveness of its Controls for the Period August 1, 2012, to July 31, 2013, OIG-13-051, 9/23/2013

RESTORE Act: Treasury Needs to Establish Procedures to Expend and Invest Gulf Coast Restoration Trust Fund Monies, OIG-13-052, 9/24/2013

Terrorist Financing/Money Laundering: FinCEN's BSA IT Modernization Program Was Within Budget and on Schedule But Users Suggest Enhancements, OIG-13-053, 9/25/2013

Status of the Transfer of Office of Thrift Supervision Functions, OIG-13-054, 9/26/2013

General Management: Treasury Has Policies and Procedures to Safeguard Classified Information But Implementation Needs to be Improved, OIG-13-055, 9/27/2013

Office of SBLF Program Oversight

*State Small Business Credit Initiative: Massachusetts' Use of Federal Funds for Capital Access and Other Credit Support Programs, OIG-SBLF-13-007, 5/14/2013, **\$200,000 Questioned Cost***

State Small Business Credit Initiative: Alabama's Use of Federal Funds for Capital Access and Other Credit Support Programs, OIG-SBLF-13-008, 6/4/2013

*State Small Business Credit Initiative: Missouri's Use of Federal Funds for Other Credit Support Programs, OIG-SBLF-13-009, 7/24/2013, **\$240,000 Funds Put to Better Use***

Small Business Lending Fund: Accuracy of Fourth-Quarter 2012 Dividend Rate Adjustments, OIG-SBLF-13-010, 8/9/2013

*State Small Business Credit Initiative: Washington's Use of Federal Funds for Capital Access and Other Credit Support Programs, OIG-SBLF-13-011, 8/15/2013, **\$5,779 Questioned Cost***

Small Business Lending Fund: Reported SBLF Program Accomplishments Are Misleading Without Additional Reporting, OIG-SBLF-13-012, 8/29/2013

*State Small Business Credit Initiative: Kansas' Use of Federal Funds for Other Credit Support Programs, OIG-SBLF-13-013, 9/5/2013, **\$187,003 Questioned Cost***

Small Business Lending Fund: Accuracy of First-Quarter 2013 Dividend Rate Adjustments, OIG-SBLF-13-014, 9/27/2013

Council of Inspectors General on Financial Oversight Working Group

Audit of the Financial Stability Oversight Council's Designation of Financial Market Utilities, 7/12/ 2013

Audit Reports Issued With Questioned Costs

April 1, 2013, through September 30, 2013

Category	Total No. of Reports	Total Questioned Costs	Total Unsupported Costs
For which no management decision had been made by beginning of reporting period	2	\$225,326	\$0
Which were issued during the reporting period	4	\$31,286,596	\$0
Subtotals	6	\$31,511,922	\$0
For which a management decision was made during the reporting period	3	\$31,119,140	\$0
Dollar value of disallowed costs	3	\$31,119,140	\$0
Dollar value of costs not disallowed	0	\$0	\$0
For which no management decision was made by the end of the reporting period	3	\$392,782	\$0
For which no management decision was made within 6 months of issuance	0	\$0	\$0

Audit Reports Issued With Recommendations That Funds Be Put to Better Use

April 1, 2013, through September 30, 2013

Category	Total No. of Reports	Total	Savings	Revenue Enhancement
For which no management decision had been made by beginning of reporting period	1	\$21,000	\$21,000	\$0
Which were issued during the reporting period	2	\$1,948,969	\$1,948,969	\$0
Subtotals	3	\$1,969,969	\$1,969,969	\$0
For which a management decision was made during the reporting period	1	\$1,729,969	\$1,729,969	\$0
Dollar value of recommendations agreed to by management	1	\$1,729,969	\$1,729,969	\$0
Dollar value based on proposed management action	0	\$0	\$0	\$0
Dollar value based on proposed legislative action	0	\$0	\$0	\$0
Dollar value of recommendations not agreed to by management	0	\$0	\$0	\$0
For which no management decision was made by the end of the reporting period	2	\$240,000	\$240,000	\$0
For which no management decision was made within 6 months of issuance	0			\$0

A recommendation that funds be put to better use denotes funds could be used more efficiently if management took actions to implement and complete the recommendation including: (1) reduction in outlays, (2) de-obligations of funds from programs or operations, (3) costs not incurred by implementing recommended improvements related to operations, (4) avoidance of unnecessary expenditures noted in pre-award review of contract or grant agreements, (5) any other savings which are specifically identified, or (6) enhancements to revenues of the federal government.

Previously Issued Audit Reports Pending Management Decisions (Over 6 Months)

There are no previously issued audit reports pending management decisions for the reporting period.

Significant Revised Management Decisions

April 1, 2013, through September 30, 2013

There were no significant revised management decisions during the reporting period.

Significant Disagreed Management Decisions

April 1, 2013, through September 30, 2013

There were no management decisions this reporting period with which the Inspector General was in disagreement.

Peer Reviews

April 1, 2013, through September 30, 2013

Office of Audit and Office of SBLF Program Oversight

Audit organizations that perform audits and attestation engagements of federal government programs and operations are required by *Government Auditing Standards* to undergo an external peer review every 3 years. The objectives of an external peer review are to determine, during the period under review, whether, the audit organization's system of quality control was suitably designed and whether the audit organization was complying with its quality control system to provide the audit organization with reasonable assurance that it was conforming to applicable professional standards. Federal audit organizations can receive a peer review rating of *pass*, *pass with deficiencies*, or *fail*.

Our Office of Audit and Office of SBLF Program Oversight were not required to undergo an external peer review during this reporting period and we did not perform any external peer reviews of other federal audit organizations.

The most recent peer review of our offices was performed by the U.S. Agency for International Development (USAID) OIG. In its report dated September 6, 2012, our audit organizations received a *pass* rating for our system of quality control in effect for the year ended March 31, 2012. USAID OIG did not make any recommendations. Our offices' external peer review reports are available on the Treasury OIG [website](#).

Office of Investigations

CIGIE mandates that the investigative law enforcement operations of all OIGs undergo peer reviews every 3 years to ensure compliance with (1) the council's investigations quality standards and with (2) the relevant guidelines established by the Office of the Attorney General of the United States.

Our Office of Investigations was not required to undergo a CIGIE peer review during this reporting period. The most recent peer review of our office was performed in March 2011 by the Small Business Administration OIG. We were found to be in compliance with all relevant guidelines and there are no unaddressed recommendations outstanding from this review.

Bank Failures and Nonmaterial Loss Reviews

We conducted reviews of 2 failed banks supervised by OCC with losses to the DIF that did not meet the definition of a material loss in the Federal Deposit Insurance Act. These reviews were performed to fulfill the requirements found in 12 U.S.C. § 1831o(k). The term “material loss” which, in turn, triggers an MLR be performed is, for 2012 and 2013, a loss to the DIF that exceeds \$150 million; and, for 2014 going forward, a loss to the DIF that exceeds \$50 million (with provisions to increase that trigger to a loss that exceeds \$75 million under certain circumstances).

For losses that are not material, the Federal Deposit Insurance Act requires that each 6-month period, the OIG of the federal banking agency must (1) identify the estimated losses that have been incurred by the DIF during that 6-month period and (2) determine the grounds identified by the failed institution’s regulator for appointing the FDIC as receiver, and whether any unusual circumstances exist that might warrant an in-depth review of the loss. For each 6-month period, we are also required to prepare a report to the failed institutions’ regulator and the Congress that identifies (1) any loss that warrants an in-depth review, together with the reasons why such a review is warranted and when the review will be completed; and (2) any losses where we determine no in-depth review is warranted, together with an explanation of how we came to that determination. The table below fulfills this reporting requirement to the Congress for the 6-month period ended September 30, 2013. We issue separate audit reports on each review to OCC.

Bank Failures and Non Material Loss Reviews				
Bank Name/Location	Date Closed/ Loss to the DIF	OIG Summary of Regulator’s Grounds for Receivership	In-Depth Review Determination	Reason/ Anticipated Completion Date of the In-Depth Review
First Federal Bank Lexington, Kentucky	April 19, 2013 \$9.7 million	<ul style="list-style-type: none"> • Dissipation of assets or earnings due to unsafe or unsound practices • Unsafe or unsound condition • Capital impaired 	No	No unusual circumstances noted
Mountain National Bank Sevierville, Tennessee	June 7, 2013 \$33.5 million	<ul style="list-style-type: none"> • Dissipation of assets or earnings due to unsafe or unsound practices • Unsafe or unsound condition • Capital impaired 	No	No unusual circumstances noted

References to the Inspector General Act

Section	Requirement	Page
Section 4(a)(2)	Review of legislation and regulations	35
Section 5(a)(1)	Significant problems, abuses, and deficiencies	5-28
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies	5-28
Section 5(a)(3)	Significant unimplemented recommendations described in previous semiannual reports	36-37
Section 5(a)(4)	Matters referred to prosecutive authorities	35
Section 5(a)(5)	Summary of instances where information was refused	37
Section 5(a)(6)	List of audit reports	38-40
Section 5(a)(7)	Summary of significant reports	5-28
Section 5(a)(8)	Audit reports with questioned costs	40
Section 5(a)(9)	Recommendations that funds be put to better use	41
Section 5(a)(10)	Summary of audit reports issued before the beginning of the reporting period for which no management decision had been made	41
Section 5(a)(11)	Significant revised management decisions made during the reporting period	41
Section 5(a)(12)	Management decisions with which the Inspector General is in disagreement	42
Section 5(a)(13)	Instances of unresolved Federal Financial Management Improvement Act noncompliance	16
Section 5(a)(14)	Results of peer reviews conducted of Treasury OIG by another OIG	42
Section 5(a)(15)	List of outstanding recommendations from peer reviews	42
Section 5(a)(16)	List of peer reviews conducted by Treasury OIG, including a list of outstanding recommendations from those peer reviews	42
Section 5(d)	Serious or flagrant problems, abuses, or deficiencies	N/A
Section 6(b)(2)	Report to Secretary when information or assistance is unreasonably refused	37

Abbreviations

BEP	Bureau of Engraving and Printing
BFS	Bureau of the Fiscal Service
BSA	Bank Secrecy Act
BSA IT Mod	BSA IT Modernization
CIGFO	Council of Inspectors General on Financial Oversight
CIGIE	Council of the Inspectors General on Integrity and Efficiency
Council	Gulf Coast Ecosystem Restoration Council
DIF	Deposit Insurance Fund
Dodd-Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
EADR	effective annual discount rate
ECC	Eagle Cash Card
FDIC	Federal Deposit Insurance Corporation
FinCEN	Financial Crimes Enforcement Network
FMU	financial market utilities
FMU Committee	Designations of Financial Market Utilities and Payment, Clearing, and Settlement Activities Committee
FRB	Board of Governors of the Federal Reserve System
FSOC	Financial Stability Oversight Council
HERA	Housing and Economic Recovery Act of 2008
HFA	Housing Finance Agency
IFR	independent foreclosure review
IMIS	Investigation Management Information System
IRS	Internal Revenue Service
IT	information technology
MLR	material loss review
MTC	Director of the Missouri Technology Corporation Board
NIBP	New Issue Bond Program
OCC	Office of the Comptroller of the Currency
OIG	Office of Inspector General
OTS	Office of Thrift Supervision
Plan	Joint Implementation Plan
PCS	payment, clearing, and settlement
RESTORE Act	Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012
SBLF	Small Business Lending Fund
SSBCI	State Small Business Credit Initiative
TARP	Troubled Asset Relief Program
TCLP	Temporary Credit and Liquidity Program
TFM	Treasury Financial Manual
TIPPS	Treasury Information Processing Support Services
TNet	Treasury Network
Trust Fund	Gulf Coast Restoration Trust Fund

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Meet Our Docents



Representing Treasury History

Shown from the left are Treasury Office of Inspector General employees **W. Michael Wiley**, Manager of Audit Operations; **Kieu Rubb**, Director for Procurement and Manufacturing Audit Directorate; and **Jim Lisle**, Audit Manager for Banking Safety and Soundness Audit Directorate; who frequent the halls of the Treasury Building in Washington, D.C., as docents. Our volunteers proudly demonstrate their mastery of Treasury's history—regaling tour groups on the splendor of the artwork adorning its walls, transporting guests with stories from Treasury past, and educating visitors on the important role Treasury played, and still plays today, in our Nation's rich tapestry.

Sponsored by the Treasury's Office of the Curator, volunteers shadow experienced docents for 3 months and are then paired with another docent to direct the tours.

While on tour, our docents have met direct descendants of the first Treasury Secretary, Alexander Hamilton.

The Office of Inspector General wishes to thank its docent program volunteers for representing our office and for helping to preserve Treasury's cultural heritage.

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