

Semiannual Report to Congress

April 1, 2016 – September 30, 2016
OIG-CA-17-005

Office of Inspector General
Department of the Treasury

Highlights

During this semiannual reporting period, the Office of Audit issued 44 products. Work by the Office of Investigations resulted in 4 arrests, 11 indictments, and 18 convictions. Some of our more significant results for the period are described below:

- The Department of the Treasury (Treasury) continued to make progress in implementing the Digital Accountability and Transparency Act of 2014 (DATA Act). However, Treasury's project management practices could, if not addressed, hinder the timely, comprehensive, Government-wide implementation of the program. We noted that Treasury missed a project plan deadline for finalizing critical agency guidance. As a result, timely completion of the system needed to submit agency spending data is at risk. In addition, we identified several risks to implementing the DATA Act on time.
- In response to Senate Report 114-97, we reported on the treatment of legacy Financial Management Service (FMS) employees at the Bureau of the Fiscal Service. We found no evidence of widespread adverse action against legacy FMS employees, but ongoing reorganization activity and the concurrent Position Management Review have led to fear of demotion. Also, a transfer of responsibilities may have created dissatisfaction or discouragement; and management's reaction to supervisors' failure to support consolidation plans may have been perceived as intimidation.
- The Office of Security Programs has put policies and procedures in place to safeguard classified materials, but continues to have difficulty ensuring that these policies and procedures are consistently followed. We noted continuing concerns with (1) marking classification decisions; (2) completing the Standard Form 311, Agency Security Classification Management Program Data; and (3) complying with self-inspection requirements. In addition, we identified a new area of weakness— inadequate maintenance of security training documentation.
- Our joint investigation with the Fayetteville, North Carolina Police Department determined that multiple subjects in the Fayetteville area were involved in an organized scheme to defraud several local banks and credit unions. The estimated loss was approximately \$3.7 million. During this reporting period, three individuals were indicted and subsequently arrested for Bank Fraud.
- Our joint investigation with the Jacksonville, Florida Sheriff's Office determined that a subject was generating counterfeit identification documents to open accounts at Office of the Comptroller of the Currency-regulated financial institutions to cash counterfeit business checks. There was approximately \$1 million in fraudulent withdrawals and wire transfers. An arrest warrant was executed on the subject and a 2016 Ford Mustang was seized. An additional arrest warrant was obtained for a co-conspirator, and identification of additional subjects and victims is ongoing.



Message from the Inspector General

I am pleased to present the Department of the Treasury (Treasury) Office of Inspector General's (OIG) Semiannual Report to Congress for the 6-month period ended September 30, 2016.

I would like to emphasize the work of my Office of Audit as it relates to the Cybersecurity Act of 2015 (Public Law 114-113, Division N). The act, signed into law by the President on December 18, 2015, is intended to improve cybersecurity in the U.S. through enhanced sharing of information about cybersecurity threats. It requires Treasury and other Federal agencies to share certain cyber threat indicators with private entities; nonfederal government agencies; state, tribal, or local governments; and the public. During this reporting period, we successfully met our first mandate under Section 406 of the act that required our office to submit a report to Congress on Treasury's information security policies, procedures, and practices for controlling access to its national security systems and computer systems that provide access to personally identifiable information.

Also during the period, the office led an interagency team of seven agencies that developed the Federal Audit Executive Council Digital Accountability and Transparency Act (DATA Act) Working Group's "DATA Act Readiness Review Guide (Version 2.0)" for the Inspector General community. This guide is intended to help the community meet the DATA Act's November 2017 initial reporting mandate.

In addition, we continued to meet our other ongoing Congressionally mandated work. We completed our annual evaluation of Treasury's information security program and practices for its intelligence systems, as required by the Federal Information Security Modernization Act of 2014, and reported on Treasury's overall compliance with the Improper Payments Elimination and Recovery Act of 2010 for fiscal year 2015.

In closing, the efforts of our office described above are important to Treasury, but these efforts are just part of the work that we do. I would like to acknowledge all Treasury OIG staff for making possible the significant audit and investigative results that are summarized in this Semiannual Report.

/s/

Eric M. Thorson
Inspector General

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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 (GAO) perform oversight related to TARP.

OIG also performs independent oversight of programs and operations funded by the Gulf Coast Restoration Trust Fund (Trust Fund) established within Treasury by the Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012 (RESTORE Act). In addition to performing oversight of Treasury-related activities, OIG performs oversight of programs and operations administered by the Gulf Coast Ecosystem Restoration Council (Council), established as an independent Federal entity, and the Gulf Coast Ecosystem Restoration Science, Observation, Monitoring, and Technology Program (Science Program) administered by the National Oceanic and Atmospheric Administration (NOAA). With regard to the Council and the Science Program, OIG keeps the appointed Chairperson of the Council, the NOAA Science Program Administrator, and Congress fully informed of problems, deficiencies, and the need for corrective actions.

OIG has four components: (1) Office of Audit, (2) Office of Investigations, (3) Office of Counsel, and (4) Office of Management. OIG is headquartered in Washington, D.C. OIG also has an audit office in Boston, Massachusetts, and domicile investigative offices in Greensboro, North Carolina and Jacksonville, Florida.

The Office of Audit, under the leadership of the Assistant Inspector General for Audit, performs and supervises financial and performance audits, attestation engagements, and evaluations. The Assistant Inspector General for Audit also serves as the Special Deputy Inspector General for Small Business Lending Fund (SBLF) Program Oversight. Under the Assistant Inspector General for Audit there are three deputies: (1) one

deputy is primarily responsible for financial sector audits to include audits of banking supervision, manufacturing of currency and coins, and alcohol and tobacco excise tax revenue collection activities; (2) one deputy is primarily responsible for financial management and transparency audits to include financial audits of Treasury performed by OIG staff and contractors, audits of Government-wide collection, payment, and debt programs and operations, and audits of anti-money laundering/terrorist financing, foreign sanction, and intelligence programs and operations; and (3) one deputy is primarily responsible for cybersecurity and financial assistance audits to include audits of the SBLF, State Small Business Credit Initiative (SSBCI), and RESTORE Act programs and operations.

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 and RESTORE Act 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 Assistant Inspector General for Investigations is supported by a deputy in leading both the day-to-day operations in Washington, D.C. and task force initiatives in Greensboro, North Carolina and Jacksonville, Florida.

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 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. Counsel also serves as the Whistleblower Ombudsman for Treasury, pursuant to the Whistleblower Protection Enhancement Act of 2012.

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 2016 appropriation is \$35.4 million; the OIG's oversight of SBLF and SSBCI programs and operations is funded on a reimbursable basis. As of September 30, 2016, OIG had 161 full-time staff.

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

Management and Performance Challenges

The Reports Consolidation Act of 2000 requires that the Department of the Treasury (Treasury) Inspector General annually provide his perspective on the most serious management and performance challenges facing Treasury and the Gulf Coast Ecosystem Restoration Council (Council). The following is a synopsis of Inspector General Thorson's annual assessments which are available, in their entirety, on the Treasury Office of Inspector General (OIG) [website](#).

Treasury's Management and Performance Challenges

In a memorandum to Secretary Lew dated October 26, 2016, Inspector General Thorson reported four challenges, all of which were previously reported, and other matters of concern. This year, the Inspector General combined two challenges that were reported separately in the previous year's memorandum. Last year's challenge, "Gulf Coast Restoration Trust Fund Administration," was incorporated into the broader Challenge, "Management of Treasury's Authorities Intended to Support and Improve the Economy." The challenges were combined because Treasury has implemented many of the requirements under these authorities. However, given the nature and large dollar amounts provided to Treasury to strengthen and restore the economy, ongoing administration will continue for a number of years.

In assessing Treasury's most serious challenges, the Inspector General remains mindful of external factors and future uncertainties that affect its operations. Most notable is the upcoming Presidential election and the transition under a new Administration that change brings. With the change in Administration, many Presidentially-appointed, Senate-confirmed leadership positions within Treasury will become vacant. As such, tackling some of the more critical matters at hand could be more challenging.

The four challenges and other matters of concern that were reported follow.

Cyber Threats (Repeat Challenge)

Cybersecurity continues to represent one of the most serious challenges facing the Nation today. A reliable critical infrastructure, including information systems and networks, is vital to our national security and economic stability. Cyber threats are a persistent concern as Treasury's information systems are critical to the core functions of Government and the Nation's financial infrastructure. As cyber threats continue to evolve and become more sophisticated and subtle, they pose an

ongoing challenge for Treasury to fortify and safeguard its internal systems and operations and the financial sector it oversees.

Efforts to Promote Spending Transparency and to Prevent and Detect Improper Payments (Repeat Challenge)

The Digital Accountability and Transparency Act of 2014 (DATA Act) requires the Federal Government to provide consistent, reliable, and useful online data about how it spends taxpayer dollars. Implementing the DATA Act is a complex undertaking requiring a significant level of interagency coordination and cooperation to develop, establish, and apply new financial data standards and to develop new data handling methodologies within a short timeframe. To fulfill its intent, the DATA Act imposes certain requirements on the Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), the Inspectors General of each Federal agency, and the Comptroller General of the United States. Given the broad Government-wide implications and critical roles assigned to Treasury by the DATA Act, we consider this an ongoing high risk implementation project and management challenge.

In light of the continuing problem with improper payments (estimated at \$136.7 billion, or 4.8 percent of all program outlays, for fiscal year 2015), the Federal Government has intensified efforts to reduce improper payments in major Federal programs. The Do Not Pay Initiative and the Treasury Bureau of the Fiscal Service's (Fiscal Service) Do Not Pay Business Center are chief components of efforts designed to prevent and detect improper payments to individuals and entities. With its potential to reduce improper payments, the Do Not Pay Program is a major and important undertaking by Fiscal Service and Treasury.

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.

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 Congress to address the financial crisis under the Dodd-Frank Wall Street

Reform and Consumer Protection Act of 2010, the Small Business Jobs Act of 2010, Housing and Economic Recovery Act of 2008, and the American Recovery and Reinvestment Act of 2009. It also focuses on Treasury's administration of 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 2010 Deepwater Horizon oil spill.

Other Matters of Concern

In addition to the above challenges, Inspector General Thorson reported elevated concerns about three matters. Two matters of concern are repeated from last year's letter: (1) challenges with currency and coin production and (2) lapses by Treasury in maintaining a complete and concurrent record of key activities and decisions. The third matter of concern relates to new Enterprise Risk Management requirements that Treasury must implement beginning in fiscal year 2017.

Gulf Coast Ecosystem Restoration Council Management and Performance Challenge

In an October 26, 2016, letter to Secretary Vilsack, Department of Agriculture, in his role as the Chairperson of the Council, Inspector General Thorson reported three challenges, one which was repeated from last year and two new challenges.

Implementing an Infrastructure to Administer Gulf Coast Restoration Activities (Repeat Challenge)

Over the course of the past year, the Council has made significant progress in developing its organization infrastructure by filling critical administrative and programmatic positions, as well as solidifying many policies and procedures supporting internal control. However, staff skill gaps remain in the area of information technology. These skills are critical to the success of the Council's operations and meeting the requirements of the Federal Information Security Modernization Act of 2014. Staff with specialized training and qualifications are necessary for providing a reliable and secure information technology environment and to supporting the Council in carrying out its RESTORE Act activities. Although the Council has interim measures such as contractor support to address its gaps in information technology, a permanent solution is needed to establish a long-term information technology plan with consistent personnel with the requisite expertise.

Stakeholder Coordination and Outreach (New Challenge)

This challenge focuses on the Council's communication of key decisions and coordination of activities with its stakeholders to ensure Gulf Coast funds are used in the most effective and efficient way possible.

Federal Statutory and Regulatory Compliance (New Challenge)

This challenge focuses on the Council's compliance with the DATA Act and the Improper Payments Elimination and Recovery Act of 2010.

Office of Audit – Significant Audits and Other Products

Cyber/Information Technology Audits

During this semiannual period, we performed two cyber/information technology audits, an audit of the U.S. Mint’s security controls over its network and information systems and an audit of the Department of the Treasury’s (Treasury) compliance with the Federal Information Security Modernization Act of 2014 (FISMA) for its intelligence systems.

Vulnerabilities in Security Controls over U.S. Mint’s Systems Need to Be Addressed

Overall, we found that the U.S. Mint had security controls in place to prevent and detect most of our attempts to gain unauthorized access to its network and systems. Additionally, physical security controls prevented us from gaining unauthorized access to the U.S. Mint’s facilities. That said, we did find deficiencies in the U.S. Mint’s configuration management controls that, if resolved, could help strengthen the U.S. Mint’s overall security posture. Specifically, we found that (1) some network systems were configured with factory default user names and passwords, (2) some decommissioned systems were still present on the network, and (3) there were high-risk vulnerabilities present on some systems that the U.S. Mint did not detect due to the limited capabilities of its scanning tools.

To correct the deficiencies, we made ten recommendations to U.S. Mint management: (1) ensure that factory default user names and passwords are changed for all current systems, (2) ensure that the U.S. Mint develops and implements procedures to change default user names and passwords for all systems prior to deployment, (3) ensure that emails sent by network devices are clearly marked as originating from the device from which they are sent, (4) establish policies and procedures to address the complete decommissioning of systems, (5) ensure all systems slated for decommissioning are documented and decommissioned, (6) ensure all scanning capabilities look for all connected systems and scan results are reconciled against the U.S. Mint’s inventory, (7) ensure that obsolete software is either removed or upgraded, (8) ensure software patches and updates are timely applied, (9) ensure systems and software are securely configured, and (10) ensure scanning capabilities detect published vulnerabilities. In its response, U.S. Mint management agreed with our

recommendations and reported that it had completed corrective actions that addressed the first five of our ten recommendations. It also targeted October 1, 2017, to finalize the deployment of a Continuous Diagnostics and Monitoring tool intended to address the remaining recommendations. We consider management's corrective actions, both taken and planned, to meet the intent of our recommendations. **(OIG-16-050)**

Fiscal Year 2016 Audit of Treasury's Compliance with the Federal Information Security Modernization Act for Its Intelligence Systems

As part of our ongoing oversight of Treasury's compliance with FISMA, we are required to annually evaluate Treasury's information security program and practices. In our fiscal year 2016 report, we recounted unresolved issues from the prior year and identified new matters needing improvement. Due to the sensitive nature of Treasury's intelligence systems, this report is classified. **(OIG-16-056)**

DATA Act Audits

Treasury and the Office of Management and Budget (OMB) are leading the Government-wide implementation of the Digital Accountability and Transparency Act of 2014 (DATA Act). As part of our ongoing oversight of the DATA Act implementation, we are conducting a series of audits reviewing Treasury's efforts to meet its responsibilities under the act.

Treasury's Government-wide DATA Act Implementation Continues, but Project Management Concerns Remain

In this audit, the second in the series, we determined the sufficiency of plans and actions taken by Treasury and its Bureau of the Fiscal Service (Fiscal Service) to timely comply with DATA Act provisions to (1) establish Government-wide financial data standards for Federal funds made available to or expended by Federal agencies and entities receiving Federal funds, (2) ensure that this financial data is accurately posted and displayed on USAspending.gov (or a successor system) by May 2017, and (3) ensure the established data standards are applied to the data made available on the website by May 2018.

Treasury continued to make progress in implementing the DATA Act. However, Treasury's project management practices could, if not addressed, hinder the

timely, comprehensive, Government-wide implementation of the program. We noted that Treasury missed a project plan deadline for finalizing critical agency guidance. As a result, timely completion of the system needed to submit agency spending data is at risk. In addition, we identified several risks to implementing the DATA Act on time: (1) Treasury’s finalization of the standard data exchange, called the DATA Act Schema version 1.0, was delayed; (2) Treasury’s production-ready broker and related documentation for agencies were delayed; (3) Treasury and OMB cannot be sure that all Federal agencies submitted DATA Act implementation plans as required by OMB because Treasury and OMB have not determined the entire population of agencies to which the DATA Act applies; (4) Treasury has not developed a human resource plan to define the staffing needed to accomplish its strategic goal of making financial management data accessible and reusable; (5) Treasury and OMB lack controls to ensure prompt responses to Federal agency DATA Act questions; and (6) Treasury has not ensured the accuracy of basic progress metric reporting nor has it formally documented key management decisions.

To address these risk factors, we recommended that Treasury, working as needed with OMB (1) finalize and release the production-ready broker to Federal agencies in an expeditious manner; (2) determine the population of Federal agencies required to comply with the DATA Act, and ensure that a Senior Accountable Official has been identified and a DATA Act implementation plan has been submitted to OMB for each agency in the population; (3) develop a comprehensive, documented human resource plan for Treasury’s DATA Act implementation efforts; (4) clear the backlog of unaddressed DATA Act stakeholder questions and develop standard operating procedures to ensure that stakeholder questions and feedback are accounted for and addressed in a timely manner; and (5) continue efforts to strengthen project management over the DATA Act implementation, ensuring that (a) progress metrics provide a consistent, accurate measure of task status and (b) key management decisions are documented. Treasury management agreed with our recommendations and outlined corrective actions. Overall, we found that management’s response meets the intent of our recommendations. However, management’s response lacked specificity as to the timeframe for implementing the actions. We asked that management establish target dates for planned corrective actions in Treasury’s audit follow up system, the Joint Audit Management Enterprise System (JAMES). **(OIG-16-047)**

RESTORE Act Audits

As part of our ongoing oversight of Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012 (RESTORE Act) programs, we assessed the Gulf Coast Ecosystem Restoration Council's (Council) activities funded by the act. During this semiannual period, we issued reports on the Council's Programmatic Environmental Assessment (PEA) and on the Council's process for evaluating and selecting programs and projects under the Council-Selected Restoration Component of the RESTORE Act.

Gulf Coast Ecosystem Restoration Council's Records Management System Needs Improvement

The Council developed a PEA to evaluate the potential environmental impacts related to its Initial Comprehensive Plan. We concluded that the PEA conformed to the RESTORE Act and with the National Environmental Policy Act of 1970; however, we noted weaknesses in certain areas of the Council's operations related to other Federal requirements. Specifically, the Council's records management system needed improvement. Documentation was either missing or incomplete and what did exist was not organized to facilitate efficient retrieval of information. Furthermore, the Council lacked policies and procedures for maintaining records and it did not timely make all comments received related to the Draft Initial Comprehensive Plan and Draft PEA available to the public as required by the E-Government Act of 2002.

We recommended that the Council establish and implement appropriate records management policies and procedures to document the decision making process, ensure transparency of the Council's operations, and address the handling and public disclosure of comments related to proposed rulemaking. In its response, the Council concurred with our recommendation and noted that policies and procedures have been implemented that address records management generally, and specifically the handling and public disclosure of comments related to proposed rulemaking and other Council actions requiring public notice and comment. If implemented as stated, we consider management's corrective actions to meet the intent of our recommendation. **(OIG-16-051)**

Council’s Evaluation Criteria and Selection Process for the Funded Priorities List Met Requirements

We found that the Council’s evaluation criteria and selection process for programs, projects, and activities included in the Funded Priorities List under the Council-Selected Restoration Component met applicable requirements. Accordingly, we made no recommendations to the Council. **(OIG-16-037)**

American Recovery and Reinvestment Act Audits

The American Recovery and Reinvestment Act of 2009 (Recovery Act) authorized Treasury’s 1602 Program—Payments to States for Low-Income Housing Projects in Lieu of Low-Income Housing Tax Credits (1602 Program). As part of our ongoing oversight of the 1602 Program, we conducted audits of awards made to selected State housing credit agencies to assess whether the agencies awarded 1602 Program funds complied with the program’s requirements. During this semiannual period, we completed audits of payments to the California Tax Credit Allocation Committee (CTCAC) and the Virginia Housing Development Authority (VHDA).

California Tax Credit Allocation Committee’s Payment Under 1602 Program

We found that CTCAC did not fully comply with Treasury’s 1602 Program requirements at the time of our review. Although CTCAC substantially met the eligibility and compliance requirements set forth in Section 42 of the Internal Revenue Code (IRC) and Section 1602 of the Recovery Act for receiving its \$477.9 million award, it did not meet all requirements for subawarding those funds to low-income housing projects. Specifically, CTCAC earned \$43,083 of interest in excess of \$200 allowed by Treasury’s 1602 Program requirements. Interest earned in excess of \$200 that was not applied to project disbursements should have been returned to Treasury. CTCAC returned \$9,199 of unallowable interest to Treasury between March 2011 and February 2012. In verifying the accuracy of the amount remitted, we identified an additional \$33,884 of unallowable interest due to a miscalculation. CTCAC officials agreed with our calculation and remitted the additional unallowable interest to Treasury in April and May 2015.

Also required by the 1602 Program, CTCAC established a process for monitoring the long-term viability of projects and their compliance with the

1602 Program requirements, and met all of Treasury’s reporting requirements. We did not make any recommendations to Treasury in our report but did emphasize the need for continued diligence on the part of CTCAC to ensure compliance with the 1602 Program over the remaining 15-year compliance period. **(OIG-16-044)**

Virginia Housing Development Authority’s Payment Under 1602 Program

We found that VHDA generally complied with Treasury’s 1602 Program requirements for receiving its \$112.5 million of 1602 Program funds as well as requirements for subawarding those funds to low-income housing projects. VHDA also established a process for monitoring the long-term viability of projects and their compliance with the 1602 Program requirements, and met all of Treasury’s reporting requirements. We did not make any recommendations to Treasury in our report but did emphasize the need for continued diligence on the part of VHDA to ensure compliance with the 1602 Program requirements over the remaining 15-year compliance period. **(OIG-16-053)**

Financial Management

As required by the Improper Payments Elimination and Recovery Act of 2010 (IPERA), we reported on Treasury’s and the Gulf Coast Ecosystem Restoration Council’s (Council) overall compliance with IPERA for fiscal year 2015. We also assessed compliance with additional improper payment reporting requirements set forth in Executive Order 13520, “Reducing Improper Payments and Eliminating Waste in Federal Programs,” and the Improper Payment Elimination and Recovery Improvement Act of 2012 (IPERIA).

Treasury Was Not in Compliance with IPERA for Fiscal Year 2015 Due to High Improper Payment Rate for the Earned Income Tax Credit Program

For the fifth consecutive year, we determined that Treasury was not in compliance with IPERA due to the IRS’ Earned Income Tax Credit (EITC) program deficiency reported by The Treasury Inspector General for Tax Administration (TIGTA). Specifically, IRS has not reported an improper payment rate of less than 10 percent as required by IPERA. We also determined that Treasury did not fully comply with OMB’s reporting requirements for payment

recapture audits. In addition, we included in our report TIGTA's determination that Treasury's annual risk assessment process did not provide a valid assessment of refundable credit improper payments related to the Additional Child Tax Credit (ACTC) and American Opportunity Tax Credit (AOTC). We determined that Treasury was in compliance with all other IPERA, Executive Order 13520, and IPERIA improper payment reporting requirements.

IRS submitted a legislative proposal requesting correctable error authority as part of its fiscal year 2017 budget submission. Correctable error authority would provide IRS with a tool to systematically correct the erroneous EITC claims that are identified when tax returns are processed. As such, we did not repeat our prior years' recommendation that Treasury submit a comprehensive plan to Congress that includes a description of the corrective actions it will take to remediate noncompliance with IPERA due to IRS' EITC deficiency.

As new recommendations, (1) Treasury should update its IPERA guidance to clarify the reporting requirements for Treasury bureaus and Departmental Offices' subcomponents payment recapture audits; and (2) ensure that the Risk and Control Group, within the Office of the Deputy Chief Financial Officer, strengthen its review and oversight of the data reported by components on payment recapture audits to accurately reflect the results of recapture audits. We also recommended that the Assistant Secretary for Management work with IRS as necessary to ensure TIGTA's recommendations related to ACTC and AOTC improper payments risk assessment processes are implemented, and appropriate action is taken to report on and reduce improper payments associated with these refundable tax credit programs. In its response, Treasury management stated that it intends to reinforce and enhance the current department-wide guidance concerning disposition of recaptured improper payments and that it will continue to ensure that recaptured improper payments are disposed of in accordance with Appendix C of OMB Circular No. A-123, "Requirements for Effective Estimation and Remediation of Improper Payments" (OMB M-15-02). Management also noted that Treasury and IRS had begun taking steps to improve the risk assessment related to ACTC and AOTC programs. We consider the actions taken and planned to meet the intent of our recommendations. **(OIG-16-041)**

Gulf Coast Ecosystem Restoration Council Did Not Administer Programs and Activities Susceptible to Significant Improper Payments

Based on results of the Council’s fiscal year 2015 financial statement audit, we determined that the Council did not have programs and activities susceptible to significant improper payments in fiscal year 2015. That is, total program and activity expenditures were less than the threshold and reporting requirements for “significant improper payments” specified in OMB M-15-02. Additionally, the Council did not have any OMB designated high-priority programs or other risk susceptible programs. Furthermore, although expenditures were greater than \$1 million, the Council justified that conducting a payment recapture audit program for its programs and activities was not cost effective. Accordingly, the Council was not required to perform, and did not perform, payment recapture audits during fiscal year 2015. We did, however, determine that the Council was compliant with all of the applicable requirements set forth in PART II-A. 3) of OMB M-15-02. **(OIG-CA-16-019)**

Attestation Engagements

We completed three reports described below in support of the audit of Treasury’s fiscal year 2016 consolidated financial statements and the financial statement audits of certain other Federal agencies.

Report on the Processing of Transactions by Fiscal Service

KPMG LLC (KPMG), working 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 Fiscal Service’s Administrative Resource Center for the period beginning July 1, 2015, and ending June 30, 2016. 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-16-055)**

KPMG, working under a contract with our office, examined general computer and investment/redemption processing controls used for various Federal agencies’ transactions by Fiscal Service’s Federal Investments and Borrowings Branch, and general computer and trust funds management processing controls used for various Federal and State agencies’ transactions by the bureau’s Funds Management Branch for the period beginning August 1, 2015, and ending July 31, 2016. 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-16-057; OIG-16-058)**

Treasury Financial Audits

The following instances of noncompliance with the Federal Financial Management Improvement Act of 1996, were reported in connection with the audit of Treasury’s fiscal year 2015 consolidated financial statements (they all relate to IRS).

Condition	Type of noncompliance
Internal control deficiencies in financial management systems for unpaid tax assessments continue to exist. As a result of these deficiencies, IRS was unable to (1) use its general ledger system and underlying subsidiary records to classify and report Federal taxes receivable and other unpaid tax assessments, in accordance with Federal accounting standards without a labor-intensive manual compensating estimation process; (2) use its subsidiary ledger for unpaid tax assessments to prepare reliable, useful, and timely information to manage and report externally because IRS’ financial systems and errors in taxpayer accounts render the systems unable to readily distinguish between taxes receivable, unpaid tax assessments, and write-offs in order to properly classify these components for financial reporting purposes; and (3) effectively prevent or timely detect and correct errors in recording taxpayer information. (first reported in fiscal year 1997)	Federal financial management systems requirements
Financial management systems were unable to support the taxes receivable amount on the consolidated balance sheet, and the compliance assessments and write-offs in the required supplementary information disclosures, in accordance with Statement of Federal Financial Accounting Standards No. 7, <i>Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting</i> . (first reported in fiscal year 1997)	Federal accounting standards

The status of these instances of noncompliance, including progress in implementing remediation plans, will be evaluated as part of the audit of Treasury’s fiscal year 2016 consolidated financial statements.

Other Audits of Treasury Programs and Operations

Treatment of Legacy Financial Management Service Employees

In response to Senate Report 114-97, we reported on the treatment of legacy Financial Management Service (FMS) employees at Fiscal Service. We conducted our audit consistent with the Committee on Appropriation’s directive that special attention be given to whether any employees had faced intimidation, demotion, or actions that would discourage the employees from continuing their employment with the bureau.

We found no evidence of widespread adverse action against legacy FMS employees, but ongoing reorganization activity and the concurrent Position Management Review have led to fear of demotion. Also, a transfer of responsibilities may have created dissatisfaction or discouragement; and management’s reaction to supervisors’ failure to support consolidation plans may have been perceived as intimidation.

We recommended that the Commissioner of Fiscal Service (1) develop and document a formal plan for the 2019 relocation that (a) specifically identifies the employees that will relocate and those that will remain, (b) specifies steps management will take to facilitate the post relocation integration of all employees into the resulting organizational structure, work and culture, regardless of location, and (c) sets out the specific steps that management will take to ensure fair and equitable treatment of displaced workers, including access to reasonable transition assistance; (2) continue to engage the National Treasury Employees Union to ensure that information regarding the relocation plan and provision of resources for affected employees are communicated early and often; (3) continue to actively monitor Fiscal Service’s Position Management Review process, as it is executed, to ensure that (a) planned actions facilitate employee engagement, (b) outcomes align with Fiscal Service positions and Office of Personnel Management guidance, (c) fair treatment of employees changed to a lower grade are consistently followed, and (d) reasons for significant changes to a lower grade, should they occur, are fully understood and addressed; and (4) continue existing efforts to build communication and trust across the organization. In its response, Fiscal Service management targeted December 31, 2016, to finalize the 2019 Directed Reassignment Plan and agreed to actively monitor its Position Management Review while continuing to engage the National Treasury Employees Union and improving communication with staff. We consider management responsive to our recommendations. **(OIG-16-049)**

Treasury Has Policies and Procedures to Safeguard Classified Information but They Are Not Effectively Implemented

The Office of Security Programs (OSP) is responsible for establishing Treasury policies and procedures for classification management based on Executive Order 13526, “Classified National Security Information,” and other Federal sources. OSP is also responsible for (1) developing security training programs, (2) monitoring Departmental Offices’ and bureaus’ compliance with Federal and Treasury requirements for classified information, (3) reporting on Treasury’s information security programs to the Information Security Oversight Office, and (4) representing Treasury interests on interagency forums.

OSP had policies and procedures in place to safeguard classified materials, but continued to have difficulty ensuring that these policies and procedures were consistently followed. Our findings in this evaluation were similar to those identified in

our 2013 report.² We noted continuing concerns with (1) marking classification decisions; (2) completing the Standard Form (SF) 311, Agency Security Classification Management Program Data; and (3) complying with self-inspection requirements. In addition, we identified a new area of weakness—inadequate maintenance of security training documentation.

To address these matters we recommended that the Assistant Secretary for Intelligence and Analysis direct the Deputy Assistant Secretary for Security to (1) emphasize to derivative classifiers the importance of properly marking classification decisions, including adding a note in classified emails to remind employees to properly portion mark emails before sending; (2) update the Treasury Security Manual to include OSP responsibilities to ensure timely, accurate, and complete SF 311 submissions by OSP, Departmental Offices, and bureaus; (3) provide additional guidance and training to SF 311 preparers focusing on areas of repeated weaknesses such as difficulties identifying the difference between original and derivative classification decisions; (4) emphasize to bureaus with employees who handle and generate classified information the importance of conducting annual self-inspections, documenting the results, and submitting the reports to OSP; (5) update the Treasury Security Manual to include procedures requiring OSP to follow-up and obtain all bureau self-inspection reports; (6) ensure that training materials are periodically reviewed and updated to include current Federal and Treasury requirements; and (7) use Treasury Learning Management System or a similar system to retain records of training and monitor completion of required derivative classifier and original classifier training. Treasury management agreed with our recommendations, however, its response lacked specificity as to the timeframe for implementing the actions. We asked that management provide estimated dates for completing its planned corrective actions in JAMES. We consider management’s actions, both taken and planned, to meet the intent of our recommendations. **(OIG-16-059)**

Analysis of Bank Failures Reviewed by OIG

We analyzed material loss review (MLR), failed bank review, and in-depth review reports we issued between 2008 and 2012, as well as Office of the Comptroller of the Currency’s (OCC) actions to strengthen its bank supervision process. We determined the most common themes associated with the failed banks were (1) asset concentrations, (2) inadequate credit administration and risk management, and (3) reliance on wholesale funding. In addition, we identified certain matters in 29 failed

² *Treasury Has Policies and Procedures to Safeguard Classified Information But Implementation Needs to Be Improved*, (OIG-13-055; issued Sep. 27, 2013).

banks relating to potential fraud that we referred or provided information on to our Office of Investigations. Further review of these matters led to the prosecution of several individuals.

We also identified common supervisory themes of the banks prior to their failures. OCC's supervision was appropriate in some of the banks and OCC's and the legacy Office of Thrift Supervision's (OTS) uses of authority under prompt corrective action (PCA) were generally in accordance with PCA requirements. However, for many banks, OCC and legacy OTS did not take timely and/or strong enough supervisory actions and/or did not timely identify or failed to identify key issues.

OCC generally concurred with the recommendations we made in our MLR and in-depth review reports, and in response, it implemented policies and procedures, updated examination guidance, and took other corrective actions consistent with the intent of our recommendations. In this report, we recommended that OCC (1) continue to address recommendations from our MLRs and in-depth reviews, (2) participate in various committees and groups to identify emerging risks and communicate them to examiners and banks, and (3) use its newly implemented lessons-learned review program. We consider management's actions, both taken and planned, to meet the intent of our recommendations. **(OIG-16-052)**

Treasury's Activities to Protect Critical Infrastructure in the Financial Services Sector

We reviewed Treasury's activities under Presidential Policy Directive 21, "Critical Infrastructure Security and Resilience" (PPD-21), and Executive Order 13636, "Improving Critical Infrastructure Cybersecurity" (EO 13636) to determine whether Treasury fulfilled its role and responsibilities as the sector-specific agency for the financial services sector and met the requirements of PPD-21 and EO 13636. PPD-21 establishes a national policy on critical infrastructure security and resilience and designates Treasury as the sector-specific agency for the financial services sector. EO 13636 directs the establishment of a framework to reduce cyber risks to critical infrastructure.

We concluded that as the sector-specific agency designated to protect critical infrastructure in the financial services sector, Treasury met the obligations of PPD-21 and EO 13636 as of March 2016. Specifically, Treasury coordinated with the Department of Homeland Security (DHS) and provided information to DHS necessary to meet its reporting requirements under PPD-21 and EO 13636. In addition, DHS will

be required to report to the President the extent of private sector participation in a voluntary program intended to show support for the adoption of a Cybersecurity Framework. Treasury plans to assist DHS with this anticipated reporting requirement for the financial services sector.

We did not make any recommendations to Treasury as a result of our review; however, Treasury stated that it will continue to work to fulfill its ongoing responsibilities related to critical infrastructure for the financial services sector. **(OIG-16-038)**

Treasury Established Appropriate Conference, Travel, and Award Policies

In response to Congressional interest and public concerns that arose after several Inspectors General reported on excessive spending and mismanaged Government conferences in Federal agencies, we performed an audit to determine whether Treasury bureaus had policies and procedures in place to facilitate compliance with applicable Federal laws, regulations, and executive orders on conferences, travel, and employee award programs. The scope of our review was fiscal years 2010 to 2012.

We found that the bureaus we reviewed had established conference policies and procedures; however, at the time of our fieldwork, five of the eight bureaus' conference policies lacked certain important topics related to planning, hosting, and/or reporting on conferences. On May 6, 2013, Treasury revised its directive on conferences and required all Treasury bureaus to update their policies. Treasury bureaus have since updated their conference policies using the new directive. In addition, we found that Treasury bureaus established policies for travel and employee awards that complied with applicable Federal laws, regulations, and executive orders. Since the bureaus have updated their conference policies to address the identified deficiencies and comply with applicable laws, regulations and guidance, we did not make any recommendations to Treasury management. **(OIG-16-043)**

Fiscal Service Appropriately Offset Payments for Debts Owed to Creditor Agencies, but Improvements Can Be Made

In response to media reports in April 2014 concerning allegations that Treasury erroneously offset Federal tax refunds to resolve long overdue debts owed to the Social Security Administration (SSA) that were incurred by parents or other parties related to the taxpayers, we initiated an audit of the Fiscal Service's role in the offset

of tax refunds and other types of payments to resolve non-tax debts owed to the Federal Government.

Fiscal Service used debtor information provided by SSA and other creditor agencies for offset screening purposes. Only payment requests that matched eligible debtor information certified as accurate by creditor agencies were offset. Creditor agencies were responsible for maintaining debt and debtor information on the Treasury Offset Program (TOP) database used by Fiscal Service to offset payments. We did find that, under certain conditions, offsets exceeded balances due on delinquent debts most often a result of timing delays in posting offsets made by State agencies or non-Treasury disbursing offices (NTDO) on behalf of Fiscal Service, or in cases where creditor agencies failed to update TOP debt balances timely for funds collected directly from debtors.

We recommended that Fiscal Service continue efforts to reduce over-collections by enhancing its recently implemented TOP Next Generation system so that the system considers information about State and NTDO anticipated offsets. Fiscal Service agreed with the recommendation and stated that it continues to work with NTDOs and State agencies to decrease the file exchange time frames to reduce over-collections and that it planned to work with Federal salary paying agencies in a similar effort.

We also reported that Fiscal Service provides an address update service through which creditor agencies can obtain updated debtor address information from IRS for their offset notifications. Although agencies are not required to use this service, Fiscal Service officials said that the address information it obtains from IRS is often more up to date than what is in the agencies' files. We recommended that Fiscal Service, as a matter for consideration, issue periodic reminders to all creditor agencies of the availability and value of the address update service for use in contacting debtors. Fiscal Service agreed with the recommendation and stated that it would continue to remind creditor agencies through guidance, webinars, and workshops. We consider Fiscal Service's actions, both taken and planned, to meet the intent of our recommendations. **(OIG-16-039)**

Fiscal Service Faces Challenges in Obtaining Better Death Information for the Do Not Pay Business Center, But Alternatives Exist

IPERIA requires that Federal agencies review several databases, including the SSA's Death Master File, before issuing any payment or award. Fiscal Service's Do Not Pay Business Center (Center) supports Federal agencies by providing a central point of

review using these databases. However, challenges exist which limit the Center's ability to access the most complete death data maintained by SSA. Our objectives were to identify these challenges and possible solutions to overcome the challenges.

We found that three conditions impacted the Center's access to death information in the Death Master File: (1) SSA's interpretation of the Social Security Act prohibits SSA from sharing its full death file with Fiscal Service; (2) the slow pace of legislation that could allow for sharing; and (3) the lengthy approval process to make additional databases available to the Center beyond those required by IPERIA. We also identified alternatives to improve the quality of the death data used by the Center, which include (1) continuing to pursue the use of additional data sources, such as the commercial sources currently under evaluation; (2) periodically re-evaluating a nonprofit organization representing the State vital records offices as a potential data source; and (3) entering into contracts with individual States to obtain State-reported death data.

Subsequent to the completion of our fieldwork, Congress enacted the Federal Improper Payments Coordination Act of 2015. This law amended IPERIA to, among other things, make a technical correction to the database of death records that is to be used by the Do Not Pay Initiative. In addition, Fiscal Service is working with OMB to identify commercial databases of death information to supplement the public Death Master File, and to gain OMB's approval to use such databases for Do Not Pay purposes.

We recommended that Fiscal Service (1) work with OMB and SSA to implement the Federal Improper Payments Coordination Act of 2015 to ensure all death records maintained by SSA are available to Fiscal Service to help prevent, identify, or recover improper payments; (2) continue to work with OMB to designate additional cost effective and accurate data sources for the Center and identify possible ways to shorten the designation process; and (3) periodically evaluate sources of death information for the Center and consider adding cost-beneficial alternatives. Fiscal Service management agreed with our recommendations. We consider Fiscal Service's actions, both taken and planned, to meet the intent of our recommendations.

(OIG-16-042)

Departmental Office's Office of Minority and Women Inclusion is Generally Carrying Out Its Functions Consistent with Dodd-Frank Act

Section 342 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank) required Treasury to establish an Office of Minority and Women Inclusion (OMWI) within its Departmental Offices. OMWI is charged with responsibility

for all matters of Departmental Offices related to diversity in management, employment, and business activities, except for the enforcement of statutes, regulations, or executive orders pertaining to civil rights. We reviewed Treasury's activities to establish OMWI within its Departmental Offices and OMWI's functions for consistency with the act. We concluded that OMWI was generally carrying out its functions consistent with the act. Since its establishment in January 2011, OMWI has engaged in numerous activities including staffing the office, issuing annual reports, advising Treasury management, and taking affirmative steps to seek diversity in the workforce. As part of its requirement to develop standards and/or procedures to review and evaluate contract proposals, OMWI also formalized the requirement for a written statement to be included in certain contracts affirming the contractor's commitment to ensuring the fair inclusion of women and minorities in its workforce. However, OMWI was still in the process of addressing the requirement to develop and implement procedures to determine whether contractors are making a good faith effort to include minorities and women in their workforce.

We recommended that OMWI complete with deliberate speed the process of developing and implementing procedures to review and evaluate whether agency contractors have made good faith efforts to include minorities and women in their workforce. In its response, OMWI management agreed with our recommendation and stated that it is developing a revised process under which it would obtain relevant data from the Department of Labor, Office of Federal Contract Compliance Programs (OFCCP) and conduct independent assessments on the basis of the data. OMWI is in the process of adding capacity to effectively process OFCCP data in order to begin substantive good faith effort reviews and it expects to begin substantive assessments in fiscal year 2017. We consider management's actions, both taken and planned, responsive to our recommendation. **(OIG-16-054)**

Banks Inaccurately Reported Qualified Small Business Lending Gains

We determined the accuracy of Qualified Small Business Lending (QSBL) for the quarter ended September 30, 2013, reported to Treasury by Small Business Lending Fund (SBLF) participants for the 1st quarter 2014 dividend rate adjustments. We found that 71 percent of participants tested made errors in reporting their QSBL for the quarter ended September 30, 2013. The net effect of these errors resulted in over-reporting QSBL by approximately \$14 million, but did not alter the fixed dividend rates for those participants in our sample. Nonetheless, participants' supplemental reports and Treasury's January 2014 *Report on SBLF Participants' Small Business*

Lending Growth (Lending Growth Report), submitted to Congress, were not accurate based on the errors identified.

We also noted that Treasury’s review of participants’ quarterly supplemental reports (QSR), which provided the basis for the January 2014 Lending Growth Report, was not sufficiently designed to identify unqualified loans or ensure QSBL was accurately reported.

We recommended that the Deputy Assistant Secretary for Small Business, Community Development, and Housing (1) ensure that QSBL errors identified in the report be disclosed in Treasury’s July 2016 Lending Growth Report and (2) strengthen future reviews of SBLF bank participants’ QSRs to better identify unqualified loans and improve reporting of QSBL in the Lending Growth Reports. In its response, management agreed to disclose QSBL errors identified in Treasury’s January 2014 Lending Growth Report in its July 2016 report.³ Management also agreed to work with SBLF participants to improve the reporting of QSBL going forward. However, the response lacked specificity as to the planned corrective actions and the timeframe for implementing the actions. We emphasized that management will need to identify specific actions and establish timeframes for completion in JAMES. **(OIG-16-045)**

Spectra Systems Corporation’s Cost Proposal in Response to Solicitation BEP-RFP-16-0419

Due to the confidential nature of cost data, the report is designated Sensitive But Unclassified. **(OIG-16-046)**

³ Treasury disclosed the errors in a footnote on page 2 of its *Report on SBLF Participants’ Small Business Lending Growth*, July 2016.

Office of Investigations – Significant Investigations

Subjects Arrested for Bank Fraud

Our joint investigation with the Fayetteville, North Carolina Police Department determined that multiple subjects in the Fayetteville area were involved in an organized scheme to defraud several local banks and credit unions. The scheme involved opening accounts with stolen identities, depositing counterfeit business checks into those accounts, and removing the funds before the checks are identified as counterfeit. The estimated loss was approximately \$3.7 million. During this reporting period, three individuals were indicted and subsequently arrested for Bank Fraud. One subject pled guilty to Bank Fraud in U.S. District Court, Eastern District of North Carolina. Trial dates are pending for the other two subjects. The investigation is ongoing and additional indictments and arrests are anticipated in the Eastern and Middle Districts of North Carolina.

Arrest Warrants Issued for Subjects Cashing Counterfeit Business Checks

Our joint investigation with the Jacksonville, Florida Sheriff's Office determined that a subject was generating counterfeit identification documents to open accounts at OCC-regulated financial institutions to cash counterfeit business checks. There was approximately \$1 million in fraudulent withdrawals and wire transfers. An arrest warrant was executed on the subject and a 2016 Ford Mustang was seized. An additional arrest warrant was obtained for a co-conspirator, and identification of additional subjects and victims is ongoing.

Two Sovereign Citizen Subjects Charged for Using Fictitious Obligations

Our investigation determined that two individuals, aligning themselves with the Sovereign Citizen ideology, presented a fictitious document titled "International Bill of Exchange" as payment to obtain seven new automobiles worth over \$160,000. Other attempts were made by the individuals, using the same method, to purchase additional new vehicles. Both individuals have been criminally charged within the U.S District Court for the District of Maryland for using Fictitious Obligations. Plea negotiations are ongoing at this time.

Subject Indicted and Arrested for Bank Fraud

Our investigation determined that a North Carolina bank customer was involved in a check kiting scheme that resulted in a loss of \$72,865 to an OCC-regulated bank.

During this reporting period, the subject was indicted on 21 counts of Bank Fraud. The subject self-surrendered to the United States Marshals Service in Chicago, Illinois and is currently awaiting trial.

Subject Indicted for Stealing Retirement Benefits from a Victim Suffering Mental Health Issues

Our investigation determined that a subject unlawfully obtained D.C. retirement benefits of a victim who lives in a nursing home and suffers from mental health issues. The subject was indicted for Theft of Property between \$10,000 and \$60,000. Judicial action against the subject is pending.

Two Subjects Indicted and Arrested for Negotiating Altered U.S. Treasury Checks

Our joint investigation with the U.S. Secret Service, the U.S. Postal Inspection Service (USPIS), and SSA OIG determined that two California subjects negotiated stolen and altered U.S. Treasury checks totaling approximately \$24,000. The subjects used stolen identities to create fictitious documents to facilitate this scheme. The subjects were indicted and subsequently arrested for Bank Fraud, Aggravated Identity Theft, Theft of Government Money, and Possession with Intent to Distribute Methamphetamines. Both subjects are being held in Federal custody pending trial.

BEP Police Officer Arrested for Threats against Another BEP Police Officer

Our investigation determined that while off-duty, a Bureau of Engraving and Printing (BEP) police officer threatened violence against another BEP police officer. The subject made the threat over the telephone to a third-party, who is also a BEP police officer. The subject threatened to carry out the violent act at the BEP facility in Fort Worth, Texas. The subject was arrested for making terroristic threats. Judicial action is pending.

U.S. Mint Employee Charged with Assaulting a Fellow Employee

Our investigation determined that, while on duty, a U.S. Mint employee assaulted a contract worker at the Denver, Colorado Mint. The subject of our investigation grabbed the arm of the victim, forcing the victim against a wall. The subject has been charged with Simple Assault by the direction of the U.S. Attorney's Office for the District of Colorado.

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

Multiple Subjects Plead Guilty to Charges in Massive Identity Theft and Tax Fraud Scheme

As reported in previous semiannual periods, our joint investigation with IRS and USPIS, determined that multiple subjects conspired to defraud the Federal Government by producing at least 12,000 fraudulent Federal income tax returns using stolen identities, and negotiating the resulting tax refund payments, totaling at least \$40 million for personal gain.

Update: During this reporting period, two arrests were executed on the two main targets in the investigation. The investigation determined that from 2008 to 2013, the subjects filed fraudulent tax returns and recruited others to do the same using information obtained willingly from co-conspirators and from stolen personally identifying information (PII), obtained tax refund checks via the U.S. Mail, recruited others to receive Treasury checks at addresses controlled by the subjects, recruited a U.S. Postal carrier to steal Treasury checks from the mail, recruited individuals and bank tellers to deposit and negotiate Treasury checks through bank accounts, and recruited tellers at Money Service Businesses to negotiate Treasury checks. One subject was sentenced to 48 months in prison and 36 months of probation. The second subject was sentenced to 18 months in prison and 36 months of probation. Additionally, two further subjects have been indicted. To date, the joint investigation has resulted in the arrest of 40 subjects, 33 guilty pleas, and 15 subjects being sentenced to nearly 384 months in prison, followed by 708 months of probation, and being ordered to pay approximately \$6.7 million in restitution, fines and seizures. Total restitution, fines, and seizures are expected to exceed \$40 million.

Subject Pleads Guilty in Federal Court to Theft of Recovery Act Funds

As reported in the previous semiannual period, our investigation determined that a subject submitted false documentation, including falsified engineering reports and fake utility company interconnection agreements, while requesting over \$26 million under Section 1603 of the Recovery Act for installation of solar panel systems. The subject pled guilty to Wire Fraud for fraudulently obtaining over \$9 million in excess Recovery Act funds. Sentencing is pending.

Update: During this reporting period, the subject was sentenced to 13 months in prison, 36 months of probation, 600 hours of community service, and was ordered to pay \$8.9 million in restitution.

Subject Found Guilty of Theft of Government Funds and Theft or Receipt of Stolen Mail

Our joint investigation with SSA OIG, USPIS, and the U.S. Postal Service (USPS) OIG determined that several SSA recipients in the Pinellas County, Florida area did not receive their benefits checks in May 2012. The stolen checks, totaling approximately \$2.3 million, were subsequently cashed in North Florida and South Georgia. To date, five individuals, including a USPS employee, have been arrested for Theft of Government Funds and Possession of Stolen Mail.

Update: During this reporting period, one of the five individuals was found guilty of Theft of Government Funds and Theft or Receipt of Stolen Mail, by a U.S. District Court Jury in Tampa, Florida. Sentencing has tentatively been scheduled for November 2016 and a trial date is pending for one of the other four individuals. The investigation is ongoing.

Multiple Subjects Indicted for U. S. Mint Purchases Using Stolen Identifications

As reported in previous semiannual periods, our joint investigation with the U.S. Secret Service, DHS, and USPIS determined that multiple subjects had conspired to commit identity fraud, theft, and access device fraud by obtaining PII of U.S. citizens. These subjects used the stolen identities to make debit card purchases of U.S. Mint products and items from home goods stores, then quickly canceled the transactions to obtain refunds on the stolen debit cards.

Update: During this reporting period, the main subject pled guilty, in the District of Maryland, to Conspiracy to Commit Bank Fraud, Access Device Fraud, and Aggravated Identity Theft. The main subject and five other subjects were sentenced to a cumulative 129 months in prison, 240 months of probation, and ordered to pay \$1.6 million in restitution.

Subject Pleads Guilty to Theft of Public Money

As reported in the previous semiannual period, our joint investigation with IRS and the OIG's of SSA and DHS determined that a subject operated a scheme where false tax returns were filed and over \$800,000 in tax refunds were directed to a business account under the control of the subject. The subject was also receiving improper Social Security and Medicare benefits. The subject pled guilty to Theft of Public Money and Tax Fraud and sentencing is pending. Prosecution is expected against a second subject who assisted in submitting the false tax returns to IRS.

Update: During this reporting period, the first subject was sentenced to 24 months in prison, 36 months of probation, and ordered to pay \$836,167 in restitution. Additionally, the subject had \$768,460 seized representing the proceeds of the charged offenses. Prosecution is pending against the second subject.

Subject Arrested for Wire Fraud and Social Security Benefit Fraud

As reported in a previous semiannual period, our joint investigation with SSA OIG determined that a subject received approximately \$109,000 in improper Social Security benefits. Additionally, the subject improperly used a Social Security number to access the bank accounts of two elderly individuals. The subject took control of the bank accounts and received approximately \$700,000 through automated teller machine withdrawals. The subject was indicted and arrested for violations of Wire Fraud and Social Security benefit fraud.

Update: During this reporting period, the subject pled guilty to Wire Fraud in the U.S. District Court for the District of Maryland. The subject was sentenced to 36 months in prison, 36 months of probation, and restitution in the amount of \$748,403.

Two Subjects Indicted for Submitting Fraudulent Recovery Act Applications

As reported in previous semiannual periods, our joint investigation with the Department of Energy OIG and the Federal Bureau of Investigation led to an indictment of a brother and sister in Arizona for conspiring to submit fraudulent applications and invoices to receive approximately \$338,000 in funds for solar projects under Section 1603 of the Recovery Act. One subject pled guilty to Fraud—Official Certificates or Writings regarding the receipt of \$338,000 in Recovery Act funds. The

second subject was charged with Conspiracy and Wire Fraud. Sentencing for the first subject is pending and a trial date is pending for the second subject.

Update: During this reporting period, the second subject pled guilty to Conspiracy to Commit Wire Fraud regarding the receipt of \$338,000 in Recovery Act funds. Sentencing for both subjects is pending.

Former Treasury Employee Pleads Guilty to Theft and Conversion of Government Funds

As reported in previous semiannual periods, our investigation determined that between October 2010 and January 2013, a Treasury employee, prior to retirement, charged approximately \$142,000 in 62 separate transactions using Treasury-issued purchase cards for the purported purchase of office supplies and equipment. In fact, no office supplies or equipment were purchased. The Treasury employee colluded with a vendor in which the vendor would charge the Government purchase card and then wire a large portion of the transaction amount into the employee's personal bank account. In the Federal District Court of Maryland, the former Treasury employee pled guilty to Theft and Conversion of Government Funds and agreed to pay restitution in the amount of \$142,000. In January 2016, the former Treasury employee was sentenced to 36 months of probation, 12 months of which is to be served on monitored home detention, and ordered to pay \$142,000 in restitution. Prosecution of the owner of the company is anticipated.

Update: During this reporting period, the owner of the company pled guilty to one count of Theft of Public Money. Sentencing is pending.

Subject Pleads Guilty to Theft of Government Money, Wire Fraud and Receiving Stolen Government Property

As reported in a previous semiannual period, our investigation determined that a subject fraudulently redeemed stolen paper U.S. Savings Bonds totaling \$74,735 through a Treasury Direct account. To accomplish this fraud scheme, the subject used the victim's personal information to establish a Treasury Direct account in the victim's name, converted the paper savings bonds to electronic bonds, and subsequently deposited the funds into the subject's personal bank account. The subject was indicted in the Central District of California for two counts of Theft of Government Money or Property, one count of Wire Fraud, and one count of Aggravated Identity Theft.

Update: During this reporting period, the subject pled guilty to one count each of Wire Fraud, Theft of Government Money, and Receiving Stolen Government Property. The subject is awaiting sentencing.

Former Bank Manager Pleads Guilty to Bank Fraud

As reported in the previous period, our joint investigation with the U.S. Secret Service determined that a bank manager used PII from customers at the subject's previous employer to open fraudulent business accounts so that the subject could "kite checks and wires" through the accounts and then use that money to maintain a lavish lifestyle. A search of the subject's office revealed numerous documents with PII of over 300 former customers, which was used to open credit cards to meet performance related bonuses. The subject pled guilty to one count of Bank Fraud and one count of Aggravated Identity Theft in U.S. District Court in South Carolina and is awaiting sentencing.

Update: During this reporting period, the subject was sentenced to 24 months in prison, 48 months of probation, and ordered to pay \$35,284 in restitution.

Four Individuals Sentenced for Grand Larceny, Petit Larceny, and Attempted Grand Larceny

As reported in the previous period, our joint investigation with the New York District Attorney's Office, Queens County, and the Port Authority of New York and New Jersey Police determined that an organized group of subjects conducted an identity theft and tax refund fraud scheme. The group used forged documents and stolen identities to submit fraudulent tax returns, and then obtained and cashed the fraudulently obtained tax refund checks. The first subject pled guilty in Queens County to Grand Larceny and was sentenced to 36 months of probation, the second subject pled guilty to Petit Larceny and was sentenced to 24 months of probation, the third subject pled guilty to Grand Larceny and was sentenced to 364 days in prison, and the fourth subject pled guilty to Attempted Grand Larceny and was sentenced to 12 months in prison. Additional subjects are pending sentencing.

Update: During this reporting period, two additional subjects were sentenced. The first subject was sentenced to 36 months of probation. The second subject was sentenced to 12 months of probation.

Former OCC Bank Examiner Sentenced in State Court for Mortgage Fraud

As reported in the previous period, our investigation determined that an OCC employee knowingly made a false statement on a credit application while employed as an OCC bank examiner. The subject retired from OCC prior to adjudication of the Michigan state charge. The subject pled guilty to Attempted Mortgage Fraud and was sentenced to 12 months of probation.

Update: During this reporting period, OCC finalized an enforcement action which prohibits the subject from participating, directly or indirectly, in any manner in the conduct of the affairs of any insured depository institutions, including but not limited to, banks and savings associations.

Subject Pleads Guilty to Wire Fraud and Aggravated Identity Theft

As reported in previous semiannual periods, our joint investigation with DHS, IRS, SSA OIG, and USPIIS determined that a citizen of the Ivory Coast living in Virginia used assumed identities to commit financial crimes. The subject claimed to be a tax preparer, filed false tax returns, and diverted tax refunds to bank accounts that the subject controlled. The subject pled guilty to Wire Fraud and Aggravated Identity Theft in the Eastern District of Virginia and was sentenced to 54 months in prison, \$672,000 in restitution, and forfeiture of \$652,000. Prosecution against a second subject, who provided information to be used in the scheme to the first subject, is anticipated.

Update: During this reporting period, a second subject was indicted for Wire Fraud, False Claims, and Conspiracy to Defraud the Government. Judicial action of the second subject is pending.

Subject Pleads Guilty to Fraudulent Negotiation of Treasury Checks

As reported in the previous period, our joint investigation with SSA OIG determined that a subject in southern Florida obtained, altered, and negotiated six U.S. Treasury checks totaling \$6,900. The subject pled guilty in U.S. District Court for the Southern District of Florida to six counts of Theft of Public Money and is awaiting sentencing.

Update: During this reporting period, the subject was sentenced to 36 months of probation and ordered to pay \$6,876 in restitution.

Other OIG Accomplishments and Activity

OIG's New Assistant Inspector General for Audit

In August 2016, **Debbie Harker** was selected as the Assistant Inspector General for Audit. **Ms. Harker** has over 25 years of experience in financial and performance auditing in a wide range of activities, including Information Technology system conversion projects, organizational internal control frameworks, and regulatory compliance.

Since joining the Office of Inspector General (OIG) in September 2009, Ms. Harker has served in roles of increased responsibility. As an Audit Manager for Manufacturing and Procurement Audits, she managed audit teams that identified deficiencies over the project management and physical security of the NexGen \$100 Note at the Bureau of Engraving and Printing (BEP). These deficiencies led BEP to suspend manufacturing of the notes and to a decision by the Board of Governors of the Federal Reserve System to delay their initial issuance of the note until these concerns could be addressed. In January 2013, Ms. Harker became the Audit Director of the new Gulf Coast Restoration Trust Fund Audit directorate. She stood up the directorate and has led numerous audits in this area. Most recently, Ms. Harker served as the Acting Deputy Assistant Inspector General for Cyber and Financial Assistance Audits.

Ms. Harker has also received multiple awards for her leadership. In 2014, she was awarded the Inspector General Leadership Award, the highest honor bestowed on an OIG employee.

OIG congratulates Ms. Harker in her new role as Assistant Inspector General for Audit and looks forward to many years of audit excellence under her leadership.

The Sixth Annual Treasury OIG Awards

On May 20, 2016, Treasury OIG held its sixth 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 2015. Presented were 12 Individual Achievement Awards, 14 Teamwork Awards, 2 Customer Service Awards, and 2 Rookie of the Year Awards. Also awarded was the Inspector General Leadership Award, the highest honor bestowed on an OIG employee.

Inspector General Thorson presented awards to the following recipients:

Inspector General Leadership Award

John Phillips, Assistant Inspector General for Investigations

Individual Achievement Award

Amy Altemus, Adé Bankole, Jonathan Fraller, Jacob Heminger, Cecilia Howland, Mark Levitt, James Lisle, Peter LoJacono, Andrea Peacock, Andrea Smith, Thomas Trimble, and Marco Uribe

Intra-Component Teamwork Award

2015 DATA Act Audit Team

Herb Addy, Horace Bryan, James Lisle, Maria McLean, Andrea Smith, Ashley Smith, and Avery Williams

2015 Federal Information Security Modernization Act Intl Audit Team

Jason Beckwith, Tram Dang, Daniel Jensen, Don'te Kelley, Larissa Klimpel, Robert Kohn, Brigit Larson, and Mike Patel

Banking – Safety and Soundness Audit Team

Jeff Dye, Adelia Gonzales, Andrew Morgan, and Virginia Shirley

Bureau of Prisons Financial Agents Audit Team

Kevin Guishard, Jason Madden, Mark Ossinger, Sharon Torosian, and Richard Wood

Investigation of Fraudulent Redemption of U.S. Savings Bonds Team

Carter Catlett, Jonathan Fraller, and Anthony Scott

Investigation of Stolen U.S. Treasury Bonds Team

Brittany Bosak, Carter Catlett, Matthew Creager, Jerry Marshall, and Anthony Scott

Office of Audit Performance Measures Task Force

Susan Barron, Jason Beckwith, Lisa Carter, Dana Duvall, Paul Harris, Mark Levitt, and Regina Morrison

Office of Security Programs Audit Team

Cecilia Howland, Katherine Johnson, Robert Kohn, Brigit Larsen, Regina Morrison, Kieu Rubb, Justin Summers, and John Tomasetti

RESTORE Act Centers of Excellence Audit Team

Lawrence Gonzalez, Kevin Guishard, Deborah Harker, Cecilia Howland, Eileen Kao, Michael Levin, Dionne Smith, Justin Summers, and Marco Uribe

SBLF Review Team

Susan Barron, Theresa Cameron, Lisa Carter, Maryann Costello, John Gauthier, Kevin Guishard, James Hodge, Bill Malloy, Shiela Michel, Regina Morrison, and Ken O'Loughlin

Suspicious Money Services Business Investigation Team

Susan Holsey, Chris LeFever, Peter LoJacono, and Tom Trimble

Virtualization Audit Team

Jason Beckwith, Tram Dang, Daniel Jensen, Larissa Klimpel, Mike Patel, and James Shepard

Inter-Component Teamwork Award

Wind Energy Commercial Solar Investigation Team

Amy Altemus, James Hodge, and Sonja Scott

Special Move Management Team Award 2015-2016

Matthew Creager, Ava Maria Davis, Richard Delmar, Ernest Eldredge, Tracy George, Cedric Hammond, Jonathan Haymore, Tricia Hollis, Roderick Johnson, Jeffery Lawrence, Chris LeFever, Young Lim, Richard Lowe, Cynthia Poree, Valerie Toye, and Chereeka White

Customer Service Awards

Kim Mingo and Imogene Murray

Rookie of the Year Awards

Jonathan Haymore and Usman Abbasi



*John Phillips Receiving the
Inspector General Leadership Award from
Inspector General Thorson*

OIG Audit Leadership Roles

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

Andrea Smith, Audit Manager, led an interagency team of seven agencies that developed the Federal Audit Executive Council (FAEC) Digital Accountability and Transparency Act of 2014 (DATA Act) Working Group’s “DATA Act Readiness Review Guide (Version 2.0)”. The guide is intended to assist agencies in implementing their readiness reviews. Version 1 of the guide, issued to the Inspector General (IG) community on December 3, 2015, concentrated on steps 1 through 4 of the “Agency

8-Step Plan” as described in the DATA Act Implementation Playbook.⁴ Version 2.0 concentrates on steps 5 through 8 of the Plan and was issued to the IG community on June 2, 2016. Other OIG representatives that contributed to the effort were **Herb Addy**, Auditor, **Kenneth Dion**, Audit Manager, **Ashley Smith**, Auditor, and **John Tomasetti**, Audit Manager.

Also, during this reporting period, Ms. Smith and other OIG representatives participated in a number of stakeholder outreach events to various Government-wide communities describing the IG community’s approach to its oversight requirements under the DATA Act, including the (1) Chief Financial Officers Council at the General Services Administration Conference Center in Washington, D.C., on April 19, 2016; (2) Council of the Inspectors General on Integrity and Efficiency (CIGIE)/Government Accountability Office Financial Statement Audit Conference at the Department of Agriculture’s Jefferson Auditorium in Washington, D.C., on April 28, 2016; (3) DATA Act Interagency Advisory Council at the Treasury Building in Washington, D.C., on May 4, 2016; (4) DATA Act Summit at the Washington Hilton in Washington, D.C., on May 26, 2016; (5) DATA Act Readiness Review Workshop for the IG Community at the Treasury Building in Washington, D.C., on July 13, 2016; (6) Association of Government Accountants (AGA) Professional Development Training in Anaheim, California, on July 18, 2016; (7) American Institute of Certified Public Accountants (AICPA) Governmental Accounting and Auditing Update Conference at the Washington Hilton in Washington, D.C., on August 8, 2016; and (8) AGA Internal Control and Fraud Prevention Training at the Ronald Reagan Building in Washington, D.C., on September 20, 2016.

Lisa Carter, Deputy Assistant Inspector General for Financial Sector Audits, serves as the Treasurer for the Association of Inspectors General D.C. Chapter, an organization of Federal, State, and local inspectors general. Ms. Carter is also a member of its Training committee. Treasury OIG hosted a D.C. Chapter training event on September 27, 2016. Inspector General Thorson opened the event, which featured speakers **Mr. Thomas K. Lehrich**, Deputy Inspector General and Counsel for the Architect of the Capitol, who presented on legal issues within the IG community and **Dr. Brett M. Baker**, Deputy Inspector General for Audit at the Department of Defense Inspector General, who spoke about current hot topics impacting the IG community.

⁴ On May 8, 2015, Treasury released the DATA Act Implementation Playbook. This Playbook describes eight key steps that, if followed together, should help agencies leverage existing capabilities to drive implementation of the DATA Act: Step (1) organize team, (2) review elements, (3) inventory data, (4) design and strategize, (5) execute broker, (6) test broker implementation, (7) update systems, and (8) submit data.

Jeff Dye, Audit Director, regularly teaches a module of the Introductory Auditor course sponsored by the CIGIE Training Institute.

Donna Joseph, Deputy Assistant Inspector General for Cyber and Financial Assistance Audits, serves as the National Single Audit Coordinator for Treasury, and is a member of the AICPA's National Governmental Accounting and Auditing Update planning committee.

Kieu Rubb, Audit Director, serves on the AICPA's Government Performance and Accountability Committee. The committee is comprised of 13 members representing Federal, State, and local government, and education. **Ms. Rubb** also teaches peer review training sessions sponsored by the CIGIE Training Institute.

Statistical Summary

Summary of OIG Activity

April 1 through September 30, 2016

OIG Activity	Number or Dollar Value
Office of Counsel Activity	
Regulation and legislation reviews	2
Instances where information was refused	0
Office of Audit Activities	
Reports issued and other products	44
Disputed audit recommendations	0
Significant revised management decisions	0
Management decision in which the Inspector General disagrees	0
Monetary benefits (audit)	
Questioned costs	\$0
Funds put to better use	\$0
Total monetary benefits	\$0
Office of Investigations Activities	
Criminal and judicial actions (including joint investigations)*	
Cases referred for prosecution and/or litigation	55
Cases accepted for prosecution and/or litigation	15
Arrests	4
Indictments/informations	11
Convictions (by trial and plea)	18

**During the reporting period defendants were sentenced to 349 months and 1 day of prison time, 696 months of probation, 1,000 hours of community service, and ordered to pay fines, restitution, and court fees in the amount of \$15.6 million. In addition, OIG seized \$768,460 as the result of a criminal prosecution.*

Significant Unimplemented Recommendations

For reports issued prior to October 1, 2015

The following list of Office of Inspector General (OIG) reports with significant unimplemented recommendations is based on information in the Department of the Treasury’s (Treasury) automated audit recommendation tracking system, which is maintained by Treasury management officials, and recommendations tracked by other Federal organizations related to OIG’s oversight of the Resources and Ecosystems Sustainability, Tourist Operations, and Revived Economies of the Gulf Coast States Act of 2012 (RESTORE Act) programs and activities of the Gulf Coast Ecosystem Restoration Council (Council) and the National Oceanic and Atmospheric Administration’s Gulf Coast Ecosystem Restoration Science, Observation, Monitoring, and Technology Program.

Treasury Programs and Operations

Number	Date	Report Title and Recommendation Summary
OIG-14-011	12/13	<p data-bbox="519 1008 1429 1081"><i>Audit of the Department of the Treasury’s Fiscal Years 2013 and 2012 Financial Statements</i></p> <p data-bbox="519 1092 1485 1428">The Assistant Secretary for Management and the Deputy Chief Financial Officer should ensure that IRS (1) takes corrective action to improve controls over financial reporting and (2) implements its remediation plan outlining actions to be taken to resolve noncompliance with the Federal Financial Management Improvement Act requirements and the resources and responsible organizational units for such planned actions. (2 recommendations)</p>
OIG-14-033	04/14	<p data-bbox="519 1512 1445 1585"><i>Safety and Soundness: Material Loss Review of First National Bank</i></p> <p data-bbox="519 1596 1485 1812">OCC should expand examiner guidance in the Loan Portfolio Management booklet to provide instructions regarding the proper accounting treatment for nonaccrual loans, including the accounting for payments received on these loans. (1 recommendation)</p>

OIG-15-036 06/15 *RESTORE Act: Alabama’s Center of Excellence Was Not Selected through Competitive Award*
The Fiscal Assistant Secretary should ensure that the Alabama Council selects its Centers of Excellence through a competitive process in accordance with the RESTORE Act and Treasury regulations prior to disbursing grant funds to the Alabama Council for funding Centers of Excellence. (1 recommendation)

OIG-15-040 07/15 *OSP Needs to Promptly Inform OIG of Potential Illegal Activity and Improve Other Processes*
The Assistant Secretary for Intelligence and Analysis should (1) conduct, in conjunction with the Office of the Chief Information Officer, a resource analysis of the Office of Security Programs (OSP) to determine the proper information technology software, equipment, and support needed to comply with Central Verification System requirements; (2) ensure that OSP works with the Office of the Chief Information Officer and Office of Personnel Management, as appropriate, to resolve OSP system and data issues with the Central Verification System so that Treasury employee security clearance data is provided to and maintained in the Central Verification System on a complete, current, and accurate basis going forward; (3) improve the security clearance process guidance by streamlining the Treasury Security Manual and other related sources by, for example, including a roles and responsibilities matrix/cross-index of all the parties involved in the security clearance process; and (4) ensure that OSP develops and implements comprehensive standard operating procedures for the security clearance process.
(4 recommendations)

OIG-15-045 09/15 *RECOVERY ACT: Audit of Penascal Wind Power LLC Payment Under 1603 Program*
The Fiscal Assistant Secretary should ensure that inappropriate or otherwise ineligible costs were not included in the cost basis

of other Iberdrola Renewables, LLC affiliates that have received 1603 Program payments. (1 recommendation)

- OIG-15-048 09/15 *Former Federal Inmate Debit Card Fees Were Comparable with Other Card Programs, but Documentation Supporting Financial Agent Agreements Was Lacking*
The Commissioner of the Bureau of the Fiscal Service (Fiscal Service) should ensure that the Fiscal Service's April 2013 guidelines for monitoring financial agents are followed, and the monitoring is documented. (1 recommendation)

Other Federal Agency Programs and Operations

- OIG-14-003 10/13 *Gulf Coast Ecosystem Restoration Council Faces Challenges in Completing Initial Comprehensive Plan*
The Chairperson of the Council should continue to work with Council members towards developing the Comprehensive Plan to include all elements required by the RESTORE Act. (1 recommendation)
-

- OIG-15-013 11/14 *Audit of the Gulf Coast Ecosystem Restoration Council's Financial Statements for Fiscal Years 2014 and 2013*
The Council should acquire additional resources to assist in documenting and implementing its internal control policies and procedures. As the agency grows, these internal controls will set the foundation for achieving the objectives set forth by the Federal Managers' Financial Integrity Act of 1982. (1 recommendation)

Summary of Instances Where Information or Assistance Request Was Refused

April 1 through September 30, 2016

There were no instances where an information or assistance request was refused for this reporting period.

Listing of Audit Products Issued

April 1 through September 30, 2016

Office of Audit

Termination Memorandum—Audit of Treasury Executive Office for Asset Forfeiture’s Use of Treasury Forfeiture Funds Receipts to Support Law Enforcement (OIG-CA-16-013, 4/13/2016)

DATA Act Oversight: Presentation Before the Chief Financial Officers Council (OIG-CA-16-014, 4/19/2016)

Response to the Chairman and Ranking Member, U.S. House of Representatives Committee on Oversight and Government Reform, Request for Information on Open and Unimplemented Recommendations and Closed Investigations (OIG-CA-16-015, 4/20/2016)

RESTORE Act: Funded Priorities List Evaluation Criteria and Selection Process Met Requirements (OIG-16-037, 4/21/2016)

Cybersecurity: Department of the Treasury’s Activities to Protect Critical Infrastructure in the Financial Services Sector (OIG-16-038, 4/28/2016)

FAEC DATA Act Working Group Update: Presentation to the CIGIE/GAO Financial Statement Audit Conference (OIG-CA-16-017, 4/28/2016)

DATA Act Oversight: Presentation Before the DATA Act Interagency Advisory Council (OIG-CA-16-018, 5/4/2016)

Fiscal Service Appropriately Offset Payments For Debt Owed to Creditor Agencies, But Improvements Can Be Made (OIG-16-039, 5/5/2016)

Review of the Gulf Coast Ecosystem Restoration Council's Compliance with the Improper Payments Elimination and Recovery Act of 2010 for Fiscal Year 2015 (OIG-CA-16-019, 5/10/2016)

Response to a Congressional Request Regarding Treasury's 1603 Program (OIG-CA-16-020, 5/10/2016)

Audit Report on a Classified Program (OIG-16-040, 5/12/2016) **(Classified)**

Financial Management: Treasury Was Not in Compliance with IPERA for Fiscal Year 2015 Due to High Improper Payment Rate for the Earned Income Tax Credit Program (OIG-16-041, 5/13/2016)

Fiscal Service Faces Challenges in Obtaining Better Death Information For the Do Not Pay Business Center, But Alternatives Exist (OIG-16-042, 5/18/2016)

Treasury Established Appropriate Conference, Travel, and Award Policies (OIG-16-043, 5/20/2016)

Domestic Assistance–Recovery Act: Audit of California Tax Credit Allocation Committee's Payment Under 1602 Program (OIG-16-044, 5/20/2016)

Response to the Chairman, United States Senate Committee on Homeland Security and Governmental Affairs, and the Chairman, United States Senate Committee on the Judiciary, Request for Information on Open and Unimplemented Recommendations, Closed Investigations, and Other Matters (OIG-CA-16-021, 5/24/2016)

Small Business Lending Fund: Banks Inaccurately Reported Qualified Small Business Lending Gains (OIG-16-045, 5/25/2016)

FAEC DATA Act Working Group–DATA Act Readiness Review Guide Version 2.0 (OIG-CA-16-023, 6/2/2016)

Contract Audit: Spectra Systems Corporation's Cost Proposal in Response to Solicitation BEP-RFP-16-0419 (OIG-16-046, 6/3/2016) **(Sensitive But Unclassified)**

Audit Termination Memorandum—OCC’s Oversight of Banks’ Controls over Abandoned Foreclosures (OIG-CA-16-022, 6/6/2016)

Termination Memorandum—Office of the Comptroller of the Currency’s Bank Secrecy Act /Anti-Money Laundering Compliance Examinations and Enforcement Actions (OIG-CA-16-024, 6/20/2016)

Termination Memorandum—Bureau of the Fiscal Service’s Controls Over Disbursement Activities (OIG-CA-16-025, 6/20/2016)

Treasury’s Government-wide DATA Act Implementation Continues, But Project Management Concerns Remain (OIG-16-047, 6/22/2016)

Termination Memorandum—Audit of the Financial Innovation and Transformation Program (OIG-CA-16-026, 6/23/2016)

Classified Audit Report (OIG-16-048, 6/28/2016) (Classified)

Termination Memorandum—Audit of the Enterprise Content Management System (OIG-CA-16-027, 6/28/2016)

Customs Revenue Function Report—Section 112 (OIG-CA-16-028, 6/30/2016)

Audit Termination Memorandum—Treasury’s Securities Auction Program (OIG-CA-16-029, 7/11/2016)

Termination Memorandum—Audit of OCC’s Oversight and Management of Contracts (OIG-CA-16-030, 7/13/2016)

Joint Purchase Card Violations Report, July 31, 2016 (OIG-CA-16-031, 7/15/2016)

Termination Memorandum—Audit of BEP’s Production Process for the NexGen \$100 Notes (OIG-CA-16-032, 7/21/2016)

Treatment of Legacy Financial Management Service Employees (OIG-16-049, 7/21/2016)

Information Technology: Vulnerabilities in Security Controls Over Mint’s Systems Need to Be Addressed (OIG-16-050, 7/27/2016)

RESTORE Act: Gulf Coast Ecosystem Restoration Council’s Records Management System Needs Improvement (OIG-16-051, 7/27/2016)

Cybersecurity Act of 2015, Section 406–Department of the Treasury (OIG-CA-16-033A and OIG-CA-16-033B, 7/29/2016) (Memorandum to the Chairs and Ranking Members of the U.S. House of Representatives Committee on Finance and Committee on Oversight and Government Reform and of the U.S. Senate Committee on Finance and Committee on Homeland Security and Governmental Affairs)

DATA Act Oversight: Presentation Before the American Institute of Certified Public Accountants Governmental Accounting and Auditing Update Conference (OIG-CA-16-034, 8/8/2016)

Safety and Soundness: Analysis of Bank Failures Reviewed by the Department of the Treasury Office of Inspector General (OIG-16-052, 8/15/2016)

Domestic Assistance–Recovery Act: Audit of Virginia Housing Development Authority’s Payment Under 1602 Program (OIG-16-053, 8/19/2016)

Treasury DO’s Office of Minority and Women Inclusion is Generally Carrying Out Its Functions Consistent With Dodd-Frank Act (OIG-16-054, 8/30/2016)

Financial Management–Report on the Bureau of the Fiscal Service Administrative Resource Center’s Description of its Financial Management Services and the Suitability of the Design and Operating Effectiveness of its Controls for the Period July 1, 2015 to June 30, 2016 (OIG-16-055, 9/1/2016)

Information Technology: Fiscal Year 2016 Audit of Treasury's Compliance with the Federal Information Security Modernization Act for Its Intelligence Systems (OIG-16-056, 9/15/2016) **(Classified)**

Financial Management–Report on the Bureau of the Fiscal Service Federal Investments and Borrowings 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, 2015 to July 31, 2016 (OIG-16-057, 9/23/2016)

Financial Management–Report on the Bureau of the Fiscal Service 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, 2015 to July 31, 2016 (OIG-16-058, 9/23/2016)

General Management: Treasury Has Policies and Procedures to Safeguard Classified Information But They Are Not Effectively Implemented (OIG-16-059, 9/29/2016)

Council of Inspectors General on Financial Oversight Working Group

Annual Report of the Council of Inspectors General on Financial Oversight (July 2016)

Audit Reports Issued with Questioned Costs

April 1 through September 30, 2016

During the period, we did not issue any audit reports with recommendations that identified questioned costs that could be owed to the Federal Government. There were no reports with recommendations that identified questioned costs for which a management decision had not been made by the commencement of the period.

Audit Reports Issued with Recommendations that Funds Be Put to Better Use

April 1 through September 30, 2016

During the period, we did not issue any audit reports with recommendations that funds be put to better use by management. There were no reports with recommendations that funds be put to better use for which a management decision had not been made by the commencement of the period.

Reports Issued Over 6 Months for which no Management Decision Has Been Made

As of September 30, 2016

There were no such reports for this reporting period.

Significant Revised Management Decisions

April 1 through September 30, 2016

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

Significant Disagreed Management Decisions

April 1 through September 30, 2016

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

Peer Reviews

April 1 through September 30, 2016

Office of Audit

Audit organizations that perform audits and attestation engagements of Federal Government programs and operations are required by generally accepted 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 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*.

The most recent peer review of our office was performed by the Department of Labor (Labor) OIG. In its report dated November 23, 2015, Labor OIG rendered a *Pass* rating for our system of quality control in effect for the year ended March 31, 2015. External audit peer review reports of our office are available on the Treasury OIG [website](#).

Office of Investigations

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

In August 2014, the General Services Administration OIG conducted a peer review of our office and found it to be in compliance with all relevant guidelines.

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Other Reporting Requirements and Requests

This section addresses certain reporting requirements of our office that are separate from the reporting requirements in the Inspector General Act of 1978.

Customs Revenue Function Report—Section 112

Section 112 of the Trade Facilitation and Trade Enforcement Act of 2015, Public Law 114-125, requires that we report biennially to Congress on the effectiveness of measures taken by the Department of Homeland Security (DHS) U.S. Customs and Border Protection (CBP) to protect revenue, including (1) antidumping and countervailing duties; (2) the assessment, collection, and mitigation of commercial fines and penalties; (3) the use of bonds to secure that revenue; (4) the adequacy of policies with respect to the monitoring and tracking of merchandise transported in bond; (5) the effectiveness of actions taken by CBP to measure accountability and performance with respect to protection of revenue; (6) the number and outcome of investigations instituted by CBP with respect to underpayment of duties; and (7) the effectiveness of CBP personnel training with respect to the collection of duties. In our first biennial report, transmitted on June 30, 2016, to the **Chairs and Ranking Members of the Committee on Finance** in the U.S. Senate and **Committee on Ways and Means** in the House of Representatives, we reported that the Department of the Treasury's (Treasury) current role in the Customs revenue function may not be in alignment with statutory requirements, as operational Customs revenue functions were delegated and not transferred to DHS.⁵ Because Treasury's role is limited, we were limited in addressing the seven areas of concern set out in Section 112. In a letter dated April 29, 2016, we contacted appropriate Congressional offices to explain that limits on jurisdiction and resources would preclude our accomplishment of the reporting requirements. In late May and early June, we discussed with Congressional staff the barriers to accomplishment, suggested variations on issues to review,

⁵ The Homeland Security Act of 2002, Public Law 107-296, established DHS, dissolved the legacy U.S. Customs Service in Treasury, and transferred all U.S. Customs Service functions to DHS, except Customs revenue functions which were retained by Treasury. Treasury at its discretion, could delegate but not transfer its Customs revenue functions to DHS. Through Treasury Order 100-16, the Secretary of the Treasury delegated the authority over the Customs revenue functions to DHS, with certain exceptions. Specifically, Treasury would have sole authority to approve regulations concerning a wide range of functions involving revenue or regulating trade for economic purposes. Customs revenue was only delegated, responsibility for this function is still vested in the Secretary of the Treasury, who may rescind and modify the delegation at any time.

and undertook to carry out as much of the requirements as we could, given the time, resources, and jurisdictional constraints. As a result, we reviewed publically available audits and reports and high-level, readily available information provided by CBP pertaining to the areas of concern. Therefore, our report did not provide a sufficient basis for formulating conclusions about the seven areas of concern. In our report, we stressed that Customs revenue collection, including bonds and antidumping/countervailing duty programs, is a complex area that will require extensive resources to review fully. We also shared our understanding that DHS Office of Inspector General may be considering future work related to Customs revenue collection and we stated our commitment to avoid duplication of effort by our staff of the work performed by others in the Inspectors General community. **(OIG-CA-16-028)**

Cybersecurity Act of 2015 – Section 406

The Cybersecurity Act of 2015, Division N, Section 406 (Public Law 114-113, Division N), required that Inspectors General of agencies operating a “covered system” report on the agencies’ information security policies, procedures, and practices for controlling access to such systems. A covered system means a national security system as defined in 40 U.S.C. § 11103, or a Federal computer system that provides access to personally identifiable information (PII).

In our July 29, 2016, letters submitted to the **Chairs and Ranking Members of the Committee on Finance and Committee on Homeland Security and Governmental Affairs** in the U.S. Senate and **Committee on Financial Services** and the **Committee on Oversight and Government Reform** in the U.S. House of Representatives, we reported that Treasury used appropriate Federal standards in establishing policies and procedures for its national security systems and systems that provide access to PII. We plan to continue work evaluating Treasury's security over these systems specific to adherence to access controls and the multi-factor authentication policies and procedures. We will issue a separate report to Treasury at the end of our review. **(OIG-CA-16-033A; OIG-CA-16-033B)**

Response to Congressional Request Regarding Treasury's 1603 Program

On May 10, 2016, we responded to a request from **Senators Barrasso, Flake, Lankford, Lee, McCain, Murkowski, and Sessions**, regarding the status of Treasury's Section 1603 Program [Payments in lieu of Tax Credits for Specified Energy Property] and specific questions about aspects of the program and its administration. Our original intent to conduct an overall program assessment was changed by our actual experience in auditing the program. We found over time that the actual administration of the application and payment process, as well as the controls in place, were sufficient such that in our risk-based audit program, such an assessment was no longer a pressing subject.

Of the 13 questions, the first 8 related to Internal Revenue Service (IRS)-specific matters regarding the Investment Tax Credit (ITC). We deferred these questions to the Treasury Inspector General for Tax Administration (TIGTA). For questions 9 through 12, that related to benchmarks used to evaluate the cost basis of property and to awardees' program compliance, we provided Treasury's responses to our inquiries regarding them. For question 13 regarding policy recommendations for 1603 Program recipients potentially claiming the ITC, we reported that TIGTA issued an inspection report with a recommendation that "...the IRS Commissioners for the Small Business/Self-Employed Division and Large Business and International Division evaluate the feasibility of establishing an indicator on taxpayers' accounts for taxpayers that received Recovery Act Section 1603 grants..."⁶ We also expressed our belief that this recommendation, if implemented, could be an effective control for identifying potential fraud, waste, and abuse by taxpayers attempting to claim the same energy property through Treasury's Section 1603 Program and the ITC. We deferred to TIGTA regarding the advisability of using the tax laws and Tax-based programs to accomplish these national energy priorities.
(OIG-CA-16-020)

Reviews of Bank Failures with Nonmaterial Losses

We conduct reviews of failed bank supervised by the Office of the Comptroller of the Currency (OCC) with losses to the Federal Deposit Insurance Corporation's (FDIC) Deposit Insurance Fund (DIF) that do not meet the

⁶ TIGTA, *Review of Section 1603 Grants in Lieu of Energy Investment Tax Credit* (2014-IE-R006; issued Dec. 17, 2013)

definition of a material loss in the Federal Deposit Insurance Act. The reviews are performed to fulfill the requirements found in 12 U.S.C. §1831o(k). The term “material loss” triggers a material loss review if a loss to the DIF 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.

During this reporting period, there were no failed banks supervised by the OCC with losses to the DIF.

Joint Purchase Card Violations Report

The Government Charge Card Abuse Prevention Act of 2012, Public Law 112-194, requires the head of each executive agency with more than \$10 million in purchase card spending annually, and each Inspector General of such an executive agency, on a semiannual basis, to submit to the Director of the Office of Management and Budget (OMB) a joint report on confirmed violations involving misuse of a purchase card by employees of such executive agency and the related disciplinary actions. OMB prescribed the format for the semiannual report, which is transmitted by Treasury to OMB via the OMB Max Portal. We reviewed the report, *Semi-Annual Report on Purchase Card Violations for the Department of the Treasury Non-Internal Revenue Service*, prepared by Treasury’s Office of the Procurement Executive for the period of October 1, 2015, through March 31, 2016. The report showed that for the period, Treasury’s non-IRS offices and bureaus had no confirmed violations involving misuse of a purchase card. The report also states, accordingly, that there were no adverse actions, punishments, or other actions taken, and that there were no violations pending investigation, hearing, final agency action, or decision on appeal. As part of our work to verify the information reported, we

inquired of Office of the Procurement Executive staff about their procedures to identify reportable matters. We also inquired of the OIG Office of Investigations and the Counsel to the Inspector General to obtain information on cases of OIG-confirmed purchase card violations during the period, of which there were none. **(OIG-CA-16-031)**

Response to Chairman Chaffetz and Ranking Member Cummings

On April 20, 2016, we responded to an annual request from **Chairman Chaffetz** and **Ranking Member Cummings** of the **House Oversight and Government Reform Committee** on seven questions: (1) the current number of open and unimplemented Inspector General recommendations—we reported 111 such recommendations as of April 8, 2016; (2) the total estimated cost savings associated with the open and unimplemented recommendations—we reported that there was no estimated cost savings for current open and unimplemented Inspector General recommendations; (3) additional details about the recommendation(s) related to question 2—we reported that there were no open and unimplemented recommendations that would result in cost savings as of April 8, 2016; (4) the three open and unimplemented recommendations our office considers the most important or urgent—we reported the recommendations related to (a) the need to submit a comprehensive plan to Congress that includes a description of the corrective actions Treasury will take to remediate noncompliance with Improper Payments Elimination and Recovery Act of 2010 due to IRS Earned Income Tax Credit deficiencies (OIG-15-033); (b) the need for Treasury management to ensure that inappropriate or otherwise ineligible costs were not included in the cost basis for the 1603 Program awards to affiliates of Iberdrola Renewables, LLC (OIG-15-045); and (c) the need for the Bureau of the Fiscal Service to implement requisite corrective actions to resolve control deficiencies over its information systems and for Treasury’s management to ensure that IRS (a) takes corrective action to improve controls over financial reporting and (b) implements its remediation plan outlining actions to be taken to resolve noncompliance with the Federal Financial Management Improvement Act of 1996 requirements (OIG-16-012); (5) a summary of all closed investigations, evaluation, and audits that were not disclosed to the public since March 1, 2015,—we reported 85 investigations and 6 audits since March 1, 2015; (6) the total number of individuals referred by our office to the Department of Justice for criminal prosecution, and the total number of prosecutions in response—we reported that 163 individuals were referred by our office to the Department of Justice for criminal prosecution, and of those

referrals, 67 were accepted for prosecution; and (7) a description of any instance where the agency refused to provide or otherwise delayed or restricted our access to, records or other information—we reported no such instances since our last letter to the Committee on the subject dated March 10, 2015, through April 20, 2016. **(OIG-CA-16-015)**

Response to Chairman Johnson and Chairman Grassley

On May 24, 2016, we responded to a standing semiannual request from **Chairman Johnson, Senate Committee on Homeland Security and Governmental Affairs**, and **Chairman Grassley, Senate Committee on the Judiciary**, on seven questions: (1) the number and total dollar value of outstanding unimplemented recommendations—we reported 113 such recommendations as of March 31, 2016. We did not have any estimated potential cost savings of report for the period. However, we did note that 6 of the outstanding unimplemented recommendations we reported related to deficiencies with EITC. IRS had estimated the improper payments associated with the tax credit program to be between \$13.3 billion and \$15.6 billion for fiscal year 2013 and \$17.7 billion for fiscal year 2014; (2) a description of all audits evaluations, or investigations provided to the agency for comment but not responded to within 60 days—we reported no such delay between the period October 1, 2015, through March 31, 2016; (3) a description of any investigation involving GS-15 level or above employees where misconduct was found, but no prosecution resulted—we reported no such investigations between the period October 1, 2015, through March 31, 2016; (4) a description of any instance of whistleblower retaliation—we reported no such instances between the period October 1, 2015, through March 31, 2016; (5) a description of any attempt to interfere with Inspector General independence—we reported no such instances between the period October 1, 2015, through March 31, 2016; (6) a description of any incident where the Department has resisted or objected to our oversight activities or restricted or significantly delayed access to information—we reported no such incidents between the period October 1, 2015, through March 31, 2016; and (7) a description of any investigation, evaluation, audit, or report that is closed and was not disclosed to the public—we reported 40 closed investigations and 2 audit reports between the period October 1, 2015, through March 31, 2016. **(OIG-CA-16-021)**

References to the Inspector General Act

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Abbreviations

BEP	Bureau of Engraving and Printing
CBP	U.S. Customs and Border Protection
Center	Do Not Pay Business Center
Council	Gulf Coast Ecosystem Restoration Council
CTCAC	California Tax Credit Allocation Committee
DATA Act	Digital Accountability and Transparency Act of 2014
DHS	Department of Homeland Security
EO 13636	Executive Order 13636, "Improving Critical Infrastructure Cybersecurity"
Fiscal Service	Bureau of the Fiscal Service
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payment Elimination and Recovery Improvement Act of 2012
IRS	Internal Revenue Service
KPMG	KPMG LLC
OCC	Office of the Comptroller of the Currency
OIG	Office of Inspector General
OMB	Office of Management and Budget
OMWI	Office of Minority and Women Inclusion
OSP	Office of Security Programs
PII	personally identifiable information
PPD-21	Presidential Policy Directive 21, "Critical Infrastructure Security and Resilience"
QSBL	Qualified Small Business Lending
Recovery Act	American Recovery and Reinvestment Act of 2009
RESTORE Act	Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012
SBLF	Small Business Lending Fund
SSA	Social Security Administration
TIGTA	Treasury Inspector General for Tax Administration
Treasury	Department of the Treasury
Trust Fund	Gulf Coast Restoration Trust Fund
USPIS	U.S. Postal Inspection Service

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**Pictured above is the South Side of the Treasury Building in Washington, D.C.
Source: Treasury Graphics Branch**

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