

Annual Plan Fiscal Year 2012

OIG-CA-12-003

Office of Inspector General
Department of the Treasury

Foreword

This annual plan outlines the fiscal year 2012 Department of the Treasury Office of Inspector General (OIG) audit and investigative priorities, which focus on the Department's major initiatives and challenges. This plan also takes into account and takes into consideration the Treasury OIG's Strategic Plan for Fiscal Years 2011-2015.

Since 2007, when the financial crisis began, Treasury has played a major role in the federal government's efforts to help stabilize the financial system and facilitate economic recovery and growth. Congress continues to enact legislation giving Treasury new programs and responsibilities to administer. In this plan, we have prioritized our resources to provide effective oversight for the most significant and highest risk Treasury programs and operations under our jurisdiction.

As we enter fiscal year 2012, our highest priorities are oversight efforts related to (1) the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), (2) the Small Business Jobs Act of 2010, (3) Treasury's non-Internal Revenue Service programs and operations authorized by the American Recovery and Reinvestment Act of 2009 (Recovery Act), (4) the Housing and Economic Recovery Act of 2008, and (5) financial institutions regulated by the Office of the Comptroller of the Currency that result in losses to the Deposit Insurance Fund.

Dodd-Frank Dodd-Frank, among other things, established the Council of Inspectors General on Financial Oversight. The Treasury Inspector General chairs this Council. The Council facilitates information sharing among the member inspectors general focusing on concerns that may apply to the broader financial sector and ways to improve financial oversight. The Council has authority to oversee the activities of the Financial Stability Oversight Council, chaired by the Treasury Secretary. The Financial Stability Oversight Council, among other things, is tasked with identifying risks to financial stability and responding to emerging threats to the financial system.

Additionally, Dodd-Frank established, within Treasury, the Office of Financial Research and the Federal Insurance Office. The Office of Financial Research is the data collection, research, and analysis arm of the Financial Stability Oversight Council. The Federal Insurance Office monitors the insurance industry identifying gaps or issues in the regulation of insurance that could contribute to a systemic crisis in the insurance industry or financial system. We plan to review the establishment of these offices.

Dodd-Frank also established the Bureau of Consumer Financial Protection (CFPB) as an independent bureau within the Board of Governors of the Federal Reserve System (FRB). Pursuant to Dodd-Frank, Treasury stood up CFPB. Its doors opened on July 21, 2011. Until a CFPB Director is appointed, however, the authority to conduct certain but not all CFPB functions remain with the Treasury Secretary. On July 17, 2011, the President submitted a nominee to serve as the bureau's first Director. The FRB OIG has the oversight responsibility

for CFPB. However, given Treasury's role until a CFPB director is appointed, there may be aspects of CFPB-related programs and operations where we may do specific work or coordinated work with FRB OIG.

Small Business Jobs Act of 2010 This act designated our office to provide oversight over two Treasury programs—(1) the Small Business Lending Fund, which distributed approximately \$4 billion to financial institutions; and (2) the \$1.5 billion State Small Business Credit Initiative. As was also required, the Treasury Inspector General established an Office of Small Business Lending Fund Program Oversight within Treasury OIG headed by a Special Deputy Inspector General who reports directly to the Inspector General. The office's planned work is shown in the Office of Small Business Lending Fund Program Oversight issue area.

Recovery Act We continue to conduct proactive audits and investigations of recipients of funds disbursed as part of the Treasury's two major Recovery Act programs: Payments to the States in Lieu of Tax Credits for Low-Income Housing and Payments in Lieu of Tax Credits for Specified Energy Properties. As of September 2011, Treasury disbursed about \$13 billion to approximately 20 thousand recipients. So far, we have initiated reviews of 115 Recovery Act payment recipients valued at approximately \$2 billion.

Housing and Economic Recovery Act of 2008 We continue to perform audits related to the Department's authorities and responsibilities including the purchase of securities and obligations undertaken in relation to Fannie Mae and Freddie Mac.

Federal Deposit Insurance Act We continue to perform reviews of all failed OCC-regulated institutions as mandated by section 38(k) of the Federal Deposit Insurance Act and amended by Dodd-Frank. While the rate of bank failures has decreased, we still have a number of these reviews in process and anticipate more to come.

Other areas of emphasis for fiscal year 2012 include mandated audits as required by the Federal Information Security Management Act, the Government Management Reform Act, and the Improper Payments Elimination and Recovery Act; audits related to compliance with the Bank Secrecy Act and USA PATRIOT Act; and audits related to information technology capital investments.

In September 2011, the President sent the Congress a legislation proposal titled "American Jobs Act of 2011." Among other things, the proposal calls for establishing the American Infrastructure Financing Authority (AIFA) to provide direct loans and loan guarantees to facilitate infrastructure projects that are both economically viable and of regional or national significance. The proposed aggregate amount of direct loans and loan guarantees made by AIFA in any single fiscal year may not exceed (1) \$10 billion during the first 2 years of operations; (2) \$20 billion during years 3 through 9 of operations; or (3) \$50 billion during any year thereafter. Under the proposal, our office would provide oversight of AIFA for the first 5 years and thereafter the oversight would be provided by a

Foreword

Presidentially-appointed, Senate-confirmed, Special Inspector General. Given the potential implications to our office, we will monitor the Congress's consideration of the proposal and respond appropriately.

The projects described in this plan represent, in our judgment, areas of known or emerging risks and vulnerabilities in Treasury. As before, we encourage department and bureau management to use this plan to identify areas for self-assessment and to take corrective measures when vulnerabilities and control weaknesses are identified.

November 2011

Contents

- Forewordi
- Overview.....1
 - Background.....1
 - Organizational Structure and Fiscal Resources1
 - Treasury OIG Strategic Plan2
 - Performance Measures.....2
 - Fiscal Year 2012 Priorities and Initiatives3
- Treasury Management and Performance Challenges10**
- Planned Projects by OIG Issue Area.....17**
 - Treasury General Management and Infrastructure Support: Financial Management.....17
 - Treasury General Management and Infrastructure Support: Information Security23
 - Treasury General Management and Infrastructure Support: General Management29
 - Terrorist Financing, Money Laundering, and Foreign Assets Control36
 - Government-wide Financial Services and Debt Management45
 - Safety, Soundness, and Accessibility of Financial Services.....51
 - Revenue Collection and Industry Regulation58
 - Bill and Coin Manufacturing, Marketing, and Distribution Operations63
 - Domestic and International Assistance Programs.....67
 - Small Business Lending Fund and State Small Business Credit Initiative Operations76
- Appendix A: Office of Audit Fiscal Year 2012 Resource Allocation.....81**
- Appendix B: Index of In-Progress and Planned Fiscal Year 2012 Audits by Issue Area.....83**
- Appendix C: Index of In-Progress and Planned Fiscal Year 2012 Audits by Bureau/Office88**
- Appendix D: Index of Projects Under Consideration for Future Fiscal Years.....92**
- Abbreviations.....96**

This page intentionally left blank.

Overview

This document outlines the Department of the Treasury Office of Inspector General's (OIG) audit and investigative priorities and initiatives for fiscal year 2012 and beyond.

Background

In 1989, the Secretary of the Treasury established OIG in accordance with the 1988 amendments to the Inspector General Act. The act sets out OIG's major duties and responsibilities as:

- Conducting and supervising audits and investigations
- Providing leadership and coordination of policies that (1) promote economy, efficiency, and effectiveness in Treasury programs and operations and (2) prevent and detect fraud and abuse in Treasury programs and operations
- Providing a means for keeping the Secretary of the Treasury and Congress fully and currently informed about problems and deficiencies in Treasury programs and operations
- Submitting semiannual reports to Congress, through the Secretary, that (1) summarize OIG activities during the preceding period that disclose problems, abuses, or deficiencies in the administration of Treasury programs and operations and (2) contain and discuss OIG recommendations for corrective action

Organizational Structure and Fiscal Resources

OIG is headed by an Inspector General, who is appointed by the President with the advice and consent of the Senate. The Inspector General exercises his or her duties and responsibilities on behalf of all Treasury programs and operations except those of the Internal Revenue Service (IRS) and Troubled Asset Relief Program (TARP). In 1998, Congress established the Treasury Inspector General for Tax Administration (TIGTA), who oversees the IRS under the Inspector General Act. The Office of the Special Inspector General for TARP, oversees TARP, as established by the Emergency Economic Stabilization Act of 2008.

OIG has five components, which are headquartered in Washington, D.C.:

- Office of Audit
- Office of Small Business Lending Fund Program Oversight
- Office of Investigations
- Office of Counsel
- Office of Management

For fiscal year 2012, the President's budget request for direct appropriations for OIG is \$29.9 million. As of October 1, 2011, OIG is operating under a continuing resolution until November 18, 2011. The Office of Small Business Lending Fund Program Oversight is funded on a reimbursable basis by the Small Business Lending Fund (SBLF) and the State Small Business Credit Initiative (SSBCI) program offices. Estimated reimbursable funding for fiscal year 2012 is \$4.3 million for SBLF oversight and \$2.2 million for SSBCI oversight.

Treasury OIG Strategic Plan

Treasury OIG's strategic goals are based on Treasury's mission, which is to serve the American people and strengthen national security by managing the U.S. government's finances effectively; promoting economic growth and stability; and ensuring the safety, soundness, and security of U.S. and international financial systems. Accordingly, Treasury OIG's mission is to promote the integrity, efficiency, and effectiveness of Treasury programs and operations. Treasury OIG's strategic goals support this mission. While striving to achieve its strategic goals, Treasury OIG will demonstrate its core values: excellence, integrity, respect, and innovation.

Performance Measures

The OIG established performance measures for fiscal year 2012 for the Office of Audit, Office of Small Business Lending Fund Program Oversight, and the Office of Investigations.

Office of Audit Performance Measures

For the Office of Audit, OIG established the following performance and audit reporting measures:

- Complete 70 audit products
- Complete 100 percent of mandated audits by the required date
- Identify monetary benefits where appropriate

Office of Small Business Lending Fund Program Oversight Performance Measures

For the Office of Small Business Lending Fund Program Oversight, OIG established the following performance and audit reporting measures:

- Review 20 banks that have received SBLF funds
- Review 10 states allocated SSBCI funds
- Complete 100 percent of mandated SBLF audits by the required date

Office of Investigations Performance Measures

For the Office of Investigations, OIG established the following investigative performance measures.

- Complete investigations within the timeframes assigned by Office of Investigations supervisors and managers 85 percent of the time.
- Ensure that 100 percent of investigations are well-planned, well-executed, objective, thorough, accurately reported, and concluded in accordance with established Council of the Inspectors General on Integrity and Efficiency and OIG standards to resolve the allegation received and any additional issues revealed during the investigation.

Fiscal Year 2012 Priorities and Initiatives

Audit Priorities and Initiatives

Audit Priorities

The OIG has established three audit priorities for fiscal year 2012.

Priority 1—Audit Products Mandated by Law

The Office of Audit allocates significant resources to meet legislative requirements related to (1) audited financial statements and financial-related review work, (2) information security, (3) the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), (4) the American Recovery and Reinvestment Act of 2009 (Recovery Act), (5) the Federal Deposit Insurance Act with respect to bank failures, and (6) Treasury programs authorized by the Small Business Jobs Act of 2010.

With respect to Dodd-Frank, we expect to devote a significant portion of our audit resources to oversight of Treasury's programs supporting the financial regulatory structure. We will also devote resources to review Treasury's non-IRS programs and funds authorized by the Recovery Act as directed or requested by the Recovery Accountability and Transparency Board.¹

In addition, we have established a dedicated group of staff that will review the SBLF and SSBCI programs authorized by the Small Business Jobs Act of 2010.

¹ The Recovery Accountability and Transparency Board is comprised of 12 inspectors general, including the Treasury Inspector General.

Overview

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

The OIG typically receives two to three requests a year from Treasury management or Congress to perform specific work. The requested work is often already in our plan and only requires that we adjust the work schedule or scope. If the requested work is in a new area, we assess whether the work should be performed.

Priority 3—Self-Directed Work in Treasury's Highest-Risk Areas

With the resources available after we have completed mandated audit and requested work, we conduct audits to assess the Department's progress in addressing serious deficiencies and emerging risks. For fiscal year 2012, the major emphasis of our self-directed work is Treasury's non-IRS Recovery Act programs, anti-money laundering/terrorist financing programs, and major information technology (IT) capital investments.

Relationships of Audit Plan to Treasury Strategic Goals

To accomplish Treasury’s mission, the Department identified four strategic goals for fiscal years 2007 to 2012.² To support Treasury’s strategic goals, the Treasury OIG will focus its work on eight core issue areas.

The following table shows the relationship between specific Treasury strategic goals and Treasury OIG’s issue areas:

Treasury Strategic Goal	OIG Issue Area(s)
Manage U.S. government finances effectively	<ul style="list-style-type: none"> • Government-wide financial services and debt management • Revenue collection and industry regulation
Promote growth and stability of U.S. and world economies	<ul style="list-style-type: none"> • Safety, soundness, and accessibility of financial services • Domestic and international assistance programs • Bill and coin manufacturing, marketing, and distribution operations • SBLF and SSBCI operations
Prevent terrorism and strengthen the security of U.S. and international financial systems	<ul style="list-style-type: none"> • Terrorist financing, money laundering, and foreign assets control
Achieve managerial and organizational excellence	<ul style="list-style-type: none"> • Treasury general management and infrastructure support (financial management, information systems security, and general management)

The Treasury general management and infrastructure support issue area addresses all four of the Department’s strategic goals. It encompasses such activities as financial management, IT security, capital investments, human capital, initiatives to identify and reduce improper payments, and procurement.

² As of this writing, the Department was updating its strategic plan for fiscal years 2012 to 2016. In its public draft of that plan, the Department identified the following five strategic goals: (1) Repair and Reform the Financial System; (2) Enhance Economic Growth, Competitiveness, and Sustainability; (3) Reform and Simplify the U.S. Tax Code; (4) Combat Illicit Financial Activity to Advance National Security and the Integrity of the Financial System; and (5) Foster a Prudent Use of Taxpayer Resources to Operate the Federal Government. We have considered the Department’s planned revised strategic goals in our audit planning.

Office of Audit Initiatives

The Office of Audit plans to start 59 projects in fiscal year 2012 and to complete 70 projects started in fiscal year 2011. Our ability to initiate new self-directed audits and complete those in progress will be affected by mandated work. We have identified 69 high-priority projects that must be deferred beyond 2012. Our in-process and planned work and projects for future consideration are described in the Planned Projects by OIG Issue Area section of this document.

Office of Small Business Lending Fund Program Oversight Initiatives

The Office of SBLF Program Oversight plans to start 3 SBLF audits and 10 SSBCI state reviews in fiscal year 2012 and complete 2 of 4 projects started in fiscal year 2011. Our in-process and planned work and projects for future consideration are described in the Planned Projects by OIG Issue Area section of this document.

Investigative Priorities

The OIG established four investigative priorities for fiscal year 2012.

Priority 1—Criminal and Serious Employee Misconduct

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

Priority 2—Fraud Involving Contracts, Grants, Guarantees, and Funds

We conduct investigations into allegations of fraud and other crimes involving Treasury contracts, grants, loan guarantees, and federal funds. Such allegations often involve contractors, entities, and individuals who are providing or seeking to provide goods or services to the Department. We receive complaints alleging criminal or other misconduct from employees, contractors, members of the public, and Congress.

Overview

Priority 3—Financial Programs and Operations Crime

We conduct and supervise investigations relating to Treasury financial programs and operations. These programs and operations involve issuing licenses, providing benefits, and exercising oversight of U.S. financial institutions.

Priority 4—Critical Infrastructure and Fiscal Protection

Our efforts in the area of critical infrastructure and fiscal protection focus on detecting, investigating, and deterring electronic crimes and addressing threats to Treasury’s critical infrastructure.

Relationship Between Investigative Priorities and Treasury Strategic Goals

OIG’s four investigative priorities are intended to prevent and detect fraud and other crimes against the Department’s programs and operations.

The following table shows the relationship between Treasury strategic goals and OIG investigative priorities.

Treasury Strategic Goal	OIG Investigative Priorities			
	Criminal and serious employee misconduct	Contracts, grants, guarantees, and funds fraud	Financial programs and operations crimes	Critical infrastructure and fiscal protection
Manage U.S. government finances effectively				√
Promote growth and stability of U.S. and world economies		√	√	
Prevent terrorism and strengthen the security of U.S. and international financial systems		√	√	√
Achieve managerial and organizational excellence	√	√		

Counsel Initiatives

The Office of Counsel will support OIG investigative, oversight, and audit activities by responding to requests for legal advice and reviewing and processing requests for the issuance of Inspector General subpoenas. In the area of disclosure, our office will provide timely responses to Freedom of Information Act and Privacy Act requests and carry out its litigation responsibilities in Merit Systems Protection Board and Equal Employment Opportunity Commission cases. Based on experience, we expect to process 30 initial Freedom of Information Act/Privacy Act requests and 5 appeals from those initial responses. In the area of electronic Freedom of Information Act, we expect to review approximately 70 audit, evaluation, and oversight reports for posting on OIG's website. We will also

- provide ethics and standards of conduct training for all employees, and timely review all required confidential and public financial disclosure reports;
- review and update, as needed, Privacy Impact Assessments for all OIG operations and provide procedural review and training services as the OIG senior agency official for privacy;
- respond to *Giglio* requests, coordinate responses to document requests from Congress, and respond to discovery requests arising from litigation involving the Department and its bureaus;
- provide training on the Inspector General Act and other subjects in connection with new employee orientation and in-service training;
- review, as statutorily mandated, legislative and regulatory proposals and, where appropriate, coordinate comments; and
- review all allegations of misuse of the Treasury seal, name, and identification; and prepare cease and desist orders and penalty assessments, as needed, to carry out the OIG's authority to enforce Title 31 of the U.S. Code, Section 333, Prohibition of misuse of Department of the Treasury names, symbols, etc.

Management Initiatives

The Office of Management provides administrative support to OIG offices, including budget and finance, facilities management, procurement, human resources, and IT services. The office is augmented by a working agreement with the Bureau of the Public Debt's (BPD) Administrative Resource Center for procurement, travel, budget execution, and human resource operations services.

During fiscal year 2012, our office will focus on providing timely, quality, and forward-thinking service to OIG customers. In addition, we will continue to identify operational efficiencies to improve management support while identifying opportunities to reduce cost.

Our administrative services component will update and strengthen policies and procedures and enhance the OIG's records management program, in coordination with program offices. In addition,

we will continue to manage the purchase card program, all purchase requests over the \$3,000 threshold, and the travel program. We will also promote the use of public transportation and administer the public transit program, oversee security and safety initiatives, and implement the OIG's long-range plan for space needs.

Our budget and finance component will work with the Administrative Resource Center to increase the timeliness of financial information and accuracy of budget projections, while adapting to the uncertainties of the federal budgeting process. We will continue to provide for the efficient and effective reconciliation of financial transactions. We will also provide monitoring and oversight of billing and invoice approvals to ensure full compliance with the Prompt Pay Act, prepare and execute interagency agreements for services provided or rendered, respond to budget data calls, and act as liaison to the Administrative Resource Center for any system changes that impact OIG budgeting or accounting.

Our human resources component will focus on the strategic management of the OIG workforce, working with hiring managers to recruit, hire, and retain employees within existing budget constraints and time-to-hire goals. We will provide leadership in reviewing the OIG's performance management policy and in aligning employee performance plans with the OIG's recently developed strategic plan. In addition, we will focus on succession planning and knowledge management.

Our IT component will continue to seek efficiencies through virtualization and service consolidation. Efforts continue to support the OIG's general support system; improve the ability of OIG employees to collaborate, either on-site or remotely; enhance the quality and choice of mobile communications; and ensure that all systems are fully maintained, operational, and in compliance with information security requirements.

Treasury Management and Performance Challenges

In accordance with the Reports Consolidation Act of 2000, the Treasury Inspector General annually provides the Secretary of the Treasury with our perspective on the most serious management and performance challenges facing the Department. In a memorandum to Secretary Geithner dated October 24, 2011, Inspector General Thorson reported four management and performance challenges. The following is an abridged version of that memorandum.

Transformation of Financial Regulation

Enacted in July 2010, Dodd-Frank established a number of new responsibilities for Treasury and the Secretary.

For example, Dodd-Frank created the Financial Stability Oversight Council (FSOC), chaired by the Treasury Secretary, whose mission is to identify risks to financial stability that could arise from the activities of large, interconnected financial companies; respond to any emerging threats to the financial system; and promote market discipline. As required, FSOC issued its first annual report in July 2011. The report contained recommendations to (1) heighten risk management and supervisory attention in specific areas, (2) further reforms to address structural vulnerabilities in key markets, (3) take steps to address reform of the housing finance market, and (4) ensure interagency coordination on financial regulatory reform. This is an important early step, but FSOC still has work ahead to meet all of its responsibilities. In this regard, Dodd-Frank calls for the consolidated supervision and heightened prudential standards for large, interconnected nonbank financial companies. FSOC also has the authority to designate nonbank financial companies for consolidated supervision and to recommend heightened standards. As of the date of the Inspector General's memorandum, FSOC was still in the process of establishing the framework for identifying systemically significant nonbank financial institutions.

The Council of Inspectors General on Financial Oversight (CIGFO), chaired by the Treasury Inspector General, was also established by Dodd-Frank and is an important source of independent, unbiased analysis to FSOC. As required, CIGFO issued its first annual report in July 2011. That report discussed current and pending joint projects of CIGFO members and CIGFO's conclusion that FSOC had either met or is on target to meet all requirements to date. In the future, CIGFO anticipates establishing a working group to oversee the process of designating systemically important nonbank financial institutions for heightened prudential supervision.

Dodd-Frank also established two new offices within Treasury: the Office of Financial Research and the Federal Insurance Office. The Office of Financial Research is to be a data collection, research, and analysis arm of FSOC. The Federal Insurance Office is charged with monitoring the insurance industry, including identifying gaps or issues in the regulation of insurance that could contribute to a systemic crisis in the insurance industry or financial system. We are currently reviewing the

Treasury Management and Performance Challenges

Department's progress in standing up the Office of Financial Research and our future work plans include a review of the Federal Insurance Office.

Intended to streamline the supervision of depository institutions and holding companies, Dodd-Frank transferred the powers and duties of the Office of Thrift Supervision (OTS) to the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (FRB), and the Federal Deposit Insurance Corporation (FDIC) effective July 21, 2011. As was also required by the act, we and the OIGs of FDIC and FRB completed two reviews on the transfer during 2011. The first review reported on the planning for the transfer and the second review reported on the status of the transfer 6 months later. The reviews found that the planning was generally adequate and that transfer activities occurred as planned. However, we also reported on items that were still "works-in-progress."

The other regulatory challenges that we discussed in the previous year's memorandum still remained. Specifically, since September 2007, 113 Treasury-regulated financial institutions failed, with estimated losses to the Deposit Insurance Fund (DIF) of about \$36.3 billion. Although many factors contributed to the turmoil in the financial markets, our work found that OCC and the former OTS often did not identify early or force timely correction of unsafe and unsound practices by numerous failed institutions under their respective supervision. The irresponsible lending practices of many institutions are now well-recognized. At the same time, many of the failed banks also engaged in other high-risk activities, including high asset concentrations in commercial real estate and overreliance on unpredictable wholesale funding to fund growth.

During the past year, Treasury was successful in standing up the Bureau of Consumer Financial Protection (CFPB). CFPB opened for business on July 21, 2011, as planned. CFPB is an independent bureau of FRB but Treasury has a unique role in its operations. Specifically, until a Director is appointed, the Treasury Secretary is charged with exercising some, but not all, of the Director's authorities.

Management of Treasury's Authorities Intended to Support and Improve the Economy

Congress provided Treasury with broad authorities to address the financial crisis under the Housing and Economic Recovery Act of 2008 (HERA) and the Emergency Economic Stabilization Act of 2008 (EESA), the Recovery Act, and the Small Business Jobs Act of 2010. Certain authorities in HERA and EESA have now expired but challenges remain in managing Treasury's outstanding investments. To a large extent, Treasury's program administration under these acts has matured. However, investment decisions involving the Small Business Jobs Act programs have only recently been completed.

Treasury Management and Performance Challenges

Management of the SBLF and SSBCI

Enacted in September 2010, the Small Business Jobs Act of 2010 created the \$30 billion SBLF within Treasury and provided \$1.5 billion to be allocated by Treasury to eligible state programs through the SSBCI. Both programs were slow to disburse funds to intended recipients, with Treasury approving the majority of SBLF and SSBCI applications during the last quarter of fiscal year 2011. Now that Treasury has completed the approval process for these two programs, the challenge will be to exercise sufficient oversight to ensure that funds are used appropriately by participants, SBLF dividends owed Treasury are paid, and that the programs achieve intended results.

With regard to SBLF, Treasury disbursed more than \$4 billion to 332 financial institutions. Of the institutions funded, 42 percent were institutions that used their SBLF investment to refinance securities issued under the TARP Capital Purchase Program. Institutions receiving investments under the SBLF program are expected to pay dividends to Treasury at rates that will decrease as the amount of qualified small business lending the institution increases. The dividends are non-cumulative, meaning that institutions are under no obligation to make dividend payments as scheduled or to pay off previously missed payments before exiting the program. That said, there are provisions for increased restrictions as dividends are missed.

Treasury will face many challenges in ensuring that the SBLF program meets its intended objective of increasing lending to small businesses and in measuring program performance.

As of September 27, 2011, 53 states, territories, and eligible municipalities (participating states) had applied for \$1.5 billion in SSBCI funding. Of the participating states, 31 received their first funding allocations of approximately \$0.3 billion. Under SSBCI, participating states may obtain funding for programs that partner with private lenders to extend credit to small businesses. A key feature is that participating states receive their allocations in one-third increments. Treasury may withhold a successive increment to a state pending the results of an audit by our office. Primary oversight of the use of SSBCI funds is the responsibility of each participating state. Treasury will face challenges in holding states accountable for the proper use of funds as it has not, among other things, clearly defined the oversight obligations of states or specified minimum standards for determining whether participating states have fulfilled their oversight responsibilities.

Management of Recovery Act Programs

Treasury is responsible for overseeing an estimated \$150 billion of Recovery Act funding and tax relief. Treasury's oversight responsibilities include programs that provide payments for specified energy property in lieu of tax credits, payments to states for low-income housing projects in lieu of tax credits, grants and tax credits through the Community Development Financial Institutions Fund (CDFI), economic recovery payments to social security beneficiaries and others, and payments to U.S. territories for distribution to their citizens.

Treasury Management and Performance Challenges

It is estimated that Treasury's Recovery Act payments in lieu of tax credit programs, for specified energy property and to states for low-income housing projects, will cost more than \$20 billion over their lives. To date, Treasury has awarded approximately \$13 billion under these programs. We conducted a number of audits of recipients of payments under the specified energy property program to determine whether funds were properly awarded to eligible applicants for eligible properties. We have found some questionable claims involving several million dollars in total. We plan to continue our work in this area and will report any major instances of program abuse as necessary.

Management of the HERA and EESA

Under HERA, Treasury continues to address the distressed financial condition of Fannie Mae and Freddie Mac which are under the conservatorship of the Federal Housing Finance Agency. Among other things, in order to cover the continuing losses of the two entities and their ability to maintain a positive net worth, Treasury agreed to purchase senior preferred stock as necessary, and as of June 30, 2011, invested \$164 billion in the two entities. Treasury also purchased \$225 billion of mortgage-backed securities issued by the two entities under a temporary purchase program that expired in December 2009. In March 2011, Treasury began to wind down its mortgage-backed securities portfolio and has steadily reduced the portfolio by about \$10 billion a month. The remaining principal outstanding is approximately \$60 billion. Even with Treasury's assistance, the future of both entities remains in question and prolonged assistance may be required. Additionally, the legislative process for housing finance reform is in an early stage and it is difficult to predict what lies ahead for winding down the Fannie Mae and Freddie Mac conservatorships and reforming housing finance in the long run.

TARP, established under EESA, gave Treasury the authorities necessary to bolster credit availability and address other serious problems in the domestic and world financial markets. Treasury's Office of Financial Stability administers TARP, and through several of its programs, made purchases of direct loans and equity investments in a number of financial institutions and other businesses, as well as guaranteed other troubled mortgage-related and financial assets. Authority to make new investments under the TARP program expired on October 3, 2010. Treasury, however, is continuing to make payments for programs which have existing contracts and commitments. Treasury's challenge in this area has changed from standing-up and running TARP programs to winding them down and recovering its investment. To date, Treasury has reported positive returns from the sale of its investments in the banking industry and has begun reducing its investment in American International Group.

Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement

Ensuring criminals and terrorists do not use our financial networks to sustain their operations and/or launch attacks against the U.S. continues to be a challenge. Treasury's Office of Terrorism and Financial Intelligence is dedicated to disrupting the ability of terrorist organizations to fund their

operations. This office brings together intelligence gathering and analysis, economic sanctions, international cooperation, and private-sector cooperation to identify donors, financiers, and facilitators supporting terrorist organizations, and disrupts their ability to fund them. Treasury carries out its responsibilities to enhance financial transparency through the Bank Secrecy Act (BSA) and USA PATRIOT Act. The Financial Crimes Enforcement Network (FinCEN) is the Treasury bureau responsible for administering BSA.

Over the past decade, the Treasury's Office of Terrorism and Financial Intelligence has made progress in closing the vulnerabilities that allowed money launderers and terrorists to use the financial system to support their activities. Nonetheless, significant challenges remain. One challenge is ensuring the continued cooperation and coordination of all the organizations involved in its anti-money laundering and combating terrorist financing efforts. Many of these entities also participate in efforts to ensure compliance with U.S. foreign sanction programs administered by Treasury's Office of Foreign Assets Control (OFAC). Neither FinCEN nor OFAC has the resources or capability to maintain compliance with their programs without significant help from these other organizations. To this end, Treasury has entered into memoranda of understanding with many federal and state regulators in an attempt to build a consistent and effective process. While important to promote the cooperation and coordination needed, it should be noted that these instruments are nonbinding and carry no penalties for violations, and their overall effectiveness has not been independently assessed.

Last year, financial institutions filed approximately 15 million BSA reports, including over 1.3 million suspicious activity reports. While the number of suspicious activity reports has been increasing since 2001, FinCEN needs to continue its efforts to work with regulators and examining agencies to ensure that financial institutions establish effective BSA compliance programs and file accurate and complete BSA reports, as required. Furthermore, FinCEN still needs to complete work to issue anti-money laundering regulations as it determines appropriate for some nonbank financial institutions, such as vehicle dealers; pawnbrokers; travel agents; finance companies; real estate closing and settlement services; and financial services intermediaries, such as investment advisors.

BSA data is currently maintained by IRS and access to the database is generally handled through an IRS system. FinCEN's BSA IT Modernization program, begun in 2008, is being built to ensure efficient management, safeguarding, and use of BSA information. This program, which we believe is needed, has yet to reach a point of broad-based integration testing and is highly dependent on continued funding, a challenge for many programs today.

FinCEN has a particularly difficult challenge in dealing with money services businesses (MSB). FinCEN has taken steps to improve MSB examination coverage and compliance. In the past year, FinCEN has finalized new rules and increased enforcement designed to ensure MSBs comply with BSA requirements, including registration and report filing requirements. However, ensuring MSBs

Treasury Management and Performance Challenges

register with FinCEN has been a continuing challenge. Furthermore, IRS serves as the examining agency for MSBs but has limited resources to inspect MSBs or identify unregistered MSBs.

FinCEN has also been concerned with MSBs that use informal value transfer systems and with MSBs that issue, redeem, or sell prepaid access. MSBs using informal value transfers have been identified in a number of attempts to launder proceeds of criminal activity or finance terrorism. This past summer, FinCEN issued a final rule applying customer identification, recordkeeping, and reporting obligations to providers and sellers of prepaid access. Ensuring compliance with these rules will be a major challenge.

To detect possible illicit wire transfer use of the financial system, FinCEN also proposed a regulatory requirement for certain depository institutions and MSBs to report cross-border electronic transmittals of funds. However, such a system cannot be fully implemented until FinCEN completes its work on its BSA IT Modernization project, scheduled for 2014.

Management of Capital Investments

Managing large capital investments, particularly IT investments, is a difficult challenge for any organization, whether public or private. As a new development, after several years of attempting to centrally manage large infrastructure investments at the Department level, Treasury has announced that it will de-consolidate all infrastructure investments to the bureaus. This move is intended to improve efficiency and transparency, cost savings and avoidance, and overall governance.

In prior years, we reported on a number of capital investment projects that either failed or had serious problems. This year, we continue to identify challenges with ongoing IT investments.

Replacement telecommunications platform

Treasury plans to spend \$3.7 billion on its Information Technology Infrastructure Telecommunications Systems and Services investment. While the Treasury Network (TNet) has become operational across Treasury, it is not yet fully compliant with federal security requirements, among other things.

Common identity management system

The Treasury Enterprise Identity, Credential and Access Management (TEICAM) is a \$147 million effort to implement requirements for a common identity standard. Treasury has reported that the system was \$40 million over planned costs.

Data center consolidation

The Office of Management and Budget initiated the Federal Data Center Consolidation Initiative to reduce the number of federal data centers. Treasury had over 60 data centers around the country and

Treasury Management and Performance Challenges

during fiscal year 2011 closed 3. Treasury plans to close 12 more by 2015. Treasury's ability to successfully accomplish this is contingent on adapting shared infrastructure services.

FinCEN BSA IT Modernization

FinCEN's BSA IT Modernization is expected to cost about \$120 million and be completed in 2014. A prior attempt, from 2004 to 2006, to develop a new BSA system ended in failure with over \$17 million wasted. However, early indications from our audit work are that project management is much improved for this effort.

It remains to be seen whether Treasury's decision to de-consolidate all infrastructure investments will improve efficiency and transparency, cost savings and avoidance, and overall governance as intended.

Matter of Concern

Our memorandum also highlighted an area of increasing concern – information security.

We reported information security as a serious management and performance challenge at Treasury for a number of years but removed the challenge in 2009. We did so because Treasury had made significant strides in improving and institutionalizing its information security controls. We believe that remains the case today. However, notwithstanding Treasury's strong security stance, cyber attacks against federal government systems by foreign governments and the hacker community are unrelenting and increasing. Treasury's information systems are critical to the Nation, and thus potential targets of those wishing to do grave harm. Accordingly, this is a very troubling situation that requires the highest level of continual attention to ensure that information security policies remain current and practices do not deteriorate.

Planned Projects by OIG Issue Area

Treasury General Management and Infrastructure Support: Financial Management

Issue Area Discussion

Legislative Mandates

Financial audits are required for the Department and certain component entities pursuant to various statutes and other reporting requirements. The annual audit of Treasury's consolidated financial statements is performed pursuant to the Government Management Reform Act. Office of Management and Budget (OMB) designated IRS as a Treasury component entity required to issue stand-alone audited financial statements under the act. Other Treasury component entities required to have stand-alone audited financial statements are the Bureau of Engraving and Printing (BEP), the Exchange Stabilization Fund, the Federal Financing Bank, the Mint, the Treasury Forfeiture Fund, the Office of D.C. Pensions, CDFI Fund, OCC, and the Office of Financial Stability. The Alcohol and Tobacco Tax and Trade Bureau (TTB) and FinCEN financial statements are audited as a management initiative. In addition, certain accounts and activities of BPD and the Financial Management Service (FMS) that are material to the Department's financial statements are also audited.

Independent public accounting firms, under OIG supervision, audit the Department's consolidated financial statements and the financial statements of component entities, with the following exceptions: the Government Accountability Office (GAO) audits the IRS's and the Office of Financial Stability's financial statements and BPD's Schedule of Federal Debt, and OIG staff audit the Mint's Schedule of Custodial Deep Storage Gold and Silver Reserves.

Program Responsibilities

Treasury also has responsibility for certain recently enacted government programs. These programs may generate complex accounting and auditing issues that must be closely monitored and ultimately resolved as part of the preparation and audit of Treasury's consolidated financial statements. Programs that will be reviewed as part of the audit of the fiscal year 2012 Department-wide financial statements include the following:

- **Programs enacted under the Housing and Economic Recovery Act of 2008.** This act gave Treasury broad authorities to address the troubled government-sponsored housing enterprises, Fannie Mae and Freddie Mac. Treasury has assumed an important role to complement the Federal Housing Finance Agency's decision to place Fannie Mae and Freddie

Mac into conservatorship. First, Treasury agreed to purchase senior preferred stock in the government-sponsored housing enterprises, as necessary, to ensure that each company maintains a positive net worth. Second, it established a secured lending credit facility that was available to the enterprises and the Federal Home Loan Banks for short-term loans. Third, to further support the availability of mortgage financing, Treasury initiated a temporary program to purchase new mortgage-backed securities. As of September 30, 2011, Treasury reported investments of \$131.5 billion, \$0, and \$72.4 billion, respectively, in these activities. In March 2011, Treasury began selling some of its holdings of mortgage-backed securities and expects to dispose of the portfolio by March 2012. During fiscal year 2011, Treasury's investment in mortgage-backed securities decreased by \$99.8 billion as a result of sales and payoffs. The secured lending facility and the authority for the mortgage-backed security purchase program expired December 31, 2009. From a financial accounting standpoint, Treasury determined that the business operations, assets, and liabilities of Fannie Mae and Freddie Mac (also referred to as government-sponsored enterprises) are not to be included in the budget and the federal government's financial statements in accordance with generally accepted accounting principles. However, all current and projected liabilities and cash flows between the government-sponsored enterprises and the government are fully reflected and explained.

- **Programs authorized by the Emergency Economic Stabilization Act of 2008.** The act originally gave Treasury \$700 billion³ in authority to, among other things, establish the Troubled Asset Relief Program (TARP) to (1) purchase capital in qualifying U.S.-controlled financial institutions; (2) buy, maintain, and sell toxic mortgage-related assets from financial institutions; and (3) develop a program to guarantee troubled assets originated or issued prior to March 14, 2008, including mortgage-backed securities. However, TARP's scope, size, and complexity increased and changed over time. As of September 30, 2011, TARP consisted of 13 separate, but often inter-related, programs involving government and private funds. These programs include capital infusions into banks and other financial institutions, automotive industry financing, mortgage modifications, and public-private partnerships purchasing "toxic" assets from banks using significant leverage provided by government loans or guarantees. As of September 30, 2011, \$413.2 billion of \$474.8 billion planned TARP expenditures had been expended and \$276.3 billion had been repaid. TARP funds outstanding, including losses and write-offs, were \$122.4 billion, as of September 30, 2011. The act requires that TARP annual financial statements prepared by Treasury's Office of Financial Stability be audited by GAO. Treasury's authorities for new programs under the act expired October 3, 2010; therefore, no new obligations may be made with TARP funds. However, dollars that have already been obligated to existing programs may still be expended.

³ Dodd-Frank reduced the amount of the authority for TARP to \$475 billion, removed the ability to reuse TARP funds that had been repaid, and removed the authority to create new TARP programs or initiatives.

Planned Projects by OIG Issue Area

- **Programs established under the Recovery Act.** The Recovery Act was designed to create and save jobs, provide direct tax relief, increase U.S. renewable-energy-generating capacity, stimulate private investment in renewable energy through tax credits and loan guarantees, invest in U.S. infrastructure projects, and provide funds to state and local governments to support health and education programs. Treasury is responsible for overseeing an estimated \$150 billion of Recovery Act funding and tax relief. Significant ongoing Recovery Act programs administered by Treasury include (1) Payments to the States in Lieu of Tax Credits for Low-Income Housing (total estimated cost \$5.7 billion), (2) Payments in Lieu of Tax Credits for Specified Energy Properties (total estimated cost \$16.5 billion), and (3) Tax Provision Implementation.
- **Programs established by the Small Business Jobs Act of 2010.** This act established the \$30 billion SBLF to be used by Treasury to inject capital into small and medium banks with incentives to encourage increased small business lending. As of the September 27, 2011 program disbursement deadline, Treasury had distributed about \$4 billion to 332 banks [across the country](#). The act also created the SSBCI that provides Treasury with \$1.5 billion to support state programs designed to increase access to credit for small businesses.
- **Programs implemented under the Terrorism Risk Insurance Act of 2002, Terrorism Risk Insurance Extension Act of 2005, and Terrorism Risk Insurance Reauthorization Act of 2007.** The purpose of the program enacted under the Terrorism Risk Insurance Act is to stabilize market disruptions that result from acts of terrorism. The program, which expires December 31, 2014, and has a cap on annual liability for insured losses of \$100 billion, is in place to pay 85 percent of the insured losses arising from acts of terrorism above insurers' deductibles.
- **Programs established by Dodd-Frank.** Dodd-Frank transferred the powers and duties of OTS to OCC, FDIC, and FRB in July 2011. Section 327 required that these agencies jointly prepare a plan detailing how they were to implement the provision of the act. Under the plan, the transfer of OTS functions to the OCC included rulemaking authority, personnel, and property relating to federal savings associations. In addition, all OTS funds were transferred to OCC. An independent public accounting firm audited OTS' financial statements as of, and for the period ending July 20, 2011. The audited OTS balances were the basis for the transfer of funds into OCC on July 21, 2011.

Working Capital Fund

The Department maintains the Working Capital Fund to centrally provide common administrative services across the Department and thereby achieve economies of scale and eliminate duplication of effort. These services are provided on a reimbursable basis to Treasury components at rates that recover the fund's operating expenses. For fiscal year 2011, Working Capital Fund expenses were approximately \$125.1 million.

Planned Projects by OIG Issue Area

Improper Payments

The Improper Payments Elimination and Recovery Act of 2010 supersedes the Improper Payments Information Act of 2002. The act requires each agency to periodically review all programs and activities susceptible to significant improper payments. If a determination is made that a program is susceptible to significant improper payments, the agency must (1) estimate the amount of the improper payments, (2) report on actions that the agency is taking to reduce improper payments, (3) report on actions the agency is taking to recover improper payments, and (4) include this information in the accompanying materials to the annual financial statement. The act also requires agencies to conduct recovery audits with respect to each program and activity that expends more than \$1 million annually, if not prohibited by law and if it would be cost effective. The inspector general of each agency is required to annually determine if the agency is in compliance with the act and submit a report to the agency head, several Congressional committees, and the Comptroller General of the United States.

Managerial Cost Accounting

Managerial cost accounting involves the accumulation and analysis of financial and nonfinancial data, resulting in the allocation of costs to organizational pursuits such as performance goals, programs, activities, and outputs, and should be a fundamental part of a financial performance management system. Both our office and GAO have reported the need for Treasury to implement managerial cost accounting more effectively. The Department developed a high-level managerial cost accounting implementation plan and has revised its managerial cost accounting policy to improve managerial cost accounting practices throughout Treasury, promote consistency wherever possible, and address OIG and GAO concerns.

Known Weaknesses

The Department received an unqualified audit opinion on its fiscal year 2010 consolidated financial statements. The independent public accounting firm's audit report disclosed the following material weakness, other significant deficiencies, and instance of noncompliance with laws and regulations exclusive of the Federal Financial Management Improvement Act.

- Material weakness—financial systems and reporting at IRS (repeat condition)
- Other significant deficiencies—financial management practices at the Departmental level (repeat condition), financial accounting and reporting at the Office of Financial Stability (repeat condition), and information systems controls at FMS (repeat condition)
- Instance of noncompliance with laws and regulations exclusive of the Federal Financial Management Improvement Act—noncompliance with Internal Revenue Code section 6325 related to untimely release of federal tax liens (repeat condition)

Planned Projects by OIG Issue Area

The auditor also reported that the Department's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act related to federal financial management system requirements and applicable federal accounting standards.

In-Progress and Planned Fiscal Year 2012 Projects

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

During fiscal year 2012, we will complete audit work for the fiscal year 2011 financial statements and schedules and begin audit work for the fiscal year 2012 financial statements and schedules. These audits will determine whether the financial statements and schedules are fairly presented in all material respects and will report on internal control, compliance with laws and regulations, and compliance with the Federal Financial Management Improvement Act. We will also award a new contract for the audited consolidated financial statements and several component statements because most of our current contracts expire after the fiscal year 2012 audit.

During fiscal year 2012, Treasury plans to conduct an inventory of U.S. Gold Reserves held by the Federal Reserve Bank of New York. These gold reserves are reported on Treasury's consolidated financial statements. Among other things, we plan to observe Treasury's inventory.

Single Audit Act Activities (Ongoing)

We plan to ensure that action is taken on findings related to Treasury programs identified by Single Audits of state and local governments and nonprofits.

Improper Payments Elimination and Recovery Act of 2010

The Improper Payments Elimination and Recovery Act of 2010 requires that OIG determine Treasury's compliance with the law and annually report on Treasury's compliance to the Secretary of the Treasury, the Comptroller General of the United States, the Senate Committee on Homeland Security and Governmental Affairs, and the House Committee on Oversight and Governmental Reform. Our report is due within 120 days after the agency financial report is issued. We plan to work with TIGTA to assess Treasury's compliance with the law.

Projects Under Consideration for Future Fiscal Years

Working Capital Fund

We plan to determine whether the Department established adequate controls over the Working Capital Fund. As part of the overall audit, we plan to determine whether: (1) fund activities and programs are appropriate for inclusion in the fund; (2) reconciliations between actual costs incurred

Planned Projects by OIG Issue Area

by the fund and costs billed to participating Treasury bureaus exist, are timely prepared, and consistent; (3) costs charged by the fund are appropriate; (4) costs charged by the fund to specific bureaus are supported by appropriate documentation; and (5) assumptions, data, processes, and models used by the fund to estimate its annual costs are reasonable. We will coordinate our work as necessary with TIGTA.

During fiscal year 2008, we issued a report addressing the third and fourth objectives. However, because of other high-priority work, we suspended this project in fiscal year 2009. We plan to follow up on the fund's implementation of our 2008 recommendations.

Implementation of Managerial Cost Accounting

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

Survey of XBRL

Extensible Business Reporting Language (XBRL) is a standards-based way to communicate and exchange business information between business systems. These communications are defined by metadata set out in XBRL taxonomies, which capture the definition of individual reporting concepts as well as the relationships between concepts and other semantic meanings commonly required in business reporting. Information being communicated or exchanged is provided within an XBRL instance. It can offer cost savings, greater efficiency and improved accuracy, and reliability to those involved in supplying or using financial data.

We plan to determine whether XBRL can offer Treasury improved business capabilities for managing its programs and operations.

Treasury General Management and Infrastructure Support: Information Security

Issue Area Discussion

External threats to Treasury's infrastructure and information include terrorists, criminals, and computer hackers. These malicious cyber threats have increased at an unprecedented rate and are becoming serious and difficult to detect given that hacking tools and malware are becoming more readily available and relatively easy to use. In addition, mounting threats are coming from malicious and careless or untrained insiders (authorized users) who have significant knowledge of Treasury's systems and their operations. Because of the nature of Treasury's missions, enhanced information security is paramount to prevent malicious outsiders or insiders from doing the following:

- disrupting key Treasury functions (e.g., collection of revenues, issuing payments, managing the government's cash, making money, preventing financial crimes)
- compromising classified or sensitive Treasury information
- obtaining or disclosing private citizen information
- destroying or altering information needed to accomplish Treasury's missions
- stealing valuable equipment or technology
- inappropriately using Treasury resources

In addition, the dynamic of cyberspace and technical innovations (e.g., e-commerce, social networking, and mobile devices) that provides greater convenience and accessibility to users have also sharply increased the number of vulnerabilities to Treasury's information and resources. Because IT plays a crucial role in accomplishing all of Treasury's strategic objectives and activities, it is vital for Treasury to have an information security program that ensures the integrity of Treasury's information systems and the reliability and confidentiality of its data.

Legislative Mandates

The Federal Information Security Management Act (FISMA) requires Treasury to obtain an annual independent evaluation of the effectiveness of its information security program and practices. TIGTA conducts the evaluation of IRS's information security program and practices. A contractor under our supervision conducts the evaluation of Treasury's remaining unclassified security systems, incorporating TIGTA's evaluation into Treasury's overall results. We may from year-to-year exercise a contract option to conduct the unclassified security systems evaluation as an audit. In addition to the FISMA evaluation covering Treasury's unclassified systems, we conduct FISMA audits of Treasury's national security systems, including collateral systems and intelligence systems.

Planned Projects by OIG Issue Area

Areas of Concern

Based on the results of the fiscal year 2010 FISMA audit, we reported that Treasury's information security program for unclassified systems was in place and generally consistent with FISMA. However, we identified areas where Treasury's non-IRS unclassified systems required additional procedures to ensure that Treasury's information security risk management program and practices fully comply with applicable National Institute of Standards and Technology standards and guidelines and FISMA requirements.

In September 2011, we issued a report on our network and system security assessment at BEP. We identified that BEP's security awareness training program did not harden users against social engineering attacks, its patch management was not effective in protecting its network and systems, and some systems were configured with ineffective security settings.

In February 2010, OMB launched the Federal Data Center Consolidation Initiative to assist agencies in identifying their existing data center assets and to formulate consolidation plans that include a technical roadmap and consolidation targets. The initiative addresses the growth of data centers and assists agencies in leveraging best practices from the public and private sector to:

- promote use of green IT by reducing the overall energy and real estate footprint of government data centers;
- reduce cost of data center hardware, software, and operations;
- increase overall IT security posture of the government; and
- shift IT investments to more efficient computing platforms and technologies.

In October 2010, OMB issued a memorandum reporting that federal agencies maintained 2,094 federal data centers as of July 2010. In December 2010, OMB announced an effort to close 800 data centers by fiscal year 2015, a move that is expected to save taxpayers more than \$3 billion. In July 2011, it announced that agencies had recently closed 81 data centers, 195 will be closed by the end of fiscal year 2011, and another 178 will be closed in fiscal year 2012; therefore, 373 data centers will be closed by fiscal year-end 2012. While OMB anticipated approving the consolidation plans by December 31, 2010, it did not. According to GAO's 2011 report, *Data Center Consolidation: Agencies Need to Complete Inventories and Plans to Achieve Expected Savings*, GAO-11-565 (Jul. 19, 2011), agency inventories and plans for data center consolidation were missing key elements such as complete listings of data centers, complete listings of software assets in inventories, master schedules, risk management plans, and cost-benefit calculations, thus undermining expected savings.

Treasury currently has 42 facilities around the country that store and process mission-related data. By reducing the number of data centers, Treasury would realize considerable savings. The cost of operating a single data center is significant and includes hardware, software, real estate, and cooling costs. Treasury is currently in the planning phase of an effort to reduce the number of data centers to

Planned Projects by OIG Issue Area

29 by fiscal year 2015. Treasury's data center consolidation will require a restructure of Treasury's IT infrastructure in a relatively short timeframe to meet reduction targets OMB set for agencies as part of the fiscal year 2012 budget. Relocating and consolidating data centers is a major investment that requires careful planning to address security concerns, disaster recovery, and infrastructure support.

Treasury was the first cabinet-level agency to move its website into the "cloud" through the use of Amazon's Elastic Compute (EC2) cloud hosting services. This change is in part due to OMB's "cloud first" policy for federal agencies, which requires that all agencies move at least one system to a hosted environment in 2011.

Vulnerabilities introduced by human error and the government's large-scale adoption of cloud computing, and virtualization in general, will make its networks a more appealing target for attacks. Therefore, Treasury needs to recognize the increased risks that are introduced to its infrastructure and information when services are moved from a traditional government-owned data center to a private cloud services provider.

In-Progress and Planned Fiscal Year 2012 Projects

FISMA Independent Review—Unclassified Systems (In Progress)

We will determine whether Treasury's information security program and practices, as they relate to Treasury's unclassified security systems, are adequate and assess progress made in resolving previously reported FISMA weaknesses. During fiscal year 2012, we will complete audit work for fiscal year 2011 and begin work for fiscal year 2012.

FISMA Independent Audit—Collateral National Security Systems (In Progress)

We will determine whether Treasury's information security program and practices, as they relate to collateral national security systems, are adequate and assess progress made in resolving previously reported FISMA weaknesses. During fiscal year 2012, we will complete audit work for fiscal year 2011 and begin audit work for fiscal year 2012.

FISMA Independent Audit for Fiscal Year 2012—Intelligence National Security Systems

We will determine whether Treasury's information security program and practices, as they relate to Treasury's intelligence national security systems, are adequate and assess progress made in resolving previously reported FISMA weaknesses.

TNet Security Review (In Progress)

TNet currently provides Treasury; its bureaus; other non-Treasury financial, enforcement, and economic organizations; and on-site contractors with telecommunication services. Treasury procured TNet as a successor to the Treasury Communications System through the General Service

Planned Projects by OIG Issue Area

Administration's Network Universal Contract and selected AT&T as the vendor. Treasury management granted AT&T full authority to operate TNet in March 2011.

In September 2011, we issued a report on our review of Treasury's contract and project management in which we reported that the initial contract and project management was poor. In February 2011, we began a review of security which we plan to complete in fiscal year 2012. The objective of this audit is to determine whether Treasury ensured that the security controls provided for TNet meet federal standards and guidelines.

Network and System Security Assessments

We plan to determine whether sufficient protections exist to prevent intrusions into Treasury bureaus' networks, systems, and computer equipment. To accomplish this objective, we plan to identify and exploit existing vulnerabilities in IT infrastructure to determine whether network-connected systems are (1) secure from unauthorized intrusion and misuse, (2) vulnerable to malicious security attacks, or (3) accessible through unauthorized or misconfigured paths (e.g., back doors into the network from the Internet or adjacent networks). In this regard, we perform a coordinated network security test by conducting automated and manual vulnerability assessments and exploitation. For fiscal year 2012, we plan to conduct audits at BPD and Departmental Offices.

Disaster Recovery Exercises (Ongoing)

We plan to determine whether Treasury and its components can recover operations in the event of a disaster. We will observe scheduled disaster recovery exercises on a selective basis. During fiscal year 2012, we plan to complete one exercise

Cloud Computing Services

The 2010 Federal Risk and Authorization Management program defined requirements for cloud computing security controls, including vulnerability scanning, and incident monitoring, logging, and reporting. Implementing these controls will improve confidence and encourage trust in the cloud computing environment.

We plan to determine whether Treasury's use of cloud computing services meet federal guidelines and standards and protect Treasury data.

Projects Under Consideration for Future Fiscal Years

Treasury's Data Center Consolidation

We plan to determine whether Treasury has met OMB requirements for the federal data center consolidation initiative.

Planned Projects by OIG Issue Area

Securing Treasury's Industrial Control Systems

Industrial Control Systems is a general term that encompasses several types of control systems, including supervisory control and data acquisition systems, distributed control systems, and other control system configurations such as skid-mounted Programmable Logic Controllers found in the industrial sectors and critical infrastructures. These controls are critical to the operation of BEP's and the Mint's critical infrastructures that are highly interconnected and mutually dependent systems.

We plan to determine whether BEP and the Mint maintain sufficient security controls to protect the control systems that operate their currency and coin manufacturing equipment.

Security Assessment of Treasury's National Security Systems

We plan to determine whether sufficient protections exist to prevent intrusions into Treasury's national security systems. To accomplish this objective, we will identify and exploit vulnerabilities that allow us to bypass IT system security controls that protect system confidentiality, integrity, and availability.

Trusted Internet Connection Compliance

In November 2007, OMB issued Memorandum M-08-05, *Implementation of Trusted Internet Connections*, as an initiative to optimize individual network services into a common solution for the federal government. This common solution facilitates the reduction of external connections, including Internet points of presence, to a target of 50. Each agency was required to develop a comprehensive plan of action and milestones with a target completion date of June 2008.

We plan to determine whether Treasury's offices and bureaus have complied with OMB's Trusted Internet Connection initiative. We will also determine if the bureaus have any connections to the Internet outside the two approved Trusted Internet Connections, and if they do, we will determine how they mitigate vulnerabilities associated with that access.

Security Controls Over Cell Phones, PDAs, and Tablet Computers

We plan to determine whether Treasury has implemented the appropriate security management practices and controls over cell phones, personal digital assistants (PDA), and tablet computers. Specifically, we plan to determine whether Treasury has (1) established an organization-wide security policy for cell phones and PDAs, (2) conducted a risk assessment, (3) conducted security awareness and training, (4) tested configuration control and management, and (5) achieved certification and accreditation in accordance with National Standards of Technology and Technology Special Publication 800-124, *Guidelines on Cell Phone and PDA Security*.

Planned Projects by OIG Issue Area

Securing Treasury Data on Websites Hosted by Third Parties

We plan to determine whether Treasury has adequate policies and procedures in place to safeguard Treasury data on websites hosted on third-party servers and to review existing statements of work and service level agreements to determine whether they adequately protect Treasury interests.

Equipment Disposal Process

We plan to assess Treasury's process for media sanitation and disposal decisions, considering the security category of the associated system.

Treasury Government Security Operations Center Services

We plan to determine whether Treasury's Government Security Operations Center enables the analysis of all security related events and data that traverse the Treasury-wide sensitive, but unclassified, communications network (TNet) as well as all approved Internet access points across the Department.

Treasury General Management and Infrastructure Support: General Management

Issue Area Discussion

In addition to financial management and information security, the Treasury General Management and Infrastructure Support issue area encompasses other management activities to ensure that resources are used efficiently and effectively to carry out Treasury programs and operations. Examples of broad management activities that warrant audit coverage are discussed below.

IT Capital Investments

Sound business practices for the acquisition and maintenance of information systems (including hardware and software) are necessary to support Treasury's mission to manage resources effectively. Absent such practices, Treasury may

- develop or inadvertently acquire duplicate systems;
- pay higher prices for commercial off-the-shelf products by not obtaining volume discounts;
- develop systems that do not adequately address Treasury's needs or provide management with information needed to accomplish key missions;
- exceed projected or reasonable costs to develop, acquire, or maintain systems;
- acquire or develop systems that do not adequately secure and protect Treasury's classified, confidential, or sensitive information; or
- implement systems that do not readily integrate with existing systems.

Under the Clinger-Cohen Act of 1996, agencies are required to submit business plans for IT investments to OMB. In 2009, OMB instituted the IT Dashboard website, where agencies report details of their IT investments. The site allows users to track the projects' progress over time. To identify IT projects at risk for excess costs or schedule delays, the dashboard rates investments for cost and scheduling compared to Treasury's plan. For 2011, Treasury non-IRS bureaus reported 37 major IT investments. As of July 2011, the Treasury Chief Information Officer assigned one IT infrastructure project, FMS's Deposit and Data Management project, with a "moderately high-risk" rating, indicating a significant concern about the project's ability to meet its intended goals and achieve its intended results. Projects identified as high-risk require special attention from the highest level of agency management but are not necessarily at risk of failure.

Human Capital

The Department's automated integrated human resources system, HR Connect, is funded through the Working Capital Fund. In its fiscal year 2012 congressional budget justification, the Department

Planned Projects by OIG Issue Area

identified \$27 million and 38 full-time equivalent staff as the resources needed for HR Connect. These costs are billed to customers.

Procurement

As of April 2011, Treasury had contracts valued at \$19 billion dollars issued by non-IRS bureaus and had obligated approximately \$3 billion for contracts. Through the first part of fiscal year 2011, approximately 97 percent of Treasury's purchases above the micropurchase level have been made through fixed-price contracts, a generally preferable contract vehicle for established programs and projects. Use of government credit cards for micropurchases (generally goods and services under \$3,000) is extensive, and strong control over this activity is essential to prevent abuse.

OIG is the Department's focal point for obtaining pre-award, costs incurred, and other contract audits requested by Treasury's Departmental Offices and the bureaus. These audits are typically performed by the Defense Contract Audit Agency and coordinated through our office.

Nonappropriated Activities

Three Treasury bureaus (BEP, the Mint, and OCC) do not receive appropriated funds; instead, they operate with revolving funds. BEP and the Mint assess charges for manufactured goods, while OCC assesses fees for regulatory activities. These three bureaus generally have greater latitude than Treasury's appropriated bureaus in how they finance their operations.

Potential Integrity Risks

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

In recent years, Treasury has experienced many operational changes that could affect its susceptibility to potential integrity risks. For example, during fiscal year 2009, Treasury was challenged with setting up the infrastructure to carry out Recovery Act programs, and in fiscal year 2011, Treasury stood up the Bureau of Consumer Financial Protection (CFPB) and implemented two new programs established by the Small Business Jobs Act of 2010.

In addition, past audits have indicated that the Department has not effectively managed its capital investments (e.g., Treasury Building and Annex Repair and Restoration, the cancelled Treasury Communication Environment program, TNet, and HR Connect). Certain capital investments, such as those for telecommunications, are funded through the Department's Working Capital Fund. Such projects do not receive the same scrutiny by OMB and Congress as directly appropriated projects.

In-Progress and Planned Fiscal Year 2012 Projects

Financial Innovation and Transformation Program (In Progress)

The Financial Innovation and Transformation Program is intended to develop and expand efforts to support shared, government-wide financial solutions associated with agency financial management services (e.g., invoice processing, cash collections, and interagency agreement management) in partnership with OMB. The Department's plan is to develop innovative solutions for transaction processing and financial report production that could offer efficiencies to agencies that include web-based access, automated data processing, readily available management reports, and public access to information.

We plan to determine the program funding sources and whether (1) the pilot financial innovation and transformation project business case is based on appropriate and supportable assumptions and cost/benefit estimates, (2) sound project management principles are followed in carrying out the project, and (3) efforts are coordinated with the Chief Financial Officers Council to identify and facilitate the acquisition or development of systems government-wide.

Enterprise Content Management System (In Progress)

For fiscal year 2011, Treasury's budget request included \$5 million to develop an enterprise content management system. During fiscal year 2010, Treasury transformed its enterprise content management strategy from the initial large-scale approach to a lean-scaled approach that is intended to produce faster, more cost-efficient results. The scope of the enterprise content management effort now provides for a Basic Content Services technology platform, foundational requirements (records management, center of excellence, and training) and business functionality (to include correspondence tracking, Freedom of Information Act/e-Discovery, evidence management, collaboration, case management, and paper reduction) that will be scaled across Treasury organizations.

We plan to determine whether (1) the pilot enterprise content management project business case is based on appropriate and supportable assumptions and cost/benefit estimates, (2) sound project management principles are followed in carrying out the project, and (3) efforts are coordinated with the Department's planning for document management systems Treasury-wide.

OCC's Procurement Operations (In Progress)

We plan to determine whether OCC conducted its contracting activities in accordance with federal and Treasury acquisition requirements and OCC policies and procedures.

Planned Projects by OIG Issue Area

Corrective Action Verification (Ongoing)

Treasury and bureau management are responsible for implementing agreed-to audit recommendations made by OIG. Management records its planned corrective actions in response to audit recommendations and the completion of those actions in the Joint Audit Management Enterprise System (JAMES), a Treasury tracking system.

We will determine whether management has taken corrective action responsive to the intent of selected recommendations from prior OIG audit reports. In selecting recommendations for verification, we will also consider recommendations that have been open more than a year to assess progress made toward implementing planned actions. We plan to complete two corrective action verifications during fiscal year 2012.

Contract Audit Oversight Activities (Ongoing)

We will oversee and coordinate Defense Contract Audit Agency contract audit services requested by Treasury procurement officers.

Treasury Enterprise Identity, Credential and Access Management (formerly Consolidated Enterprise Identity Management)

In 2010 OMB identified Treasury's Enterprise Identity, Credential and Access Management system, formerly known as the Consolidated Enterprise Identity Management project, as a high-risk project. This system is a \$147 million effort to implement the requirements of Homeland Security Presidential Directive 12. As of July 2011, the system has been identified as being approximately \$40 million over budget. We plan to determine whether sound project management principles are being followed in carrying out the project.

Management of the National Seized Property Contract

The Treasury Executive Office for Asset Forfeiture administers the Treasury Forfeiture Fund, the receipt account for the deposit of nontax forfeitures made by IRS, FinCEN, TTB, and other Treasury law enforcement components so designated by the Secretary; Immigration and Customs Enforcement; Customs and Border Protection; Secret Service; Coast Guard; and other federal law enforcement entities. In 2007, the Treasury Executive Office for Asset Forfeiture contracted with VSE Corporation for general property services in support of the Treasury Forfeiture Fund's mission.

We plan to determine whether the contracting actions and practices for the national seized property contract were in compliance with policies, procedures, and guidelines established under the Federal Acquisition Regulation and with other applicable laws and regulations.

Planned Projects by OIG Issue Area

FMS's Deposit and Data Management

The Deposit and Data Management system is intended to improve financial performance by enabling FMS and other government agencies to more effectively manage financial transaction information and improve the efficiency of the collections information reporting processes. The system is to provide a single touch point for reporting and retrieval of financial information via transaction brokering, data warehousing, and business intelligence. This system is estimated to cost \$164.7 million to implement. As of July 28, 2011, the system has been identified as being approximately \$26.7 million over budget.

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

Treasury Secure Data Network

We plan to determine whether (1) the project business case for upgrading and enhancing the Treasury Secure Data Network, a classified communications system, is based on appropriate assumptions and cost/benefit estimates and (2) sound project management principles are followed in carrying out the project.

Projects Under Consideration for Future Fiscal Years

Classification of Treasury Information

The 9/11 Commission and others have observed that the over-classification of information interferes with accurate, actionable, and timely information sharing; increases the cost of information security; and needlessly limits stakeholder and public access to information. Over-classification of information causes considerable confusion regarding what information may be shared and with whom. It also negatively affects the dissemination of information within the federal government and others. The Reducing Over-Classification Act is intended to promote the proper classification of information. The act requires the inspector general of each department or agency, in conjunction with an officer or employee authorized to make original classifications and in consultation with the Information Security Oversight Office to carry out no less than two evaluations of that department or agency's classification policies, procedures, rules, and regulations by September 30, 2016. The first such evaluation is required by September 30, 2013.

Consistent with the act, we plan to (1) determine whether applicable classification policies, procedures, rules, and regulations have been adopted, followed, and effectively administered within Treasury and (2) identify policies, procedures, rules, regulations, or management practices that may be contributing to persistent misclassification of material within Treasury.

Planned Projects by OIG Issue Area

Departmental Offices Procurement Activities

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

Monitoring of Mandated Reports

We plan to determine whether Treasury has adequate monitoring controls in place to ensure the completion of presidentially and congressionally mandated reports.

Audit Follow-up System

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

Employee Bonus Policies at Nonappropriated Bureaus

We plan to determine whether (1) policies for employee bonuses at nonappropriated bureaus are in accordance with law and (2) bonuses paid conform to established policies. Separate audits are planned at each nonappropriated bureau.

Controls Over Purchase and Travel Cards

We plan to conduct periodic assessments of non-IRS Treasury bureau purchase card and travel card programs and identify and analyze risks of illegal, improper, or erroneous purchases, travel charges, or payments in order to develop a plan for using such risk assessments to determine the scope, frequency, and number of periodic audits of purchase card or convenience check transactions and travel charge card transactions.

Capital Planning and Investment Control Process

We plan to determine whether Treasury is appropriately managing its capital planning and investment process for IT projects.

HR Connect Processing Controls

We plan to determine whether appropriate controls were implemented over the processing of personnel actions and over access to employee information in HR Connect.

Planned Projects by OIG Issue Area

Responsiveness to Freedom of Information Act Requests

We plan to determine whether the Department and non-IRS bureaus (1) have adequate systems to record, track, and complete Freedom of Information Act requests in a timely manner; (2) provide points of contact and monitoring systems to ensure that inquiries regarding existing Freedom of Information Act requests have been properly addressed with the requesters; and (3) are compliant with the 1996 electronic Freedom of Information Act amendments.

Telework Controls

We plan to determine whether Treasury and non-IRS bureaus have adequate policies, procedures, and controls over employee teleworking.

Resolution of Accountable Officer Irregularities

Accountable officers include certifying officers, disbursing officers, collecting officials, cashiers, and other officers or employees who are responsible for or have custody of public funds. Treasury Directive 32-04, Settlement of Accounts and Relief of Accountable Officers, establishes the policy and procedures to settle irregularities (erroneous or improper payments) in the accounts of accountable officers. Requests for relief of accountable officers from liability for irregularities exceeding established thresholds must be referred to GAO for resolution. The resolution of irregularities under these thresholds has been delegated to certain Treasury officials.

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

Terrorist Financing, Money Laundering, and Foreign Assets Control

Issue Area Discussion

Preventing terrorism, money laundering, and other criminal activity is a global effort. Treasury's role in this effort is to safeguard the U.S. financial system and protect it from illicit use. Treasury coordinates with other law enforcement agencies, intelligence agencies, foreign governments, and the private sector to add transparency to the financial system, which is designed to more easily detect those who would try to exploit the financial system for their own illicit purposes. Within Treasury, this effort is led by the Office of Terrorism and Financial Intelligence, which strives to safeguard the financial system against illicit use and other national security threats. The office oversees the Office of Terrorist Financing, Office of Intelligence and Analysis, FinCEN, and OFAC. The Office of Terrorist Financing manages the Office of Terrorism and Financial Intelligence policy and outreach. The Office of Intelligence and Analysis is responsible for intelligence functions, integrating the Treasury Department into the larger intelligence community, and providing support to Treasury leadership. FinCEN is responsible for Treasury's effort to enforce the BSA and the USA PATRIOT Act. OFAC administers laws that impose economic sanctions against hostile targets to further U.S. foreign policy and national security objectives.

BSA requires financial institutions to file Currency Transaction Reports for cash transactions exceeding \$10,000 and Suspicious Activity Reports for transactions that are suspicious in nature. Law enforcement uses these reports to identify and guard against fraud, money laundering, terrorist financing, and other types of illicit finance. FinCEN has focused its efforts in recent years on improving and increasing electronic filing of these reports. FinCEN is also in the process of implementing a BSA IT Modernization program that will reengineer BSA data architecture, update the infrastructure, implement more innovative web services and enhanced electronic filing, and provide analytical tools.

Title III of the USA PATRIOT Act requires each financial institution to establish an anti-money laundering program, extends the Suspicious Activity Report filing requirement to broker-dealers, requires financial institutions to establish procedures to verify the identities and addresses of customers seeking to open accounts, and requires FinCEN to maintain a highly secure network that allows financial institutions to file BSA reports electronically.

To better share information and improve coordination in ensuring that BSA is effectively implemented, FinCEN has a memorandum of understanding with the federal banking agencies—OCC, FDIC, FRB, and the National Credit Union Administration—and similar memoranda of understanding with IRS and most states and territories. FinCEN also has memoranda of understanding with the Securities and Exchange Commission and the Commodity Futures Trading Commission to enhance BSA compliance oversight in the nonbank financial sectors.

OFAC's authority to impose controls on transactions and to freeze foreign assets is derived from the President's constitutional and statutory wartime and national emergency powers. OFAC relies principally on authority under the Trading With the Enemy Act, International Emergency Economic Powers Act, and the United Nations Participation Act to prohibit or regulate commercial or financial transactions involving specific foreign countries, entities, or individuals. OFAC maintains a close working relationship with other federal agencies to ensure that these programs are implemented properly and enforced effectively. Like FinCEN, OFAC has executed a memorandum of understanding with the federal banking agencies to share information and improve coordination.

In September 2010, FinCEN proposed a regulatory requirement for financial institutions to report cross-border electronic transmittals of funds. If implemented, such a requirement will greatly assist law enforcement in detecting transnational organized crime, multinational drug cartels, terrorist financing, and international tax evasion according to FinCEN. While we do not have any specific proposals related to this initiative in this annual plan, we will monitor the area for planning future work.

Areas of Concern

Terrorism, narcotics trafficking, human smuggling and trafficking, loan modification and foreclosure scams, mortgage fraud, health care fraud, and other organized criminal activity remain as high level concerns for the U.S. These activities all involve movement of funds and use of the financial system. In the Middle East, the wars in Iraq and Afghanistan and the unrest evident by large-scale demonstrations, revolts, and crumbling governments in other countries, could result in an increase in global terrorist incidents. In North America, increasing drug smuggling and violence related to drug cartels in Mexico have increased smuggling, crime, and violence along our Southern Border that may have also extended to our Northern Border. Also, an estimated 27 million people in the world are estimated to be living as modern-day slaves and approximately 800,000 are thought to be trafficked across international borders each year, including about 15,000 into the U.S., generating an estimated \$32 billion in worldwide profits that are often transferred across borders. The financial crisis has resulted in increased mortgage fraud and loan modification scams. Law enforcement continues to target organizations and individuals involved in defrauding the Medicare and Medicaid programs.

Over the last decade, in an effort largely resulting from the September 2001 terrorist attacks, the U.S. and others in the global community have required increased reporting and monitoring of financial institution transactions. In reaction to the activities largely occurring in the Middle East and Africa, the U.S. has also increased sanctions on transactions involving countries in these areas, particularly when related to former dictators, their families, and other politically exposed persons. Because terrorists and criminals are resourceful and cunning, they are reacting to the increase in financial institution monitoring by looking for ways of moving funds to support their illicit activity that more easily avoid detection. This includes, among other things, the use of electronic transactions (online and mobile) and prepaid instruments that make it increasingly difficult for financial institutions and

Planned Projects by OIG Issue Area

law enforcement to detect illicit transactions, and the use of the nonbank financial sector where there is likely to be less monitoring and more opportunity to hide transactions, including MSBs and informal value transfer systems.

Over the last several years, we have been focusing a large amount of resources to conduct mandated failed bank reviews resulting from the financial crisis that began in 2007, and audits of the anti-money laundering/combating financing of terrorists area have been limited. In fiscal year 2011, we were able to start three new anti-money laundering/combating financing of terrorists audits: two involving FinCEN's BSA programs and one involving OFAC's licensing program. We believe anti-money laundering/combating financing of terrorists remains a high priority. Our prior audits have revealed problems pertaining to the detection of BSA violations, the timely enforcement of BSA, suspicious activity report data quality, and BSA system development efforts. Moreover, as an examining agency for nonbank financial institutions, IRS now has a larger universe of institutions to review beyond casinos and MSBs. The universe now includes the insurance industry and precious stones and metals dealers.

Potential Integrity Risks

Treasury efforts to support law enforcement in the fight against terrorist financing, money laundering, and other financial crimes are dependent on honest and complete reporting of currency transactions and suspicious financial activity. Potential integrity risks include (1) the failure by financial institutions to file required BSA reports, due to both poorly run programs and corrupt bank officials who are involved in the schemes; (2) filing of false or fraudulent BSA reports; (3) internal and external misuse or disclosure of sensitive BSA information contrary to law; (4) inappropriate handling or use of sensitive but unclassified, law enforcement-sensitive, or classified information; and (5) criminal violations of the foreign sanctions program. These risks are potentially exacerbated by the changes that have occurred in the financial markets following the recent financial system crisis.

In-Progress and Planned Fiscal Year 2012 Projects

FinCEN BSA IT Modernization Program (In Progress)

We plan to determine whether (1) FinCEN adequately supported its business case decision to proceed with the development of the BSA IT Modernization system and (2) the cost, schedule, and performance of the system is within acceptable parameters.

FinCEN Efforts to Ensure Compliance by MSBs With BSA (In Progress)

In 2005, our office issued an audit report recommending that FinCEN take actions to improve the registration program for MSBs. Registration is the first and vital step in (1) identifying possible money laundering and terrorist financing, often perpetrated by unlicensed and unregistered MSBs, (2) performing appropriate BSA examinations and monitoring filings of suspicious activity reports,

Planned Projects by OIG Issue Area

(3) monitoring compliance with OFAC sanctions, and (4) taking enforcement actions for BSA or OFAC violations. In 2009 and 2010, FinCEN issued proposed rules to tighten emerging threats associated with activities that often involve MSBs. These include rules to more clearly delineate the scope of entities regulated as MSBs and tightening rules associated with MSBs, which are difficult to enforce. These rules govern the use of prepaid access cards and the reporting of cross-border wire transfers. FinCEN also issued an advisory regarding the use of informal value transfer systems by unlicensed and unregistered MSBs, citing several which had been involved in money laundering or violations of OFAC sanctions.

We plan to assess (1) the status of issues identified in our September 2005 report *Major Challenges Faced by FinCEN in its Program to Register Money Services Businesses* (OIG-05-050) and (2) FinCEN's oversight of BSA compliance by the MSB industry.

OFAC Licensing Programs (In Progress)

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

OFAC Libyan Sanctions Case Study

The President issued Executive Order 13566 on February 25, 2011, blocking property and prohibiting certain transactions related to Libya in order to protect Libyan state assets from misappropriation. This order was issued based on findings that Colonel Muammar Qadhafi, his government, and close associates, have taken extreme measures against the people of Libya, including using weapons of war, mercenaries, and wanton violence against unarmed civilians. By March 1, 2011, Treasury reported at least \$30 billion in Government of Libya assets under U.S. jurisdiction were frozen as a result of the executive order. The reported amount of frozen Libyan assets increased to approximately \$37 billion by September 2011. In an effort to return the frozen assets to the Libyan people, on September 1, 2011, OFAC released an initial \$700 million in frozen assets to the Libyan Transitional National Council for the purpose of covering fuel and civilian operating costs and pay salaries in support of the Libyan people. Treasury announced that going forward, it would remain in close contact with the council for the release of additional assets.

We plan to perform a case study on OFAC's implementation and subsequent lifting of sanctions against Libya. For the purpose of this project, we plan to (1) review OFAC's implementation of the Libyan sanctions program; (2) determine how frozen assets are identified, maintained, and accounted for; (3) review OFAC's subsequent and gradual release of frozen Libyan assets; and (4) determine how OFAC will identify and release all frozen assets to their rightful owners upon termination of the sanctions program.

Planned Projects by OIG Issue Area

OCC's BSA and USA PATRIOT Act Compliance Examinations and Enforcement Actions

Our most recent comprehensive review of OCC's BSA compliance examination program was in fiscal year 2000.

We plan to determine the effectiveness of OCC's programs to conduct supervisory activities and, when necessary, take enforcement actions to ensure that national banks have controls in place and provide the requisite notices to law enforcement to deter and detect money laundering, terrorist financing, and other related criminal acts. The scope of this review will include OCC's examination coverage of BSA compliance by former thrifts previously supervised by OTS, which were transferred to OCC in July 2011. Additionally, the scope of this review will include national bank trust departments and banks offering both private banking services and correspondent bank accounts (which make payments or handle transactions on behalf of a foreign bank).

FinCEN Civil Penalties for BSA Program Violations

We plan to determine (1) whether FinCEN is assessing civil penalties for BSA violations when appropriate, (2) how the penalties are coordinated with the regulatory agencies, and (3) how the penalty amounts assessed are established.

FinCEN Information-Sharing Procedures (Section 314 of USA PATRIOT Act)

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

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

FinCEN Efforts to Address Risks Associated With Use of Prepaid Access Cards

Law enforcement officials have expressed concern about the possible illicit use of prepaid access cards. These cards can be carried in wallets with credit cards, are often indistinguishable from credit cards, and can often be used anonymously, making them a potential vehicle for money launderers or terrorists. The most recent estimates available suggest that prepaid access cards are being increasingly used by Latin American and Canadian drug cartels to annually launder an estimated \$50 billion to \$100 billion from U.S. illegal drug sales across the border. In July 2011, FinCEN issued a final rule to clarify the definition of prepaid access cards and impose suspicious activity reporting, customer identification, and recordkeeping requirements on both providers and sellers of prepaid access cards, and registration requirements on sellers.

Planned Projects by OIG Issue Area

We plan to assess the effectiveness of FinCEN's BSA compliance and enforcement guidance in the prepaid access final rule.

FinCEN Targeting of Fraudulent Loan Modification Schemes

We plan to review FinCEN's efforts and results under a multi-agency effort to target foreclosure rescue scams and loan modification fraud and identify possible areas for improving the program.

Impact of FinCEN's Rules on Financial Institutions Subject to the Comprehensive Iran Sanctions, Accountability, and Divestment Act

The Comprehensive Iran Sanctions, Accountability and Divestment Act of 2010 imposed sanctions aimed at persuading the Iranian government to end its illegal nuclear program. The financial sanctions prescribed by the act were designed to restrict or prohibit U.S. financial institutions from doing business with foreign institutions related to or conducting business with the government of Iran or its agents. Under the act, FinCEN was authorized to require U.S. banks to perform sanctions audits on foreign financial institutions with which they keep correspondent accounts to determine if those institutions are in compliance with requirements of the act. FinCEN announced on October 5, 2011, that a final rule regarding compliance duties of U.S. financial institutions under the act would soon appear in the Federal Register.

We plan to assess FinCEN's efforts to ensure financial institution compliance with the rule(s).

FinCEN Memorandum of Understanding With Financial Institution Regulators

We plan to determine whether (1) FinCEN is receiving timely, complete, and reliable information in accordance with the memorandum of understanding and (2) the purpose of the memorandum of understanding, which was to enhance communication and coordination enabling financial institutions to identify, deter, and interdict terrorist financing and money laundering, is being achieved. We plan to address these objectives by conducting audit work at FinCEN and OCC.

Treasury Executive Office of Asset Forfeiture's Use of Treasury Forfeiture Fund Receipts to Support Law Enforcement

We plan to determine whether the Treasury Executive Office of Asset Forfeiture has appropriate controls to (1) award and distribute funds to eligible law enforcement agencies in accordance with applicable laws, regulations, and policies and (2) ensure that distributed receipts are used for intended purposes. As part of this work, we plan to determine whether selected state and local government agencies use Treasury forfeiture funds in accordance with Treasury guidelines.

FinCEN Access and Monitoring Controls Over BSA Data

FinCEN shares BSA sensitive financial data with a variety of law enforcement customers. One means of accessing the data is through the Gateway program, which allows users to access the IRS Web

Planned Projects by OIG Issue Area

Currency and Banking Retrieval System using a secure application known as Secure Outreach. About 12,250 users accessed the BSA database in fiscal year 2010. FinCEN needs to ensure that the data are protected and not inappropriately accessed through browsing or by other means. FinCEN's policy is to inspect users of BSA data every 3 years to ensure that security controls are adequate.

We plan to determine whether FinCEN is properly controlling and monitoring external access to BSA data.

Security Clearances of Individuals Handling Sensitive Office of Terrorism and Financial Intelligence Information

We plan to determine whether adequate controls are in place to ensure that the Office of Terrorism and Financial Intelligence employees and contractor personnel who have access to sensitive intelligence data, BSA data, and other information possess current and appropriate security clearances. We will coordinate this initiative with TIGTA because IRS presently maintains BSA data.

Terrorist Finance Tracking Program

After the terrorist attacks on September 11, 2001, Treasury initiated the Terrorist Finance Tracking Program to identify, track, and pursue terrorists and their networks. During 2010, the U.S. and the European Union entered into a new agreement on the transfer and processing of data in the Terrorist Finance Tracking Program. As provided in the agreement, we will provide appropriate oversight of the program.

Projects Under Consideration for Future Fiscal Years

FinCEN Efforts to Ensure Compliance by Casinos With BSA Requirements

Casino gambling in the U.S. is approximately a \$30 billion-per-year business. Casinos are vulnerable to money laundering, tax evasion, and terrorist financing because of the fast-paced and cash-intensive nature of the gaming industry, and because casinos provide their customers with a vast array of financial services. In 1985, BSA was amended to make casinos subject to BSA reporting and recordkeeping requirements.

We plan to evaluate FinCEN's oversight of BSA compliance by the casino industry.

Impact of Modified Currency Transaction Report Exemptions on Depository Institutions

We plan to determine whether FinCEN's modified regulatory requirements for currency transaction report exemptions have increased the efficiency, effectiveness, and timeliness of currency transaction report filings by depository institutions and if appropriate enforcement action is taken when warranted.

Planned Projects by OIG Issue Area

Insurance Companies' Anti-Money Laundering Programs and Reporting of Suspicious Transactions

In November 2005, FinCEN promulgated BSA final rules for insurance companies requiring them to establish and implement anti-money laundering programs and file suspicious activity reports when they encounter suspicious transactions as required by the USA PATRIOT Act. Each insurance company needs to (1) integrate its agents and brokers into its anti-money laundering program (2) monitor their compliance with its program, and (3) include procedures for obtaining relevant customer-related information from its agents or brokers.

We plan to assess FinCEN's efforts to ensure compliance with BSA by the insurance industry.

Anti-Money Laundering Regulations for Other Nonbank Financial Institutions

The USA PATRIOT Act adds several types of entities to its definition of financial institutions and requires those entities to comply with anti-money laundering requirements unless they are specifically exempted by Treasury. These industries include insurance, investment banking, real estate, travel, and other businesses involved in automobile, airplane, and boat sales. In 2005, FinCEN issued final rules for the insurance industry but has not issued final rules for the others. In 2009, FinCEN issued an advance notice of proposed rulemaking and asked the various industries for help in assessing risks and defining who is involved in transactions.

We plan to assess the progress of FinCEN's efforts to issue anti-money laundering regulations for nonbank financial institutions.

Financial Institution Filing of Reports to OFAC and FinCEN on Blocked Transactions

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

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

Electronic Banking and BSA Compliance

In the last decade, the use of online banking and mobile phone applications has made it increasingly likely that many bank customers never visit a "storefront" location regardless of whether they are opening accounts or performing other bank transactions. While traditional banking required customers to open accounts in person and prove identity using a government-issued identification

Planned Projects by OIG Issue Area

card, such as a driver's license, this is not always the case for online banking. We plan to determine how OCC ensures adequate customer identification and due diligence controls are in place for financial institutions conducting business extensively or exclusively online.

OFAC Memorandum of Understanding With Financial Institution Regulators

In April 2006, OFAC executed a memorandum of understanding with the federal banking agencies to improve information sharing and coordination. The purpose of the memorandum of understanding was to enable OFAC to effectively administer and enforce economic sanctions and to enable the regulators to effectively supervise banking organizations.

We plan to determine whether (1) federal banking agencies are providing OFAC timely, complete, and reliable information in accordance with the memorandum of understanding and (2) whether the memorandum of understanding enabled OFAC to administer and enforce economic sanctions and enabled banking regulators to supervise banking organizations. We plan to conduct audit work at OFAC and OCC.

OFAC Policies and Procedures

Prior audits of OFAC have identified a lack of policies and procedures in certain operational areas. We plan to take a more global review of OFAC operations and determine whether OFAC has adequately documented its current policies, procedures, and practices.

Responsibilities of the Office of Intelligence and Analysis Under the Intelligence Authorization Act

The Intelligence Authorization Act for Fiscal Year 2004 established the Office of Intelligence and Analysis and assigned it responsibility for receiving, analyzing, collating, and disseminating foreign intelligence and foreign counterintelligence information related to Treasury operations. We plan to assess Office of Intelligence and Analysis progress toward meeting those responsibilities.

Department of the Treasury's Compliance With Requirements of Executive Order 13462

Executive Order 13462, as amended, requires Treasury to report intelligence gathering activities to the Intelligence Oversight Board and the President's Intelligence Advisory Board. These boards are responsible for keeping the President apprised of issues discovered through intelligence gathering activities throughout the federal government. Under this Executive Order, Treasury is also required to act on recommendations made by the board and the Director of National Intelligence, including instructions to discontinue activities that may be unlawful or contrary to executive orders or other Presidential directives. We plan to determine if Treasury has established effective policies and procedures in meeting the requirements of Executive Order 13462, and has taken appropriate actions when directed to by the Intelligence Oversight Board or the Director of National Intelligence.

Government-wide Financial Services and Debt Management

Issue Area Discussion

FMS provides central payment services to federal agencies, operates the federal government's collections and deposit systems, provides government-wide accounting and reporting services (including preparation of the Financial Report of the United States Government), and manages collection of delinquent debt owed the federal government.

One of FMS's primary goals is to provide reliable and accurate processing of federal payments, which is an essential part of supporting the U.S. economy. These payments total over \$2.3 trillion annually. FMS issues over a billion payments a year by paper check, electronic funds transfer, and Fedwire. FMS also collects approximately \$2.9 trillion, per year, in payments to the government through approximately 10,000 financial institutions. Nearly \$2.5 trillion of this amount is collected electronically. Since enactment of the Debt Collection Improvement Act of 1996, FMS has collected about \$51.6 billion in delinquent debt. Prompt referral of eligible delinquent debts to Treasury by federal program agencies is critical to the success of collection efforts. In fiscal year 2011, FMS collected \$5.5 billion of delinquent debt, including economic recovery payments.

BPD borrows the money needed to operate the federal government, accounts for the resulting debt, and provides reimbursable support services to federal agencies. The goal of Treasury debt management is to achieve the lowest borrowing costs over time by committing to regular and predictable debt issuance. Treasury debt management decisions are made through deliberate and distinct processes utilizing new information as it becomes available.

The federal debt has two major components; Debt Held by the Public and Intragovernmental Holdings. Debt Held by the Public is the debt held by individuals, corporations, state or local governments, foreign governments, and other entities outside the U.S. government. Types of securities held by the public include Treasury Bills, Treasury Notes, Treasury Bonds, Treasury Inflation-Protected Securities, U.S. Savings Bonds, State and Local Government Series Securities, Foreign Series securities, and Domestic Series securities. Intragovernmental Holdings are primarily Government Account Series securities held by federal government trust funds, revolving funds, and special funds. As of September 30, 2011, the total federal debt outstanding was \$14.8 trillion, of which \$10.1 trillion was Debt Held by the Public and \$4.7 trillion was Intragovernmental Holdings. The interest expense on the federal debt for fiscal year 2010 was \$413 billion. Interest expense for fiscal year 2011 was \$454 billion.

Like FMS, BPD's operations demand modernized electronic and information system technology. BPD implemented the TreasuryDirect system in 2002. TreasuryDirect currently maintains 1 million accounts. We have not conducted any recent performance audits of BPD's programs for managing the public debt.

Planned Projects by OIG Issue Area

Potential Integrity Risks

Integrity risks associated with government-wide financial services and debt management, affecting FMS, BPD, or both agencies include fraud and abuse by means of (1) unauthorized access to sensitive information, (2) filing false applications and claims, (3) providing false statements to obtain federal assistance or funds, (4) diversion of benefit proceeds, (5) check forgery, (6) promised services not delivered, and (7) misuse and mismanagement of federal funds. Furthermore, program risks related to this issue area include the inability to collect debt, inability to recover in a disaster, misallocation of program costs, and disruption of the federal payment function and service to the public. The changing nature of crime and recent technological innovations require that law enforcement look for and implement new ways to identify and prevent future criminal activities.

To minimize potential integrity risks, OIG plans to explore the use of data-mining methods to analyze FMS payments to reveal hidden patterns relating to trends, relationships, and correlations between the data. These data have the potential to reveal trends and patterns that could identify ongoing fraud and abuse directed against or occurring within FMS.

In-Progress and Planned Fiscal Year 2012 Projects

FMS Controls Over Disbursement Activities (In Progress)

We plan to perform a survey of FMS processes for acquiring and processing agency payment requests and issuing payments to determine whether FMS has adequate internal controls over its disbursement process to ensure the integrity of payments. We plan to identify areas where further audit work is needed and improvements can be made.

FMS Debit Card Program for Social Security and Other Federal Benefits (In Progress)

FMS developed a debit card program to provide unbanked federal benefit recipients the option of receiving their federal benefit payments via a debit card. The Direct Express Debit Card Program is managed by Comerica and provides an electronic funds transfer alternative for unbanked Social Security and Supplemental Security Income and other federal beneficiaries.

We plan to determine whether controls related to debit card recipient data are adequate and whether sound acquisition practices were followed to select the financial agent.

FMS Controls Over Routing Transit Numbers (In Progress)

FRB establishes and assigns routing transit numbers to federal agencies, including Treasury.

We plan to determine whether internal controls related to FMS routing transit numbers are effective to prevent and detect misuse of these numbers.

Planned Projects by OIG Issue Area

Administrative Resource Center User Fee Collection and Reimbursable Agreements

The BPD Administrative Resource Center's mission is to provide administrative support—including accounting, travel, personnel management, and procurement services—to various federal agencies. The Administrative Resource Center operates as a franchise fund and therefore does not receive appropriated funds; instead, it relies on reimbursable revenue from its customers. The Administrative Resource Center has 18 Treasury customers and 54 non-Treasury customers.

We plan to determine whether the Administrative Resource Center has appropriate service agreements and a proper accounting system to (1) operate independently of BPD funding, (2) ensure proper and timely reimbursement by federal agencies for its services, and (3) account for the full costs it incurs to provide services.

Survey of the Federal Financing Bank

Created by Congress in 1973, the Federal Financing Bank is a government corporation under the general supervision of the Secretary of the Treasury. Its mission is to reduce the costs of federal and federally assisted borrowings, to coordinate those borrowings with federal fiscal policy, and to ensure that those borrowings are done in ways least disruptive to private markets. To accomplish this mission, the Federal Financing Bank has broad statutory authority to purchase obligations issued, sold, or guaranteed by federal agencies. Our office has not previously conducted performance audit work of Federal Financing Bank programs and operations.

We plan to perform a survey of the Federal Financing Bank to identify areas that, based on our assessment of risk, should be audited in more depth.

Delinquent Debt Referrals to FMS

Prompt referral of eligible debt to FMS by federal program agencies is critical to the success of collection efforts.

We plan to evaluate FMS's efforts to ensure that creditor federal agencies refer delinquent nontax debt in accordance with the Debt Collection Improvement Act.

Survey of FMS Debt Check Program

FMS's Debt Check is an Internet-based system intended to assist agencies with preventing delinquent debtors from obtaining new loans, loan guarantees, or loan insurance. Agencies can search the Debt Check database to determine whether assistance applicants owe delinquent nontax debt to the federal government or delinquent child support. Rollout of Debt Check was completed in 2004, and three agencies are using the system.

We plan to perform a survey of the Debt Check program and related controls to identify high risk areas that should be audited in more depth.

Planned Projects by OIG Issue Area

FMS Control of Its Card-acquiring Bank's Interchange Management

In fiscal year 2010, FMS collected approximately \$9.1 billion in revenue through credit and debit cards and paid interchange fees of approximately \$122.7 million. Interchange fees are payments that card-acquiring banks make to banks that issued the cards.⁴ In August 2006, FMS designated one bank as the sole provider of card-acquiring services for card payments it receives.

We plan to determine whether FMS is adequately monitoring its card-acquiring bank's interchange management. During this audit, we plan to follow up on findings and recommendations from GAO's 2008 report, *Credit and Debit Cards: Federal Entities Are Taking Actions to Limit Their Interchange Fees, but Additional Revenue Collection Cost Savings May Exist*, GAO-08-558, (May 15, 2008).

BPD Controls Over Routing Transit Numbers

BPD auctions approximately \$9.5 trillion annually in marketable and non-marketable securities. Customers establish TreasuryDirect accounts and purchase securities, direct payments to their bank accounts, and manage their holdings online.

We plan to determine whether internal controls related to BPD routing transit numbers are effective to prevent and detect misuse of these numbers.

TreasuryDirect

BPD's TreasuryDirect allows investors to conduct investment and account management activities online through a single portfolio account. TreasuryDirect has approximately 1 million accounts and contains personal information on customers.

We plan to determine whether BPD has (1) proper internal controls to detect and prevent fraud, and (2) adequate controls for transactions conducted over the Internet-based TreasuryDirect system.

BPD Survey of Treasury Securities Programs

BPD uses public auctions to sell marketable Treasury-issued securities to institutional and individual investors. The Department offers four types of securities—bills, notes, bonds, and inflation-protected securities—and conducted 301 public auctions in 2011. Treasury auctions occur on a set schedule and have the following three steps: (1) announcement of the auction, (2) bidding, and (3) issuance of the purchased securities. Our last examination of BPD's auction process for Treasury securities was during fiscal year 2000.

We plan to perform a survey of the auction process for Treasury securities and related controls to identify areas that, based on our assessment of risk, should be audited in more depth.

⁴ A card-acquiring bank processes card payments for merchants.

Planned Projects by OIG Issue Area

FMS Oversight of Lockbox Operations

FMS selects financial institutions to provide lockbox remittance services for federal agencies. Lockbox processing was adopted to accelerate deposits to Treasury's General Account at the Federal Reserve Bank of New York. Agencies instruct remitters to mail payments directly to a Treasury-designated lockbox bank. The bank processes remittance advices according to FMS and agency instructions and transfers deposits daily to FRB for credit to agency accounts. Treasury compensates lockbox banks for their services. For fiscal year 2010, total lockbox collections were approximately \$295 billion, of which nontax collection was almost \$27 billion.

We plan to determine whether FMS oversight of lockbox financial agents is effective.

Projects Under Consideration for Future Fiscal Years

Survey of Electronic Collection Methods

FMS collected \$537 billion in non-IRS funds received by federal agencies in fiscal year 2010. Most of the funds were collected electronically. GAO reported in November 2009 that FMS was implementing a plan to improve collections, but the plan excluded important cost considerations and did not use all available incentives. GAO recommended that FMS strengthen oversight of the costs of collecting federal fees and receipts.

We plan to determine what actions FMS has taken to increase the use of electronic collections and to lower the cost of collections.

Check Forgery Insurance Fund

The Check Forgery Insurance Fund is a revolving fund administered by FMS to settle claims of non-receipt of Treasury checks. The fund's purpose is to ensure that the intended payees, whose checks were fraudulently negotiated, receive settlement in a timely manner. Approximately 50,000 Treasury checks are forged or altered annually. Our Office of Investigations is currently involved in a joint initiative with FMS in an effort to combat Treasury check fraud. This initiative's primary focus is the Check Forgery Insurance Fund. Since this initiative began in August 2010, our Office of Investigations has identified thousands of investigative leads associated with the fund.

We plan to review the controls over this fund.

Acquisition of Banking Services by FMS

The Consolidated Appropriations Act of 2004 authorized a permanent, indefinite appropriation for FMS to use to acquire banking services. Previously, these services were paid for through compensating balances maintained with financial institutions.

Planned Projects by OIG Issue Area

We plan to determine whether FMS followed sound business practices and applicable law in acquiring banking services.

Treasury Check Information System

The Treasury Check Information System records and reconciles the worldwide issuance and payment of Treasury checks and allows end users to query Treasury's Payments, Claims and Enhanced Reconciliation system for claim status on Automated Clearing House payments. The system enables agencies to access all claim information in one system and is accessible through a standard web browser. The Treasury Check Information System was fully implemented in June 2006.

We plan to determine whether (1) FMS has implemented appropriate security controls over the Treasury Check Information System and (2) the system is achieving its intended purposes.

Internet Payment Platform

The Internet Payment Platform is an Internet-based payment information portal provided by FMS for use, free of charge, to federal agencies and their vendors. It was established to improve the flow of information between federal agencies and suppliers by providing a centralized location to exchange electronic purchase orders, invoices, and related payment information. The system is available to all federal agencies and their suppliers.

We plan to determine whether FMS implemented proper security measures and controls for the portal.

Safety, Soundness, and Accessibility of Financial Services

Issue Area Discussion

One of Treasury's strategic goals is to foster conditions that promote a prosperous and stable U.S. and world economies. Further, one of Treasury's strategic objectives is to provide a flexible legal and regulatory framework that ensures a safe and sound national financial system promoting the growth of financial services, access to financial services, and fair treatment of banking customers. The most sweeping change in the regulatory framework, Dodd-Frank, enacted in July 2010, represents a significant change in the nation's financial services industry.

Dodd-Frank affects all financial regulatory agencies, including OCC, and three new offices that it established—CFPB, the Office of Financial Research, and the Federal Insurance Office. In addition, on July 21, 2011, the act required the transfer of powers, duties, and functions of OTS to OCC, FDIC, and FRB.

Under Title X of Dodd-Frank, CFPB was established as an independent bureau within FRB on July 21, 2011, to be headed by a director appointed by the President and confirmed by the Senate. The Treasury Secretary has the authority to conduct the interim activities related to the bureau's establishment as well as some but not all the authorities of the director until a director is appointed. The newly established bureau's authority is intended to ensure that American consumers get the clear, accurate information they need relating to mortgages, credit cards, and other financial products, and protect them from hidden fees, abusive terms, and deceptive practices. The FRB OIG has the oversight responsibility for CFPB. However, given Treasury's role until a CFPB director is appointed, there may be aspects of CFPB-related programs and operations where we may do specific work or coordinated work with FRB OIG.

The Office of Financial Research, established by Title I of Dodd-Frank, is within Treasury and is tasked with supporting the activities of Financial Stability Oversight Council and its member agencies by performing activities including collecting data on behalf of the council, providing such data to the council and member agencies, standardizing the types and formats of data reported and collected, and performing essential long-term research. The Federal Insurance Office, established by Title V of Dodd-Frank, is within Treasury and is tasked with addressing problems and concerns in the regulation of insurers that could contribute to a systemic crisis in the insurance industry or the U.S. financial system.

Title III of Dodd-Frank abolished OTS and transferred its powers and authorities to OCC, FDIC, and FRB on July 21, 2011. All OTS functions relating to federal savings associations, all OTS rulemaking authority for federal and state savings associations, and the majority of OTS employees were transferred to OCC. OTS's supervisory responsibility for state-chartered savings associations and OTS employees to support these responsibilities were transferred to FDIC; and OTS's authority

Planned Projects by OIG Issue Area

for consolidated supervision of savings and loan holding companies and their non-depository subsidiaries were transferred to FRB.

OCC funds its operations largely through assessments levied on the financial institutions and from various licensing fees. OCC is responsible for licensing, regulating, and supervising nearly 1,300 nationally chartered banks, 730 thrifts, and 50 federal branches or agencies of foreign banks. OCC-supervised banks hold over \$8.5 trillion in commercial banking assets and its thrifts hold \$932 billion in total assets. OCC has over 4,000 employees located throughout the U.S.

OCC has four strategic goals: (1) a safe and sound national banking and thrift system; (2) fair access to financial services and fair treatment of customers; (3) a flexible legal and regulatory framework that enables their respective industries to provide a full competitive array of financial services; and (4) an expert, highly motivated, and diverse workforce.

From September 2007, as of September 30, 2011, 398 commercial banks and thrifts failed, resulting in an estimated \$83 billion in losses to the Deposit Insurance Fund. Of these 398 failures, 113 were banks or thrifts regulated by OCC and the former OTS. Our office is mandated by section 38(k) of the Federal Deposit Insurance Act to review and produce a written report on failures of OCC-regulated financial institutions that result in material losses to the fund. The law also requires that the report be completed within 6 months after it becomes apparent that a material loss has incurred. Dodd-Frank raised the threshold loss amount triggering a material loss review (MLR) to \$200 million for 2010 and 2011, \$150 million for 2012 and 2013, and \$50 million in 2014 and thereafter, with a provision for increasing the threshold to \$75 million under certain circumstances. The prior threshold loss amount was the greater of \$25 million or 2 percent of the institution's total assets. During the recent economic downturn, we have completed 42 MLRs and are engaged in 13 other MLRs and one in-depth review.

Dodd-Frank also requires that for any failure of a OCC-regulated bank or thrift with a loss to the Deposit Insurance Fund under the threshold triggering a mandated MLR, that we conduct a review that is limited to determining (1) the grounds identified by OCC for appointing FDIC as receiver and (2) whether any unusual circumstances exist that might warrant an in-depth review of the loss. For each 6-month period, OIG is to prepare a written report to OCC and Congress that (1) identifies any loss that warrants an in-depth review, why such review is warranted, and when the review will be completed and (2) for losses for which we determine that no in-depth review is warranted, explain how we came to this determination. To meet this reporting requirement, we have issued separate reports on each review conducted and summarized our determinations in the semiannual reports to Congress required under the Inspector General Act. As of September 30, 2011, we completed 44 limited reviews and are engaged in 7 others.

In-Progress and Planned Fiscal Year 2012 Projects

Reviews of Failed OCC-Regulated Banks and Thrifts (In Progress)

The purpose of an MLR is to provide (1) an independent analysis of why the institution failed and resulted in a material loss; (2) evaluate the relevant regulator's supervision of the institution; and (3) as appropriate, make recommendations to prevent similar losses in the future.

The table below lists 13 MLRs and one in-depth loss review that are in progress as of September 30, 2011. The reviews are being performed by OIG staff.

Financial institution	Location	Date closed	Estimated loss to the Deposit Insurance Fund (in millions)
Corus Bank, N.A.	Illinois	09/11/09	\$952.8
California National Bank ¹	California	10/30/09	991.2
Park National Bank ¹	Illinois	10/30/09	695.5
San Diego National Bank ¹	California	10/30/09	413.0
Pacific National Bank ¹	California	10/30/09	250.1
Pacific Coast National Bank	California	11/13/09	27.4
Republic Federal Bank, N.A.	Florida	12/11/09	115.1
First National Bank of Georgia ²	Georgia	01/29/10	197.1
Unity National Bank ²	Georgia	03/26/10	71.0
Riverside National Bank of Florida	Florida	04/16/10	605.5
Amcore Bank, N.A.	Illinois	04/23/10	273.5
First National Bank of Davis ³	Oklahoma	03/11/11	26.2
Superior Bank	Alabama	04/15/11	299.6
Lydian Private Bank	Florida	08/19/11	293.2

¹ These were four of nine failed banks owned by a single holding company. Three of the nine banks were regulated by FDIC. The other six banks were regulated by OCC, but two did not meet the statutory threshold for an MLR.

² At the time of the bank's failure, an MLR of the bank was required. However, with the increased loss threshold triggering an MLR enacted as part of Dodd-Frank, an MLR is no longer required. Because the audit field work was substantially done we are completing the audit as an MLR.

³ Although the estimated loss is under the MLR threshold, we identified unusual circumstances existed that warranted an in-depth review of the loss.

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

Planned Projects by OIG Issue Area

Transfer of OTS Functions (Ongoing)

As required by section 327 of Title III of Dodd-Frank, OCC, FDIC, FRB, and OTS jointly submitted a Joint Implementation Plan to Congress and their respective OIGs on January 25, 2011 detailing the steps to transfer OTS's functions to OCC, FDIC, and FRB. In a March 2011 report, we, the FDIC OIG, and the FRB OIG jointly concluded that the plan generally conformed to the Title III provisions for the transfer. Our first joint status report of implementation of the plan was issued in September 2011. In that report, we concluded that FRB, FDIC, OCC, and OTS substantially implemented the actions in the Plan that were necessary to transfer OTS functions, employees, property, and funds to FRB, FDIC, and OCC, as appropriate. However, certain aspects of the plan are ongoing or not yet required to be completed as provided in Title III.

Going forward, every 6 months until all aspects of the plan have been implemented, we plan to report jointly with the FDIC OIG and FRB OIG on the status of implementation activities as required by Dodd-Frank.

OCC Identification of Emerging Risks (In Progress)

We plan to assess the effectiveness of the OCC processes to identify emerging risks to financial institutions' safety and soundness and translate risks identified into action.

Office of Financial Research (In Progress)

We plan to determine the status and effectiveness of Treasury's process to establish the Office of Financial Research.

OCC's Supervision of National Bank's Foreclosure Practices (In Progress)

We plan to determine the (1) sufficiency of existing OCC procedures for supervising loan documentation and foreclosure practices at national banks which own or service mortgage loans and (2) effectiveness of the application of these procedures.

Supervision of Home Loan Modification Programs (In Progress)

We plan to determine whether OCC examination processes are adequate to ensure that banks have implemented meaningful programs to modify troubled mortgages when appropriate.

Supervision of Banks Seeking Charter Conversion

We plan to determine (1) the charter conversion process for banks that seek to change their bank charter or regulator, (2) the criteria used by OCC to make charter conversion decisions, and (3) verify OCC's compliance with guidelines when making approval decisions.

Planned Projects by OIG Issue Area

Protection of Financial Services Sector Critical Infrastructure

We plan to determine the effectiveness of Treasury's coordination efforts as the sector-specific agency for banking and finance under Homeland Security Presidential Directive 7: Critical Infrastructure Identification, Prioritization, and Protection.

Federal Insurance Office

We plan to determine the status and effectiveness of Treasury's process to establish the Federal Insurance Office.

OCC's Leasing Practices

We plan to determine whether OCC's leasing practices are in accordance with prudent business practices and applicable guidance.

OCC's Consumer Protection Responsibilities

We plan to determine the respective responsibilities for OCC and CFPB relating to consumer protection and assess OCC's effectiveness in performing its responsibilities.

Examination Coverage of Interest Rate Risk

We plan to evaluate OCC's examination coverage related to banks' controls over interest rate risk and the impact of new guidelines under Dodd-Frank allowing banks to pay interest on business checking accounts.

Commercial Real Estate Concentrations

We plan to determine the risks associated with financial institutions having high commercial real estate concentrations and related OCC supervisory approaches.

Examination Coverage of Identity Theft Risk at Third-Party Service Providers

We plan to determine whether OCC examinations of third-party service providers that receive customer information from financial institutions are adequate to address inherent privacy risks, including identity theft.

Examination Coverage of Identity Theft Risk at Financial Institutions

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

OCC Supervision of Bank Processes to Prevent, Detect, and Report Criminal Activity by Bank Employees

We plan to evaluate OCC supervision of banks' processes to prevent, detect, and report criminal activity by bank employees and determine whether: (1) existing OCC monitoring and examination

Planned Projects by OIG Issue Area

procedures are designed to ensure that sufficient processes exist in banks, (2) the procedures are applied effectively, and (3) deficiencies identified during the examination process result in appropriate supervisory actions which are tracked and satisfactorily resolved.

Lessons Learned from Bank Failures

We plan to review completed MLRs of Treasury-regulated failed financial institutions and report on the broad lessons learned in regards to the causes of failures and the supervision over the institutions.

OCC Enforcement Practices

We plan to assess OCC's enforcement practices including: (1) the factors used to determine the use of formal and informal enforcement actions; (2) the timeliness of enforcement actions; and (3) the manner in which OCC ensures compliance with the enforcement actions imposed.

Projects Under Consideration for Future Fiscal Years

Small Bank Supervision

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

OCC Supervision of National Banks' Foreign Country Risks

We plan to evaluate OCC's supervision of national banks' international exposures and determine whether: (1) guidance promoting effective assessment and control of national banks' country risk has been promulgated, (2) existing OCC monitoring, risk assessment and examination procedures are sufficient to address country risk, (3) the procedures are applied effectively, and (4) deficiencies identified during the examination process result in appropriate supervisory actions which are tracked and satisfactorily resolved.

OCC Supervision of Federal Branches of Foreign Banks

We plan to evaluate OCC's regulation of foreign banking organizations operating in the U.S., including any adverse effects of the foreign parent company's international operations.

OCC Monitoring of Risk Management of Securities at Financial Institutions

We plan to determine whether OCC is effectively monitoring the risk that derivatives, collateralized debt obligations, committed preferred securities, and trust preferred securities pose to financial institutions.

Planned Projects by OIG Issue Area

Supervisory Use of Individual Minimum Capital Requirements

We plan to assess how OCC applies capital restrictions and risk-weighting to institutions they supervise to include (1) OCC's use of individual minimum capital requirements as an enforcement action, (2) the criteria used to calculate the capital requirement, and (3) how the minimum capital requirements are enforced.

Examinations of Large Institutions

We plan to assess the effectiveness and adequacy of OCC examinations of institutions with assets exceeding \$100 billion.

Safeguards Over Financial Institutions' Sensitive Information

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

Adequacy of Examinations of Nonbanking Activities of Financial Institutions

We plan to determine the adequacy and effectiveness of OCC examinations of nonbanking activities of regulated financial institutions and their affiliates.

Assessment of OCC's Alternatives to the Use of Credit Ratings

We plan to assess (1) OCC guidance related to assessing the credit-worthiness of a security or money market instrument for capital purposes and (2) OCC modifications to guidance regarding the use of credit ratings when assessing the credit-worthiness of a security or money market instrument.

Establishment of Depository Institution Peer Groups

We plan to determine the criteria and process used to establish peer groups that serve as the basis for statistical comparisons of depository institutions.

Revenue Collection and Industry Regulation

Issue Area Discussion

TTB administers collection of federal excise taxes on tobacco, alcohol, and firearms and ammunition. The bureau is also responsible for regulation of the alcohol and tobacco industries, and ensuring that alcohol and tobacco products are properly labeled, advertised, and marketed. In addition, the bureau ensures fair trade practices and facilitates the international trade of alcohol beverage products. TTB administers and enforces the (1) Internal Revenue Code as it pertains to the excise taxation and authorized operations of alcohol and tobacco producers and related industries; (2) Federal Alcohol Administration Act; (3) Alcohol Beverage Labeling Act; and (4) Webb-Kenyon Act, which prohibits the shipment of alcohol beverages into a state in violation of the state's laws. The bureau is headquartered in Washington, D.C., and its tax and permit processing center, the National Revenue Center, is located in Cincinnati, Ohio. TTB also has 10 district offices and 16 field offices in the U.S. and Puerto Rico. The field offices house the Trade Investigations Division (7 field offices) and Tax Audit Division (9 field offices). TTB has alcohol and tobacco laboratories in Maryland and California.

During fiscal year 2010, TTB collected \$23.8 billion in excise taxes and other revenue from about 7,100 excise taxpayers. More than 6,400 TTB taxpayers were registered to file and pay excise taxes electronically, an increase of 23 percent over the prior year.

TTB regulates the alcohol and tobacco industries to protect consumers from fraud and deception. The bureau processes applications to enter into the alcohol and tobacco industries and ensures that alcohol beverages are produced, labeled, advertised, and marketed, in accordance with federal law. The bureau reviews labels and formulas for domestic and imported alcohol beverage products and maintains public access to approved Certificates of Label Approval, which are required for every alcoholic beverage. In fiscal year 2010, the bureau approved 102,500 certificates of the 132,600 applications received. At year-end, 79 percent of Certificate of Label Approval applications were filed electronically. TTB monitors labeling compliance through the Alcohol Beverage Sampling Program and tests samples of products in its in-house laboratories.

The Treasury Secretary has authority for certain revenue functions involving Customs duties and taxes, and this oversight is carried out by the Office of Tax Policy. The Homeland Security Act of 2002 transferred the legacy U.S. Customs Service from Treasury to the Department of Homeland Security in March 2003, where certain functions of the bureau were assigned to Customs and Border Protection. However, as provided by the act, Treasury retained sole authority to approve any Customs and Border Protection regulations concerning import quotas or trade bans, user fees, marking, labeling, copyright and trademark enforcement, and the completion of entry or substance of entry summary. Treasury also approves Customs and Border Protection regulations concerning duty assignment and collection, classification, valuation, application of the U.S. Harmonized Tariff

Planned Projects by OIG Issue Area

Schedules, eligibility or requirements for preferential trade programs, and the establishment of related recordkeeping requirements. Treasury also reviews Customs and Border Protection rulings involving these topics if they constitute a change in practice.

Area of Concern

Our resources have been diverted to mandated work for the last several years, and we have not been able to devote the attention to this area that we believe is necessary. We have not completed any performance audits of TTB or the Customs and Border Protection revenue function since 2006.

Potential Integrity Risks

The major integrity risk regarding revenue collection and industry regulation is the failure by industry members to pay all taxes due, either intentionally or otherwise, coupled with the risk that the TTB tax verification and audit program would not detect these underpayments. Intentional failure to pay all taxes due would likely require deceit or fraud on the part of taxpayers and, as in the case with any regulatory or oversight agency, could potentially include attempts on the part of these business entities to corrupt government officials through bribery or other means to gain an unfair competitive advantage. Similarly, fraudulent manufacturers or distributors could create a risk for consumers by placing unsafe or deceptively advertised products into the marketplace. In addition, contaminated products could reach the marketplace inadvertently. With respect to formulating tax policy, regulations, and rulings, a risk exists of undue influence by parties who could potentially benefit from Treasury positions on tax matters.

Notwithstanding the attractiveness of evading alcohol taxes through product diversion and smuggling, the passage of the Children's Health Insurance Program Reauthorization Act of 2009 provided added incentive to evade tobacco taxes. Specifically, the act, increased the federal excise tax on cigarettes by more than 150 percent.

The Children's Health Insurance Program Reauthorization Act also required Treasury to conduct a study concerning the magnitude of illicit tobacco trade in the U.S. The results are sobering. While the study found that accurately measuring the amount of federal tax receipts lost as a result of tobacco diversion and smuggling was difficult (due to its inherently clandestine nature), it found that federal revenue loss on cigarettes diverted from lawful commercial channels may have reached \$1.5 billion in years prior to the act's tax increase and could exceed \$3 billion under the new tax rate. The study recommended adding a "track and trace" system to the products for enforcement purposes, evaluating whether civil penalties need to be increased, and allowing enforcement officials to use proceeds gained through undercover operations to pay investigative expenses.

The study also identified several weaknesses in the control of tobacco products which can directly affect tax collection. While manufacturers and importers of tobacco products must have permits to operate and are required to comply with recordkeeping requirements, the same is not true of wholesalers and retailers. Also, access to machinery used to manufacture cigarettes is unrestricted and

Planned Projects by OIG Issue Area

may be used to violate the tax code. Internet sales of cigarettes, which present a revenue diversion risk, are flourishing (from 179 websites in 2002 to 790 in 2009). In addition, some manufacturers on American Indian reservations continue illegal manufacturing outside of permit requirements.

In-Progress and Planned Fiscal Year 2012 Projects

TTB Alcohol and Tobacco Permit Program

We plan to determine whether TTB has effective controls to ensure that alcohol and tobacco permits are issued only to qualified manufacturers and retailers. Also, in conjunction with the results of the Treasury study evaluating the possible tobacco tax revenue gap, which reported as a problem that neither wholesalers nor retailers are subject to federal permit requirements, we plan to assess Treasury's plans to address this matter.

Tax Receipts Lost Due to Illicit Trade

We plan to determine what steps TTB has taken to mitigate the cigarette tax loss. Also, using Treasury's methodology, we plan to assess whether a similar tax gap estimate should be made for alcohol taxes.

Projects Under Consideration for Future Fiscal Years

TTB's Use of Collection Procedures and Offers in Compromise to Collect Revenue

TTB uses adverse actions, including offers of compromise, to administratively resolve willful violations of laws and regulations it administers by manufacturers and distributors of alcohol, tobacco, and firearms and ammunition. Offers in compromise are agreements between the government and alleged violators to collect outstanding taxes due in lieu of civil proceedings or criminal prosecutions.

We plan to determine whether TTB has effective collection procedures for delinquent accounts and if these procedures are being used to encourage prompt payment. We will also determine if TTB is appropriately utilizing offers in compromise to collect on portions of taxes due.

TTB Alcohol and Tobacco Laboratories

TTB is responsible for ensuring that alcoholic beverages are safe, including those entering the market from foreign countries. Since TTB does not have access to foreign production plants, it monitors foreign beverage products by conducting a pre-import review, which could include laboratory analysis. TTB monitors post-market products by collecting random or targeted samples from retail outlets and sending samples to TTB laboratories for analysis.

Planned Projects by OIG Issue Area

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

TTB Designation of American Viticultural Areas

An American Viticultural Area is a designated wine-grape-growing region with features that affect the growing conditions of the area (climate, soil, elevation, physical features) and that distinguish it from surrounding areas.

We plan to determine whether adequate controls are in place over TTB's program to designate American Viticultural Areas.

Coordinating Participation in the International Trade Data System Project

The SAFE Port Act formally established the International Trade Data System, a system for processing imports and exports. The system is operated by Customs and Border Protection in collaboration with 43 agencies. The act gave the Treasury Secretary responsibility for coordinating interagency participation in the system. One of its features allows TTB to review data on alcohol and tobacco importations through the Customs and Border Protection's automated commercial environment portal. TTB is also to provide the Customs and Border Protection access to its database of approved alcohol labels, which will allow its inspectors to compare the approved labels with the actual labels on the imported products. Similarly, TTB will have access to Customs and Border Protection information.

We plan to determine whether Treasury is fulfilling its responsibility under the SAFE Port Act. We also plan to determine whether the information sharing between TTB and Customs and Border Protection has proved beneficial in ensuring only approved products are imported.

TTB Cover-Over Payment Program

Among TTB's responsibilities is processing refunds, credits, and reimbursements of excise taxes to private and public entities. These refunds totaled about \$713 million for fiscal year 2010. The largest type of refund processed is called a cover-over payment, which involve federal excise taxes collected on rum produced in Puerto Rico and the Virgin Islands and imported into the U.S. Approximately 78 percent of this excise tax is eventually paid back—or "covered over"—into the treasuries of Puerto Rico and the Virgin Islands. In fiscal year 2010, TTB processed \$387 million of these cover-over reimbursements to the treasuries of Puerto Rico and the Virgin Islands combined.

We plan to determine whether TTB has adequate controls to ensure that cover-over reimbursements are made for the correct amounts and in a timely manner.

Planned Projects by OIG Issue Area

TTB Safeguards Over Taxpayer Information

TTB's National Revenue Center collects and maintains taxpayer records from over 7,000 manufacturers and importers of alcohol, tobacco, firearms, and ammunition products. We plan to determine whether TTB has adequate safeguards to ensure the security of taxpayer information.

Manufacturer Nonbeverage Drawback Program

When a manufacturer uses alcohol to produce a food, flavor, medicine, or perfume that is approved by TTB's Nonbeverage Products Laboratory as unfit for beverage purposes, the manufacturer can claim a return, or drawback, on most of excise taxes paid on the distilled spirits.

We plan to determine whether TTB is appropriately processing drawback claims.

TTB Use of Collateral to Protect Revenue

TTB protects excise tax revenue by mandating that taxpayers pledge collateral—such as a bond, note, or securities—to offset tax liability if payments are not made.

We plan to determine whether TTB is ensuring that taxpayers maintain adequate collateral to protect tax revenue.

TTB Background Investigations

We plan to determine if TTB staff with access to sensitive tax return data have up-to-date background investigations.

TTB Online Certificate of Label Approval

The purpose of the Certificate of Label Approval program is to protect the public from false or misleading labels on alcohol beverage products. The program requires importers and bottlers of alcohol beverages to obtain a certificate of label approval or certificate of exemption prior to placing the beverages into interstate commerce. In fiscal year 2010, TTB approved 102,500 certificates of label approval applications. Approximately 79 percent of the applications were submitted online.

We plan to determine whether TTB's online label approval system is operating as intended, including whether any user problems have been identified and, if so, corrected.

Bill and Coin Manufacturing, Marketing, and Distribution Operations

Issue Area Discussion

BEP and the Mint manufacture the nation's currency and are financed by revolving funds.

BEP produces U.S. currency and other security documents issued by the federal government. BEP also processes claims for the redemption of mutilated paper currency and provides technical assistance and advice to other federal agencies on the design and production of documents requiring counterfeit deterrence. BEP has production facilities in Washington, D.C., and Fort Worth, Texas.

In fiscal year 2011, BEP delivered 5.9 billion Federal Reserve notes to FRB which is comparable to the 6.4 billion delivered in 2010. BEP planned to deliver the redesigned NexGen \$100 notes to FRB in late 2010 for the anticipated public release in February 2011. However, problems reported in the production process of these notes delayed the release date. BEP is currently working with stakeholders and hopes to resume full production in 2012.

The Mint's principal mission is to produce the nation's circulation coinage for trade and commerce. The Mint also produces commemorative and investment products for collectors and investors. In addition to its headquarters in Washington, D.C., the Mint has four production facilities located in Philadelphia, Pennsylvania; West Point, New York; Denver, Colorado; and San Francisco, California. It also maintains the bullion depository at Fort Knox, Kentucky.

In fiscal year 2011, the Mint manufactured 7.4 billion coins for FRB which is an increase of 37 percent compared to the 5.4 billion produced in fiscal year 2010. The Mint expects circulating coin production volumes in 2012 to increase by about 30 percent over fiscal year 2011.

In fiscal year 1996, the Mint Public Enterprise Fund was created to enable the Mint to operate as a revolving fund. All receipts deposited into the fund are available for Mint operations and the cost of safeguarding government assets in the Mint's custody, without fiscal year limitations. Even though the Mint is not dependent on appropriated funds, its spending authority is approved each fiscal year. The Treasury Secretary must annually determine the amount of excess in the fund that is not needed for the Mint operations and is transferred to the Treasury General Fund. For fiscal year 2011, the Mint transferred \$51 million to the Treasury General Fund. This amount is down significantly from years past. The Mint reported in its fiscal year 2011 annual report that it is holding cash in reserve for future potential impacts to its circulating program from continued penny and nickel losses, and a decline in demand for the \$1 coins. The transferred amounts were \$388 million in 2010 and \$475 million and in 2009.

Planned Projects by OIG Issue Area

Potential Weaknesses

Because their operations are financed through revolving funds, BEP and the Mint are subject to fewer congressional controls than appropriated agencies. The Mint also has greater flexibility in conducting its procurement activities. For example, the Mint is exempt from the Federal Acquisition Regulation. Continued prudent use of its fund authority flexibilities is necessary to ensure a maximum return to the Treasury General Fund.

Emerging Issue Affecting BEP

In 2006, a federal judge ruled that the Department's failure to design, produce, and issue paper currency that is readily distinguishable to blind and visually impaired people violated federal law. Two years later, a federal appeals court ruled that the U.S. discriminates against blind and visually impaired people by producing currency that they cannot recognize without the assistance of others. In conjunction with this decision and in consultation with BEP and Department of Justice attorneys, a federal judge ruled that the next generation of \$5, \$10, \$20, and \$50 notes must be manufactured so that blind and visually impaired people can tell them apart. This ruling did not affect the design of the new \$100 note, but future designs must ensure that all denominations, except for the \$1 note, be distinguishable from other notes. While we do not have any specific work planned related to this issue at this time, we are monitoring it closely and will plan and prioritize future work accordingly.

Potential Integrity Risks

Past audits have noted various weaknesses in BEP's physical security. As noted in the most recent report, *Bill and Coin Manufacturing: Improved Security Over the NexGen \$100 Notes is Necessary*, OIG-11-068 (May 13, 2011), management took corrective action on a serious weakness found by our auditors in the security over NexGen \$100 finished notes and work-in-process sheets at both BEP's Eastern Currency Facility and Western Currency Facility. Previously in fiscal year 2008, as discussed in *Bill and Coin Manufacturing: BEP Needs to Enforce and Strengthen Controls at Its Eastern Currency Facility to Prevent and Detect Employee Theft*, OIG-08-036 (Jun. 12, 2008), following a theft at the Eastern Currency Facility we found that BEP did not ensure that production supervisors enforced, and employees adhered to, existing internal controls. Additionally, no policies and procedures were in place to investigate production discrepancies.

In-Progress and Planned Fiscal Year 2012 Projects

BEP's Production Process for the NexGen \$100 Notes (In Progress)

In response to significant problems encountered by BEP in the production process and at the request of the Department, we plan to assess BEP's (1) planning and implementation of the NexGen \$100 Notes production process and the events that lead to the problems in the production process;

Planned Projects by OIG Issue Area

(2) on-going physical security over the notes that have been produced; (3) plans for the disposition of those notes; and (4) actions, taken and planned, to address the production problems.

BEP's Procurement Operations (In Progress)

We plan to determine whether BEP has conducted its contracting activities in accordance with federal and Treasury acquisition requirements and BEP policies and procedures.

Mint Coin Exchange Program (In Progress)

We plan to determine whether the Mint has established appropriate accountability and security for the coin exchange vending machines in its headquarters building.

Mint \$1 Coin Inventory (In Progress)

We plan to determine the underlying causes of the Mint's inventory of \$1 coins, including, but not limited to, the impact of the Native American \$1 Coin Act on the \$1 coin inventory.

Physical Security at U.S. Mint Facilities (In Progress)

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

Mint Controls Over the Sales of Limited-Production, Investment-Grade Products

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

Mint Procurement Operations

We plan to determine whether the Mint follows logical and prudent business practices when procuring goods and services.

BEP's Enterprise Network System

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

Projects Under Consideration for Future Fiscal Years

BEP Capital Investment Program

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

Planned Projects by OIG Issue Area

BEP Continuity of Operations Planning

We plan to determine whether BEP has comprehensively developed and tested continuity of operations plans for currency production should a major disruption occur at one or both its production facilities.

BEP Controls Over Security (Follow-up)

In fiscal year 2004, we reported that the dual reporting structure for security operations at BEP's two facilities has resulted in inconsistent policies and practices.

We plan to determine whether BEP's Western Currency Facility and Eastern Currency Facility security offices are consistently implementing security policies and practices. As part of this audit, we will follow up on corrective actions to the related recommendations in our prior report, *General Management: Controls Over Security Need to be Improved at the Bureau of Engraving and Printing*, OIG-04-035 (June 29, 2004; report is designated "for limited official use").

BEP Background Investigations of Personnel

We plan to determine whether BEP's background investigation procedures are adequate and implemented effectively. As part of this audit, we will follow up on the recommendations in our prior report, *General Management: The Bureau of Engraving and Printing's Controls Over Background Investigations Need to be Improved*, OIG-03-004 (Oct. 16, 2002).

BEP Police Officer Training and Firearms Requalification

We plan to determine whether BEP policies for training and firearms requalification of police officers are consistent, appropriate, and followed at its two production facilities. As part of this audit, we will follow up on corrective actions to the related recommendations in our prior report, *General Management: Controls Over Security Need to be Improved at the Bureau of Engraving and Printing*, OIG-04-035 (June 29, 2004; report is designated "for limited official use").

BEP Employee Safety

We plan to determine what policies and procedures BEP uses to ensure safe working conditions in its production facilities and how the policies and procedures are being implemented. We will audit each of BEP's production facilities separately, starting with the Eastern Currency Facility.

Domestic and International Assistance Programs

Issue Area Discussion

Treasury plays an important role in a number of domestic and international assistance programs that have a significant impact on the economy. Domestic programs range from those that enhance the availability of financial education, credit, investment capital, and financial services to communities around the U.S., to programs that assist in coping with the effects of the current economic conditions. Treasury's role in these areas expanded under the Housing and Economic Recovery Act of 2008, the Emergency Economic Stabilization Act of 2008 (which created TARP), the Recovery Act, and Dodd-Frank. International programs address the role of international financial institutions and promote economic stability and growth in other countries.

To address economic conditions and stabilize the housing market, the Housing and Economic Recovery Act of 2008 and the Recovery Act created several domestic assistance programs within Treasury under our jurisdictional oversight.

Housing and Economic Recovery Act of 2008

The purpose of the act is to address problems and concerns in the mortgage and banking industries. It assigned Treasury new authorities and responsibilities. Among other things, the act established the Federal Housing Finance Agency as an independent agency to oversee Fannie Mae, Freddie Mac, and the Federal Home Loan Banks (also referred to as government-sponsored enterprises). The act also established the Federal Housing Finance Oversight Board to advise the agency with respect to overall strategies and policies in carrying out its responsibilities. The Treasury Secretary is a member of this board.

- **Government sponsored enterprises.** In connection with the increased federal regulatory oversight of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks, the act increased Treasury's authority over existing lines of credit to the entities that gave the Treasury Secretary standby, unlimited authority to buy stock or debt in them. Before doing so, the Secretary must make an emergency determination that use of the authority is necessary to stabilize markets, prevent disruptions in mortgage availability, and protect the taxpayer. As discussed in the financial management issue area of this plan, Treasury purchased senior preferred stock in the entities and initiated the mortgage-backed securities purchase program to purchase mortgage-backed securities issued by the entities. In addition, Treasury implemented the Housing Finance Agency Initiative with two programs to support state and local housing finance agencies. Through those programs, Treasury purchased securities from Fannie Mae and Freddie Mac backed by state and local Housing Finance Agency bonds (New Issue Bond Program) and participation interests in liquidity facilities provided to the housing finance agencies by Fannie Mae and Freddie Mac (Temporary Credit and Liquidity Program).

Planned Projects by OIG Issue Area

Treasury's investment in these activities is discussed in the financial management issue area of this plan.

- **Capital Magnet Fund.** The act also authorized a new program for the CDFI Fund to administer—the Capital Magnet Fund. It is intended to create a new source of grants for both rental and for-sale housing, as well as for community and economic development. The program is supposed to increase the flow of capital to organizations that will engage in housing-related investments. The fund will be a competitive grant program to attract private capital. There are two types of eligible grantees under the fund: (1) CDFIs that have been certified by the CDFI Fund and (2) nonprofit organizations having as one of their principal purposes the development or management of affordable housing. The eligible grant activities and entities eligible to receive grants through the Capital Magnet Fund are also significantly expanded. These factors are inherently risky from both an operational and an integrity standpoint.

Recovery Act

The purpose of the Recovery Act was to provide relief during the current economic downturn by expanding tax, bond, and cash assistance to segments of the economy most affected. Treasury is responsible for overseeing an estimated \$150 billion provided through tax relief and Recovery Act funding. An estimated \$22 billion is funding administered by Departmental Offices through two tax credit exchange programs that provide payments in lieu of tax credits for specified energy properties and payments to the states in lieu of tax credits for rehabilitation and development of low-income housing projects. Treasury's total estimated cost/impact in these areas is discussed in the financial management issue area of this plan.

Domestic Assistance

Treasury provides assistance to promote economic growth and raise the standard of living in distressed communities in the U.S. by increasing the availability of business capital and financial services. The CDFI Fund, for example, promotes access to capital and local economic growth by (1) directly investing in, supporting, and training CDFIs that provide loans, investments, financial services, and technical assistance to underserved populations and communities; (2) providing incentives to banks to invest in their communities and in other CDFIs; and (3) providing financial and other assistance to Native CDFIs and other Native entities proposing to become or create Native CDFIs through its Native Initiatives. The New Markets Tax Credit program provides investors with a tax credit for investing in communities that are economically distressed or consist of low-income populations. Treasury's CDFI Fund is authorized to allocate tax credit authority under the program to Community Development Entities, which manage the program's investments in low-income community development projects. In return for a tax credit, investors supply capital to Community Development Entities.

Planned Projects by OIG Issue Area

The CDFI Fund's activities have been affected by recent economic events, resulting in significant funding increases and new program initiatives in fiscal years 2009 through 2011. Funding for the competitive grant programs doubled in fiscal year 2009, with a \$100 million increase provided through the Recovery Act. Support for the CDFI Fund's programs continued in fiscal years 2010 and 2011 with funding levels of \$246 million and \$227 million, respectively. The Capital Magnet Fund, a program discussed above, received \$80 million for fiscal year 2010 for its inaugural funding round to be announced in October 2011. The New Markets Tax Credit program was also expanded, with additional allocation authority provided through the Recovery Act that increased the 2008 and 2009 allocation rounds to \$5 billion each. The program was supported at this same level in fiscal year 2010. In fiscal year 2011, the program received \$3.5 billion of allocation authority. Since the program's inception in 2000, the CDFI Fund has awarded approximately \$29.5 billion of tax credit allocations to Certified Development Entities.

The Small Business Jobs Act of 2010 authorized Treasury to guarantee the full amounts of notes and bonds issued by CDFIs that make investments in eligible community and economic development. Guarantees in total may not exceed \$1 billion in any fiscal year. As administrator, the CDFI Fund is required to establish the program's regulations by September 27, 2011, 1 year after the law's enactment date, and implement the program by September 27, 2012. Additionally, the act appropriated \$13.5 million to cover CDFI Fund administrative costs.

The fiscal year 2012 budget proposes to fund the CDFI Fund grant programs at its present level of \$227 million, which includes funding for two new community development initiatives and a new loan guarantee program. The Bank On USA is an initiative, authorized in Section 1204 of Dodd-Frank, is intended to provide grants to CDFIs to promote access to affordable financial services and consumer credit and is budgeted at \$41 million. The Healthy Food Financing Initiative is a joint project with the departments of Agriculture and Health and Human Services that will provide access to nutritious foods for those living in underserved urban and rural communities. Proposed funding for this initiative is \$25 million. Of the \$5 billion allocation authority proposed for the New Markets Tax Credit program in fiscal year 2012, \$250 million will be used to attract investments that will support the Healthy Food Financing Initiative.

International Assistance

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

The Office of International Affairs oversees U.S. interests in international financial institutions. The U.S. participates in these institutions to support poverty reduction, private sector development, the

Planned Projects by OIG Issue Area

transition to market economies, and sustainable economic growth and development; and thereby to advance U.S. economic, political, and commercial interests abroad. Treasury has the responsibility for ensuring that these institutions appropriately use the resources the U.S. contributes, and for this reason systematically reviews how these institutions use the money the U.S. government has invested in them. Improving the effectiveness of the multilateral development banks has been a high priority for the administration. Accordingly, Treasury has been pursuing a reform agenda that emphasizes raising living standards and reducing poverty; measuring the results of U.S. contributions; and strengthening efforts to stimulate private-sector investment, promote good government and the rule of law, and fight corruption.

Committee on Foreign Investment in the U.S.

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

Potential Integrity Risks

We believe that integrity risks for domestic and international assistance programs include the potential (1) unauthorized release of sensitive or classified data; (2) falsification of applications or statements; (3) misuse or mismanagement of federal funds, including irregularities in the award of contracts and misallocation of grant proceeds, payments in lieu of tax credits, or federal tax credits; and (4) failure by assisted entities to deliver on promised services. Of particular concern would be contracts that may be let, or grants, or tax credits, or cash payments in lieu of tax credits that may be awarded, without following standard operating procedures that include appropriate monitoring of funded activities. In addition, we recognize program risks could exist that include the failure to promote economic growth within financially underserved areas of the U.S. or to foster economic stability in other nations. There may also be a corresponding loss of credibility with taxpayers in this country or a loss of U.S. credibility on an international level if these Treasury programs do not function as intended.

In-Progress and Planned Fiscal Year 2012 Projects

Oversight of Programs Authorized by the Housing and Economic Recovery Act of 2008

The overall objective of our audit oversight of Housing and Economic Recovery Act of 2008 programs is to assess Treasury's use of its authorities under the act. We identified four distinct and separate areas of concern that we plan to report on in the fiscal year 2012.

Senior Preferred Stock Purchase Agreements (In Progress)

We plan to assess Treasury's process for providing solvency to Fannie Mae and Freddie Mac through the purchases of senior preferred stock of the entities. Specifically, we plan to assess Treasury's (1) determinations and considerations required under the act for entering into the agreements to purchase stock, (2) funding decisions, (3) monitoring the compliance with the agreements, and (4) rationale for including dividend and commitment fee requirements in the agreements.

Housing Finance Agencies Initiative (In Progress)

We plan to determine whether the two components of the Housing Finance Agencies Initiative, the New Issue Bond Program and Temporary Credit Liquidity Program, are being administered consistent with Treasury's authority. Specifically, we plan to assess Treasury's process for (1) monitoring the performance of the financial agents and (2) whether the Housing Finance Agencies Initiative is meeting its stated program objectives.

Selection of Financial Agents (In Progress)

We plan to assess Treasury's decision for using the services of financial agents to carry out the purchases and sales of mortgage-backed securities of Fannie Mae and Freddie Mac under the Mortgage-Backed Securities and Housing Finance Agencies Initiative programs. Specifically, we plan to assess Treasury's process for (1) determining the services to be carried out by financial agents, (2) selecting and awarding contracts to the financial agents, and (3) implementing appropriate controls to prevent and detect potential conflicts of interest.

Purchases and Sales of Agency Mortgage-Backed Securities (In Progress)

We plan to determine whether Treasury's investment strategy and its execution for the purchases and sales of mortgage-backed securities are consistent with its authorities under the act. We also plan to assess Treasury's monitoring of the performance of financial agents selected to carry out Treasury's investment strategy.

Planned Projects by OIG Issue Area

CDFI Fund Administration of the Capital Magnet Fund

We plan to determine whether the CDFI Fund established adequate controls for awarding and administering Capital Magnet Fund grant activities. Specifically, we plan to assess the CDFI Fund's processes to (1) review whether funds are properly and timely awarded to eligible recipients and (2) ensure awardees' compliance with program requirements to include leveraging award dollars that will provide a dedicated source of funding.

Oversight of Recovery Act Programs

The overall objective of our audit oversight of Treasury's Recovery Act programs is to evaluate management's accountability, control, and oversight of the Department's non-IRS funds and provide recommendations for improving operations and preventing fraud, waste, and abuse with respect to those funds. Through a series of audits, described below, we will determine whether Treasury timely and effectively implemented program activities for awarding Recovery Act funding.

Payments in Lieu of Tax Credits for Specified Energy Properties (In Progress)

We plan to determine whether Treasury is timely and effectively implementing activities for awarding and monitoring payments in lieu of tax credits for specified energy properties under the Recovery Act. We plan to assess (1) the eligibility of potential award recipients, (2) internal control procedures to ensure that recipients do not receive both energy property tax credits and payments, and (3) whether recipients are in compliance with award requirements. Audit work for this project began in April 2009 and will continue in fiscal year 2012. We will coordinate with TIGTA to ensure award recipients are not receiving both Recovery Act payments and tax credits for the same specified energy properties.

Payments to the States in Lieu of Tax Credits for Low-Income Housing (In Progress)

We plan to determine whether Treasury is timely and effectively implementing activities for awarding and monitoring payments to the states in lieu of tax credits for low-income housing under the Recovery Act. We will assess (1) the eligibility of potential grant applicants at both the state and subaward level, (2) the effectiveness of internal control procedures to ensure subawardees do not receive both tax credits and payments, and (3) subawardees' compliance with award requirements. Audit work for this project began in April 2009 and will continue in fiscal year 2012. We will coordinate with TIGTA to ensure subawardees are not receiving both Recovery Act funds and low-income housing credits for the same properties.

CDFI Fund Administration of Recovery Act Funds (In Progress)

We plan to determine whether the CDFI Fund timely and effectively awarded the additional \$100 million in funding provided under the Recovery Act for grant program activities. We plan to

Planned Projects by OIG Issue Area

(1) assess eligibility of potential award recipients, (2) evaluate effectiveness of internal control over grant awards, and (3) ensure recipient compliance with award requirements. Audit work for this project began in April 2009 and we plan to complete our work in fiscal year 2012.

New Markets Tax Credit Program Award Process and Compliance Monitoring (In Progress)

We plan to determine the effectiveness of the New Markets Tax Credit program's (1) application and tax credit allocation process, (2) assessment of the eligibility of potential award recipients, (3) internal control over and monitoring of program awards, and (4) process for ensuring recipient compliance with tax credit allocation agreements. We will focus on the effectiveness of the CDFI Fund's allocation of the increased authority provided by the Recovery Act and follow up on issues identified in GAO's 2010 report, *New Markets Tax Credit: The Credit Helps Fund a Variety of Projects in Low-Income Communities, but Could Be Simplified*, GAO-10-334 (Jan. 29, 2010).

Other Planned Fiscal Year 2012 Projects

Treasury's Tracking of Treaties and International Agreements

Treasury has treaties and international agreements with foreign governments.

We plan to determine (1) how the Department defines treaties and international agreements, (2) the Department's offices responsible and current process(es) for tracking treaties and international agreements, (3) whether the Department needs a formal tracking and inventory process for treaties and international agreements, (4) whether any of the Department's treaties and agreements contain contingent liabilities, who makes the determination, and how they make the determination; and (5) what improvements, if any, should be made to the Department's process(es) related to treaties and international agreements.

Bond Guarantee Program

We plan to assess the CDFI Fund's progress in implementing the bond guarantee program required by the Small Business Jobs Act of 2010.

Multilateral Development Banks

We plan to evaluate Treasury's process for ensuring U.S. policy is carried out through the multilateral development banks.

Transfer of Funds Under Section 632(a) of the Foreign Assistance Act of 1961

The U.S. Agency for International Development (USAID) transferred \$167 million to Treasury in fiscal year 2010 for contributions to the Global Agriculture and Food Security Program (GAFSP), which is administered by the International Bank for Reconstruction and Development. USAID transferred another \$125 million in fiscal year 2011 funds to Treasury for contributions to the Haiti

Planned Projects by OIG Issue Area

Reconstruction Fund. Under memoranda of understanding between USAID and Treasury, we are responsible for performing periodic program and financial audits of the use of the transferred funds, and the cost of the audits may be paid from transferred funds.

We plan to determine whether Treasury has administered the transferred funds in accordance with all applicable laws.

Projects Under Consideration for Future Fiscal Years

Reviews of Single Audits

We plan to perform quality control reviews to determine whether audits obtained by CDFIs were performed in accordance with the Single Audit requirements and applicable professional standards and may be relied upon for ensuring accountability of CDFI Fund awards. Additionally, we will assess the CDFI Fund's process for (1) reviewing Single Audit reports, (2) determining the impact any findings may have on financial assistance received from the CDFI Fund, and (3) and ensuring Single audit findings are resolved.

CDFI Fund Implementation and Administration of the Bank on USA Initiative

We plan to determine the effectiveness of the CDFI Fund's new program for carrying out its responsibility to implement and administer the Bank on USA Initiative to be funded in fiscal year 2012. Specific subject areas include (1) determining whether the CDFI Fund timely and effectively implemented the Bank of USA Initiative for awarding grants to eligible applicants for eligible activities; (2) ensuring that the CDFI Fund has established and maintained proper internal control procedures and oversight over grants ensuring that program recipients meet eligibility requirements and properly comply with award agreements; and (3) assessing CDFI Fund's process for measuring the Bank of USA Initiative's performance/outcomes to ensure that the program objectives are achieved.

CDFI Fund Implementation and Administration of the Healthy Foods Financing Initiative

We plan to determine whether the CDFI Fund timely and effectively implemented program activities for carrying out its responsibility to administer the Healthy Food Financing Initiative as provided in the fiscal year 2012 budget justification. Specifically, we plan to (1) determine whether the CDFI Fund has timely and effectively awarded funds and New Market Tax Credit allocations to eligible recipients in accordance with applicable laws and regulations; (2) ensure that the CDFI Fund has established and maintained proper internal control procedures and oversight over grants and tax credit allocations for ensuring that program recipients meet eligibility requirements and properly comply with award agreements; and (3) assess CDFI Fund's process for measuring the Healthy Food Financing Initiative's performance/outcomes to ensure that the program's objectives achieve its intended purposes.

Planned Projects by OIG Issue Area

CDFI Fund's Tracking of Awardees Across Multiple Assistance Programs

We plan to assess the effectiveness of the CDFI Fund's coordination for tracking awardees benefitting from multiple award programs to ensure funds are used appropriately in targeted markets.

Survey of the Committee on Foreign Investment in the U.S.

We plan to determine how Treasury supports the Committee on Foreign Investment in the U.S. in identifying and addressing national security concerns arising from covered transactions with foreign investors.

Treasury's Participation in the International Monetary Fund

We plan to assess Treasury's role with respect to U.S. policy being carried out by the International Monetary Fund.

Small Business Lending Fund and State Small Business Credit Initiative Operations

Issue Area Discussion

The Small Business Jobs Act of 2010, which was signed into law on September 27, 2010, established two programs, SBLF and SSBCI. The Act also created within Treasury OIG the Office of SBLF Program Oversight. Under Section 4107(a) of the act, the Special Deputy Inspector General for Small Business Lending Fund Program Oversight is responsible for audit and investigations related to SBLF and SSBCI programs and must report at least twice a year to the Treasury Secretary and the Congress on the results of oversight activities involving the SBLF program. The Special Deputy is also responsible for identifying instances of intentional or reckless misuse of SSBCI funds.

Small Business Lending Fund Operations

The purpose of the SBLF program is to provide capital to small banks, with incentives for those banks to increase small business lending. Generally, SBLF was open only to insured depository institutions with under \$10 billion in assets as well as bank holding companies or savings and loan holding companies, each with aggregate assets of under \$10 billion. To participate, entities that met the asset-size requirement must not be on FDIC's "problem list" and must not have missed a dividend payment under the TARP Capital Purchase Plan. SBLF uses dividend rate reductions and increases on SBLF capital to either reward or penalize participant banks for increases or decreases, respectively, in small business lending. Under the program, banks may not make loans to entities with over \$50 million in revenues or in original amounts over \$10 million. Loans must also meet underwriting standards set forth by the banks' primary banking regulators.

As of September 27, 2011, Treasury had disbursed more than \$4 billion to 332 financial institutions across the country. Of the institutions funded, 42 percent were institutions that used their SBLF investment to refinance securities issued under TARP's Capital Purchase Program. Institutions receiving investments under the SBLF program are expected to pay dividends to Treasury at rates that will decrease as the amount of qualified small business lending at the institution increases.

Potential Weaknesses Particular to SBLF

SBLF has a similar structure to TARP, and the comparison has given rise to concerns about Treasury's approach to funding banks. Various parties have alleged, in particular, that SBLF provides a means for TARP banks to exit cheaply from TARP. The overall health and viability of the participant banks is of significant interest, and the program has been viewed as a means to support otherwise-failing smaller banks. Our planned audits will look closely at the health of the banks admitted to the program and their ability to repay Treasury's investment. We will also analyze the

Planned Projects by OIG Issue Area

reasonableness of the SBLF program cost estimate and whether Treasury consistently applied its evaluation criteria in approving applicants for the SBLF program.

Treasury will face many challenges in ensuring that the SBLF program meets its intended objective of increasing lending to small businesses and in measuring program performance. Under the terms of the authorizing legislation, the SBLF funds are intended to stimulate lending to small businesses, but participating institutions are under no obligation to increase their small business lending activity. Once SBLF funds are disbursed and become comingled with other funds of the participating institutions, it will be difficult to track how the funds are spent. Participants are also not required to report how they use Treasury's investments. Additionally, Treasury is reliant on unverified information reported by participating institutions on their small business lending activity to measure performance and to make dividend rate adjustments.

Finally dividend payments, which constitute Treasury's sole source of revenue from the SBLF program, are essentially optional, as they are non-cumulative and non-accruing. Treasury has indicated that when dividend payments are missed, it will take additional measures ranging from requiring an explanation for the missed payment to electing directors to an institution's board of directors. However, these measures may be ineffective if the institution's regulator has restricted it from making dividend payments. Institutions are also under no obligation to pay off previously missed payments.

In-Progress and Planned Fiscal Year 2012 Projects

SBLF Program Cost (In Progress)

When the Small Business Jobs Act of 2010 was enacted, Treasury estimated the cost of the SBLF program to be \$1.26 billion. This estimate, which assumed a higher level of participation than was achieved with higher initial dividends, was included in the President's fiscal year 2011 budget. We plan to (1) identify which inputs and assumptions were used to prepare the cost estimate and (2) determine which variables have changed since the initial estimate, requiring revision to future cost re-estimates in order to reflect the current status of the program.

Soundness of Investment Decisions Involving Initial 23 Approved Banks (In Progress)

We plan to review the first 23 banks admitted into the SBLF program to determine whether (1) Treasury's investment criteria has been consistently applied and (2) institutions approved for participation in the SBLF program meet Treasury's investment criteria of being financially viable and able to repay Treasury's investment.

Soundness of Year-End Investment Decisions

The majority of investment decisions were made in the last 2 months prior to the SBLF program disbursement deadline. We plan to review these decisions to determine whether (1) Treasury's

Planned Projects by OIG Issue Area

investment criteria was consistently applied and (2) institutions approved for participation in the SBLF program met Treasury's investment and repayment criteria. This audit will address banks approved subsequent to the initial 23 banks admitted into the SBLF program.

Implementation of Matching Capital Requirement

We plan to determine whether (1) Treasury appropriately approved applications from institutions that were required to provide matching capital, (2) matching capital was obtained prior to disbursement of funds, and (3) the amount of matching capital required was sufficient to reduce the risk the institution presented to the SBLF program.

Accuracy of Small Business Lending Gains Supporting Dividend Rates

We plan to determine whether (1) qualified small business lending volumes reported by financial institutions as the baseline and subsequent increases are accurate and (2) Treasury has established an effective process for verifying the accuracy of rates reported by participants.

Projects Under Consideration for Future Fiscal Years

SBLF Participant Characteristics and Investment Use

We plan to determine (1) the characteristics of financial institutions participating in the SBLF program, (2) the extent to which SBLF participants also received SSBCI funding, (3) the disposition of funds invested by Treasury and the capital leverage achieved with Treasury's investment, and (4) other uses of SBLF funds and whether such uses were anticipated at the time of application to the SBLF program.

Effectiveness of the SBLF in Increasing Lending to Small Businesses and Creating Jobs

We plan to determine (1) the number and types of small businesses receiving loan assistance; (2) the number of jobs created as a result of loans made to small businesses; and (3) whether loans are being made to businesses that would not otherwise have secured funding.

Accuracy of Small Business Lending Gains Supporting Dividend Rate

We plan to continue to conduct reviews of banks to determine whether (1) qualified small business lending volumes reported by financial institutions for dividend rate adjustments are accurate and (2) Treasury has established an effective process for verifying the accuracy of rates reported by participants.

State Small Business Credit Initiative Operations

This issue area discussion focuses on the operations of the new \$1.5 billion SSBCI program. As of September 20, 2011, 54 states and municipalities had applied for \$1.2 billion in SSBCI funding, and 31 had received their first funding allocations. Under SSBCI, states may obtain funding for programs that partner with private lenders to extend credit to small businesses. Such programs may include those that finance loan loss reserves and provide loan insurance, loan guaranties, venture capital funds and collateral support. If a state does not have an existing small business lending program, it can establish one in order to access SSBCI funding. States must provide plans for using their funding allocations to Treasury for review and approval and report quarterly and annually on results. Another key feature is that participating states receive their allocations in one third increments. Treasury may withhold a successive increment to a state pending the results of an audit by our office.

Potential Weaknesses Particular to SSBCI

Primary oversight of the use of SSBCI funds is the responsibility of each participating state. The states are required to provide Treasury with quarterly assurances that its programs approved for SSBCI funding are in compliance with program requirements. However, Treasury will face challenges in holding states accountable for the proper use of funds as it has not clearly defined the oversight obligations of states or specified minimum standards for determining whether participating states have fulfilled their oversight responsibilities. Treasury has also not required participating states to collect and review compliance assurances made by lenders and borrowers or defined what constitutes a material adverse change in a state's financial or operational condition that must be reported to Treasury. As a result, Treasury will have difficulty finding states to be in default of program requirements and holding states accountable should the OIG find that a state has intentionally or recklessly misused funds. Oversight of state programs will also be difficult as each state can have multiple programs that differ in design.

In response to these concerns, we are currently engaged in a risk-weighted review of the states to determine which states' programs should receive the swiftest and most aggressive audits.

In-Progress and Planned Fiscal Year 2012 Projects

SSBCI Desk Reviews (In Progress)

We will conduct desk reviews of participating state programs and oversight to assess the risk of waste, fraud, abuse, and noncompliance by recipients of SSBCI funds. Using the risk profiles and quarterly reports submitted by participating states, we will prioritize states for a more detailed on-site review.

Planned Projects by OIG Issue Area

SSBCI On-Site Reviews (Ongoing)

Upon completion of the desk-reviews, we will initiate on-site reviews of selected lenders and other institutions funded by participating states and municipalities to (1) examine whether funds were disbursed only to eligible parties and were used for business purposes, (2) test the accuracy of use of funds as reported by participants, and (3) identify any intentional or reckless misuse of funds.

Projects Under Consideration for Future Fiscal Years

SSBCI On-Site Reviews

We will continue to conduct on-site reviews of participating states and municipalities before they receive additional funding allocations to (1) examine whether funds were disbursed only to eligible parties and were used for business purposes, (2) test the accuracy of use of funds as reported by participants, and (3) identify any intentional or reckless misuse of funds.

Effectiveness of SSBCI in Increasing Access to Capital for Small Businesses

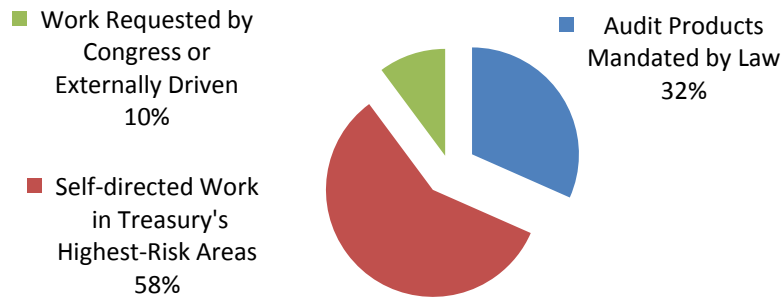
We plan to determine (1) the number and types of small businesses provided access to capital, assistance, (2) the number of jobs created as a result of loans made to small businesses, and (3) whether loans are being made to businesses that would not otherwise have secured funding.

Appendix A: Office of Audit

Fiscal Year 2012 Resource Allocation

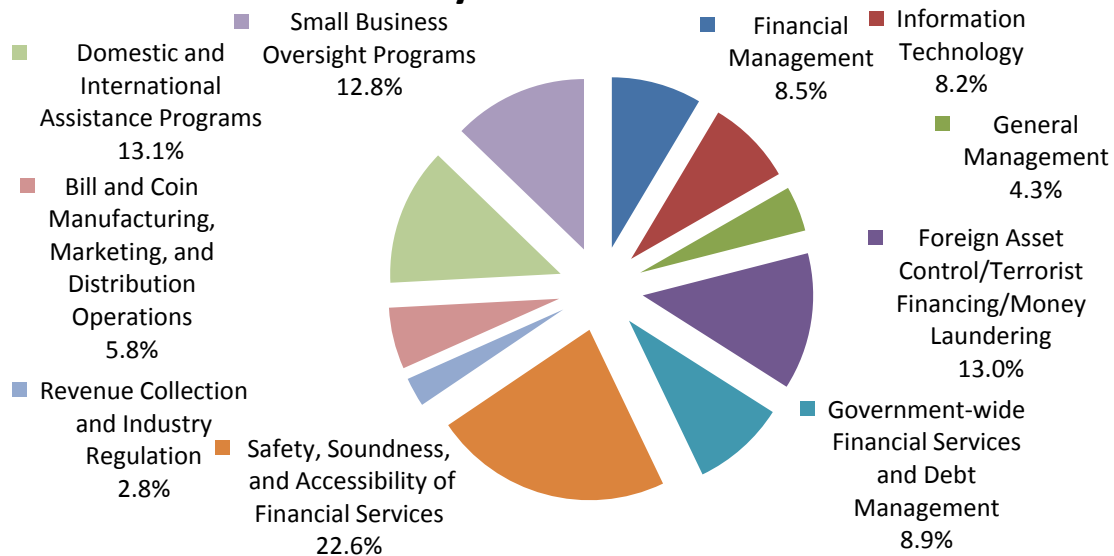
Our planned OIG staff resource utilization by the three priority areas for fiscal year 2012 is shown in the following chart:

FY 2012 OIG Resource Allocation by Audit Priority



Our planned OIG audit staff resource allocation by OIG Issue Area is shown in the following chart:

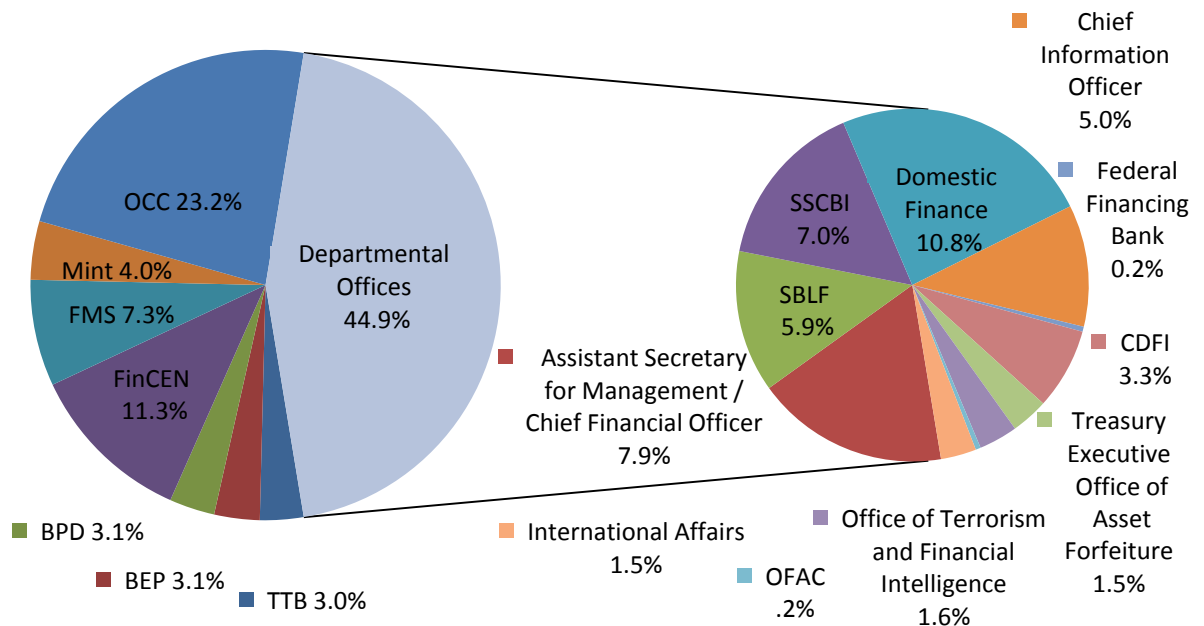
FY 2012 OIG Resource Allocation by OIG Issue Area



Appendix A: Office of Audit Fiscal Year 2012 Resource Allocation

The chart below shows planned OIG audit staff allocation by Treasury headquarters operational component and bureau:

FY 2012 OIG Resource Allocation by Treasury Component



Appendix B: Index of In-Progress and Planned Fiscal Year 2012 Audits by Issue Area

Treasury General Management and Infrastructure Support: Financial Management	17
Audits of Treasury Financial Statements and of Financial Statements or Schedules for Component Entities and Activities (In Progress)	21
Single Audit Act Activities (Ongoing).....	21
Improper Payments Elimination and Recovery Act of 2010	21
Treasury General Management and Infrastructure Support: Information Security	23
FISMA Independent Review—Unclassified Systems (In Progress)	25
FISMA Independent Audit—Collateral National Security Systems (In Progress)	25
FISMA Independent Audit for Fiscal Year 2012—Intelligence National Security Systems	25
TNet Security Review (In Progress)	25
Network and System Security Assessments	26
Disaster Recovery Exercises (Ongoing)	26
Cloud Computing Services.....	26
Treasury General Management and Infrastructure Support: General Management	29
Financial Innovation and Transformation Program (In Progress).....	31
Enterprise Content Management System (In Progress).....	31
OCC's Procurement Operations (In Progress).....	31
Corrective Action Verification (Ongoing)	32
Contract Audit Oversight Activities (Ongoing)	32
Treasury Enterprise Identity, Credential and Access Management (formerly Consolidated Enterprise Identity Management)	32
Management of the National Seized Property Contract	32
FMS's Deposit and Data Management	33

Appendix B: Index of In-Progress and Planned Fiscal Year 2011 Audits by Issue Area

Treasury Secure Data Network	33
Terrorist Financing, Money Laundering, and Foreign Assets Control	36
FinCEN BSA IT Modernization Program (In Progress)	38
FinCEN Efforts to Ensure Compliance by MSBs With BSA (In Progress)	38
OFAC Licensing Programs (In Progress)	39
OFAC Libyan Sanctions Case Study	39
OCC's BSA and USA PATRIOT Act Compliance Examinations and Enforcement Actions	40
FinCEN Civil Penalties for BSA Program Violations	40
FinCEN Information-Sharing Procedures (Section 314 of USA PATRIOT Act)	40
FinCEN Efforts to Address Risks Associated With Use of Prepaid Access Cards	40
FinCEN Targeting of Fraudulent Loan Modification Schemes	41
Impact of FinCEN's Rules on Financial Institutions Subject to the Comprehensive Iran Sanctions, Accountability, and Divestment Act	41
FinCEN Memorandum of Understanding With Financial Institution Regulators	41
Treasury Executive Office of Asset Forfeiture's Use of Treasury Forfeiture Fund Receipts to Support Law Enforcement	41
FinCEN Access and Monitoring Controls Over BSA Data	41
Security Clearances of Individuals Handling Sensitive Office of Terrorism and Financial Intelligence Information	42
Terrorist Finance Tracking Program	42
Government-wide Financial Services and Debt Management	45
FMS Controls Over Disbursement Activities (In Progress)	46
FMS Debit Card Program for Social Security and Other Federal Benefits (In Progress)	46
FMS Controls Over Routing Transit Numbers (In Progress)	46
Administrative Resource Center User Fee Collection and Reimbursable Agreements	47
Survey of the Federal Financing Bank	47

Appendix B: Index of In-Progress and Planned Fiscal Year 2011 Audits by Issue Area

Delinquent Debt Referrals to FMS	47
Survey of FMS Debt Check Program	47
FMS Control of Its Card-acquiring Bank's Interchange Management	48
BPD Controls Over Routing Transit Numbers.....	48
TreasuryDirect	48
BPD Survey of Treasury Securities Programs	48
FMS Oversight of Lockbox Operations	49
Safety, Soundness, and Accessibility of Financial Services	51
Reviews of Failed OCC-Regulated Banks and Thrifts (In Progress)	53
Transfer of OTS Functions (Ongoing)	54
OCC Identification of Emerging Risks (In Progress)	54
Office of Financial Research (In Progress)	54
OCC's Supervision of National Bank's Foreclosure Practices (In Progress).....	54
Supervision of Home Loan Modification Programs (In Progress).....	54
Supervision of Banks Seeking Charter Conversion.....	54
Protection of Financial Services Sector Critical Infrastructure.....	55
Federal Insurance Office.....	55
OCC's Leasing Practices	55
OCC's Consumer Protection Responsibilities	55
Examination Coverage of Interest Rate Risk	55
Commercial Real Estate Concentrations	55
Examination Coverage of Identity Theft Risk at Third-Party Service Providers.....	55
Examination Coverage of Identity Theft Risk at Financial Institutions	55
OCC Supervision of Bank Processes to Prevent, Detect, and Report Criminal Activity by Bank Employees	55

Appendix B: Index of In-Progress and Planned Fiscal Year 2011 Audits by Issue Area

Lessons Learned from Bank Failures.....	56
OCC Enforcement Practices	56
Revenue Collection and Industry Regulation.....	58
TTB Alcohol and Tobacco Permit Program.....	60
Tax Receipts Lost Due to Illicit Trade.....	60
Bill and Coin Manufacturing, Marketing, and Distribution Operations	63
BEP’s Production Process for the NexGen \$100 Notes (In Progress)	64
BEP’s Procurement Operations (In Progress).....	65
Mint Coin Exchange Program (In Progress).....	65
Mint \$1 Coin Inventory (In Progress).....	65
Physical Security at U.S. Mint Facilities (In Progress).....	65
Mint Controls Over the Sales of Limited-Production, Investment-Grade Products.....	65
Mint Procurement Operations	65
BEP’s Enterprise Network System.....	65
Domestic and International Assistance Programs	67
Senior Preferred Stock Purchase Agreements (In Progress).....	71
Housing Finance Agencies Initiative (In Progress).....	71
Selection of Financial Agents (In Progress)	71
Purchases and Sales of Agency Mortgage-Backed Securities (In Progress).....	71
CDFI Fund Administration of the Capital Magnet Fund.....	72
Payments in Lieu of Tax Credits for Specified Energy Properties (In Progress)	72
Payments to the States in Lieu of Tax Credits for Low-Income Housing (In Progress).....	72
CDFI Fund Administration of Recovery Act Funds (In Progress)	72
New Markets Tax Credit Program Award Process and Compliance Monitoring (In Progress)	73
Treasury’s Tracking of Treaties and International Agreements.....	73

Appendix B: Index of In-Progress and Planned Fiscal Year 2011 Audits by Issue Area

Bond Guarantee Program	73
Multilateral Development Banks.....	73
Transfer of Funds Under Section 632(a) of the Foreign Assistance Act of 1961.....	73
Small Business Lending Fund and State Small Business Credit Initiative Operations.....	76
SBLF Program Cost (In Progress)	77
Soundness of Investment Decisions Involving Initial 23 Approved Banks (In Progress)	77
Soundness of Year-End Investment Decisions	77
Implementation of Matching Capital Requirement.....	78
Accuracy of Small Business Lending Gains Supporting Dividend Rates	78
SSBCI Desk Reviews (In Progress)	79
SSBCI On-Site Reviews (Ongoing).....	80

Appendix C: Index of In-Progress and Planned Fiscal Year 2012 Audits by Bureau/Office

Multi Bureau

Audits of Treasury Financial Statements and of Financial Statements or Schedules for Component Entities and Activities (In Progress)	21
Single Audit Act Activities (Ongoing)	21
FISMA Independent Review—Unclassified Systems (In Progress)	25
FISMA Independent Audit—Collateral National Security Systems (In Progress)	25
FISMA Independent Audit for Fiscal Year 2012—Intelligence National Security Systems	25
Network and System Security Assessments (Ongoing)	26
Corrective Action Verification (Ongoing)	32
Contract Audit Oversight Activities (Ongoing)	32

Departmental Offices

Improper Payments Elimination and Recovery Act of 2010	21
TNet Security Review (In Progress)	26
Disaster Recovery Exercises (Ongoing)	26
Cloud Computing Services.....	26
Financial Innovation and Transformation Program (In Progress).....	31
Enterprise Content Management System (In Progress).....	31
Treasury Enterprise Identity, Credential and Access Management (formerly Consolidated Enterprise Identity Management)	32
Management of the National Seized Property Contract	32
Treasury Secure Data Network.....	33
Treasury Executive Office of Asset Forfeiture's Use of Treasury Forfeiture Fund Receipts to Support Law Enforcement.....	41
Terrorist Finance Tracking Program.....	42
Survey of the Federal Financing Bank	47
Office of Financial Research (In Progress)	54

Appendix C: Index of In-Progress and Planned Fiscal Year 2012 Audits by Bureau/Office

Federal Insurance Office.....	55
Senior Preferred Stock Purchase Agreements (In Progress).....	71
Housing Finance Agencies Initiative (In Progress).....	71
Selection of Financial Agents (In Progress).....	71
Purchases and Sales of Agency Mortgage-Backed Securities (In Progress).....	71
CDFI Fund Administration of the Capital Magnet Fund.....	72
Payments in Lieu of Tax Credits for Specified Energy Properties (In Progress).....	72
Payments to the States in Lieu of Tax Credits for Low-Income Housing (In Progress).....	72
CDFI Fund Administration of Recovery Act Funds (In Progress).....	72
New Markets Tax Credit Program Award Processes and Compliance Monitoring (In Progress).....	73
Treasury's Tracking of Treaties and International Agreements.....	73
Bond Guarantee Program.....	73
Multilateral Development Banks.....	73
Transfer of Funds Under Section 632(a) of the Foreign Assistance Act of 1961.....	73
SBLF Program Cost (In Progress).....	77
Soundness of Investment Decisions Involving Initial 23 Approved Banks (In Progress).....	77
Soundness of Year-End Investment Decisions.....	77
Implementation of Matching Capital Requirement.....	78
Accuracy of Small Business Lending Gains Supporting Dividend Rates.....	79
SSBCI Desk Reviews (In Progress).....	79
SSBCI On-site Reviews (Ongoing).....	80
Bureau of Engraving and Printing	
BEP's Production Process of the NexGen \$100 Notes (In Progress).....	64
BEP's Procurement Operations (In Progress).....	65
BEP's Enterprise Network System.....	65
Bureau of the Public Debt	
Administrative Resource Center User Fee Collection and Reimbursable Agreements.....	47
BPD Controls Over Routing Transit Numbers.....	48

Appendix C: Index of In-Progress and Planned Fiscal Year 2012 Audits by Bureau/Office

TreasuryDirect	48
BPD Survey of Treasury Securities Programs	48
Financial Crimes Enforcement Network	
FinCEN BSA IT Modernization Program (In Progress)	38
FinCEN Efforts to Ensure Compliance by MSBs With BSA Requirements (In Progress).....	38
FinCEN Civil Penalties for BSA Program Violations.....	40
FinCEN Information-Sharing Procedures (Section 314 of the USA PATRIOT Act).....	40
FinCEN Efforts to Address Risks Associated With Use of Prepaid Access Cards	40
FinCEN Targeting of Fraudulent Loan Modification Schemes	41
Impact of FinCEN's Rules on Financial Institutions Subject to the Comprehensive Iran Sanctions, Accountability, and Divestment Act.....	41
FinCEN Memorandum of Understanding With Financial Institution Regulators	41
FinCEN Access and Monitoring Controls Over BSA Data.....	41
Security Clearances of Individuals Handling Sensitive Office of Terrorism and Financial Intelligence Information	42
Financial Management Systems	
FMS's Deposit and Data Management	33
FMS Controls Over Disbursement Activities (In Progress).....	46
FMS Debit Card Program for Social Security and Other Federal Benefits (In Progress)	46
FMS Controls Over Routing Transit Numbers (In Progress)	46
Delinquent Debt Referrals to FMS	47
Survey of FMS Debt Check Program.....	47
FMS Control of Its Card-acquiring Bank's Interchange Management	48
FMS Oversight of Lockbox Operations	49
Office of Foreign Assets Control	
OFAC Licensing Programs (In Progress).....	39
OFAC Libyan Sanctions Case Study	39
U.S. Mint	

Appendix C: Index of In-Progress and Planned Fiscal Year 2012 Audits by Bureau/Office

Mint Coin Exchange Program (In Progress).....	65
Mint \$1 Coin Inventory (In Progress).....	65
Physical Security at U.S. Mint Facilities (In Progress).....	65
Mint Controls Over the Sales of Limited-Production, Investment Grade Products.....	65
Mint Procurement Operations.....	65
Office of the Comptroller of the Currency	
OCC's Procurement Operations (In Progress).....	31
OCC's BSA and USA PATRIOT Act Compliance Examinations and Enforcement Actions.....	40
Reviews of Failed OCC-Regulated Banks and Thrifts (In Progress).....	53
Transfer OTS Functions (Ongoing).....	54
OCC Identification of Emerging Risks (In Progress).....	54
OCC's Supervision of National Bank's Foreclosure Practices (In Progress).....	54
Supervision of Home Loan Modification Programs (In Progress).....	54
Supervision of Banks Seeking Charter Conversion.....	54
Protection of Financial Services Sector Critical Infrastructure.....	55
OCC's Leasing Practices.....	55
OCC's Consumer Protection Responsibilities.....	55
Examination Coverage of Interest Rate Risk.....	55
Commercial Real Estate Concentrations.....	55
Examination Coverage of Identity Theft Risk at Third-Party Service Providers.....	55
Examination Coverage of Identity Theft Risk at Financial Institutions.....	55
OCC Supervision of Bank Processes to Prevent, Detect, and Report Criminal Activity by Bank Employees	55
Lessons Learned from Bank Failures.....	56
OCC Enforcement Practices.....	56
Alcohol and Tobacco Tax and Trade Bureau	
TTB Alcohol and Tobacco Permit Program.....	60
Tax Receipts Lost Due to Illicit Trade.....	60

Appendix D: Index of Projects Under Consideration for Future Fiscal Years

Treasury General Management and Infrastructure Support: Financial Management	17
Working Capital Fund.....	21
Implementation of Managerial Cost Accounting.....	22
Survey of XBRL	22
Treasury General Management and Infrastructure Support: Information Security	23
Treasury's Data Center Consolidation	26
Securing Treasury's Industrial Control Systems	27
Security Assessment of Treasury's National Security Systems	27
Trusted Internet Connection Compliance.....	27
Security Controls Over Cell Phones, PDAs, and Tablet Computers	27
Securing Treasury Data on Websites Hosted by Third Parties	28
Equipment Disposal Process	28
Treasury Government Security Operations Center Services	28
Treasury General Management and Infrastructure Support: General Management	29
Classification of Treasury Information.....	33
Departmental Offices Procurement Activities.....	34
Monitoring of Mandated Reports.....	34
Audit Follow-up System	34
Employee Bonus Policies at Nonappropriated Bureaus.....	34
Controls Over Purchase and Travel Cards	34
Capital Planning and Investment Control Process	34
HR Connect Processing Controls.....	34

Appendix D: Index of Projects under Consideration for Future Fiscal Years

Responsiveness to Freedom of Information Act Requests	35
Telework Controls	35
Resolution of Accountable Officer Irregularities	35
Terrorist Financing, Money Laundering, and Foreign Assets Control	36
FinCEN Efforts to Ensure Compliance by Casinos With BSA Requirements	42
Impact of Modified Currency Transaction Report Exemptions on Depository Institutions	42
Insurance Companies' Anti-Money Laundering Programs and Reporting of Suspicious Transactions	43
Anti-Money Laundering Regulations for Other Nonbank Financial Institutions.....	43
Financial Institution Filing of Reports to OFAC and FinCEN on Blocked Transactions	43
Electronic Banking and BSA Compliance	43
OFAC Memorandum of Understanding With Financial Institution Regulators	44
OFAC Policies and Procedures	44
Responsibilities of the Office of Intelligence and Analysis Under the Intelligence Authorization Act	44
Department of the Treasury's Compliance With Requirements of Executive Order 13462	44
Government-wide Financial Services and Debt Management	45
Survey of Electronic Collection Methods.....	49
Check Forgery Insurance Fund.....	49
Acquisition of Banking Services by FMS.....	49
Treasury Check Information System	50
Internet Payment Platform	50
Safety, Soundness, and Accessibility of Financial Services	51
Small Bank Supervision	56
OCC Supervision of National Banks' Foreign Country Risks	56
OCC Supervision of Federal Branches of Foreign Banks	56
OCC Monitoring of Risk Management of Securities at Financial Institutions.....	56

Appendix D: Index of Projects under Consideration for Future Fiscal Years

Supervisory Use of Individual Minimum Capital Requirements	57
Examinations of Large Institutions	57
Safeguards Over Financial Institutions' Sensitive Information	57
Adequacy of Examinations of Nonbanking Activities of Financial Institutions	57
Assessment of OCC's Alternatives to the Use of Credit Ratings.....	57
Establishment of Depository Institution Peer Groups	57
Revenue Collection and Industry Regulation.....	58
TTB's Use of Collection Procedures and Offers in Compromise to Collect Revenue.....	60
TTB Alcohol and Tobacco Laboratories	60
TTB Designation of American Viticultural Areas	61
Coordinating Participation in the International Trade Data System Project.....	61
TTB Cover-Over Payment Program	61
TTB Safeguards Over Taxpayer Information	62
Manufacturer Nonbeverage Drawback Program.....	62
TTB Use of Collateral to Protect Revenue	62
TTB Background Investigations	62
TTB Online Certificate of Label Approval	62
Bill and Coin Manufacturing, Marketing, and Distribution Operations	63
BEP Capital Investment Program.....	65
BEP Continuity of Operations Planning.....	66
BEP Controls Over Security (Follow-up)	66
BEP Background Investigations of Personnel.....	66
BEP Police Officer Training and Firearms Requalification	66
BEP Employee Safety.....	66
Domestic and International Assistance Programs	67

Appendix D: Index of Projects under Consideration for Future Fiscal Years

Reviews of Single Audits.....	74
CDFI Fund Implementation and Administration of the Bank on USA Initiative	74
CDFI Fund Implementation and Administration of the Healthy Foods Financing Initiative	74
CDFI Fund's Tracking of Awardees Across Multiple Assistance Programs	75
Survey of the Committee on Foreign Investment in the U.S.	75
Treasury's Participation in the International Monetary Fund	75
Small Business Lending Fund and State Small Business Credit Initiative Operations.....	76
SBLF Participant Characteristics and Investment Use.....	78
Effectiveness of the SBLF in Increasing Lending to Small Businesses and Creating Jobs.....	78
Accuracy of Small Business Lending Gains Supporting Dividend Rate	78
SSBCI On-Site Reviews.....	80
Effectiveness of SSBCI in Increasing Access to Capital for Small Businesses.....	80

Abbreviations

AIFA	American Infrastructure Financing Authority
BEP	Bureau of Engraving and Printing
BPD	Bureau of the Public Debt
BSA	Bank Secrecy Act
CDFI Fund	Community Development Financial Institutions Fund
CFPB	Bureau of Consumer Financial Protection
CIGFO	Council of Inspectors General on Financial Oversight
Dodd-Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
EC2	Elastic Compute
FDIC	Federal Deposit Insurance Corporation
FinCEN	Financial Crimes Enforcement Network
FISMA	Federal Information Security Management Act of 2002
FMS	Financial Management Service
FRB	Board of Governors of the Federal Reserve System
FSOC	Financial Stability Oversight Council
GAFSP	Global Agriculture and Food Security Program
GAO	Government Accountability Office
IT	information technology
IRS	Internal Revenue Service
JAMES	Joint Audit Management Enterprise System
MLR	Material Loss Review
MSB	money services business
OCC	Office of the Comptroller of the Currency
OFAC	Office of Foreign Assets Control
OIG	Office of Inspector General
OMB	Office of Management and Budget
OTS	Office of Thrift Supervision
PDA	personal digital assistant
Recovery Act	American Recovery and Reinvestment Act of 2009
SBLF	Small Business Lending Fund
SSBCI	State Small Business Credit Initiative
TARP	Troubled Asset Relief Program
TIGTA	Treasury Inspector General for Tax Administration
TNet	Treasury Network
TTB	Alcohol and Tobacco Tax and Trade Bureau
USAID	U.S. Agency for International Development
XBRL	eXtensible Business Reporting Language