



# Annual Plan Fiscal Year 2019

OIG-CA-19-007

Office of Inspector General  
Department of the Treasury

## Foreword

This annual plan outlines the fiscal year (FY) 2019 Department of the Treasury (Treasury or the Department) Office of Inspector General (OIG) audit and investigative priorities. The planned work focuses on Treasury's major initiatives and challenges, and takes into consideration OIG's *Strategic Plan for Fiscal Years 2018–2022*.

As this plan illustrates, we have prioritized our resources to provide oversight of the most significant and highest-risk Treasury programs and operations across our jurisdictional boundaries. For FY 2019, our oversight efforts will place top priority on: (1) cyber threats, (2) anti-money laundering/terrorist financing and Bank Secrecy Act enforcement, and (3) efforts to promote spending transparency, and prevent and detect improper payments.

Areas of emphasis for FY 2019 include oversight mandated by law such as the Inspector General Act of 1978, as amended, the Government Management Reform Act of 1994, the Federal Information Security Modernization Act of 2014 (FISMA), the Federal Deposit Insurance Act, and the Improper Payments Elimination and Recovery Act of 2010 (IPERA). Additionally, we will continue to perform audit work related to Treasury's responsibilities under the Digital Accountability and Transparency Act of 2014 (DATA Act).

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

October 2018

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## Overview

### Mission Statement

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

### Background

In 1989, the Secretary of the Treasury established the OIG in accordance with 1988 amendments of the Inspector General Act. Treasury OIG has the following responsibilities:

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

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

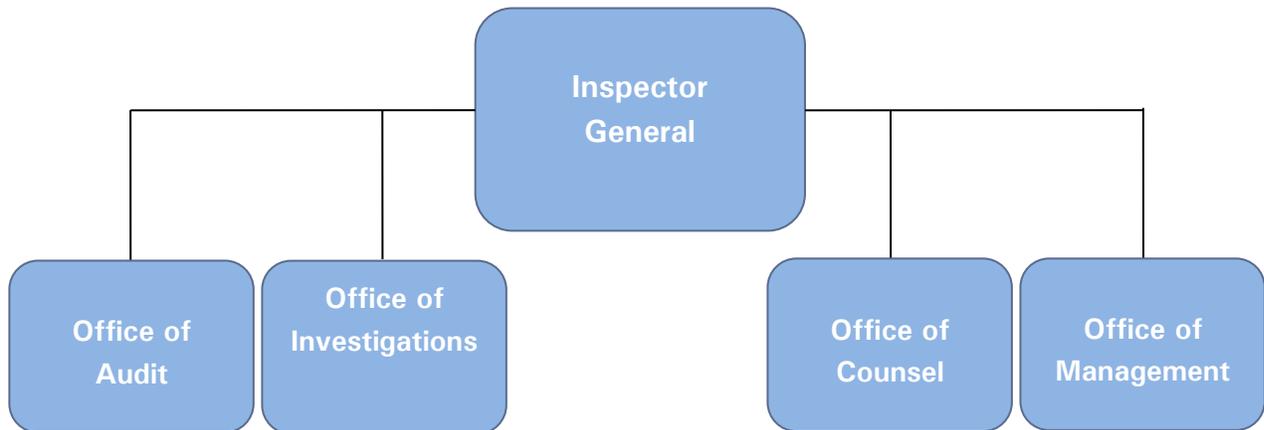
### Organizational Structure and Fiscal Resources

Treasury OIG is headed by an Inspector General appointed by the President with the advice and consent of the Senate. As shown below, Treasury OIG's organization includes four offices headquartered in Washington, DC; an audit

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field office in Boston, Massachusetts; and investigative offices in Greensboro, North Carolina( home to the North Carolina Treasury Financial Crimes Task Force); Houston, Texas; and Jacksonville, Florida.



For fiscal year (FY) 2019, the President requested approximately \$36.0 million in direct appropriations for Treasury OIG. Up to \$2.8 million of that total is to be available for audits and investigations conducted pursuant to Section 1608 of the Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012 (RESTORE Act). Audits and investigations of the Small Business Lending Fund (SBLF) are funded on a reimbursable basis by the SBLF program office. Annual financial statement audits of Treasury and certain components are funded by the annual salaries and expenses appropriation for Treasury’s Departmental Offices.

## Performance Measures

Treasury OIG established the following FY 2019 performance measures for the Offices of Audit and Investigations:

### Office of Audit Performance Measures

- Complete 74 audit products.
- Complete 100 percent of mandated audits by the required date.
- Identify monetary benefits where appropriate.

### Office of Investigations Performance Measure

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

## Fiscal Year 2019 Priorities

### Audit Priorities

Treasury OIG established three audit priorities for FY 2019:

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

Treasury OIG allocates significant resources to meet mandated audit requirements, which include (1) audited financial statements and financial-related review work; (2) information systems security; (3) Treasury programs authorized by the Small Business Jobs Act; (4) bank failures, pursuant to requirements in the Federal Deposit Insurance Act; and (5) responsibilities under the Digital Accountability and Transparency Act of 2014 (DATA Act). We also perform work in response to congressional directives and support the Council of Inspectors General on Financial Oversight (CIGFO)<sup>1</sup> by leading or participating on working groups established to evaluate the effectiveness and internal operations of the Financial Stability Oversight Council (FSOC).

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

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

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

With the resources available after we have completed mandated audits and requested work, we conduct audits to assess Treasury's progress in addressing significant known and emerging risks and vulnerabilities. For FY 2019, our self-directed work focuses on Treasury's responsibilities for cybersecurity,

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

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anti-money laundering/terrorist financing programs, and efforts to promote spending transparency and prevent and detect improper payments.

For details of planned FY 2019 Treasury OIG staff resource utilization, by audit priority, see appendix A.

### Treasury OIG Strategic Plan

Treasury OIG aligned its *Strategic Plan for Fiscal Years 2018–2022* with Treasury’s mission to maintain a strong economy and create economic and job opportunities by promoting conditions that enable economic growth and stability at home and abroad, strengthen national security by combating threats and protecting the integrity of the financial system, and manage U.S. Government finances and resources effectively. Treasury OIG works to promote the integrity, efficiency, and effectiveness of programs and operations across its jurisdictional boundaries. We accomplish our mission through four strategic goals:

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

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

To accomplish its mission, Treasury identified five strategic goals for FY 2018 - FY 2022. Treasury OIG will focus its FY 2019 work on 11 issue areas, shown in the table below, as they relate to Treasury’s strategic goals.

Treasury Strategic Goal	Treasury OIG Issue Area
Boost U.S. Economic Growth.	<ul style="list-style-type: none"><li>• Financial Regulation and Oversight</li><li>• Domestic and International Assistance Programs</li><li>• Bill and Coin Manufacturing</li></ul>

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	<ul style="list-style-type: none"><li>• Gulf Coast Restoration</li><li>• Alcohol and Tobacco Revenue Collection and Industry Regulation</li><li>• Small Business Lending Fund Program</li></ul>
Promote Financial Stability.	<ul style="list-style-type: none"><li>• Domestic and International Assistance Programs</li><li>• Gulf Coast Restoration</li><li>• Financial Regulation and Oversight</li><li>• Cybersecurity/Information Technology</li><li>• Financial Management</li><li>• Anti-Money Laundering/Terrorist Financing and Foreign Assets Control</li></ul>
Enhance National Security.	<ul style="list-style-type: none"><li>• Cybersecurity/Information Technology</li><li>• Anti-Money Laundering/Terrorist Financing and Foreign Assets Control</li><li>• Domestic and International Assistance Programs</li></ul>
Transform Government-wide Financial Stewardship.	<ul style="list-style-type: none"><li>• Financial Management</li><li>• Government-wide Financial Services and Debt Management</li><li>• Alcohol and Tobacco Revenue Collection and Industry Regulation</li><li>• Domestic and International Assistance Programs</li><li>• Treasury Resource Management and Infrastructure Support</li></ul>
Achieve Operational Excellence.	<ul style="list-style-type: none"><li>• Treasury Resource Management and Infrastructure Support</li><li>• Government-wide Financial Services and Debt Management</li><li>• Cybersecurity/Information Technology</li><li>• Bill and Coin Manufacturing</li></ul>

### Office of Audit Initiatives

The Office of Audit plans to start 79 projects in FY 2019 and complete 74 projects started in prior years. We have identified 214 high-priority projects that must be deferred beyond FY 2019. For descriptions of our in progress and planned work, as well as projects for future consideration, see the In Progress and Planned Projects by Treasury OIG Issue Area section of this document.

### Investigative Priorities

Treasury OIG established eight investigative priorities for FY 2019.

#### **Priority 1 Threats Against Treasury Employees and Facilities**

Our highest priority is investigating threats against Treasury employees and facilities. These efforts are critical in ensuring safety for the Department and require prompt attention and coordination with Federal, State, and local authorities. We also have responsibilities in connection with the Department's Continuity of Operations Plan.

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

We investigate complaints involving alleged criminal and other serious misconduct by Treasury employees. We investigate 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 we investigate complaints of alleged violations of these rules and regulations.

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

We conduct investigations into allegations of fraud and other crimes involving Treasury contracts, grants, loan guarantees, and Federal funds. Such allegations often involve contractors, entities, and individuals who provide or seek to provide goods or services to the Department. We receive complaints alleging criminal or other misconduct from employees, contractors, members of the public, and Congress. We also investigate criminal activity associated with improper payments made due to false claims to the Treasury in relation to grant programs, such as the American Recovery and Reinvestment Act of 2009 (Recovery Act).

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

We conduct and supervise criminal investigations related to Treasury financial programs and operations, including the issuance of licenses, payments and benefits, and oversight of U.S. financial institutions. We investigate criminal activity associated with improper payments made due to false claims to the Treasury and stolen, altered, counterfeit, and fraudulently obtained and/or redirected Treasury payments. We also investigate financial institution employee obstruction of the examination process and bank fraud, wire fraud, embezzlement, and other crimes impacting the oversight of Office of Comptroller of the Currency (OCC) regulated financial institutions as well as the Bank Secrecy Act (BSA)/Anti-Money Laundering program overseen by OCC and the Financial Crimes Enforcement Network (FinCEN).

### **Priority 5 Cyber Threats Against Treasury Systems and Cyber Enabled Financial Crimes Fraud**

We conduct investigations into cyber intrusions of Treasury systems, the illicit removal of Treasury-protected information from Treasury systems, and cyber-enabled criminal activity impacting Treasury programs and operations, such as Business Email Compromise, Personal Email Compromise, and other schemes.

### **Priority 6 Investigating Fraud Related to Criminals Impersonating Treasury Agents and Employees**

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

### **Priority 7 Investigating Fraud Related to Persons Representing Themselves as “Sovereign Citizens” Submitting Fictitious Financial Instruments to Treasury, Financial Institutions, and Private Companies**

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

### Priority 8 Identifying and Investigating Fraud Related to the RESTORE Act

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

### Counsel Initiatives

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

Based on experience, the Office of Counsel expects to process 50 initial Freedom of Information Act/Privacy Act requests and 3 appeals from those initial responses in FY 2019. With regard to the Electronic Freedom of Information Act, the office expects to review approximately 74 audit, evaluation, and oversight reports posted on Treasury OIG's [website](#) and [oversight.gov](#). The Office of Counsel also fulfills these additional roles and responsibilities:

- Provides ethics and standards of conduct training for all employees and timely review of all required confidential and public financial disclosure reports.
- Reviews and updates, as needed, Privacy Impact Assessments for all Treasury OIG operations and provides procedural review and training services.

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- Responds to *Giglio*<sup>2</sup> requests, coordinates responses to document requests from Congress, responds to media inquiries, and responds to discovery requests arising from litigation involving the Department and its bureaus.
- Provides training on the Inspector General Act and other subjects for new employee orientation and in-service training.
- Serves as Whistleblower Program Coordinator, as defined in the Whistleblower Protection Enhancement Act.
- Reviews, as statutorily mandated, legislative and regulatory proposals and coordinates comments; reviews all allegations of misuse of the Treasury seal, name, and identification; and prepares cease-and-desist orders and penalty assessments necessary for Treasury OIG to enforce 31 USC 333 (prohibition of misuse of Treasury names, symbols, etc.)
- Conducts, manages, and advises on inquiries and activities related to Treasury programs and operations undertaken at the request of Congress, the Office of Special Counsel, and other stakeholders concerning Treasury programs and operations.
- Responds to media and congressional inquiries, coordinating with other Treasury OIG functions as needed.

## Management Initiatives

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

The office's administrative services component manages the purchase-card program, the travel program, and all contracts valued at more than \$3,500. It also administers the public transit program and oversees security and safety initiatives. Administrative services will continue to maintain an active program for the economical and efficient management of Treasury OIG records, including implementing presidential directives for electronic records management. In

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

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addition, during FY 2019, administrative services will maintain an effective and comprehensive safety and health program to comply with regulations promulgated under the Occupational Safety and Health Act of 1970.

During FY 2019, the office's security services component will continue to manage the Personal Identity Verification Data Synchronization business process map, which shows linkages to HRConnect and USAccess for employee sponsorship and personal identity verification card issuance. Security services will also continue to design and execute measures to prevent unauthorized access to Treasury OIG facilities, equipment, and resources to ensure the protection of personnel and property from damage or harm, including:

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

The Office of Management's Procurement component will continue to assist Treasury OIG operations in ensuring that quality goods and services are delivered on time to support the mission. Procurement will continue to carry out the following responsibilities:

- oversight of Treasury OIG's Purchase Card Program
- procurement policy recommendations and guidance
- adherence to Departmental small business goals
- coordination of appropriate training for Treasury OIG Contracting Officer Representatives and OIG staff.

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

- Efficiently and effectively reconcile financial transactions.
- Provide monitoring and oversight of billing and invoice approvals to ensure full compliance with reporting required by the DATA Act and the Prompt Payment Act's Do Not Pay list procedures, issued by the Office of Management and Budget (OMB).

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- Prepare and execute interagency agreements for services provided or rendered.
- Respond to budget data calls.
- Interact with ARC for any system changes that affect Treasury OIG budgeting or accounting, such as establishing new cost centers to better and more accurately account for oversight of new programs and responsibilities.

The Management Office's HR component will continue to assist hiring managers to recruit, hire, and retain employees within existing budget constraints and to address employee relations issues. Other plans include updating HR policies and supervisory training.

The Management Office's IT component will continue to seek efficiencies through virtualization, cloud computing, and service consolidation. Efforts continue to enhance Treasury OIG's general support system; improve the ability of Treasury 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. The IT component will deploy electronic records management tools to support Treasury OIG's records-management initiatives and provide information management tools to ensure personnel have the resources and ability to access Treasury OIG information and make timely decisions.

## Management and Performance Challenges

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

### Treasury

In an October 15, 2018, memorandum to Secretary of the Treasury Steven Mnuchin, Inspector General Eric Thorson reported the following four challenges facing the Department that were repeated from prior year.

- Operating in an Uncertain Environment
- Cyber Threats
- Anti-Money Laundering/ Terrorist Financing and BSA Enforcement
- Efforts To Promote Spending Transparency and To Prevent and Detect Improper Payments

We also highlighted other matters of concern:

- challenges with currency and coin production, and
- excise tax reform.

### Gulf Coast Ecosystem Restoration Council

In an October 1, 2018, letter to the Honorable Andrew Wheeler, Acting Administrator of the Environmental Protection Agency, as Chairperson of the Council, Inspector General Thorson reported two management and performance challenges that were repeated from the prior year.

- Federal Statutory and Regulatory Compliance
- Grant and Interagency Agreement Compliance Monitoring

# In Progress and Planned Projects, by Treasury OIG Issue Area

## Treasury General Management and Infrastructure Support: Financial Management

### Background

#### Mandates

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

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

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

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

## Planned Projects by OIG Issue Area

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Banks. An independent certified public accounting firm, under a contract supervised by the Treasury OIG, performs attestation engagements for Fiscal Service.

### Program Responsibilities

Treasury also has responsibility for certain programs that will be reviewed as part of the audit of the FY 2019 Department-wide financial statements, including programs established by the following acts:

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

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

### Improper Payments

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

The Improper Payments Elimination and Recovery Act of 2010 (IPERA) amended the Improper Payments Information Act of 2002 and expanded requirements for

## Planned Projects by OIG Issue Area

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

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

### Known Weaknesses

The Department received an unmodified audit opinion on its FY 2017 consolidated financial statements. The independent certified public accounting firm's audit report disclosed the following internal control deficiencies:

- a material weakness in internal control over unpaid tax assessments and a significant deficiency related to financial reporting at the IRS, collectively representing a material weakness for Treasury as a whole (repeat condition)
- deficiencies in internal control over debt management information systems at Fiscal Service, representing a significant deficiency for Treasury as a whole (repeat condition)

The auditor also reported a finding that the Department's financial management systems did not comply with certain requirements of the Federal Financial Management Improvement Act of 1996 related to Federal financial management system requirements and applicable Federal accounting standards.

### In Progress and Planned FY 2019 Projects

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

During FY 2019, we will complete audit work for the FY 2018 financial statements and schedules and begin audit work for the FY 2019 financial statements and schedules. These audits will determine whether the financial statements and schedules are fairly presented in all material respects and will report on internal control and on compliance with laws and regulations that could have a direct and material effect on the financial statements. We plan to complete 18 financial statement audits, attestations, and other related products in FY 2019.

#### **Improper Payments**

We plan to assess Treasury compliance with IPERA and other improper payment reporting requirements for FY 2018 included in EO 13520 and IPERIA. We plan to work with TIGTA to provide an overall assessment of Treasury's compliance and identify high-priority Treasury programs for review as well as Treasury programs susceptible to improper payments. We plan to complete one improper payment audit in FY 2019.

### Projects Under Consideration for Future Fiscal Years

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

The Office of D.C. Pensions implements the Secretary's responsibilities under the Balanced Budget Act of 1997 to make timely and accurate Federal benefit payments associated with the D.C. Retirement Programs for police officers, firefighters, teachers, and judges. These benefit payments totaled \$716 million in FY 2017. During past financial statement audits, the auditor identified errors in annuitant payment amounts. We plan to assess whether the Office of D.C. Pensions' quality assurance program is designed and operating effectively to detect and correct mistakes in the processing of annuitant benefit payments.

#### **Managerial Cost Accounting**

Managerial cost accounting should be a fundamental part of a financial performance management system. It involves the accumulation and analysis of financial and nonfinancial data, resulting in the allocation of costs to organizational pursuits, such as performance goals, programs, activities, and outputs. Our office and GAO have reported the need for Treasury to more

## Planned Projects by OIG Issue Area

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effectively implement managerial cost accounting and revise policy to improve accounting practices to promote consistency throughout Treasury.

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

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

Fiscal Service provides accounting services for non-entity assets, non-entity costs, and custodial revenue accounts. These accounts are held or managed on behalf of other program entities and are referred to as Treasury Managed Accounts (TMA). TMAs consist of deposit funds, receipt accounts, and appropriated accounts requiring functions such as the issuance of payments, deposits, and collections. As of September 30, 2017, TMA revenue totaled \$86.1 billion and TMA costs or payments totaled \$14.7 billion.

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

# Treasury General Management and Infrastructure Support: Cybersecurity/Information Technology

## Background

Cybersecurity is one of the most serious challenges facing our nation. The dynamics of cyberspace and rapidly changing technologies (such as open-source software, cloud computing, virtual technologies, social networking, and mobile devices) provide for greater convenience and accessibility but render information and information systems more vulnerable. Cyber threats to U.S. national and economic security continue to grow in number and sophistication, increasing the risk that essential services could be degraded or interrupted or that sensitive information could be stolen or compromised.

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

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

Accordingly, cyber threats continue to be reported as one of Treasury's top management and performance challenges in the Inspector General's annual memorandum to the Secretary. Since cybersecurity is critical to Treasury's mission and operations, Treasury management must ensure an effective information security program to mitigate cybersecurity risks and ensure proper protections for Treasury's information and information systems.

## Planned Projects by OIG Issue Area

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### Mandates

The Federal Information Security Modernization Act of 2014 (FISMA) requires Federal agencies to have an annual independent evaluation of their information system security program and practices and to report the results of the evaluations to OMB. An independent certified public accounting firm, under a contract supervised by the Treasury OIG, performs the annual FISMA evaluations of Treasury's unclassified systems and collateral national security systems, except information systems operated by the IRS. TIGTA conducts the evaluation of the IRS information security program and practices. Currently, our staff conducts the FISMA audit of Treasury's intelligence systems.

On December 18, 2015, the President signed into law the Cybersecurity Act of 2015, Public Law (PL) 114-113. Under Division N, Title I, cited as the Cybersecurity Information Sharing Act (CISA), Section 107 directs the Inspectors General, in consultation with the Inspector General of the Intelligence Community and CIGFO, to submit a biennial joint interagency report to Congress on the actions of the executive branch of the Federal Government to implement cyber security information sharing. The second biennial report is due December 18, 2019.

### Cross-agency Priority Goals

The Government Performance and Results Modernization Act of 2010 requires the Federal Government to set two types of cross-agency priority goals:

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

As of the second quarter of FY 2018, cross-agency priority goals included the following as key cybersecurity priorities:

- **Authorization management** – no less than 100 percent of systems with an overall security rating of "High" or "Moderate" have a valid security authorization to operate
- **Mobile device management** - at least 95 percent of mobile devices can be remotely wiped of its contents if the device is lost or compromised

## Planned Projects by OIG Issue Area

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- **Automated access management** –at least 95 percent of users are monitored by an automated, dynamic access management solution that centrally tracks the users’ access and privilege level

### Continuous Monitoring

OMB Memorandum M-14-03, “Enhancing the Security of Federal Information and Information Systems,” required agencies to implement continuous monitoring of security controls. Specifically, agencies were required to develop and maintain an Information Security Continuous Monitoring strategy and implement an Information Security Continuous Monitoring program in accordance with the National Institute of Standards and Technology Special Publications. This strategy allows agencies to maintain ongoing awareness of information security, vulnerabilities, and threats to support organizational risk-management decisions. A Continuous Diagnostics and Mitigation program was developed by the Department of Homeland Security (DHS) to provides agencies with the capabilities and tools to identify cybersecurity risks on an ongoing basis, prioritize these risks based on potential impacts, and enable cybersecurity personnel to mitigate the most significant problems first. Treasury participates in this program.

### Critical Infrastructure Protection

The U.S. critical cyber infrastructure comprises Government and private-sector systems and assets that are vital to public confidence and the nation’s safety, prosperity, and well-being. These systems are increasingly vulnerable to cyberattacks that could cripple the nation’s infrastructure and economy—particularly the financial sector. In response to this threat, the EO 13636, “Improving Critical Infrastructure Cybersecurity,” and Presidential Policy Directive-21, “Critical Infrastructure Security and Resilience,” were issued to promote a cybersecurity partnership between the Federal Government and private companies that oversee U.S. critical infrastructure. The directive requires Treasury to collaborate with DHS and financial sector organizations to identify and protect critical cyber infrastructure. In April 2015, EO 13694, “Blocking the Property of Certain Persons Engaging in Significant Malicious Cyber-Enabled Activities,” gave Treasury the authority to impose sanctions on individuals or entities behind cyberattacks and cyber espionage. On March 27, 2018, this order was extended for one year.

## Planned Projects by OIG Issue Area

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

### In Progress and Planned FY 2019 Projects

#### **FISMA Audit—Unclassified Systems (Mandated) (In Progress)**

An independent certified public accounting firm, under a contract supervised by Treasury OIG, will assess the effectiveness of the Treasury's information system security program and practices for its unclassified systems, as well as compliance with FISMA requirements and related information security policies, procedures, standards, and guidelines. As part of its audit, the contractor will follow up on Treasury's progress in resolving previously reported FISMA weaknesses. During FY 2019, audit work for FY 2018 will be completed and work will begin for the FY 2019 audit.

#### **FISMA Audit—Collateral National Security Systems (Mandated) (In Progress)**

An independent certified public accounting firm, under a contract supervised by Treasury OIG, will assess the effectiveness of Treasury's information system security program and practices for its collateral national security systems and compliance with FISMA requirements and related information security policies, procedures, standards, and guidelines. As part of its audit, the contractor will follow up on Treasury's progress in resolving previously reported FISMA weaknesses. During FY 2019, audit work will be completed for FY 2018 and work will begin for the FY 2019 audit.

#### **FISMA Audit—Intelligence National Security Systems (Mandated)**

We plan to assess the effectiveness of Treasury's information system security program and practices for its intelligence national security systems and assess compliance with FISMA requirements and related information security policies, procedures, standards, and guidelines for FY 2019. In addition, we will follow up on Treasury's progress in resolving previously reported FISMA weaknesses cited in our prior-year report.

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### **Treasury's Compliance With Information Sharing Under Section 107 of CISA (Mandated)**

We plan to assess whether Treasury has taken appropriate actions for sharing of cyber threat indicators or defensive measures as required by Section 107 of CISA. The next biennial joint interagency report to Congress on the actions of the executive branch of the Federal Government to implement cyber security information sharing will be due in December 2019.

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

We plan to determine whether sufficient protections exist to prevent and detect unauthorized access to Treasury bureau networks and systems. To accomplish this objective, we plan to identify and exploit existing vulnerabilities in IT infrastructure to determine whether information and systems are (1) secure from unauthorized intrusion and misuse, (2) vulnerable to malicious security attacks, or (3) accessible through unauthorized or misconfigured paths (such as back doors into the network from the Internet or adjacent networks). This will include a coordinated network security test involving automated and manual vulnerability assessments and exploitation. We plan to complete our vulnerability assessment and penetration tests in-progress at TTB in FY 2019 and begin a vulnerability assessment and penetration test of another select bureau or office.

## Projects Under Consideration for Future Fiscal Years

### **Disaster Recovery Exercises**

We plan to determine whether Treasury's offices and bureaus provide adequate contingency planning controls and successfully perform disaster-recovery exercises to regain operations in the event of a disaster (such as terrorist attacks, severe weather events, and pandemics).

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

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

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

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

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

In 2013, we reported that OCC's security measures were not sufficient to prevent and detect unauthorized access into its network and systems by internal

## Planned Projects by OIG Issue Area

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threats or external threats that gained an internal foothold. Additionally, OCC's security measures were not adequate to protect PII from Internet-based threats. *Information Technology: OCC's Network and Systems Security Controls Were Deficient* (OIG-14-001, October 17, 2013).

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

### Continuous Monitoring

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

### Intrusion Detection and Incident Response

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

### Public Web Server Security

We plan to determine whether Treasury and bureaus ensure effective management practices and controls over public-facing web servers.

### Data Loss Prevention

We plan to determine whether controls over data loss prevention and data exfiltration are in place and operating effectively.

### Enterprise Patch Management

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

### Mobile Device Security

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

### Equipment Sanitization and Disposal

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

### Management of Cloud Computing Services

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

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### Top 20 Critical Security Controls

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

### Wireless Local Area Network Security

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

### Supply Chain Security

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

### Social Media

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

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

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

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

### Security Assessment of Treasury Foreign Intelligence Network

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

### Rogue Device Detection and Prevention

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

### Software License Management

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

### Open-source Software Risk Assessment and Mitigation

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

# Treasury Resource Management and Infrastructure Support

## Background

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

### Procurement

Large procurements are a major Treasury activity. Between October 1, 2017 and March 31, 2018, Treasury bureaus (except for IRS) issued \$3 billion in contract actions, which included \$1.8 billion issued by the Mint. With few exceptions, procurements follow the Federal Acquisition Regulation (FAR) and the Department of the Treasury Acquisition Regulation (DTAR).

Treasury's procurement activities are performed by the bureaus and Departmental Offices and by Treasury shared service providers via agreements with Fiscal Service's ARC or the IRS. The Office of Procurement Executive is responsible for the Department's acquisitions, including among other things, policy development and monitoring of bureau organizations.

In its Government-wide Reform Plan, OMB included recommendations that would significantly increase Treasury's scope of responsibilities. In response, Treasury proposed to merge specific functions performed by both BEP and the Mint to simplify particular tasks by migrating BEP's online numismatic sales and marketing presence to the Mint's recently modernized e-commerce infrastructure and services platform, and centrally coordinating non-IT procurements to create economies of scale and reduce expenses. OMB approved the merger plan which is contingent on congressional approval for funding. The Office of Procurement Executive is working with management of BEP and the Mint to develop an implementation plan for consolidation by December 2019.

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

### Government Charge Card Programs

The use of Government charge cards for micro purchases (generally goods and services under \$10,000) is extensive. Provisions of the Government Charge Card

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Abuse Prevention Act of 2012 (Charge Card Act) call for strong control over this activity to prevent abuse. The Charge Card Act requires all executive branch agencies to establish and maintain safeguards and internal control over purchase cards, travel cards, integrated cards, and centrally billed accounts (collectively referred to as charge cards) and convenience checks. The Charge Card Act also requires Inspectors General to conduct periodic risk assessments of agency charge card and/or convenience check programs to identify and analyze the risks of illegal, improper, or erroneous purchases and payments in order to determine the scope, frequency, and number of periodic audits of purchase card and/or convenience check transactions. OMB's M-13-21, *Implementation of the Government Charge Card Abuse Prevention Act of 2012*, requires Inspector General risk assessments to be completed on an annual basis.

### IT Investment Acquisition and Management

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

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

As of the end of FY 2017, Treasury bureaus other than IRS reported 22 major IT investments. Of these projects, the Treasury Chief Information Officer (CIO) reported the following three IT projects at Fiscal Service as having medium risk to accomplishing their goals:

- Electronic Federal Tax Payment System
- Post Payment Services

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- Wholesale Securities

Electronic Federal Tax Payment System and Post Payment Services were delayed and exceeded projected costs, while Wholesale Securities Services exceeded project costs. Although projects identified with medium overall risk in cost and scheduling require special attention from the highest level of agency management, they are not necessarily at risk for failure.

Under the Clinger-Cohen Act of 1996, agencies are required to submit business plans for IT investments to OMB. Costs and progress are rated against the agency's plan to identify IT projects at risk for excess costs or schedule delays. In 2009, OMB launched the IT Dashboard, which allowed OMB and the public to monitor IT investments across all agencies in the Federal Government. This site allows users to track the progress of IT projects over time. As a result of OMB's analysis of this information, in January 2010, the Federal CIO initiated the first OMB-led "TechStat" reviews with agency CIOs and members of their leadership team. The "TechStat" review is a face-to-face, evidence-based accountability review of an IT investment. It enables the Federal Government to intervene to turn around, halt, or terminate IT projects that are failing or are not producing results for the American people.

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

The Federal Information Technology Acquisition Reform Act (FITARA) requires the heads of Chief Financial Officers Act agencies to ensure that their CIOs have a significant role in IT decisions, including annual and multi-year planning,

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programming, budgeting, execution, reporting, management, governance, and oversight functions. FITARA, enacted in December 2014, is intended to improve how agencies acquire IT and enable Congress to monitor agencies' progress and hold them accountable for reducing duplication and achieving cost savings. FITARA includes specific requirements related to seven areas: the Federal data center consolidation initiative, enhanced transparency and improved risk management, agency CIO authority enhancements, portfolio review, expansion of training and use of IT acquisition cadres, government-wide software purchasing, and maximizing the benefit of the Federal strategic sourcing initiative. Effective implementation of FITARA is central to making progress in the government-wide area relating to the management of IT acquisitions and operations.

In addition, according to the 2018 President's Management Agenda, the Federal Government will adopt Technology Business Management (TBM) government-wide by FY 2022 in order to improve IT spending data accountability and transparency, empowering agency executive suite leadership from across the enterprise to drive mission value and improve customer experience through technology. This initiative will be led by OMB with General Services Administration's Office of Government-Wide Policy team and with Executive Councils. Agency specific implementation will require resources from across all executive agencies. In 2017, OMB guidance called on agencies to begin adopting elements of the TBM framework.

The goal of the initiative is to: (1) improve business, financial, and acquisition outcomes; (2) enable Federal executives to make data-driven decisions and analyze trade-offs between cost, quality, and value of IT investments; (3) reduce agency burden for reporting IT budget, spend, and performance data by automating the use of authoritative data sources; and (4) enable IT benchmarking across Federal Government agencies and with other public and private sector organizations. It identifies three strategies agencies will focus on in order to improve outcomes through federal IT spending transparency, including (1) increasing granularity in current IT budget and spend reporting through the Federal IT Dashboard; (2) develop government-wide implementation guidelines and enabling mechanisms; and (3) adopt and implement TBM across the Federal enterprise.

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### Treasury Franchise Fund Shared Services Programs

The Treasury Franchise Fund Shared Services Programs (SSP) provide common administrative services across the Department, achieving economies of scale and eliminating duplication of effort. These services are provided on a reimbursable basis to Treasury components at rates that recover SSP operating expenses. For FY 2019, the SSP budgeted \$225 million in program costs.

### Consumer Policy

The availability of reliable and affordable financial products and services is essential in assisting Americans in making sound financial decisions. Treasury's Office of Consumer Policy (OCP) is responsible for developing and coordinating Treasury's legislative and regulatory policies as they relate to retail financial services by banks and nonbank financial services companies. OCP focuses on the emerging trends in financial services such as the growing use of technology and data. As part of its duties, OCP administers the Financial Empowerment Innovation Fund. This fund supports the development, testing, and evaluation of new strategies to promote access to financial services and improve the financial capability of American families. OCP also hosts the Finance Data Directory, which provides brief descriptions of more than 50 government-held data sets relevant for consumers, entrepreneurs, developers, and investors. In addition, OCP provides leadership for the Federal Financial Literacy and Education Commission, and coordinated the President's Advisory Council on Financial Capability for Young Americans, which developed recommendations for the President on strategies to increase the decision-making skills of young Americans.

### Continuity of Operations Plan

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

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man-made disasters that impact Treasury personnel, facilities, and interests to ensure the performance of Treasury's primary missions at all times.

### Strategic Human Capital Management

Mission-critical skills gaps within the Federal workforce pose a high risk to the nation, and can impede the Federal government from cost-effectively serving the public and achieving results. Agencies can have skills gaps for different reasons such as having an insufficient number of people with the appropriate skills or abilities to accomplish mission-critical work; current budget and long-term fiscal pressures; the changing nature of Federal work, and a potential wave of employee retirements that could produce gaps in leadership and institutional knowledge. The Office of Personnel Management (OPM), agencies, and Congress have taken actions to improve efforts to address mission critical skills gaps. Specifically, OPM published revisions to its human capital regulations in December 2016 that require agencies to, among other things, implement human capital policies and programs that address and monitor government-wide and agency-specific skills gaps. This initiative has increased the likelihood that skills gaps with the greatest operational effect will be addressed in future efforts. At the same time, Congress has provided agencies with authorities and flexibilities to manage the Federal workforce and make the Federal government a more accountable employer.

### Managing Real Property

The Federal Government is the biggest owner of real property in the United States. Federal agencies continue to face long-standing challenges in several areas of real property management, including: (1) disposing of excess and underutilized property effectively, (2) relying too heavily on leasing, (3) collecting reliable real property data to support decision making, and (4) protecting Federal facilities. OMB issued the National Strategy for the Efficient Use of Real Property in March 2015, which directs Chief Financial Officers Act agencies to take actions to reduce the size of the Federal real property portfolio. In addition, in December 2016, two real property reform bills were enacted that could address the long-standing problem of Federal excess and underutilized property. The Federal Assets Sale and Transfer Act of 2016 may help address stakeholder influence by establishing an independent board to identify and recommend five high-value civilian Federal buildings for disposal. Additionally, The Federal Property Management Reform Act of 2016 codified the Federal Real Property

## Planned Projects by OIG Issue Area

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Council for the purpose of ensuring efficient and effective real property management while reducing costs to the Federal government.

### Non-appropriated Activities

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

### Potential Integrity Risks

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

## In Progress and Planned FY 2019 Projects

### Controls Over Charge Cards and Convenience Checks Risk Assessment (Mandated) (In Progress)

We plan to complete our FY 2018 risk assessment of Treasury’s charge card and convenience check programs to identify and analyze risks of illegal, improper, or erroneous purchases, travel charges, or payments. The results of our assessment will help us determine the scope, frequency, and number of periodic audits of transactions made with charge cards and convenience checks. We will reassess risk in FY 2019.

### Charge Cards and Convenience Checks Report to OMB (Mandated)

We plan to issue an annual report to the Director of OMB on the implementation of recommendations resulting from audits of Treasury’s and component entities’ charge cards and convenience checks.

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### **Purchase Card Violations Reports (Mandated)**

We plan to issue two joint reports with the Department on violations or other reported actions specific to employees' purchase card use. This includes reporting on illegal, improper, or erroneous purchases, as well as all adverse personnel action, punishment, or other action taken based on each violation.

### **Corrective Action Verification—BEP's Administration of the Burson-Marsteller Public Education and Awareness Contract Was Deficient (In Progress)**

We plan to determine whether BEP management's corrective actions were responsive to recommendations made in our audit report *BEP's Administration of the Burson-Marsteller Public Education and Awareness Contract Was Deficient* (OIG-13-046; August 13, 2013).

### **Treasury Office of Budget and Travel Overhead Process and Compliance With the Economy Act (In Progress)**

We are conducting an audit of Treasury's Office of Budget and Travel (OBT), transactions specific to reimbursable agreements with other Treasury bureaus and offices, as well as non-Treasury bureaus and entities, to (1) assess controls over OBT's accumulation, allocation, and charging of overhead, and (2) determine OBT's compliance with the Economy Act.

### **Treasury Executives Bonuses and Awards Practices (In Progress)**

We are conducting an audit to determine whether the Treasury Office of the Deputy Assistant Secretary for Human Resources and Chief Human Capital Officer complied with applicable laws, regulations, policies and procedures when administering bonuses and awards for Departmental Offices' executives.

### **Office of Financial Research Workforce Reshaping Efforts (In Progress)**

We are conducting an audit to determine whether Treasury's Office of Financial Research (OFR) complied with applicable laws, regulations, policies and procedures when implementing its workforce reshaping efforts.

### **Mint's Contracting Practices**

We plan to determine whether the Mint (1) manages contracts effectively, (2) adheres to its policies and procedures for competition and contract award, and (3) justifies and documents costs incurred under contracts and purchase orders.

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

In 2012, the Treasury Chief Information Officer identified scheduling problems with fully implementing Treasury's Enterprise Identity, Credential, and Access Management system. In FY 2016, Treasury spent \$21 million to implement Homeland Security Presidential Directive 12 and \$90.3 million in FY 2017. Implementation for most of Treasury is targeted for completion in FY 2018 with an additional estimated investment outlay of \$62.6 million. Exceeding this amount, according to IT Dashboard, Treasury has spent \$65.3 million in FY 2018 (as of August 2018).

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

### BEP's Contract Closeout Practices

We plan to determine whether BEP closed out contracts in accordance with Federal laws, regulations, and the bureau's policies and procedures.

### Treasury's Continuity of Operations Plan Activities

We plan to assess Treasury's activities to execute its continuity of operations plan in accordance with applicable laws, regulations, policies, and procedures.

### OCC's Controls Over Purchase Cards

We plan to assess the controls over OCC's charge card use and identify any illegal, improper, or erroneous purchases and payments.

### Corrective Action Verification—OBT's Potential Antideficiency Act Violations and Reimbursable Service Process

We plan to assess whether management took adequate corrective actions that meet the intent of our recommendations included in our prior audit report on OBT's potential Antideficiency Act violations and reimbursable service process, *Treasury's Office of Budget and Travel Potentially Violated the Antideficiency Act and Needs To Improve Its Reimbursable Agreement Process* (OIG-18-024, December 8, 2017).

### BEP's Controls Over Purchase Cards

We plan to assess the controls over BEP's charge card use and identify any illegal, improper, or erroneous purchases and payments.

### Treasury Franchise Fund Shared Services Programs

We plan to determine whether the Treasury Franchise Fund established adequate controls over its SSPs and assess whether the following is true:

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

We will coordinate our work as necessary with TIGTA.

### Treasury's Oversight of the Job Classification Program

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

### Controls Over Conferences and Travel Programs

We plan to determine whether Treasury bureaus have effective policies and procedures in place to ensure compliance with applicable laws, regulations, and executive orders on conferences and travel programs.

## Projects Under Consideration for Future Fiscal Years

### Transfer of BEP Non-IT Procurement Functions to the Mint

We plan to assess the transfer of certain BEP acquisition functions to the Mint in accordance with Treasury's and OMB's consolidation implementation transfer plan.

### Treasury's Hiring Practices

To ensure agencies have the talent they need to meet their vital missions, Federal agencies must have a hiring process that is simultaneously applicant friendly, sufficiently flexible to enable agencies to meet their needs, and consistent with statutory requirements, such as hiring on the basis of merit. An important component of that process is the hiring authority used to bring applicants onboard. A hiring authority is the law, executive order, or regulation that allows an agency to hire a person into the Federal civil service. Hiring

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authorities determine the rules (or a subset of rules within a broader set) that agencies must follow throughout the hiring process.<sup>3</sup>

We plan to assess whether Treasury’s hiring processes comply with applicable Federal hiring authority executive orders, laws, regulations, policies, and procedures.

### **Treasury’s Implementation of the Enterprise Risk Management Program**

OMB revised Circular No. A-123, *Management’s Responsibility for Enterprise Risk Management and Internal Control* (OMB Circular A-123), requires agencies to develop an Enterprise Risk Management (ERM) capability to integrate processes for strategic planning, review, and internal control. Agencies were required to begin ERM implementation in FY 2017 by developing an ERM governance structure and initiating work on an agency-wide risk profile. This requires close collaboration across all mission and mission-support functions.

We plan to determine whether Treasury has implemented an ERM framework in accordance with the expanded requirements of OMB Circular A-123.

### **Treasury Management of Real Properties**

We plan to assess Treasury’s activities to manage real properties in accordance with applicable laws, regulations, guidance, policies and procedures.

### **Strategic Human Capital Management**

We plan to determine whether the Office of the Deputy Assistant Secretary for Human Resources and Chief Human Capital Officer identified any existing critical skill gaps at Treasury and modified the plan for strategic human capital management plan accordingly.

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

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

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<sup>3</sup> GAO-16-521 FEDERAL HIRING—OPM Needs to Improve Management and Oversight of Hiring Authorities (Aug. 2016)

## Planned Projects by OIG Issue Area

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representation appropriation. The President's Budget for FY 2019 includes \$750,500 for Treasury's official reception and representation expenses.

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

### **Treasury's Records Management Practices**

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

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

### **IT Acquisitions and Management Activities**

We plan to assess whether Treasury's IT acquisitions and management activities are conducted in accordance with FITARA, and applicable regulations, policies, and procedures.

### **Office of Procurement Executive's Oversight of Treasury Bureau's Procurement Activities**

We plan to assess the Office of Procurement Executive's monitoring of Treasury bureaus' compliance with the FAR, DTAR, and applicable policies and procedures.

### **Management of National Seized Property Contract**

The Treasury Executive Office for Asset Forfeiture (TEOAF) administers TFF, the receipt account for the deposit of nontax forfeitures made by IRS, FinCEN, TTB, other law enforcement components of Treasury so designated by the Secretary, Immigration and Customs Enforcement, Customs and Border Protection, Secret Service, Coast Guard, and Federal Law Enforcement Training Center. TEOAF contracts with AECOM Technology Corporation for general property services in support of TFF.

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

### **Treasury's Sole Source Procurements**

We plan to assess whether Treasury bureaus' justifications for sole source contracts met requirements of the FAR.

### **BEP's Small Business Contracting**

We plan to assess BEP's activities for meeting its small business contracting goals related to prime contracts and sub-contracts.

### **OCC's Compliance With Treasury's Mandatory Sources**

We plan to assess whether OCC complied with the use of Treasury's mandatory sources in accordance with FAR and DTAR requirements.

### **BEP's Pre-Award Activities**

We plan to determine whether BEP complied with policies, procedures and other requirements during contract pre-award activities.

### **Mint's Small Business Contracting**

We plan to assess the Mint's compliance with its policies and procedures for competition and contract awarding to small businesses.

### **Contract Administration of the Precious A-Mark Metal, Inc. Contract**

We plan to assess the Mint's administration of the contract awarded to Precious A-Mark Metal, Inc.

### **Contract Administration of the Coins N' Things, Inc. Contract**

We plan to assess the Mint's administration of the contract awarded to Coins N' Things, Inc.

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

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

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### **Treasury's Fleet Purchase Card Program**

We plan to assess select Treasury non-IRS bureaus' and offices' compliance with policies and procedures over the use of fleet purchase cards.

### **TTB's Micro-Purchases**

We plan to assess the controls over TTB's charge card use and identify any illegal, improper, or erroneous purchases and payments.

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

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

### **Financial Literacy and Education Activities**

We plan to determine whether the Financial Literacy and Education Commission issues the required reports and identifies areas of overlap and duplication among financial literacy and education activities in accordance with the Fair and Accurate Credit Transactions Act of 2003.

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

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

### **Intragovernmental Transactions**

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

### **Use of Administrative Leave**

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

### **Mandated Reports**

We plan to determine whether Treasury has adequate monitoring controls in place to ensure the completion of presidentially and congressionally mandated reports. As part of this project, we will assess Treasury's progress in reducing,

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eliminating, or consolidating reports pursuant to the GPRA Modernization Act of 2010 and compliance with OMB Memorandum M-17-26, *Reducing Burden for Federal Agencies by Rescinding and Modifying OMB Memoranda*.

### External Executive Training Costs

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

### Treasury's Environmental and Sustainability Program

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

### Telework Program Oversight

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

### Physical Access Controls Over Treasury Facilities

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

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

We plan to assess Treasury's (1) execution of the 25-point Implementation Plan to Reform Federal Information Technology Management, and (2) efforts to support the Federal Government's adoption of the TBM framework.

### Controls Over the Review of Unliquidated Obligations

Unliquidated obligations are obligations of budgetary resources that have been designated for a specific purpose but not yet disbursed, such as an account payable for an item ordered or received but not yet paid for. As of September 30, 2017, Treasury's unpaid obligations totaled \$71 billion. Reviews of unliquidated obligations are necessary to properly report obligation balances, certify the validity of obligated balances, and make funds available for expenditures that otherwise would not be used.

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

### Employee Award and Bonus Policies

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

### Resolution of Accountable Officer Irregularities

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

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

### Cash Discounts

A cash discount is a reduction to the amount of an invoice that a seller offers a buyer in exchange for paying an invoice before its scheduled payment due date. Treasury can achieve significant savings by taking advantage of cash discounts across the high volume of bills it pays. The Treasury Financial Manual provides a methodology for determining whether a cash discount should be taken. This manual requires that agency payment systems incorporate procedures that regularly take advantage of cash discounts.

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

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### Work-Life Programs

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

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

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

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

### Review of Treasury's Tribal Policy

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

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

### Treasury's Enterprise Architecture Program

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

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### **Treasury Processing of Claims for Loss or Damage to Personal Property**

We plan to assess Treasury Departmental Offices' process for adjudicating Treasury employees' personal property claims in accordance with Treasury Directive 32-13, "Claims for Loss or Damage to Personal Property."

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

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

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

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

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

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

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

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

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### Process To Release Economic Indicators and Market Information

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

# Anti-Money Laundering/Terrorist Financing and Foreign Assets Control

## Background

Preventing terrorism, money laundering, and other criminal activity is a global effort. Treasury's role in this effort is to safeguard the United States financial system and protect it from illicit use. Within Treasury, this effort is led by the Office of Terrorism and Financial Intelligence (TFI). TFI works with other U.S. federal agencies, state and local governments, financial regulators, foreign governments, international bodies, private financial institutions, and other private entities around the world to strengthen financial systems against illicit actors, develop creative alternatives to military action, and bolster our diplomacy where possible. TFI is headed by an Under Secretary to whom the Office of Intelligence and Analysis (OIA), FinCEN, Office of Terrorist Financing and Financial Crimes, Office of Foreign Assets Control (OFAC), and TEOAF, all report.

OIA is responsible for the receipt, analysis, collation, and dissemination of foreign intelligence and foreign counterintelligence information related to Treasury operations. OIA also serves as liaison to the intelligence community (IC) and represents Treasury in various intelligence-related activities.

FinCEN's mission is to safeguard the financial system from illicit use and combat money laundering and promote national security through the collection, analysis, and dissemination of financial intelligence and strategic use of financial authorities. FinCEN carries out its mission by receiving and maintaining financial transactions data; analyzing and disseminating that data for law enforcement purposes; and building global cooperation with counterpart organizations in other countries and with international bodies. FinCEN has the authority to implement, administer, and enforce compliance with the BSA and the United and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act (USA PATRIOT Act).

The BSA requires financial institutions to file Currency Transaction Reports for currency transactions exceeding \$10,000 and Suspicious Activity Reports (SAR) for transactions that are suspicious in nature. Law enforcement agencies use the information from these reports as leads for potential fraud, money laundering, terrorist financing, and other types of illicit finance. Title III of the USA PATRIOT Act requires each financial institution to establish an anti-money laundering

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program, extends the SAR filing requirement to broker-dealers, requires financial institutions to establish procedures to verify the identities and addresses of customers seeking to open accounts, and requires FinCEN to maintain a highly secure network that allows financial institutions to file BSA reports electronically.

Office of Terrorist Financing and Financial Crimes is the policy development and outreach office for TFI and works with federal agencies to develop and promote the United States' position in both international and domestic forums related to money laundering and illicit financing.

OFAC administers laws that impose economic sanctions against hostile targets to further U.S. foreign policy and national security objectives. OFAC administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals. OFAC requires U.S. financial institutions to block and file reports on accounts, payments, or transfers in which an OFAC-designated country, entity, or individual has interest. OFAC acts under legislative authority and presidential wartime and national emergency powers to impose controls on transactions and block assets from use by parties designated in OFAC's Specially Designated Nationals and Blocked Persons list. The United States primarily uses economic sanctions to pressure foreign governments and regimes, including state sponsors of terrorism.

TEOAF administers TFF, a receipt account for deposit of non-tax forfeitures made pursuant to laws enforced or administered by participating agencies. Forfeited items are received as a result of administrative or judicial forfeiture. The sharing percentages are typically determined by an equitable sharing formula.

## In Progress and Planned FY 2019 Projects

### Terrorist Finance Tracking Program (In Progress)

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

### Operation Inherent Resolve (In Progress)

Since 2001, many countries have broadened their efforts to combat and disrupt terrorist activities. In 2014, the United States adopted a comprehensive strategy

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to combat Islamic State of Iraq and the Levant (ISIL) in nine major areas, including disrupting ISIL finances, protecting the homeland, and providing humanitarian aid. To provide oversight of the agencies involved in these lines of efforts, including military action under Operation Inherent Resolve (OIR), the Department of Defense Inspector General was designated as Lead Inspector General for the contingency operation, pursuant to section 8L of the Inspector General Act of 1978, as amended. The Inspectors General for Department of Defense, the Department of State, and the U.S. Agency for International Development work as close oversight partners and provide support for quarterly reports to Congress on U.S. programs and operations. In 2015, the Department of Defense Inspector General requested our office's support in reporting Treasury efforts to disrupt ISIL financing. In 2017, Presidential Memorandum, *Plan to Defeat the Islamic State of Iraq and Syria (ISIS)*, directed the Secretary of Defense, in collaboration with other senior officials, to develop a strategy for eliminating ISIS. In support of the Lead Inspector General's effort, we conduct ongoing work and provide appropriate oversight of Treasury's involvement in OIR. In regards to OIR, we use ISIL and ISIS interchangeably.

### **OFAC's Implementation of Changes to the Iran Sanction Program (In Progress)**

The Iran sanctions program is OFAC's most complex program, with authorities derived from many overlapping laws and executive orders. Based on its legal authorities, OFAC primarily administers its Iran sanctions program by (1) listing and delisting individual and entities; (2) issuing regulations to implement relevant statutes and executive orders; (3) issuing, amending, and revoking general licenses; (4) approving or denying specific license applications; (5) conducting investigations of apparent sanctions violations and taking civil enforcement actions; and (6) maintaining a compliance and outreach program.

We plan to determine whether (1) OFAC's Iran Sanctions program complied with applicable laws and regulations; and (2) OFAC officials properly documented and approved sanction decisions and deliberations.

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

Section 311 of the USA PATRIOT Act grants the Secretary of the Treasury the authority to require domestic financial institutions to take certain special measures with respect to foreign jurisdictions, foreign financial institutions, classes of transactions, or types of accounts identified as primary money laundering concerns. The Secretary has delegated to FinCEN the authority to propose and implement the special measures under Section 311. These include

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recordkeeping and reporting on certain financial transactions, collecting information relating to certain accounts, and enforcing prohibitions or conditions on opening or maintaining certain accounts. FinCEN proposes such measures through Notices of Proposed Rule Making. After receiving and reviewing comments in response to these notices and considering any other available information, FinCEN may promulgate final rules, withdraw the findings and proposed rules, or keep matters open for further review.

We plan to assess the mechanisms FinCEN has in place to impose and rescind special measures for foreign jurisdictions, financial institutions, or transactions of primary money laundering concern. These special measures include recordkeeping and reporting on certain financial transactions and enforcing prohibitions or conditions on opening or maintaining certain accounts.

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

The Intelligence Authorization Act for Fiscal Year 2004 established OIA and assigned it responsibilities for receiving, analyzing, collating, and disseminating foreign intelligence and foreign counterintelligence information related to Treasury operations.

We plan to assess OIA's progress toward meeting its statutory responsibilities and ensure that Treasury's intelligence needs are met.

### **TEOAF Management Controls Over the Security of Forfeited Property (In Progress)**

TEOAF is responsible for safeguarding all forfeited property kept in custody at warehouse locations. Most property other than real property is stored at four regional warehouses. AECOM Technology Corporation, a TEOAF contractor, manages these warehouses. As of 2017, TEOAF managed 344 parcels of real property and stored 61,706 items of general property, 278 vessels, 20 aircraft, and 2,244 vehicles. There were two incidents of theft reported in two regional warehouses.

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

### **TFI's Ukraine-/Russia-related Sanctions Program (In Progress)**

TFI's Ukraine-/Russia-related sanctions program began in 2014, when the President, in EO 13660, declared a national emergency to deal with the threat

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posed by the actions and policies of certain persons who had undermined democratic processes and institutions in Ukraine; threatened the peace, security, stability, sovereignty, and territorial integrity of Ukraine; and contributed to the misappropriation of Ukraine's assets.

We plan to determine whether TFI's Ukraine/Russia-related sanctions program (1) complies with applicable laws and regulations, including but not limited to the Countering America's Adversaries Through Sanctions Act (CAATSA) and (2) decisions and deliberations were properly documented and approved by TFI officials.

### **TFI's Compliance with CAATSA Section 241 (In Progress)**

CAATSA unites several existing bills that directed the President to impose sanctions related to Iran, the Russian Federation, North Korea, and other cyber and terrorism-related programs. More specifically, section 241 of CAATSA required the Secretary of Treasury to submit a detailed report to Congress within 180 days of CAATSA passage.

We plan to determine whether TFI complied with section 241 of CAATSA, Report on Oligarchs and Parastatal Entities of the Russian Federation.

### **FinCEN's Management of the BSA Database (In Progress)**

FinCEN administers the BSA, which established the framework to combat criminal use of the financial system. BSA requires financial institutions to report certain financial transactions made by their customers. FinCEN oversees the management, processing, storage, and dissemination of BSA data. Over 97,000 U.S. financial institutions file over 18 million BSA reports each year, providing a wealth of potentially useful information to agencies whose mission is to detect and prevent money laundering, other financial crimes and terrorism.

Approximately 12,000 individuals from over 400 agencies have access to the BSA system.

We plan to determine if FinCEN manages BSA data access, use, and retention in compliance with laws, regulations, and Treasury policies and procedures.

### **TFI's Actions to Disrupt ISIS' Finances**

In January 2017, Presidential Memorandum - *President's Plan to Defeat the ISIS*, included (1) a comprehensive strategy and plans for the defeat of ISIS; (2) recommend changes to the U.S. rules of engagement and other U.S. policy restrictions that exceed the requirements of international law regarding the use

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of force against ISIS; (3) public diplomacy, information operations, and cyber strategies to isolate and delegitimize ISIS; (4) identification of new coalition partners in the fight against ISIS and policies to empower coalition partners to fight ISIS and its affiliates; (5) mechanisms to cut off or seize ISIS' financial support; and (6) a detailed strategy to fund the Plan. Treasury, with TFI as the lead, is responsible for disrupting ISIS' financing.

We plan to determine whether TFI's actions are meeting Treasury's responsibilities to disrupt ISIS financing.

### **TFI's North Korean Program**

The North Korea sanctions program began in 2008, with the issuance of EO 13466 "Continuing Certain Restrictions With Respect to North Korea and North Korean Nationals." In the order, the President declared a national emergency to deal with the threat to U.S. national security and foreign policy posed by the existence and risk of proliferation of weapons-usable missile material on the Korean Peninsula. In September 2017, the President issued EO 13810 "Imposing Additional Sanctions With Respect to North Korea" increasing sanctions in response to provocative and destabilizing activities of the North Korean government related to its ballistic missile testing by blocking assets and cutting off access to the U.S. financial system of any company or person doing business with North Korea. This order expands the sanctions program to target a range of North Korean industries, prevent any aircraft or vessel that left North Korea from entering the U.S. within 180 days of departure, and block immigration of North Korean citizens. The President has called for "maximum pressure" against the North Korean regime to try to halt its illicit missile and nuclear activity, through sanctions and other diplomatic means. In the omnibus budget for FY 2018, TFI received a budget increase from \$123 million to \$141.1 million, citing the need for growth for sanctions enforcement as its mandate grew.

We plan to determine if TFI (1) has developed a plan of action to respond to the threat to U.S. national security posed by North Korea; (2) coordinates throughout its components to effectively manage its North Korean program; and (3) has developed procedures and performance metrics to measure the expected and actual impact of responsive actions.

### **TEOAF's Management of the Treasury Forfeiture Fund**

TFF, administered by TEOAF, is the receipt account for deposit of non-tax forfeitures made pursuant to laws enforced or administered by participating

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Treasury and Department of Homeland Security agencies. The Fund was established in 1992 as the successor to what was then the Customs Forfeiture Fund. The TFF is a special fund, with federal fund collections earmarked by law for a specific purpose defined by legislation. The funds are allocated to the participating Treasury and Homeland Security agencies and to other federal, state, and local law enforcement entities that do not have forfeiture authority.

In FY 2017, TEOAF collected over \$500 million into the fund. We plan to determine whether TEOAF has appropriate controls in place to manage TFF, including (1) awarding and distributing the funds and (2) ensuring that distributions are used for their intended purposes.

### OFAC Civil Penalty Cases

In administering and enforcing U.S. economic sanctions programs, OFAC focuses on identifying persons for designation and assisting parties in complying with the sanctions prohibitions through its compliance and licensing efforts. OFAC also assesses civil monetary penalties against persons violating the prohibitions; works with other U.S. agencies, including law enforcement, on sanctions-related issues needing coordination; and coordinates with other nations to implement similar strategies. If OFAC determines that a subject person has not complied with a sanctions program, it can issue civil penalties based on the dollar value of a transaction in violation of a sanction. In 2017, OFAC issued 16 penalties or settlements totaling approximately \$120 million.

We plan to determine if OFAC (1) acts timely on civil penalty and criminal cases and (2) complies with applicable Federal regulations and OFAC policies and procedures in managing civil penalty and criminal cases.

## Projects Under Consideration for Future Fiscal Years

### Classified Program

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

### FinCEN BSA IT Modernization Program

Pursuant to a congressional directive, we conducted six audits to determine whether FinCEN was (1) meeting cost, schedule, and performance benchmarks for the BSA IT Modernization program, and (2) providing appropriate contractor oversight. We reported on these objectives until the system development was completed in April 2014.

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

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

### OFAC's Compliance Outreach

OFAC's Sanctions Compliance and Enforcement Division engages in three primary outreach functions:

1. Acting as OFAC's primary conduit for providing guidance to the public and private sectors regarding their U.S. sanctions compliance obligations using its hotline and public-facing email account;
2. Interacting routinely with federal and state regulators and law enforcement agencies; and
3. Educating public and private sector stakeholders regarding U.S. sanctions programs and requirements through outreach efforts that include speeches, multimedia presentations, symposia, webinars, teleconferences, and round-table discussions.

We plan to determine if OFAC's Sanctions Compliance and Enforcement Division carries out its outreach responsibilities in accordance with applicable requirements; and whether its outreach activities effectively promote compliance with U.S. sanctions.

### Treasury's Enhanced Personnel Security Program (Mandated)

In response to a number of security breaches at the National Security Agency, Department of Defense, and Office of Personnel Management, Congress included a provision in the *Consolidated Appropriations Act of 2016*<sup>4</sup> that requires the expanded reinvestigations of security clearance holders by agencies' enhanced

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<sup>4</sup> 5 U.S.C. Section 11001 (December 18, 2015)

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personnel security program. The legislation requires that the Director of National Intelligence (DNI) direct each agency to implement a program to provide enhanced security review of covered individuals<sup>5</sup> not later than the earlier of (i.e. what comes first):

1. The date that is 5 years after the date of the enactment of the *Intelligence Authorization Act for Fiscal Year 2016*; or
2. The date on which the backlog of overdue periodic reinvestigations of covered individuals is eliminated, as determined by the DNI.

We plan to assess the effectiveness and fairness of Treasury’s enhanced personnel security program for covered individuals and whether the program complies with performance measures and standards established by the DNI.

### OIA Strategic Human Capital

EO 12333, “United States Intelligence Activities,” establishes the role of OIA in the IC. OIA serves as liaison to the IC and as a Treasury representative in various intelligence-related activities, with responsibility for developing internal implementing policies, standards, procedures, or processes in accordance with IC policies.

As a Treasury Departmental Office and an IC component, OIA must abide by the HR policies and procedures of both entities. Additionally, IC employees are deemed “excepted service” under Title 50. OPM provides excepted-service hiring authorities to fill special jobs or to fill any job in unusual or special circumstances. These authorities can streamline hiring and enable agencies to hire when it is not feasible to use traditional competitive hiring procedure.

We plan to determine whether OIA (1) conduct its HR activities, with respect to hiring, in accordance with Federal and Treasury requirements and OIA policies and procedures and (2) effectively manages human capital to meet its mission.

### Proper Marking of Classified Documents

Protecting information critical to our Nation’s security and demonstrating our commitment to open government through accurate and accountable application of classification standards and routine, secure, and effective declassification are equally important priorities. Mismarked derivative classification decisions

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<sup>5</sup> A covered individual is an agency employee or an agency contractor who has been determined eligible for access to classified information or eligible to hold a sensitive position.

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subjects Treasury to increased risks that classified information will not be adequately protected and that information may not be disseminated to partnering agencies.

We plan to determine whether TFI components complied with federal and departmental policies for marking classified decisions.

### TFI Travel Spending

Prior Treasury OIG audits revealed that Treasury bureaus and offices needed to strengthen internal controls related to travel expenses. EO 13589, issued in 2011, in response to excessive conference spending by General Services Administration, called on all agencies to designate a senior official responsible for policies that promote efficient travel spending. EO 13589 also called on agencies to cut travel spending by 30 percent.

We plan to determine whether TFI components have adequate internal controls in place to ensure official travel is authorized and paid in accordance with applicable laws, regulations, and policy.

### OIA's Coordination with the Intelligence Community

The Intelligence Authorization Act of 2004 created OIA, which is a component of TFI. EO 12333 requires OIA to, among other responsibilities, build a robust analytical capability on terrorist finance by coordinating with the IC and representing Treasury in various intelligence and counterintelligence activities.

We plan to assess whether OIA is effectively coordinating intelligence and counterintelligence activities with IC components in accordance with the Intelligence Authorization Act of 2004 and EO 12333.

### Survey on TFI's Oversight of Virtual Currencies

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

In March 2013, FinCEN issued *Application of FinCEN's Regulations to Persons Administering, Exchanging, or Using Virtual Currencies*. This interpretive guidance clarifies the applicability of implementing the BSA regulations to

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persons creating, obtaining, distributing, exchanging, accepting, or transmitting virtual currencies.

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

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

In January 2016, FinCEN issued Geographic Targeting Orders (GTO) temporarily requiring title insurance companies to report the natural identity of persons behind shell companies used to make all-cash purchases of high-value residential real estate in two major metropolitan areas. Since the initial GTOs in January 2016, FinCen has extended its real estate GTOs every six months, which now covers eight major areas. FinCEN revised the GTOs to capture a broader range of transactions, including wire transfers. The GTO will enhance the availability of information to mitigate this potential vulnerability to money laundering. The information is shared with law enforcement to enhance its ability to identify the natural persons involved in transactions vulnerable to abuse for money laundering. FinCEN also published an Advisory to provide financial institutions and the real estate industry with information on the money laundering risks associated with real estate transactions, including those involving luxury property purchased through shell companies, particularly when conducted without traditional financing.

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

### **FinCEN's Guidance on Customer Due Diligence**

In May 2016, FinCEN issued the *Customer Due Diligence (CDD) Requirements for Financial Institutions Final Rule*. The final rule amends the existing BSA regulations by: (1) clarifying and strengthening the obligations of financial institutions and entities and (2) requiring financial institutions to examine the nominal account holder to identify the account's beneficial owners who own or control (directly or indirectly) certain legal entity customers. Prior to the Panama Papers leaks, the BSA did not require knowing the person behind the shell company. The final rule established an additional anti-money laundering program requirement, which mandates certain institutions to implement risk-based procedures for conducting CDD. The CDD final rule contains four key elements of CDD, including three that should be explicit in the AML requirements for covered financial institutions. The four key elements of CDD are as follows:

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1. Identifying and verifying the customer
2. Identifying and verifying the identity of beneficial owners of legal entity customers (any individual who owns 25 percent or more of the legal entity)
3. Understanding the nature and purpose of customer relationships to develop a customer risk profile
4. Conducting ongoing monitoring for suspicious activity reporting and maintaining and updating customer information

Covered financial institutions were required to comply with the requirements of the CDD rule by May 2018.

We plan to determine whether FinCEN provides effective CDD guidance and compliance standards to financial institutions; and adequately enforces the CDD Final Rule.

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

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

We plan to determine how FinCEN protects information shared with foreign FIUs from unauthorized disclosure.

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

Since 1960, the United States has maintained an embargo restricting trade, travel, and financial transactions with Cuba. This embargo comprises the most comprehensive set of economic and trade sanctions implemented on any country. The United States holds billions of dollars in financial claims against the Cuban government. In November 2017, the President announced additional sanctions and travel restrictions on Cuba, re-tightening some of the sanctions on Cuba loosened by the previous administration.

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

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

Federal regulations are created through a process known as “rulemaking.” In issuing a final rule, an agency must describe and respond to public comments received during the rulemaking process. To implement and realize its mission, FinCEN has established regulatory objectives and priorities to safeguard the financial system from the abuses of financial crime, including terrorist financing, money laundering, and other illicit activity. FinCEN’s regulatory objectives and priorities include issuing, interpreting, and enforcing compliance with regulations implementing the BSA.

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

### **Survey of Treasury’s Efforts and Guidance on Bank De-risking and Its Impact to BSA/Anti-Money Laundering**

To ensure anti-money laundering or combating the financing of terrorism measures do not unduly limit financial access, the BSA and international standards urge financial institutions to adopt a risk-based approach including appropriately designed risk-based analyses to determine the risk of dealing with certain clients. De-risking occurs when a financial institution seeks to avoid perceived regulatory risk by terminating, restricting, or denying services to broad classes of clients, without a case-by-case analysis of risk or consideration of mitigation options, limiting financial inclusion of certain industries and populations.

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

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

In accordance with 31 USC 5316(a), a person who physically transports, mails, or ships, currency or other monetary instruments in an aggregate amount exceeding \$10,000 at one time to or from the United States is required to file a

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Currency or Monetary Instruments report with the Department of Homeland Security's Customs and Border Protection (CBP). These reports are useful for identifying money-laundering schemes.

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

### **FinCEN's Administration of the Global Rapid Response Team**

FinCEN created a Global Rapid Response Team to serve as a liaison between domestic law enforcement and foreign FIUs.

We plan to determine if FinCEN requests information from FIUs' timely, in order to effectively respond to information requests to help stop fraudulent wire transfers before the transaction is finalized.

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

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

We plan to determine how FinCEN and OCC coordinate to ensure financial institutions comply with BSA requirements for marijuana-related businesses.

### **OFAC's Record Management and Information Disclosure Practices**

As part of its efforts to administer and enforce economic and trade sanctions, OFAC collects personally identifiable information and stores the information in various systems of record, including the OFAC Administrative System for Investigations and Sanctions, various spreadsheets in OFAC's shared drives, and hard copy (paper) records of administrative case files.

We plan to determine whether OFAC (1) stores records in accordance with record retention and efficient spending requirements; and (2) properly safeguards sensitive information.

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

Casinos with annual gaming revenue of more than \$1 million are subject to BSA reporting and recordkeeping requirements. The definition of a casino has

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changed over the years to include state-licensed casinos, tribal casinos, and card clubs. Under the BSA, casinos are required to implement and maintain an anti-money laundering program, file Currency Transaction Reports and SARs, and maintain records.

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

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

An insurance company is defined as a "financial institution" under the BSA. FinCEN rules impose anti-money laundering compliance program requirements on insurance companies similar to those that apply to banks; and OFAC prohibits companies and individuals from issuing insurance policies, reinsurance contracts, and paying claims involving nations, companies and organizations, individuals or vessel subject to sanctions programs.

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

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

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

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

# Government-wide Financial Services and Debt Management

## Background

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

The goal of Treasury debt management is to achieve the lowest borrowing costs over time by committing to regular and predictable debt issuance. The Federal debt has two major components: Debt Held by the Public and Intra-governmental Holdings. Debt Held by the Public is the debt held by individuals, corporations, state or local governments, foreign governments, and other entities outside the U.S. Government. Securities held by the public include Treasury Bills, Treasury Notes, Treasury Bonds, Treasury Inflation-Protected Securities, U.S. Savings Bonds, State and Local Government Series Securities, Foreign Series Securities, and Domestic Series Securities. Intra-governmental Holdings are primarily Government Account Series Securities held by Federal Government trust funds, revolving funds, and special funds. As of September 29, 2018, the total Federal debt outstanding was \$20.2 trillion, of which \$14.7 trillion was Debt Held by the Public and \$5.5 trillion as Intra-governmental Holdings. The interest expense on the Federal debt for FYs 2017 and 2018 were \$458.5 billion and \$523.0 billion, respectively. Fiscal Service's debt management operations depend on modernized electronic and information system technology. Implemented in 2002, the TreasuryDirect system maintained 611,000 funded accounts and held \$31.8 billion during FY 2017.

Another of Fiscal Service's primary goals is to execute reliable and accurate Federal payments to support the U.S. economy. As of September 30, 2017, these payments exceed \$3.4 trillion annually. Fiscal Service issues 1.2 billion payments each year by paper check, electronic funds transfer, and Fedwire, while expediting the efforts to make payments electronically. In FY 2017, approximately 95.1 percent of payments were made electronically. Fiscal Service also collects more than \$4 trillion per year from individual and corporate income

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taxes, social security and other payroll taxes, excise taxes, and duties. Approximately 98 percent of this amount was collected electronically.

Prompt referral of eligible, delinquent debt to Treasury by Federal program agencies is critical to the success of collection efforts. In FY 2017, delinquent non-tax debt owed to the Federal Government totaled \$185 billion.

### Digital Accountability and Transparency Act of 2014

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

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

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

- establishing, by May 2015, Government-wide financial data standards for any Federal funds made available to or expended by Federal agencies and entities receiving Federal funds
- ensuring this financial data is accurately posted and displayed on USASpending.gov or a successor system by May 2017
- ensuring the data standards established are applied to the data made available on the website by May 2018

Inspectors general must accomplish the following:

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- review a statistically valid sample of the spending data submitted under this act by their respective agencies
- submit to Congress, and make publicly available reports due by November 2016, with others following at 2 year intervals, assessing the implementation and use of data standards by their agencies, as well as the completeness, timeliness, quality, and accuracy of the data sampled<sup>6</sup>

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

Treasury OIG, in collaboration with the Federal Audit Executive Council DATA Act Working Group developed the *Inspectors General Guide to Compliance Under the DATA Act*, a common methodology guide that inspectors general used to develop agency-specific audit plans for assessing their agency's progress in compliance with the DATA Act. The guide was published on February 27, 2017; a revised copy was released in July 2017. The scheduled release for the second iteration of the guide is the fall of 2018. We will continue to work within the inspectors general community to develop a comprehensive audit methodology that allows agency inspectors general to comply with their responsibilities under the act while maximizing the use of resources.

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<sup>6</sup> The Council of the Inspectors General on Integrity and Efficiency (CIGIE) identified a timing anomaly with the oversight requirements contained in the DATA Act. Although the first inspector general reports were due to Congress in November 2016, Federal agencies had until May 2017 to report spending data. Thus, the inspectors general provided Congress with their first required reports in November 2017, a one-year delay from the statutory due date, with subsequent reports to follow every 2 years thereafter. CIGIE determined the best course of action was to delay the IG reports, and encouraged IGs to undertake DATA Act "Readiness Reviews" at their respective agencies well in advance of the first November 2017 report. The CIGIE chair issued a letter on December 22, 2015, communicating the strategy for dealing with the delay and also informed the Senate Committee on Homeland Security and Government Affairs and House Committee on Oversight and Government Reform.

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### “Do Not Pay” Initiative

To reduce payment errors and eliminate fraud, waste, and abuse, the President directed in EO 13520, “Reducing Improper Payments and Eliminating Waste in Federal Programs” (November 2009), that Federal agencies identify ways that information sharing may improve payment eligibility verification and pre-payment scrutiny. The Presidential Memorandum – Enhancing Payment Accuracy Through a “Do Not Pay List” (June 2010) directed the establishment of a “single point of entry” through which agencies would access relevant data to determine eligibility for a Federal award or payment. Congress enacted IPERA, and IPERIA, to intensify the efforts to identify, prevent, and recover payment error, waste, fraud, and abuse within Federal spending. In April 2011, Treasury established the Do Not Pay Business Center to support Federal agencies to reduce improper payments. In a 2012 memorandum, OMB described the efforts of OMB and Treasury to establish the Do Not Pay Initiative and directed Federal agencies to develop a plan for using the Do Not Pay system for pre-payment eligibility reviews.

The Do Not Pay Initiative includes multiple resources designed to help agencies confirm that the right recipient obtains the right payment for the right reason at the right time. IPERIA provides the Federal Government with new tools and authorities to help agencies effectively implement the Do Not Pay initiative, including standards and procedures for computer-matching programs.

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

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

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Four types of searches allow agencies to customize use of the Do Not Pay Portal to align with their business needs: online, batch processing, continuous monitoring, and payment integration match results.

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

### Economic Policy Programs

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

### Federal Financing

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.

### Potential Integrity Risks

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

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

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correlations between the data that could identify ongoing fraud and abuse directed against or occurring within Fiscal Service.

### In Progress and Planned FY 2019 Projects

#### Delinquent Debt Referrals (In Progress)

The Debt Collection Improvement Act of 1996 (DCIA) requires Federal agencies to refer their eligible, nontax debt over 180 days delinquent to Treasury for the purpose of administrative offset and other debt collection services. The DATA Act amended the DCIA to require Federal agencies to refer eligible, non-tax debt at 120 days delinquent or more to Treasury for administrative offset.

We plan to (1) assess the extent to which Federal agencies refer delinquent non-tax debt to Fiscal Service in compliance with DCIA requirements, (2) determine the controls Fiscal Service has in place to facilitate timely referral of Federal agencies' non-tax debt, and (3) assess the impact of any referral delays on the collectability of the debt.

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

Congress established 11 permanent, indefinite appropriation funds for management by Treasury. Fiscal Service is responsible for overseeing and managing the submission, authorization, disbursement, recording, and reporting of each fund.

We plan to assess whether selected Treasury permanent, indefinite appropriations are used in accordance with the underlying legislation.

#### DATA Act Government-wide Phase IV, Treasury's DATA Act Information Model Schema, DATA Act Broker, and Beta.USASpending.gov (In Progress)

We plan to assess the effectiveness of internal controls the Treasury Project Management Office has designed, implemented, and placed into operation to help ensure the security, availability, processing integrity, and presentation of the data submitted by Federal agencies to Treasury's Broker (and made available to the public on Beta.USASpending.gov) is accurate and complete.

#### Card Acquiring Service Program and Management of Interchange Fees (In Progress)

Federal agencies use the Card Acquiring Service program to collect debts by major credit cards, including Visa, MasterCard, Discover, and American Express, and most debit cards. Most Federal agencies that accept credit or debit cards for

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payment must use this program, except for groups with the authority to process credit and debit cards on their own.

In FY 2017, Fiscal Service collected approximately \$12.2 billion in revenue through credit and debit cards and paid interchange fees of approximately \$171.2 million. Interchange fees are payments that card-acquiring banks make to banks that issued the cards.

We plan to determine whether the internal controls Fiscal Service has in place over the Card Acquiring Service program and the management of interchange fees from credit and debit card revenue collection are operating effectively.

### **Treasury Offset Program–Call Center Support (In Progress)**

The Treasury Offset Program (TOP) is a centralized offset program, administered by Fiscal Service's Debt Management Services, to collect delinquent debts owed to federal agencies and states.

We plan to determine the (1) experience and training levels of Fiscal Service staff assigned as technicians to the TOP call center, (2) extent of problems caused by multiple debt records with the same Taxpayer Identification Numbers, but different name values in the TOP call center Interactive Voice Response application, (3) accuracy of response information provided to callers contacting call center technicians, and (4) effectiveness of call center escalation protocols in assisting callers to resolve problems and avoid referral to creditor agencies.

### **Corrective Action Verification–Direct Express Debit Card Program (In Progress)**

We plan to determine whether corrective actions taken in response to the recommendations related to the Direct Express Debit Card program made in our prior audit reports are in place and operating effectively. The previous reports are Fiscal Service Needs to Improve I Program Management of Direct Express (OIG-14-031; issued March 26, 2014), and Direct Express Bid Evaluation Documentation Requires Improvement (OIG-17-034; January 24, 2017).

### **Treasury's DATA Act Submission–DATA Act Required Review Phase II (In Progress)**

As required by the DATA Act we plan to assess the (1) completeness, timeliness, quality, and accuracy of financial and payment information submitted for publication on USASpending.gov and (2) Treasury's implementation and use of the data standards established by OMB and Treasury.

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### Survey of Fiscal Service's Systems

We plan to gain an understanding of the IT systems that Fiscal Service owns and manages, including how these systems interact with each other, and the internal and external parties that have access to these systems.

### Corrective Action Verification—Review of Treatment of Legacy FMS Employees

We plan to verify Fiscal Service's corrective actions taken in response to the recommendations made in our July 2016 report, *Treatment of Legacy FMS Employees*, (OIG-16-049, July 21, 2016). As a part of the verification, we plan to determine the realized costs and savings associated with the consolidation of the Financial Management Service (FMS) and Bureau of the Public Debt in October 2012.

### Corrective Action Verification—Do Not Pay Program Implementation

The Do Not Pay Business Center was established to help Federal agencies seamlessly comply with the Improper Payments Elimination and Recovery Improvement Act of 2012 by supporting their efforts to prevent and detect improper payments.

The center's mission is to protect the integrity of the Federal Government's payment processes by helping Federal agencies cost-effectively mitigate and eliminate improper payments while safeguarding the privacy of individuals.

We plan to verify Fiscal Service's corrective actions taken in response to recommendations related to the Do Not Pay Business Center we made in two reports issued in FY 2015 and FY 2016. The previous reports are *Fiscal Service Successfully Established the Do Not Pay Business Center But Challenges Remain* (OIG-15-006; issued November 6, 2014), and *Fiscal Service Faces Challenges in Obtaining Better Death Information For the Do Not Pay Business Center, But Alternatives Exist* (OIG-16-042; May 18, 2016).

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

In FY 2016, Fiscal Service collected 98 percent of U.S. Government receipts electronically. In 2012, Fiscal Service completed its Collections and Cash Management Modernization (CCMM) program to transform the Government revenue collection infrastructure. CCMM processes more than 400 million transactions and collects over \$3.1 trillion a year. We plan to gain an understanding of the CCMM's internal controls over its revenue collection and cash-management process.

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### Review of Government Agency Investment Services Program

As of March 31, 2018, Fiscal Service managed approximately \$5.9 trillion in securities for Federal agencies that have the legislative authority to invest, including Federal trust funds and tribal funds held on behalf of Treasury. Fiscal Service also offers flexible investment alternatives for State and local governments and administers loans to Federal agencies with the legislative authority to borrow.

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

### Unmatchable Payments Processed by Fiscal Service

We plan to determine the volume of payments made by Fiscal Service that are missing key data elements needed to determine whether payments are proper or payees owe debts to Federal or State governments. In addition, we will determine (1) whether payments with missing key data are exempt from having this information by Fiscal Service Policy, (2) whether Taxpayer Identification Number suppression allowed by Fiscal Service is misused by agencies, and (3) whether Taxpayer Identification Number suppression impacts data used by the Fiscal Service Do Not Pay and Treasury Offset Programs.

### Consolidated Post Payment Systems

Fiscal Service has invested in the consolidation of post payment processing into a single, centralized Post Payment System (PPS). The PPS is intended to reduce duplication of functionality, eliminate redundancy of data across systems, and provide a single source for aftermath payment processing for Federal program agencies. We plan to assess the controls over the PPS to ensure prompt and accurate processing of payment claims, inquiries, and returns.

## Projects Under Consideration for Future Fiscal Years

### Treasury Checks and the Check Forgery Insurance Fund

Although most Federal Government payments are made electronically, Fiscal Service disburses some payments by paper check. The Check Forgery Insurance Fund is a revolving account administered by Fiscal Service to settle claims of non-receipt of Treasury checks. The fund's purpose is to ensure that intended payees whose checks were fraudulently negotiated receive timely settlement. The Check Forgery Insurance Fund totaled nearly \$6.2 million at the end of

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FY 2018. During FY 2018, the fund received approximately 10,900 claims for lost, stolen, or forged checks. FY 2018 loss filed against the fund totaled \$5.4 million, of which approximately \$5.1 million was recovered.

We plan to determine whether Fiscal Service has robust controls in place to ensure (1) restitution of funds to intended payees is made timely, (2) funds are recovered from parties responsible for stolen or forged checks, and (3) the insurance fund is administered in accordance with the underlying legislation.

### Survey of Fiscal Service's Stored Value Cards

A Stored Value Card is a card-based electronic alternative to cash. EZpay is a cash management tool designed to support U.S. military personnel training in the Army, Air Force, Navy, and Marines. The program, which improves convenience for trainees, was developed and is managed jointly by the U.S. Army, Air Force, Marines, Defense Finance and Accounting Services, and Treasury.

We plan to gain an understanding of controls in place over the Fiscal Service's EZpay stored value cards.

### Administrative Resource Center's Services and Billing

As a shared service provider, Fiscal Service's ARC offers a range of financial management, HR, IT, investment accounting, procurement, and travel services to more than 75 Federal customers. In FY 2017, ARC collected more than \$590 million in revenue from customers.

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

### Terrorism Risk Insurance Program

The Terrorism Risk Insurance Program was enacted under the terrorism risk insurance acts to stabilize market disruptions that result from acts of terrorism.

We plan to determine whether (1) Treasury established a protocol to work with State insurance regulators and data aggregators to identify potentially affected insurers for loss data collection, and (2) Treasury established a system for collecting, storing, and analyzing loss data.

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### Survey of Intragovernmental Transactions and G-Invoicing

In December 2016, Fiscal Service announced G-Invoicing as a primary component to improving the quality and reliability of Buy/Sell IGT Buy/Sell data, as well as minimizing differences and future risks on Buy/Sell transactions. G-Invoicing will not be an accounting or procurement system; instead, it will be an online portal for agencies to negotiate and agree upon the funding terms and the accounting treatment of their reimbursable activity. G-Invoicing will also allow agencies to exchange data/information with one another for consistent financial reporting.

We plan to review the plans and actions Fiscal Service has taken, or plans to take, to implement its G-Invoicing initiative. These plans include, but are not limited to, actions to establish (1) a new set of intragovernmental data standards, (2) a workflow configuration for the approval of IGT invoices, and (3) a system for the electronic submission of IGT documentation.

### Invoice Processing Platform

The Invoice Processing Platform is an Internet-based service that more efficiently manages government invoicing from purchase orders through payment notification. It helps Federal agencies avoid prompt payment penalties by supporting more efficient invoice processing while automating invoice collection, validation, and approval workflows at no charge to Federal agencies and their vendors.

We plan to assess whether Treasury's Invoice Processing Platform was developed in accordance with OMB's M-15-19 and other underlying legislation.

### Retail Security Service's Security Redemption and Substitution Process

Retail Securities Services (RSS) supports the millions of investors who own Treasury securities. The RSS program encompasses the issuance, servicing, and redemption of U.S. savings bonds in both electronic and paper form, and marketable Treasury securities sold in electronic form directly to retail investors. It also includes the servicing and redemption of outstanding marketable securities that were issued in paper form. We plan to determine the controls RSS has in place to ensure accurate redemptions and substitution of Treasury securities.

We plan to determine the controls RSS has in place to ensure accurate redemptions and substitution of Treasury securities.

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### Survey of FedDebt's Transition to Artiva

FedDebt was an in-house customized web-based cross-servicing system implemented in 2005 by Fiscal Service's Debt Management Services. Its purpose was to maintain records about individuals who owed delinquent non-tax debt(s) to the U.S. Government referred for collection by departmental and program agencies (creditor agencies). In 2017, Fiscal Service began and completed the process of transitioning from FedDebt to a commercial off the shelf product called Artiva, which enables optimized, cost-effective collection and resolution approaches. Artiva permits greater automation, improved functionality and reliable data.

We plan to review Fiscal Service's transition from FedDebt to Artiva and determine whether Fiscal Service (1) had sufficient controls over the transfer of data from FedDebt to Artiva; (2) had controls preventing system overlap between FedDebt and Artiva; and (3) provided all applicable Federal agencies proper guidance on the use and navigation of Artiva.

### Payments to Grantees and Financial Agents

As of FY 2018, 64 Federal agencies and programs and approximately 20,000 payment recipient organizations used the Automated Standard Application for Payments (ASAP) for services such as grant payments, financial agent reimbursement, debit card program or other financial payment services. As of FY 2018, there were 40 Federal Agencies that had 2,982 Dormant Accounts totaling \$9.3 billion in undisbursed balances. Undisbursed balances are the funds that the Federal Government obligated through grant agreements, but the grantees have not spent. Once the grant's period of availability expires, the grant should be de-obligated and closed out by the awarding agency. To help reduce unused funding, Fiscal Service issues dormant account reports to agencies that hold the funds.

We plan to assess Fiscal Service's (1) controls over pre-authorized, undisbursed funds and payments made to grantees and financial agents using ASAP, and (2) efforts to work with agencies to resolve dormant accounts balances.

### State Reciprocal Program Initiative

Under the State Reciprocal Program (SRP), Fiscal Service collects the delinquent debt owed to the participating state governments, and the governments collect the delinquent debt owed to the Federal Government. In FY 2017, states collected \$85.3 million through the offset of Federal nontax payments and

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Federal agencies collected \$53.2 million through the offset of state payments under SRP.

We plan to assess whether (1) the results achieved by the SRP meet the intent of the program; (2) the internal controls implemented by Fiscal Service ensure accurate accounting of funds offset by and for the states; and (3) Fiscal Service is aggressively pursuing states for participation in SRP.

### **Centralized Receivables Service**

The purpose of the Centralized Receivables Service program is to assist Federal agencies in managing their accounts receivables, increase collections of the receivables, and reduce delinquent debt owed to the Federal agencies by collecting debt in the pre-delinquency stage, prior to eligibility for referral to the Cross-Servicing program under Debt Management Services. As of April 2018, the program collected \$137 million in delinquent debt.

We plan to assess the (1) effectiveness of collecting pre-delinquent debt prior to referral to the Cross-Servicing program and (2) impact Centralized Receivables Service program has made on participating agencies receivables and collections.

### **Federal Finance Bank Survey**

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

# Financial Regulation and Oversight

## Background

Two of Treasury's strategic goals are to promote (1) domestic economic growth and (2) financial stability. Some of Treasury's strategies to reach those goals are to (1) right-size domestic and international regulation to ease the burden across the U.S. financial system; (2) promote a financial services marketplace that addresses the needs of American consumers; (3) resolve the conservatorships of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) and increase the amount of mortgage credit that is supported by private capital; and (4) enhance security, improve resiliency, and reduce the risk of significant cybersecurity and other incidents to the financial sector's critical infrastructure. OCC could play a supporting role in achieving Treasury's goals and/or be impacted by Treasury's efforts.

OCC is responsible for licensing, regulating, and supervising nearly 940 nationally chartered banks, 350 federal savings associations, and 50 federal branches or agencies of foreign banks. OCC-supervised banks hold more than \$12 trillion in total assets. OCC, which has more than 3,900 employees, has three strategic goals: (1) a vibrant and diverse system of national banks and federal savings associations that supports a robust U.S. economy; (2) "One OCC" focused on collaboration, innovation, coordination, and process efficiency; and (3) the ability to operate independently and effectively into the future.

During September 2007 through June 2018, 538 commercial banks and federal savings associations failed, resulting in an estimated \$89 billion loss to the Deposit Insurance Fund. Of these 538 failures, 142 were banks or federal savings associations regulated by OCC or the former Office of Thrift Supervision.<sup>7</sup>

Pursuant to Section 38(k) of the Federal Deposit Insurance Act, Treasury OIG must review and produce a written report on failures of OCC-regulated financial institutions that result in material losses to the fund. The law also requires that the report be completed within 6 months after it becomes apparent that the material loss has occurred. The Dodd-Frank Wall Street Reform and Consumer

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<sup>7</sup> Dodd-Frank abolished the Office of Thrift Supervision in 2011. Most of the former agency's functions and personnel moved to OCC.

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Protection Act (Dodd-Frank) raised the threshold loss amount triggering a material loss review to \$50 million in 2014 and thereafter, with a provision for increasing the threshold to \$75 million under certain circumstances. We completed 58 material loss reviews during the last eleven years.

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

### In Progress and Planned FY 2019 Projects

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

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

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

We plan to assess OCC supervision of foreign banking organizations operating in the United States.

#### **OCC and De-risking (In Progress)**

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

#### **Reviews of Failed OCC-Regulated Financial Institutions (Mandated) (In Progress)**

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

#### **OFR Hiring Practices and Its Response to Employee Viewpoint Survey Results (In Progress)**

We plan to determine whether (1) OFR's hiring practices are in accordance with OPM, Treasury, OFR, and other Federal requirements; and (2) OFR's process for

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reviewing and responding to Federal Employee Viewpoint Survey results are in accordance with Federal requirements including Treasury policies and procedures.

### **CIGFO Working Group Review**

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

### **Review of Resources Used by OCC to Supervise Financial Institutions**

We plan to assess the amount of resources utilized by OCC to supervise financial institutions.

### **Supervision of Bank Cybersecurity**

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

## Projects Under Consideration for Future Fiscal Years

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

We plan to determine whether OCC is considering BSA and anti-money laundering examination findings in a safety and soundness context as part of the management component of a bank's CAMELS<sup>8</sup> rating.

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

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

### **OFAC and OCC Monitoring of Financial Institutions' Compliance With Sanctions Programs**

In 2011, JP Morgan Chase Bank, N.A. agreed to remit \$88.3 million to settle potential civil liability for apparent violations of multiple OFAC sanctions programs. According to Treasury's website, the bank violated the Cuban Assets

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<sup>8</sup> CAMELS refers to the bank's ratings for capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk.

## Planned Projects by OIG Issue Area

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Control Regulations, the Weapons of Mass Destruction Proliferators Sanctions, the “Blocking Property of Weapons of Mass Destruction Proliferators and Their Supporters” (EO 13382), the Iranian Transactions Regulations, and other sanctions programs. The violations occurred during 2005 through 2011. In a January 2014 consent order for the assessment of a civil money penalty, OCC cited the bank for inadequate testing of OFAC compliance.

We plan to assess OFAC and OCC oversight of financial institutions’ compliance with sanctions programs.

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

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

We plan to assess OCC’s supervision of incentive-based compensation structures in OCC-regulated financial institutions.

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

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

### **Supervision of Large Institutions**

We plan to assess OCC’s supervision of large institutions (those with assets exceeding \$100 billion).

## Planned Projects by OIG Issue Area

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### **Corrective Action Verification—OCC’s Fast Track Enforcement Program**

We plan to determine whether OCC has taken corrective action responsive to the recommendations in our report *OCC’s Fast Track Enforcement Program Should be Assessed* (OIG-17-006; November 14, 2016).

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

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

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

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

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

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

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

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

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

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

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

### **Supervision of Small Banks**

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

### **Initiatives of OCC’s Office of Innovation**

We plan to assess OCC’s implementation of core Office of Innovation initiatives.

## Planned Projects by OIG Issue Area

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

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

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

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

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

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

### **FIO’s Methodology for Monitoring Auto Insurance**

We plan to assess FIO’s methodology for monitoring the affordability of personal automobile insurance in the United States.

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

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

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

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

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

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

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

We plan to assess the OCC Office of Enterprise Governance and the Ombudsman, which serves as an independent arbiter of OCC-regulated banks and their customers. The Ombudsman operates apart from the OCC bank

## Planned Projects by OIG Issue Area

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supervision function and reports directly to the Comptroller of the Currency. The office provides customer service and resolves consumer and bank supervisory disputes through two distinct units: the Customer Assistance Group and the Bank Appeals program.

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

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

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

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

### **OCC Enforcement Practices**

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

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

In March 2013, OCC, the Federal Reserve Board, and the Federal Deposit Insurance Corporation issued guidelines to banks to limit their risk-taking for leveraged loans. The effective date of the guidance was March 22, 2013, and the compliance date was May 21, 2013. Financial institutions are expected to properly evaluate and monitor underwritten credit risks in leveraged loans, to understand how changes in borrower enterprise values affect the quality of credit portfolios, and to assess the sensitivity of future credit losses to these changes in enterprise values. The final guidance is intended to be consistent with sound industry practices and to expand on recent interagency issuances on stress testing.

We plan to assess OCC supervision of financial institution implementation of guidance on leveraged loans.

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

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

## Planned Projects by OIG Issue Area

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### Supervision of Nonbanking Activities of Financial Institutions

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

### OCC Alternatives to the Use of Credit Ratings

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

- review, no later than 1 year after enactment, any regulation that requires the use of an assessment of creditworthiness of a security or money market instrument, as well as any references to, or requirements in, such regulations regarding credit ratings
- remove any references to, or requirements of reliance on, credit ratings and substitute such standard of creditworthiness as each agency deems appropriate

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

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

### Supervisory Use of Individual Minimum Capital Requirements

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

### OCC Oversight of Credit Risk Retention

Section 941 of Dodd-Frank requires securitizers of mortgages not meeting criteria associated with lower default rates to retain at least 5 percent of the credit risk, but Federal rulemaking agencies specify differing amounts. OCC is one of the Federal rulemaking agencies. Dodd-Frank also charges the Federal rulemaking agencies with formulating rules that required lenders to retain a 5 percent interest in any assets not held on their books, while authorizing exemptions for loans with the lowest credit risk, particularly for qualified residential mortgages.

## Planned Projects by OIG Issue Area

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We plan to assess OCC oversight of credit-risk retention in financial institutions.

# Alcohol and Tobacco Revenue Collection and Industry Regulation

## Background

TTB maintains a workforce of approximately 500 employees, most of whom either report to the TTB headquarters office in Washington, DC, or perform tax and permit processing at the National Revenue Center in Cincinnati, Ohio. TTB has 12 offices in cities across the United States and Puerto Rico for its auditors, investigators, and agents. These offices are located close to centers of trade and industry activity. TTB also has alcohol and tobacco laboratories in Maryland and California.

TTB is the third-largest tax collection agency in the Federal Government behind IRS and CBP. Annual revenues collected by TTB averaged approximately \$21.8 billion for 14,343 taxpayers in FY 2017. TTB's tax collections on tobacco products have declined since FY 2010, at least in part, because of the significantly increased tax rate on cigarettes and other tobacco products imposed by the Children's Health Insurance Program Reauthorization Act of 2009 (CHIPRA). In FY 2016, TTB collected approximately \$13 billion in tobacco tax revenue, which has stayed at this number since last fiscal year. In FY 2017, TTB collected more than \$8 billion in revenue from U.S. wineries, breweries, and distilleries. Although economic forecasts predict continued modest growth in the U.S. alcohol industry as a whole, excise tax collections will likely remain relatively constant due to a number of variables, including increasing volumes in imports, for which CBP collects the tax. Also, while the number of wineries, breweries, and distilleries has increased significantly, the majority are small producers that may be eligible for reduced tax rates or tax credits depending on the commodity and production volume. Firearms and ammunition tax collections have varied each year.

The Craft Beverage Modernization and Tax Reform of Act 2017 reduced the excise tax rates and increased tax credits for a two-year period from January 1, 2018 through December 31, 2019 on beer, wine, and distilled spirits. Among the changes, the Act also allows foreign producers the ability to assign importers to receive the reduced tax rate, which is administered and enforced by CBP.

In 2010, Congress authorized specialized funding which provided for TTB to establish a Criminal Enforcement Program to address tobacco smuggling and other diversion activity. TTB entered into an agreement with the IRS Criminal Investigation office for criminal investigative services to enforce its criminal

## Planned Projects by OIG Issue Area

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jurisdiction. Congress provided specialized funding for criminal enforcement in FY 2010 through 2015, and following this, TTB has used its base budget to continue this program.

As part of its FY 2017 budget, in May 2017 TTB received \$5 million of 2-year funding to administer and enforce unfair competition and unlawful market activity by alcohol beverage industry members as prohibited by the Federal Alcohol Administration Act. In its enforcement efforts related to both alcohol and tobacco, TTB will target known points in the supply chain that are susceptible to diversion activity and prioritize forensic audits and investigations of high-risk entities and activity in the alcohol and tobacco industries.

TTB processes applications for over 23 types of permits or registrations for the alcohol, tobacco, firearms, and ammunition industries. In general, industry members must obtain permits from TTB to operate legally in these industries. TTB reduced processing times from a high of over 200 days in FY 2016 to an average of 96 days for new breweries, wineries, and distilleries at the end of FY 2017. In FY 2018, TTB released a redesigned version of Permits Online. According to TTB, the upgrade was designed to enhance usability for industry members and improve the compliance rate of application submissions.

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

Federal excise taxes on firearms and ammunition are remitted to the Fish and Wildlife Restoration Fund. The U.S. Fish and Wildlife Service oversees the fund and apportions money to state governments for programs to research and restore wildlife and educate hunters. Collections increased from \$639 million in FY 2015 to \$700 million in FY 2016, to \$762 million in FY 2017.

### Customs Revenue

The Secretary of the Treasury has delegated authority for customs revenue functions to the Office of Tax Policy. Office of Tax Policy is responsible for developing and implementing tax policies and programs and providing the official estimates of all Government receipts for the President's budget, fiscal policy decisions, and Treasury cash management decisions. This office establishes policy criteria reflected in regulations and rulings and guides preparation of them with IRS to implement and administer the Internal Revenue Code. Further, this office negotiates tax treaties for the United States and represents the United

## Planned Projects by OIG Issue Area

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States in meetings for multilateral organizations dealing with tax policy matters. Economic and legal policy analysis for domestic and international tax policy decisions are also provided by the office.

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

Under section 112 of the Trade Facilitation and Trade Enforcement Act of 2015 (PL 114-125), enacted in February 24, 2016, Treasury OIG is required to report biennially on the effectiveness of measures taken by CBP with respect to protection of revenue with the next report due in March 2020.

### Potential Integrity Risks

Major integrity risks for TTB include the failure to collect all revenue rightfully due and improperly labeled alcohol products in the marketplace. TTB's tax collection activity could be seriously undermined if industry members fail to pay all taxes due (either intentionally or otherwise), if the TTB tax verification and audit program fails to detect underpayments, or if industry members attempt to corrupt government officials through bribery or other means. Under the Craft Beverage Modernization and Tax Reform Act of 2017, TTB must implement the new special tax rules enacted for 2018 and 2019 including the enforcement of limitations as defined in the new tax rules implemented in the subject Act.

## In Progress and Planned FY 2019 Projects

### TTB's Efforts to Promote Fair Competition in the U.S. Marketplace (In Progress)

Our objective is to determine how TTB assesses risks related to alcohol beverage industry trade matters. As part of this objective, we will evaluate TTB's monitoring of industry members, handling of referrals of potential trade

## Planned Projects by OIG Issue Area

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violations, selection of trade practice cases for investigation, and actions taken to ensure compliance with TTB regulations.

### **TTB Permit Program**

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

### **TTB's Trade Practice Investigations and Enforcement**

We plan to assess TTB's trade practice investigation and enforcement efforts to deter unfair market activity in the alcohol beverage industry following TTB's program changes in FY 2017 and FY 2018.

### **TTB's Enforcement Efforts**

We plan to assess (1) TTB efforts in implementing its Criminal Enforcement Program with funding provided by Congress; (2) TTB's plans for handling investigative caseload if IRS discontinues providing the services of agents to conduct criminal investigations on behalf of TTB; and (3) TTB's administration of civil monetary penalties.

### **TTB's Efforts to Identify Tax Evasion Schemes**

We plan to identify and evaluate TTB's efforts to detect new and existing evasion schemes involving alcohol and tobacco products used to avoid payment of Federal excise tax.

### **Department of Homeland Security and CBP Oversight of Revenue Protection and Enforcement Measures**

The Trade Facilitation and Trade Enforcement Act of 2015 (PL 114-125), was enacted on February 24, 2016. Sections 112 and 115 of this Act require Treasury OIG to submit to the Senate Committee on Finance and House Committee on Ways and Means a report on the effectiveness of CBP enforcement measures and other activities to protect the revenue of the United States. Section 112 requires biennial reports on CBP's duty collection, use of bonds, and other monitoring responsibilities in March of those years.

We plan to assess Treasury's oversight of customs revenue in accordance with the Act.

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

We plan to assess (1) TTB efforts to assist CBP in identifying Federal excise taxes due on undeclared and misclassified alcohol and tobacco product imports, (2)

## Planned Projects by OIG Issue Area

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TTB's assistance to CBP in its administration of reduced tax rates and tax credit for alcohol importers under the Craft Beverage Modernization and Tax Reform Act of 2017, and (3) TTB's coordination with CBP to ensure all Federal excise taxes are paid by importers.

### Projects Under Consideration for Future Fiscal Years

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

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

#### TTB Oversight of Manufacturers of Processed Tobacco

CHIPRA established TTB's responsibility for oversight of manufacturers of processed tobacco. These manufacturers receive tobacco plants from growers, and may remove the stems, cut the tobacco leaves, ferment, or flavor the tobacco. The processed tobacco is used by manufacturers of tobacco products and is not subject to Federal excise tax until manufactured into cigars, cigarettes, smokeless tobacco, pipe tobacco, or roll-your-own tobacco. Manufacturers of processed tobacco can legally sell processed tobacco to tobacco product manufacturers, to other businesses that further process the tobacco, or to tobacco brokers. Manufacturers of processed tobacco are required to notify TTB when processed tobacco is sold to businesses without TTB permits.

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

#### TTB Use of Collateral To Protect Revenue

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

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

## Planned Projects by OIG Issue Area

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

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

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

When a manufacturer uses tax paid distilled spirits to produce a food, flavor, medicine, or perfume that is certified by TTB's Non beverage Products Laboratory as unfit for beverage purposes, the manufacturer can claim a return, or drawback, of most of the distilled spirits excise taxes paid. For a 5010 tax credit, distilled spirits must contain an eligible wine or eligible flavor and TTB approves effective tax rates for imported products.

We plan to assess TTB controls over non beverage product manufacturer claims.

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

Tax collected on rum produced in Puerto Rico or the U.S. Virgin Islands and transported to the United States is "covered over" or transferred to the government where the rum is produced. Taxes collected on rum imported into the United States from foreign countries are also covered over, with these payments split between Puerto Rico and the U.S. Virgin Islands. In FY 2015, TTB processed cover-over payments totaling \$350.5 million to the treasuries of Puerto Rico and the U.S. Virgin Islands.

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

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

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

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

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

## Planned Projects by OIG Issue Area

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

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

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

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

### **Submission of Operational Reports by Industry Members in Compliance with Federal Regulations**

Members of the wine, beer, distilled spirits, and tobacco industries are required to file operational reports. The purpose of the information collected in the reports is to monitor the operations of these industries and verify unusual activities, errors, or omissions on taxable commodities. Failure to file required operational reports by the due date is a violation of the conditions of their permits and can lead to adverse action.

We plan to assess actions taken by TTB to ensure industry members file operational reports in compliance with federal regulations and the operational reports are reliably reporting quality information in order for TTB to adequately monitor regulated industries.

### **Craft Beverage Modernization and Tax Reform Act of 2017**

We plan to assess how TTB is implementing the new special tax rules enacted for 2018 and 2019 including the enforcement of limitations as defined in the new tax rules implemented in the subject Act.

# Bill and Coin Manufacturing

## Background

BEP produces U.S. currency and other security documents issued by the Federal Government. Its primary mission is to print Federal Reserve Notes for delivery to the Federal Reserve Banks, the nation's central bank. To meet its primary mission, BEP has production facilities in Washington, DC and Fort Worth, Texas. BEP also processes claims for the redemption of mutilated paper currency and provides technical assistance and advice to other Federal agencies on the design and production of documents requiring deterrence against counterfeiting. The Board ordered 7.4 billion notes valued at \$233.4 billion to be produced by BEP in FY 2018. The 7.4 billion notes represents a four percent increase over the Board's FY 2017 order. The Board pays for note production including costs associated with maintaining BEP's facilities. BEP is authorized to include an amount for capital investment and working capital requirements eliminating BEP's need for appropriations from Congress.

The Mint's principal mission is to produce the nation's circulating coinage for trade and commerce. The Mint also produces commemorative and investment products for collectors and investors. These include numismatic coins, which are rare or valuable coins that have an external value above and beyond the base value of the precious metal. In addition to its headquarters in Washington, DC, the Mint has four production facilities located in Philadelphia, Pennsylvania; West Point, New York; Denver, Colorado; and San Francisco, California. It also maintains the U.S. bullion depository at Fort Knox, Kentucky. FY 2017 circulating coin shipments to the Board decreased by 2.2 billion units (13.7 percent) to a total 14.1 billion coins compared to last year. The year saw decreases in all denominations resulting in decreases in revenue compared to last year. Unit costs increased for all denominations compared to last year. The unit cost in FY 2017 for both pennies (1.82 cents) and nickels (6.60 cents) remained above face value for the twelfth consecutive fiscal year. Higher metal costs and higher unit costs generated a larger FY 2017 net loss (\$89.8 million) for these two denominations compared to FY 2016 (\$66.8 million).

The Mint Public Enterprise Fund was created in FY 1996 to enable the Mint to operate as a revolving fund. All receipts deposited into the fund are available for operating the Mint and safeguarding Federal Government assets in the Mint's custody without fiscal-year limitation. Although the Mint is not dependent on

## Planned Projects by OIG Issue Area

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appropriated funds, Congress approves its spending authority each year. The Secretary of the Treasury must determine the excess amount in the fund not needed for Mint operations in the coming year and have the amount transferred to the Treasury General Fund. In FY 2017, the Mint transferred \$269 million to the Treasury General Fund from the United States Mint Public Enterprise Fund.

In an effort to align more closely with Treasury's strategic goal of achieving operational excellence, the BEP and the Mint will streamline certain functions by migrating BEP's online numismatic sales and marketing presence to the Mint's recently modernized e-commerce infrastructure and services platform. When a transition plan is approved, then the expectation is that certain BEP employees would become Mint employees and physically move to the Mint no later than December 2019.

### Potential Weaknesses

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

According to BEP, producing the next family of redesigned notes that will incorporate new security and technical features will require that BEP purchase and install new equipment to support the new designs. BEP is proposing expansion to its Western Currency Facility for the next family of currency design and a new Washington, DC area facility, which requires congressional approval for BEP to purchase land. BEP has a revolving fund that is available for renovating its facilities.

### In Progress and Planned FY 2019 Projects

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

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

#### **Mint's Numismatic Order Processing Program (In Progress)**

We plan to determine whether the Mint is effectively managing order processing for numismatic products, such as precious metal coins, commemorative coins, and medals, for sale to the public. As part of this work, we plan to determine whether the Mint's Order Management System, OMS II, is working as intended and the numismatic program is meeting the needs of its users.

#### **Physical Security at the Mint's Facilities (In Progress)**

We plan to (1) assess the adequacy of the Mint's physical security policies, procedures, and practices, and (2) determine whether the Mint's Security Modernization Program and related infrastructure upgrades addressed control weaknesses noted during prior Treasury OIG audit work.

#### **Mint's Procurement and Quality Assurance of New Materials (In Progress)**

We plan to determine the adequacy of the Mint's controls over the procurement and quality assurance of raw materials used in the production of U.S. coins.

#### **BEP Employee Safety (In Progress)**

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

#### **BEP Western Facility Expansion (In Progress)**

We plan to determine whether BEP's capital investment decisions were based on appropriate and supportable assumptions and cost/benefit analysis and whether proper documentation was maintained to support BEP's decisions. Additionally, we will assess if BEP followed capital planning and project management best practices.

## Planned Projects by OIG Issue Area

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### **Project Management at the Mint**

We plan to determine if the Mint's practices regarding project management practices ensure timely and cost effective completion of projects. We will also determine if weaknesses noted in the Mint's project management practices relating to the Mint's physical security have been fully addressed and corrected through the Mint's Security Modernization Program.

### **BEP and Mint Contract Requests**

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

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

### **Mint Employee Safety**

We plan to determine whether Mint policies, procedures, and practices ensure safe working conditions in its six facilities across the country.

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

We plan to assess controls in place over BEP's currency exchange program to ensure only valid claims are redeemed. We will also determine whether BEP properly approves, documents, and monitors the use of shredded currency for artistic and commercial purposes.

### **BEP Capital Investments**

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

### **BEP's Implementation of 50-subject Sheets and Single Note Inspection Machines into Production**

In 2015, BEP's Washington, DC and Western currency facilities produced 50-subject currency sheets of \$1 notes to gain production efficiencies. In 2016, BEP worked on transitioning to 50-subject sheet production for \$5 notes by testing and preparing its new Currency Inspection System equipment to inspect \$5 50-subject sheets.

We plan to determine if BEP has completed a cost benefit analysis to support the implementation of the 50-subject sheet production with the single note inspection machines into its currency production.

## Planned Projects by OIG Issue Area

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Mint Collection Practices on Receivables**

We plan to assess the effectiveness of the United States Mint's collection practices on accounts receivable, the classification of allowances for

## Planned Projects by OIG Issue Area

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uncollectable delinquent accounts, and determine if delinquent debts are referred timely for continued collection efforts.

### **Mint Controls Over the Sales of Limited-Production Investment-grade Products**

We plan to determine if the Mint's practices adhere to established policies and procedures designed to ensure the broadest and most fair access to limited-production, investment grade products. We also plan to determine whether actions taken by the Mint relating to weaknesses identified in prior Treasury OIG work adequately addressed the issues noted.

### **Mint Production Case Studies**

The Coin Modernization, Oversight, and Continuity Act of 2010 authorized Treasury to conduct research and development on circulating coin compositions to reduce production costs. In FY 2017 the total unit cost for the penny was 1.82 cents and the nickel was 6.60 cents which exceeded the coins' face values for the twelfth consecutive fiscal year. Higher metal costs and higher unit costs generated a net loss in FY 2017 of \$89.8 million for these two denominations compared to the loss in FY 2016, which was \$66.8 million.

In response to the act, the Mint established a laboratory at the Philadelphia Mint and hired a contractor to perform research and development on the metallic compositions for all circulating coins. The Mint submitted its first biennial report in December 2012, and a second in December 2014. The third biennial report was issued June 2017.

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

### **Mint Continuity of Operations Plan**

We plan to determine whether the Mint comprehensively developed and tested its continuity of operations plans for currency production should a major disruption occur at any of its six facilities.

### **BEP Human Resources Practices**

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

## Planned Projects by OIG Issue Area

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### **Mint Human Resources Practices**

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

### **BEP and Mint Strategic Planning**

We plan to determine how BEP and the Mint have applied Enterprise Risk Management to allow the bureaus to identify and assess risks that impact their long range planning for production of U.S. currency and how they monitor this and incorporate information from internal and external stakeholders such as the Federal Reserve.

### **Migration of BEP's Numismatic Sales to Mint E-Commerce**

We plan to assess the Mint and BEP's plans to migrate BEP's online numismatic sales and marketing presence to the Mint's recently modernized E-Commerce infrastructure and services platform.

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

We plan to determine whether BEP is (1) properly overseeing the incorporation of tactile features and high-contrast numerals in future currency designs to improve meaningful access for blind and visually impaired individuals and (2) ensuring the new currency meets requirements approved by the Secretary of the Treasury.

### **Mint Handling of Equal Employment Opportunity Complaints**

We plan to determine if the Mint (1) has implemented practices to ensure equal employment opportunities for Mint employees; (2) complies with established policies and procedures relating to employees; and (3) appropriately tracks, processes, and resolves employee complaints relating to equal employment opportunities.

# Domestic and International Assistance Programs

## Background

Treasury plays an important role in domestic and international assistance programs that have a significant impact on the economy. Domestic programs range from those assisting in coping with the effects of current economic conditions to programs that enhance the availability of financial education, credit, investment capital, and financial services to communities around the United States. Treasury's role in these areas expanded under HERA, Emergency Economic Stabilization Act of 2008 (which created TARP), Recovery Act, the Small Business Jobs Act of 2010, and the Social Impact Partnerships to Pay for Results Act of 2018 (SIPRA). International programs address international financial institutions' role in promoting economic stability and growth in other countries.

### Housing and Economic Recovery Act of 2008

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

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

senior preferred stock is increased. In August 2012, Treasury announced a set of modifications to the Senior Preferred Stock Purchase Agreements to facilitate the wind-down of Fannie Mae and Freddie Mac and support the continued flow of mortgage credit toward a responsible transition to a reformed housing finance market. The modified agreements required Fannie Mae and Freddie Mac to accelerate the reduction of their investment portfolios—increasing the reduction rate from 10 percent annually to 15 percent annually. As a result, GSE investment portfolios are to be reduced, 4 years earlier than previously scheduled, to the \$250 billion target set in the previous agreements. The modified agreements also require each GSE to submit an annual plan to Treasury on its strategy to reduce financial and operational risk, as well as an assessment of performance relative to its prior-year plan. The modified agreements replaced the 10 percent dividend payments made to Treasury on its preferred stock investments in Fannie Mae and Freddie Mac with a quarterly sweep of the net worth amount less a capital reserve amount, which begins at \$3 billion and reduces annually by an equal amount until it reaches zero, beginning January 1, 2018. As of March 31, 2018, Treasury reported investments of approximately \$191 billion in senior preferred stock issued by the two GSEs.

- **Housing Finance Agencies Initiative.** Treasury implemented the Housing Finance Agencies Initiative with two programs to support state and local Housing Finance Agencies. Through those programs, Treasury purchased securities from Fannie Mae and Freddie Mac backed by State and local Housing Finance Agency bonds (New Issue Bond Program) and participation interests in liquidity facilities provided to the Housing Finance Agencies by Fannie Mae and Freddie Mac (Temporary Credit and Liquidity Program). As of September 30, 2017, Treasury owned \$4.4 billion of Fannie Mae and Freddie Mac securities supporting the New Issue Bond Program. The Temporary Credit and Liquidity Program is now at zero.

**Capital Magnet Fund.** HERA authorized a new program for the CDFI Fund to administer the Capital Magnet Fund, which is intended to create a new source of grants for rental and for-sale housing as well as community and economic development. The program aims at increasing the flow of capital to organizations that will engage in housing-related investments. The Capital Magnet Fund is a competitive grant program expected to attract private capital from two types of eligible grantees: (1) CDFIs that have been certified by the CDFI Fund and (2) nonprofit organizations with a principal purpose of developing or managing affordable housing. The

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eligible grant activities and entities eligible to receive grants through the Capital Magnet Fund represent a significant expansion for the CDFI Fund's core programs. Under HERA, the Capital Magnet Fund is to be financed through appropriations and transfers from Fannie Mae and Freddie Mac. For its inaugural award round in FY 2010, the Capital Magnet Fund received appropriations of \$80 million. There was no request for additional appropriation for FY 2011 through FY 2019. In December 2014, Federal Housing Finance Agency lifted its prohibition on GSEs allocating funds to the program. In FY 2016 and FY 2017, approximately \$100.3 million and \$119.4 million, respectively, were allocated and transferred from the GSEs to the Capital Magnet Fund. There were no funds allocated in FY 2015 and FY 2018.

### Recovery Act

The purpose of the Recovery Act was to provide relief during the economic downturn by expanding tax, bond, and cash assistance to segments of the economy most affected. Treasury is responsible for overseeing an estimated \$150 billion provided through tax relief and Recovery Act funding.

Approximately \$26 billion in Recovery Act Funds, administered by Departmental Offices through two tax-credit exchange programs, provided payments in lieu of tax credits for specified energy properties and payments to the states in lieu of tax credits for rehabilitation and development of low-income housing projects.

### Social Impact Partnerships to Pay for Results Act

SIPPRAs of 2018, amending Title XX of the Social Security Act, created a new program intended to direct Federal funds to State and local government partnership programs that result in measurable social benefit. Among several requirements, no less than 50 percent of all Federal payments made to carry out SIPPRA agreements shall be used for initiatives that directly benefit children. Among other things, SIPPRA created new partnerships through establishing the Interagency Council on Social Impact Partnerships (Interagency Council) and the Commission on Social Impact Partnerships (the Commission). The Interagency Council is comprised of members appointed by several agencies, to include Treasury. The Commission members are appointed by Congress.

The Secretary of the Treasury, in consultation with the Interagency Council is responsible for administering the program and issuing SIPPRA regulations. Treasury also has several specific duties with regard to administering the program with the Interagency Council and with assistance and recommendations

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of the Commission. The first order of business is to publish the first requests for SIPPPRA proposals, within one year of enactment. Treasury received \$100 million in FY 2018 to carry out the requirements of SIPPPRA.

### Other Domestic Assistance

Treasury provides assistance to promote economic growth and raise the standard of living in distressed U.S. communities by increasing the availability of business capital and financial services. The CDFI Fund 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 access to credit, capital, and financial services in American Indian, Alaska Native, and Native Hawaiian communities. The CDFI Fund's activities have been affected by economic events, resulting in significant funding increases and new program initiatives. Funding for the competitive grant programs doubled in FY 2009 with a \$100 million increase provided through the Recovery Act. Since then, the CDFI Fund financial and technical assistance programs continue to receive support with funding of \$210 million in FY 2017 and \$222 million in FY 2018.

The New Markets Tax Credit Program (NMTC) provides investors with a tax credit for investing in communities that are economically distressed or that have low-income populations. The 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 (CDE). The NMTC Program was expanded under Recovery Act authority that increased the 2008 and 2009 allocation rounds to \$5 billion each. During FY 2010–FY 2015, the program received \$3.5 billion of allocation authority each year. On December 18, 2015, Congress extended the authorization for \$3.5 billion per year through 2019. Since the program's inception in 2000, the CDFI Fund has awarded \$50.5 billion in tax credit allocations to CDEs.

The Small Business Jobs Act of 2010 authorized Treasury to guarantee all notes and bonds issued by CDFIs that make investments in eligible community and economic development opportunities. Guarantees could not total more than \$1 billion in any fiscal year and were available through September 30, 2015. As administrator, the CDFI Fund was required to establish the program's regulations.

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A key component of the CDFI Bond Guarantee Program is the financing vehicle used by CDFIs issuing bonds and notes that are 100 percent guaranteed by the Federal Government. Since FY 2013, the CDFI Fund committed to guarantee \$1.1 billion in bonds.

### International Assistance

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

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

### Office of Technical Assistance

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

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public financial resources. The office's staff also monitors and evaluates projects in each developing and transitional country selected to receive assistance under one or more of Treasury's five core development areas.

### Committee on Foreign Investment in the United States

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

### Exchange Stabilization Fund

The Gold Reserve Act of 1934 established the Exchange Stabilization Fund, which is operated by the Secretary of the Treasury with the approval of the President. The act authorized the Exchange Stabilization Fund to use the assets to deal in gold and foreign exchange to stabilize the exchange value of the dollar. The fund is used to implement U.S. international monetary and financial policy, including exchange market intervention policy. The fund mainly comprises three types of assets: U.S. Government securities, foreign currency assets, and Special Drawing Rights.<sup>9</sup>

To ensure the highest degree of confidence in the underlying securities, investment guidelines for the Exchange Stabilization Fund require that investments be limited to claims on respective central banks, the Bank for

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<sup>9</sup> Special Drawing Rights is an international reserve asset created by the International Monetary Fund to supplement existing reserve assets. In addition to its role as a supplementary reserve asset, the Special Drawing Rights serves as a means of payment within the International Monetary Fund, as well as a unit of account for the fund and for several other international organizations.

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International Settlements, and sovereign governments and their agencies.<sup>10</sup> The Exchange Stabilization Fund's foreign currency holdings are to be invested so that adequate liquidity is maintained to meet anticipated intervention financing needs. Investment maturities are to be timed such that substantial funds come available on a regular basis to meet potential intervention financing needs. In addition, the investment objective of the fund's portfolio is to seek the highest possible rate of return on each of its currency components over a full interest-rate cycle.

### Potential Integrity Risks

Integrity risks for domestic and international assistance programs include the potential for (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, Federal tax credits, or payments in lieu of tax credits; and (4) failure by assisted entities to deliver on promised services. Treasury remains concerned that contracts, grants, tax credits, or cash payments in lieu of tax credits may be awarded without following standard operating procedures, including appropriate monitoring of funded activities. Program risks include the potential failure to promote economic growth within financially underserved areas of the United States or to foster economic stability in other nations. There may also be a corresponding loss of credibility with U.S. taxpayers or within the international community if these Treasury programs do not function as intended or with the appropriate transparency.

## In Progress and Planned FY 2019 Projects

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

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

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<sup>10</sup> The Bank for International Settlements is an international central bank whose mission is to serve central banks in their pursuit of monetary and financial stability and to foster international cooperation in those areas.

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

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

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

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

### **Payments to States for Low-Income Housing Projects in Lieu of Low-Income Housing Credit**

As part of our ongoing oversight of Treasury’s Payments to States for Low-Income Housing Projects in Lieu of Low-Income Housing Credits (1602 Program), we conducted audits of awards made to selected State housing credit agencies to assess whether the agencies awarded funds under Treasury’s 1602 Program complied with the program’s overall requirements and the “Grantee Terms and Conditions” (together referred to as 1602 Program requirements). In FY 2019, we plan to complete audits of the following States.

#### **Audit of Georgia Department of Community Affairs’s Payment Under 1602 Program (In Progress)**

We will report on our assessment of Georgia Department of Community Affairs’ compliance with the 1602 Program requirements.

#### **Audit of Michigan State Housing Development Authority’s Payment Under 1602 Program (In Progress)**

We will report on our assessment of Michigan State Housing Development Authority’s compliance with the 1602 Program requirements.

### **Audit of New Market Tax Credit Allocations to Wisconsin-based Community Development Entities (In Progress)**

We plan to assess the CDEs use of NMTC allocations and proceeds to make Qualified Low Income Community Investments and designated Qualified Equity Investments in accordance with their NMTC Allocation Agreements and applicable regulations, policies, and procedures at the CDE level.

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### **Implementation of the Social Impact Partnerships to Pay for Results Act**

We plan to assess Treasury's activities in carrying out its responsibilities under SIPPPRA to implement and administer a new grant program intended to provide measurable social benefit. We will review activities to issue SIPPPRA regulations and publish request for grant proposals within established deadlines. Our assessment will also include Treasury's consultative activities with the newly created Interagency Council and the Commission.

### **Survey of the Committee on Foreign Investment in the United States**

We plan to assess how Treasury supports the Committee on Foreign Investment in the United States in identifying and addressing national security concerns arising from covered transactions with foreign investors. We will also assess whether measures have been implemented to identify foreign investors who have not filed with the committee.

### **Office of Technical Assistance Programs**

We plan to assess Treasury's Office of Technical Assistance administration of programs established to provide technical assistance to foreign governments and foreign central banks in developing and transitional countries. As part of this audit, we plan to evaluate the office's processes for selecting foreign governments and foreign central banks for assistance under the office's five technical assistance programs and for selecting technical experts. We also plan to assess the office's monitoring of its program projects.

### **CDFI Fund Bond Guarantee Program**

We plan to assess CDFI Fund program activities to administer the CDFI Bond Guarantee Program as required by the Small Business Jobs Act of 2010.

### **Survey of Multilateral Development Banks**

We plan to gain an understanding of Treasury's process for ensuring U.S. policy is carried out through the multilateral development banks. As part of this project, we plan to assess Treasury's participation, role, and risk exposure associated with global initiatives.

### Projects Under Consideration for Future Fiscal Years

#### Foreign Credit Reporting System

We plan to assess Treasury's Foreign Credit Reporting System, including whether the reporting of debts and payments by foreign governments is accurate and complete.

#### CDFI Fund Administration of the Capital Magnet Fund

We plan to determine whether the CDFI Fund established adequate controls for awarding and administering the Capital Magnet Fund grant activities. Specifically, we plan to assess CDFI Fund processes to (1) review whether funds were awarded properly and timely to eligible recipients and (2) determine awardee compliance with program requirements, including leveraging award dollars intended to provide a dedicated source of funding. We also plan to assess the programs resulting from any future funding from Fannie Mae and Freddie Mac.

#### CDFI Fund's Awards Management System

We plan to assess the implementation of the CDFI Fund's Award Management Information System, including how the system records, manages, and monitors CDFI Fund awards.

#### Compliance with Grants Oversight and New Efficiency Act

The Grant Oversight and New Efficiency Act (GONE Act) requires that agencies submit to Congress a report that: (1) identifies each Federal grant that has not been closed out two years after the end of the award's period of performance; (2) describes the challenges leading to delays in grant closeout; and (3) explains why awards have not been closed out (for 30 oldest Federal grant awards). Within one year of the initial report, Federal awarding agencies are required to provide a follow-up report that specifies which of the identified grant awards have been closed-out and those that remain open.

##### Treasury's Compliance with Grants Oversight and New Efficiency Act

We plan to determine whether Treasury has complied with requirements under the GONE Act agency-wide.

##### CDFI Fund Closeout of Recovery Act Grants

We plan to evaluate CDFI Fund's activities for the closeout of grants in compliance with GONE Act specific to Recovery Act funding.

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### **CDFI Fund Grant Closeout Process**

We plan to evaluate the CDFI Fund's process for closeout of grants as well as its reporting required under the GONE Act.

### **Payments in Lieu of Tax Credits for Specified Energy Properties—1603 Program**

We plan to evaluate Treasury's ongoing administration and compliance monitoring of the 1603 Program.

### **Payments to States for Low-Income Housing in Lieu of Low-Income Housing Credits—1602 Program**

We plan to evaluate Treasury's ongoing administration and compliance monitoring of the 1602 Program.

### **CDFI Fund Recertification Process**

We plan to assess the CDFI Fund process for recertifying CDFIs to ensure entities remain eligible to receive funding under the CDFI Fund's financial assistance and Native Initiative grant programs.

### **CDFI Grant Administration**

We plan to assess the CDFI Fund's overall administration of grants awarded under the CDFI Program. Specifically, we plan to evaluate the CDFI Fund process for awarding grants and the effectiveness of internal control over grant awards to ensure recipient compliance with award agreements.

### **Bank Enterprise Awards**

We plan to assess CDFI Fund processes for approving and monitoring awards made through the Bank Enterprise Awards Program. Specifically, we plan to (1) determine whether CDFI Fund awarded the appropriated funds to eligible recipients based on qualified activities in accordance with applicable laws and regulations; (2) determine whether the CDFI Fund established and maintained proper internal control procedures and oversight over program awards, and (3) assess the CDFI Fund process for measuring the Bank Enterprise Award program's performance outcomes to ensure that the program objectives are achieved.

We also plan to assess whether CDFI Fund management took corrective action responsive to recommendations made in our audit, *Awards Made to OneUnited Bank Were Consistent with Requirements But Certain Aspects of CDFI Fund Program Administration Need To Be Revisited* (OIG-11-091, August 3, 2011).

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### **CDFI Fund Tracking of Awardees Across Multiple Assistance Programs**

We plan to assess the effectiveness of CDFI Fund coordination for the tracking of awardees with multiple program awards to determine whether funds are used appropriately in target markets.

### **Treasury Monitoring of Government Sponsored Enterprises**

We plan to evaluate Treasury's continued monitoring of its investment in the Government Sponsored Enterprises and the overall housing finance markets.

### **Treasury Monitoring of the Housing Finance Agency Initiative's Performance**

We plan to assess Treasury monitoring of housing-finance market indicators to evaluate the health of the housing-finance agencies participating in the Housing Finance Agencies Initiative. We will also determine whether Treasury management took corrective action responsive to our recommendations in the audit report *Treasury Needs Written Policies and Procedures for Its Oversight of the Housing Finance Agency Initiative* (OIG-13-040; issued May 30, 2013).

### **Survey of Treasury Participation in the International Monetary Fund**

We plan to gain an understanding of Treasury's role for promoting U.S. policy related to the International Monetary Fund to identify potential risks for the U.S. financial system.

### **Survey of Treasury's Global Agriculture and Food Security Program**

We plan to gain an understanding of Treasury's role in the Global Agriculture and Food Security Program and Climate Investment Funds, including how funds are granted in accordance with applicable guidance and how funds are used to improve impoverished nations.

### **Debt Relief Programs**

We plan to gain an understanding and perform appropriate independent oversight of Treasury's role in debt-reduction programs for nations indebted to the United States and the process used to ensure indebted nations meet eligibility requirements for relief, as well as the risks associated with these programs.

### **Treasury's Role in the Middle East and North Africa Transition Fund**

The Middle East and North Africa Transition Fund is a multi-donor trust fund administered by the World Bank to assist members of the Deauville Partnership with Arab Countries in Transition (currently Egypt, Tunisia, Jordan, Morocco, Libya, and Yemen). The Transition Fund provides small grants to help countries put in place economic policies and government reforms that will allow them to

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attract greater flows of capital while they address diverse economic challenges during their political transition. The agreed contribution from the United States is 20 percent of total donor contributions to the Transition Fund, or up to \$50 million of an anticipated \$250 million, over several years

We plan to gain an understanding of Treasury's role in the Middle East and North Africa Transition Fund and to identify the risks to Treasury's investment.

### **Transfer of Funds Under the Foreign Assistance Act of 1961**

The U.S. Agency for International Development transferred \$66.6 million to Treasury in FY 2010 for contributions to the Global Agriculture and Food Security Program Trust Fund. The agency transferred another \$125 million in FY 2011 funds to Treasury for contributions to the Haiti Reconstruction Fund. Under memoranda of understanding between the U.S. Agency for International Development and Treasury, we are responsible for performing periodic program and financial audits of the use of the transferred funds. The cost of these audits may be paid from transferred funds.

We plan to assess whether Treasury administered funds transferred from the U.S. Agency for International Development in accordance with applicable laws.

### **Treaties and International Agreements**

We plan to gain an understanding of the treaties and international agreements with foreign governments that Treasury entered into on behalf of the U.S. Government. We will also determine Treasury's coordination and consultation with the Department of State in connection with those agreements.

### **Exchange Stabilization Fund Investment Portfolio**

We plan to (1) gain an understanding of the policy for the Exchange Stabilization Fund's investments in securities and foreign-currency-denominated assets and the factors considered in implementing the investment policy and (2) determine whether the Fund complied with the investment policy on its purchase, management, and sales of investments and foreign-currency-denominated assets.

### **Reviews of Single Audits**

We plan to perform quality control reviews to determine whether audits obtained by CDFIs were performed in accordance with the Single Audit requirements and applicable professional standards and may be relied upon for ensuring accountability of CDFI Fund awards.

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### Treasury's International Capital Reporting System

The Treasury International Capital reporting system provides the U.S. Government data on capital flows into and out of the United States, excluding direct investment, and the resulting cross-border claims and liabilities. Information is collected from commercial banks and other depository institutions, bank holding companies, securities brokers and dealers, custodians of securities, and nonbanking enterprises in the United States, including the U.S. branches, agencies, and subsidiaries of foreign-based banks and business enterprises.

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

# Gulf Coast Restoration

## Background

The Resources and Ecosystems Sustainability, Tourist Opportunities and Revived Economies of the Gulf Coast States Act of 2012 (RESTORE Act) established the Gulf Coast Restoration Trust Fund (Trust Fund) within Treasury to provide funds for the environmental and economic restoration of the Gulf Coast region that was damaged by the 2010 Deepwater Horizon oil spill. Deposits into the Trust Fund will comprise 80 percent of all civil and administrative penalties paid after July 6, 2012, under the Clean Water Act (amendment to the Federal Water Pollution Control Act). As a result of separate settlement agreements reached between the U.S. Department of Justice and Anadarko Petroleum Corporation, the Transocean defendants Transocean Deepwater Inc., Transocean Offshore Deepwater Drilling Inc., Transocean Holdings LLC., and Triton Asset Leasing GmbH), and BP Exploration and Production Inc., approximately \$5.3 billion has been designated for the Trust Fund. BP Exploration and Production Inc. settlement funds will be deposited into the Trust Fund over a 15-year period. As of April 2018, the Trust Fund had received approximately \$1.4 billion.

The RESTORE Act also established the Gulf Coast Ecosystem Restoration Council (Council), an independent entity within the Federal Government that includes as members the governors from the five affected Gulf Coast States (Alabama, Florida, Louisiana, Mississippi, and Texas); the Secretaries from the U.S. Departments of the Interior, Commerce, and Agriculture; the head of the department under which the Coast Guard reports (currently the Secretary of the Department of Homeland Security); the Secretary of the Army; and the Administrator of the U.S. Environmental Protection Agency.

The RESTORE Act allocates money in the Trust Fund to five components:

- 35 percent to the Gulf Coast States in equal shares under the Direct Component (administered by Treasury);
- 30 percent, plus 50 percent of interest earned on the Trust Fund, for grants under the Council-Selected Restoration Component (administered by the Council);
- 30 percent for grants under the Spill Impact Component (administered by the Council);

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- 2.5 percent, plus 25 percent of interest earned on the Trust Fund, to the Centers of Excellence Research Grants Program Component (administered by Treasury); and
- 2.5 percent, plus 25 percent of interest earned on the Trust Fund, to the Gulf Coast Ecosystem Restoration Science, Observation, Monitoring, and Technology Program (Science Program) Component (administered by the National Oceanic and Atmospheric Administration (NOAA)).

Treasury's authority to administer the Trust Fund terminates on the date all amounts are expended from the Trust Fund. The RESTORE Act provides Treasury with remedies for a State's noncompliance with the conditions of the Trust Fund. Specifically, Treasury may cut off funding to a State until it either repays the Trust Fund or substitutes an ineligible activity with an eligible activity.

The RESTORE Act authorized Treasury OIG to conduct, supervise, and coordinate audits and investigations of projects, programs, and activities funded under the act.

### Potential Integrity Risks

The integrity risks for the Gulf Coast Restoration projects, programs, and activities include the potential (1) falsification of applications or statements; (2) failure by grantees or contractors to deliver on promised goods or services; (3) misuse or mismanagement of Trust Funds, including irregularities in the award of contracts, misallocation of grant proceeds, and duplication of funding for projects or programs; (4) award of grants or contracts without following laws, regulations, or standard operating procedures; (5) failure to properly monitor funded activities; and (6) funding of programs that fail to promote the restoration of the Gulf Coast region.

## In Progress and Planned FY 2019 Projects

### Audit of Financial Statements of the Gulf Coast Ecosystem Restoration Council (Mandated) (In Progress)

An independent certified public accounting firm, working under a contract supervised by our office, will complete audit work for the Council's FY 2018 financial statements and begin audit work for the FY 2019 financial statements. These audits will determine whether the financial statements are fairly presented in all material respects and will report on internal control over financial reporting

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and compliance with laws and regulations that could have a direct and material effect on the financial statements.

### **FISMA Evaluation—Gulf Coast Ecosystem Restoration Council Information Security Systems Program and Practices (Mandated) (In Progress)**

An independent certified public accounting firm, under a contract supervised by the Treasury OIG, will assess the effectiveness of the Council's information system security program and practices and compliance with FISMA requirements and related information security policies, procedures, standards, and guidelines. As part of its evaluation, the contractor follow up on the progress in resolving previously reported FISMA weaknesses. During FY 2019, evaluation work will be completed for FY 2018 and work will begin for the FY 2019 evaluation.

### **Gulf Coast Ecosystem Restoration Council's Charge Card and Convenience Check Risk Assessment (Mandated) (In Progress)**

We plan to complete our FY 2018 risk assessment of Council's purchase card, convenience check and travel card programs to identify and analyze risks of illegal, improper, or erroneous purchases, travel charges or payments. The results of our assessments will help us determine the scope, frequency, and number of periodic audits of transactions made with purchase cards, convenience checks, and travel charge cards. We will reassess risk in FY 2019.

### **Gulf Coast Ecosystem Restoration Council's Compliance With the Improper Payments Elimination and Recovery Act of 2010 (Mandated)**

We plan to determine whether the Council complied with the Improper Payments Elimination and Recovery Act of 2010, as amended, for FY 2018.

### **Gulf Coast Ecosystem Restoration Council's Progress in Implementing Charge Card Recommendations (Mandated)**

We plan to report to OMB on the Council's progress in implementing audit recommendations resulting from audits and risk assessments of the Council's charge card and/or convenience check programs.

### **DATA Act Quality Reporting Audit of the Gulf Coast Ecosystem Restoration Council—Phase II (Mandated)**

We plan to assess the (1) completeness, timeliness, quality, and accuracy of the FY 2019, first quarter financial and award data submitted by the Council for publication on USASpending.gov, and (2) the Council's implementation and use of Government-wide financial data standards established by OMB and Treasury.

## Planned Projects by OIG Issue Area

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### **Audit of Jefferson Parish, Louisiana’s Internal Control Over the Administration of Federal Awards (In Progress)**

We plan to assess Jefferson Parish, Louisiana’s internal controls over the administration of Federal awards in accordance with Federal laws, regulations, and Treasury’s application requirements. We engaged a contractor, under our supervision, to assist in this effort.

### **Florida Institute of Oceanography’s Administration of Centers of Excellence Sub-awards (In Progress)**

We engaged a contractor, under our supervision, to assess whether the Florida Institute of Oceanography’s administration of Centers of Excellence sub-awards complies with the RESTORE Act, applicable Federal statutes, regulations, and applicable award agreements.

### **Treasury Assessment of RESTORE Act Direct Component Multiyear Implementation Plans (In Progress)**

We will complete our assessment of Treasury’s review and acceptance of Direct Component multiyear implementation plans to ensure that only eligible activities are included and that the plans comply with requirements of the RESTORE Act, other applicable Federal laws and regulations, and Treasury program policies, procedures, and guidelines.

### **Subsea Systems Institute Compliance with Center of Excellence Research Grants Program Sub-award Requirements (In Progress)**

We will complete our assessment of whether Subsea Systems Institute has used awarded RESTORE Act funds in compliance with applicable Federal statutes, regulations, and its award agreement with the Texas Commission on Environmental Quality.

### **Treasury’s Administration of the Pre-Award Phase for the Direct Component Awards of the Gulf Coast Restoration Trust Fund (In Progress)**

We plan to assess Treasury’s administration of the pre-award phase of the Direct Component awards to ensure compliance with the RESTORE Act, applicable regulations, and Treasury policies and procedures.

### **Gulf Coast Ecosystem Restoration Council’s Administration of the Pre-Award Phase for the Spill Impact Component Awards of the Gulf Coast Restoration Trust Fund**

We plan to assess the Council’s administration of the pre-award phase of the Spill Impact Components awards to ensure compliance with the RESTORE Act, applicable regulations, and Council policies and procedures.

## Planned Projects by OIG Issue Area

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### **Gulf Coast Ecosystem Restoration Council's Compliance With OMB's A-123 Enterprise Risk Management Requirements**

We plan to determine whether the Council has implemented and maintained an enterprise risk management framework in accordance with requirements of OMB Circular No. A-123.

### **Treasury's Administration of the Post Award Phase for Direct Component Awards of the Gulf Coast Restoration Trust Fund**

We plan to assess Treasury's administration of the post award phase of the Direct Component awards to ensure compliance with the RESTORE Act, applicable regulations, and Treasury policies and procedures.

### **Grantee Compliance With RESTORE Act Land Purchase Requirements**

We plan to determine whether grant recipients complied with land purchase requirements stipulated in the RESTORE Act and grant agreements.

## Projects Under Consideration for Future Fiscal Years

### **Compliance Audits of RESTORE Act Grant Recipients**

We plan to assess whether selected grant recipients have used awarded RESTORE Act funds in compliance with the RESTORE Act, applicable Federal statutes and regulations, and award agreements.

### **Gulf Coast Ecosystem Restoration Council's Management and Oversight of Interagency Agreements for Administrative Services**

We plan to determine whether the Council properly executes, monitors, and manages interagency agreements (IAA). Specifically, we will determine if the Council has internal controls in place to ensure IAAs meet the requirements of applicable laws, regulations, and policies and procedures, and if the Council properly manages the financial and performance aspects of its IAAs.

### **Gulf Coast Ecosystem Restoration Council's Administration of Pre-Award Phase of Council-Selected Restoration Component Awards**

We plan to assess the Council's administration of the pre-award phase of the Council-Selected Restoration Components awards to ensure compliance with the RESTORE Act, applicable regulations, and Council's policies and procedures.

### **Treasury's Administration of the Pre-Award Phase for the Centers of Excellence Research Grants Program Awards**

We plan to assess Treasury's administration of the pre-award phase of the Centers of Excellence Research Grants Program awards to ensure compliance

## Planned Projects by OIG Issue Area

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with the RESTORE Act, applicable regulations, and Treasury policies and procedures.

### **Gulf Coast Ecosystem Restoration Council's Administration of the Post Award Phase for Council Selected-Restoration Component Awards**

We plan to assess the Council's administration of the post award phase of the Council Selected-Restoration Component awards to ensure compliance with the RESTORE Act, applicable regulations, and Council policies and procedures.

### **Gulf Coast Ecosystem Restoration Council's Administration of the Post Award Phase of Council Selected-Restoration Component IAAs**

We plan to assess the Council's internal control and oversight of IAAs with Federal Council partners for Council-Selected Restoration Component awards to ensure compliance with the RESTORE Act, applicable regulations, and Council policies and procedures.

### **Gulf Coast Ecosystem Restoration Council's Administration of the Post Award Phase of Spill Impact Component Awards**

We plan to assess the Council's administration of the post award phase of the Spill Impact Component awards to ensure compliance with the RESTORE Act, applicable regulations, and Council policies and procedures.

### **Treasury's Administration of the Post Award Phase of Centers of Excellence Research Grants Program Awards**

We plan to assess Treasury's administration of the post award phase of the Centers of Excellence Research Grants Program awards to ensure compliance with the RESTORE Act, applicable laws, and regulations, and Treasury policies and procedures.

### **Treasury Internal Controls to Eliminate Duplication of Funding for RESTORE Act Programs**

We plan to assess whether Treasury implemented controls to prevent duplication of funding with the Oil Spill Liability Trust Fund created under the Oil Pollution Act and other Gulf Coast restoration funding sources.

### **Gulf Coast State Multiyear Implementation Plan Development Process**

We plan to assess State entities' respective processes to develop the Direct Component multiyear implementation plans, to ensure that each plan complies with the RESTORE Act, applicable Federal laws and regulations, and Treasury program policies, procedures, and guidelines.

## Planned Projects by OIG Issue Area

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### **Gulf Coast State Entities' Internal Control Over Centers of Excellence Research Grants Programs**

We plan to determine whether the Gulf Coast State entities have proper and sufficient internal control in place over respective Centers of Excellence Research Grants Programs in accordance with the RESTORE Act and applicable Federal and state regulations.

### **Sub-recipient Monitoring Process of the Gulf Coast State and Local Governments Receiving RESTORE Act Funding**

We plan to determine whether the State and local governments receiving RESTORE Act funding have sub-recipient monitoring controls in place in accordance with applicable Federal law and regulations.

### **The Water Institute of the Gulf's Compliance with Centers of Excellence Research Grants Program Sub-award Requirements**

We plan to assess whether the Water Institute of the Gulf used RESTORE Act award funds in compliance with applicable Federal statutes, regulations, and award agreements with the Louisiana Coastal Protection and Restoration Authority.

### **Gulf Coast Ecosystem Restoration Council's Evaluation of Gulf Coast State Expenditure Plans Under the Spill Impact Component**

We plan to assess the Council's evaluation and selection of projects and programs under the Spill Impact Component in accordance with the RESTORE Act, federal laws and regulations, and Council policies and procedures.

### **Gulf Coast Ecosystem Restoration Council's Internal Controls to Eliminate Duplication of Funding for RESTORE Act Programs**

We plan to determine whether the Council implemented controls to prevent duplication of funding with the Oil Spill Liability Trust Fund created under the Oil Pollution Act and other Gulf Coast restoration funding sources.

### **Gulf Coast Ecosystem Restoration Council's Travel and Conference Expenditures**

We plan to determine whether the Council expends travel and conference funds in accordance with the Federal Travel Regulation and the Council's policies and procedures.

## Planned Projects by OIG Issue Area

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### **Texas OneGulf Compliance with Centers of Excellence Research Grants Program Sub-award Requirements**

We plan to assess whether Texas OneGulf used RESTORE Act award funds in compliance with applicable Federal statutes, regulations, and award agreements with the Texas Commission on Environmental Quality.

### **Mississippi Based RESTORE Act Center of Excellence Compliance with Centers of Excellence Research Grants Program Sub-award Requirements**

We plan to determine whether the Mississippi Based RESTORE Act Centers of Excellence used RESTORE Act award funds in compliance with applicable Federal statutes, regulations, and award agreements with the Mississippi Department of Environmental Quality.

### **Treasury’s Review of “Best Available” Science to Support Projects and Activities Under the Direct Component**

We plan to assess Treasury’s review of applications for grants under the Direct Component to ensure applicants’ projects and activities complied with the “best available science” requirements as defined under Section 1603 of the RESTORE Act, and Treasury’s RESTORE Act regulations, before receiving amounts from the Trust Fund.

### **Louisiana’s Coastal Protection and Restoration Authority’s Compliance With Procurement Practices for Awards**

We plan to assess Louisiana’s Coastal Protection and Restoration Authority’s procurement policies, practices and procedures for compliance with the RESTORE Act, applicable Federal Statutes, regulations, and award agreements.

### **Corrective Action Verification–Gulf Coast Ecosystem Restoration Council’s Records Management System Needs Improvement**

We plan to determine whether the Council took corrective action in response to the recommendation in our report *RESTORE Act: The Gulf Coast Ecosystem Restoration Council’s Records Management System Needs Improvement* (OIG-16-051, July 27, 2016).

### **Gulf Coast Ecosystem Council’s 5-year Update of the Comprehensive Plan**

We plan to determine whether the Council updated the Comprehensive Plan in a timely manner and in accordance with the requirements in the RESTORE Act and applicable regulations, policies, and procedures.

## Planned Projects by OIG Issue Area

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### **Quality Control Review of Single Audit Reports for the RESTORE Act Grants**

We plan to perform quality control reviews to determine whether audits obtained by RESTORE Act program grantees were performed in accordance with the Single Audit requirements and applicable professional standards and may be relied on for ensuring accountability of RESTORE Act awards.

### **Gulf Coast Ecosystem Restoration Council's Compliance with the GONE Act**

We plan to determine whether the Council has complied with grant close-out requirements, and if applicable, the Congressional reporting requirements under the GONE Act.

### Small Business Lending Fund Program

The Small Business Jobs Act of 2010 authorized Treasury to establish the SBLF Program to provide capital to community banks and community development loan funds (CDLF) so that those institutions can increase small-business lending. The act also created within Treasury OIG the Office of SBLF Program Oversight, which operates under the direction of the Special Deputy Inspector General for Small Business Lending Fund Oversight/Assistant Inspector General for Audit (who reports directly to the Inspector General). Treasury OIG is to report at least twice a year to the Secretary of the Treasury and Congress on the results of oversight activities involving the SBLF Program.

For banks, the SBLF Program was structured to encourage small-business lending through a dividend or interest-rate incentive structure. The more banks increase lending over a baseline level, the lower the interest rate, regardless of small-business lending levels. Generally, the SBLF program was open only to institutions with aggregate assets less than \$10 billion. Under the SBLF Program, institutions may not make loans to entities with more than \$50 million in revenues or in amounts over \$10 million.

Treasury invested more than \$4 billion in 332 financial institutions across the country. As of March 2018, Treasury reported that 274 of 332 institutions with aggregate investments of \$3.73 billion had fully redeemed their SBLF securities and exited the program. Additionally, all participating institutions had increased their small business lending by \$19.1 billion. Of the remaining institutions, five had partially redeemed \$28 million of their securities, though they continued to participate in the program.

Under the terms of the authorizing legislation, the SBLF funds were intended to stimulate lending to small businesses, but participating institutions have no obligation to increase their small-business lending activity or report how they used Treasury investments. Further, because the SBLF Program is a capital investment program and not a direct-lending program, the capital invested in banks is leveraged and not traceable to individual loans. As a result, the direct effect of SBLF funds on small-business lending cannot be isolated from other factors. Although the direct effect of the SBLF Program is not measurable, Treasury evaluates program outcomes based on gains in small-business lending reported quarterly by participants using the calculation method prescribed by the act.

## Planned Projects by OIG Issue Area

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Treasury investments in some banks are in the form of noncumulative preferred stocks. For these investments, institutions are under no obligation to pay previously missed payments before exiting the program. According to Treasury, when dividend payments are missed, additional measures may be taken, ranging from requiring an explanation for the missed payment to naming an observer to an institution's board of directors. However, these measures are less effective if an institution's regulator has already restricted it from making dividend payments.

It should also be noted that some institutions may be unable to redeem their SBLF securities and cannot exit the program. Dividend and interest rates automatically rose to 9 percent for C corporations and 13.8 percent for S corporations and mutual institutions in the program for 4.5 years, which occurred in early 2016. Interest rates for CDLFs rise to 9 percent after 8 years in the program. These rate increases have already prompted some institutions to redeem their securities; however, Treasury will need to prepare for the possibility that some institutions may be unable to redeem or pay the higher dividend rate.

### In Progress and Planned FY 2019 Projects

#### **SBLF Asset Management and Consultant Fees (In Progress)**

We plan to (1) assess the process used to procure services from asset managers and other consultants and (2) determine whether services provided were consistent with contractual terms and fees paid to the providers were reasonable.

#### **Impact of the Dividend and Interest Rate Increases (In Progress)**

We plan to evaluate the impact of the mandatory dividend and interest-rate increases on banks, including determining how many institutions have redeemed their securities and whether Treasury is collecting the additional interest and dividends from institutions remaining in the program.

#### **Audit of CDLF Participants**

We plan to determine (1) how effective CDLFs have been in increasing lending to small businesses and (2) whether CDLFs have accurately reported qualified small business lending to Treasury.

### Project Under Consideration for Future Fiscal Years

#### The SBLF Program Exit Process

We plan to (1) determine whether institutions that exited SBLF complied with program requirements, including repayment of funds to Treasury, and (2) identify Treasury's plans for winding down the program.

## Appendix A: Office of Audit FY 2019 Resource Allocation

The following table shows our OIG projects for FY 2019, by priority area.

Audit Priority	Projects
Audit projects mandated by law	59
Work requested by Congress or externally driven	7
Self-directed work in Treasury's highest-risk areas	87
<b>Total</b>	<b>153</b>

The following table shows our planned OIG staff resource allocation for FY 2019, by priority area.

Audit Priority	Percentage of Planned Audit Resources
Audit products mandated by law	19
Work requested by Congress or externally driven	3
Self-directed work in Treasury's highest-risk areas	78
<b>Total</b>	<b>100</b>

## Appendix A: Office of Audit FY 2019 Resource Allocation

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The following table shows our planned OIG audit staff resource allocation for FY 2019, by OIG issue area.

OIG Issue Area	Percentage of Planned Audit Resources
Treasury General Management and Infrastructure Support:	
Financial Management	10
Cybersecurity/Information Technology	7
Treasury Resource Management and Infrastructure Support	15
Anti-Money Laundering/Terrorist Financing and Foreign Assets Control	10
Government-wide Financial Services and Debt Management	17
Financial Regulation and Oversight	6
Alcohol and Tobacco Revenue Collection and Industry Regulation	8
Bill and Coin Manufacturing	10
Domestic and International Assistance Programs	8
Gulf Coast Restoration	8
Small Business Lending Fund Program	1
<b>Total</b>	<b>100</b>

## Appendix A: Office of Audit FY 2019 Resource Allocation

The following table shows our planned OIG audit staff allocation for FY 2019, by Treasury headquarters operational component, Treasury bureaus, and other federal and state entities.

Treasury Departmental Offices, Treasury Bureaus, and Other Federal and State Entities	Percentage of Planned Audit Resources
<b>Treasury Departmental Offices</b>	
Domestic Finance	3
Office of the Assistant Secretary for Management and Chief Financial Officer	25
Small Business Lending Fund	1
Community Development Financial Institutions Fund	2
Office of the Chief Information Officer	7
Office of Terrorism and Financial Intelligence	12
<b>Other Departmental Offices</b>	
<b>Treasury Bureaus</b>	
Office of the Comptroller of the Currency	5
Bureau of the Fiscal Service	11
Financial Crimes Enforcement Network	2
U.S. Mint	6
Bureau of Engraving and Printing	8
Alcohol and Tobacco Tax and Trade Bureau	8
<b>Other Federal and State Entities*</b>	
Gulf Coast*	9
<b>Total</b>	<b>100</b>

## Appendix A: Office of Audit FY 2019 Resource Allocation

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- \* Treasury's Office of Gulf Coast Restoration administers the Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012 (RESTORE Act) grants programs for the Direct Component and the Centers of Excellence Component. The RESTORE Act authorized Treasury OIG to conduct, supervise, and coordinate audits and investigations of projects, programs, and activities funded under the act, including Treasury and other Federal, state, and local government entities. The RESTORE Act established the Gulf Coast Ecosystem Restoration Council, a new independent entity within the Federal Government, comprising governors from the five affected Gulf Coast States; the Secretaries from the U.S. Departments of the Interior, Commerce, and Agriculture; the head of the department housing the Coast Guard (currently the Secretary of the Department of Homeland Security); the Secretary of the Army; and the Administrator of the U.S. Environmental Protection Agency. In accordance with the RESTORE Act, our office performs audits of the National Oceanic and Atmospheric Administration's Science Program Component and the Gulf Coast State and Local Government grantees.

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## Abbreviations

1602 Program	Treasury’s Payments to States for Low-Income Housing Projects in Lieu of Low-Income Housing Credits
ARC	Administrative Resource Center
BEP	Bureau of Engraving and Printing
Board	Board of Governors of the Federal Reserve System
BSA	Bank Secrecy Act
CAATSA	Countering America’s Adversaries Through Sanctions Act
CBP	Customs and Border Protection
CCMM	Collections and Cash Management Modernization
CDD	Customer Due Diligence
CDE	Community Development Entity
CDFI	Community Development Financial Institution
CDLF	community development loan fund
Charge Card Act	Government Charge Card Abuse Prevention Act of 2012
CHIPRA	Children’s Health Insurance Program Reauthorization Act of 2009
CIGFO	Council of Inspectors General on Financial Oversight
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CIO	Chief Information Officer
CISA	Cybersecurity Information Sharing Act
the Commission	Commission on Social Impact Partnerships
Council	Gulf Coast Ecosystem Restoration Council
DATA Act	Digital Accountability and Transparency Act of 2014
DCIA	Debt Collection Improvement Act of 1996
DHS	Department of Homeland Security
DNI	Director of National Intelligence
DTAR	Department of the Treasury Acquisition Regulation
Dodd-Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act
EO	Executive Order

## Abbreviations

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ERM	Enterprise Risk Management
FAR	Federal Acquisition Regulation
Fannie Mae	Federal National Mortgage Association
FinCEN	Financial Crimes Enforcement Network
FIO	Federal Insurance Office
Fiscal Service	Bureau of the Fiscal Service
FISMA	Federal Information Security Modernization Act of 2014
FITARA	Federal Information Technology Acquisition Reform Act
FIU	Financial Intelligence Unit
FMS	Financial Management Service
Freddie Mac	Federal Home Loan Mortgage Corporation
FSOC	Financial Stability Oversight Council
FY	fiscal year
GAO	Government Accountability Office
GONE Act	Grant Oversight and New Efficiency Act
GSE	Government Sponsored Entities
GTO	Geographic Targeting Orders
HERA	Housing and Economic Recovery Act of 2008
HR	Human Resources
IAA	interagency agreement
IC	Intelligence Community
IGT	Intragovernmental Transactions
Interagency Council	Interagency Council on Social Impact Partnerships
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IRS	Internal Revenue Service
ISIL	Islamic State of Iraq and the Levant
ISIS	Islamic State of Iraq and Syria
IT	information technology
Mint	U.S. Mint
NMTC	New Markets Tax Credit Program

## Abbreviations

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NOAA	National Oceanic and Atmospheric Administration
OBT	Office of Budget and Travel
OCC	Office of the Comptroller of the Currency
OCP	Office of Consumer Policy
OFAC	Office of Foreign Assets Control
OFR	Office of Financial Research
OIA	Office of Intelligence and Analysis
OIG	Office of Inspector General
OIR	Operation Inherent Resolve
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PL	Public Law
PPS	Post Payment System
Recovery Act	American Recovery and Reinvestment Act of 2009
RESTORE Act	Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012
RSS	Retail Securities Services
SAR	Suspicious Activity Report
SBLF	Small Business Lending Fund
Science Program	Gulf Coast Restoration Science, Observation, Monitoring, and Technology Program
SIPPRA	Social Impact Partnerships to Pay for Results Act of 2018
SRP	State Reciprocal Program
SSP	Treasury Franchise Fund Shared Services Program
TARP	Troubled Asset Relief Program
TBM	Technology Business Management
TEOAF	Treasury Executive Office of Asset Forfeiture
TFF	Treasury Forfeiture Fund
TFI	Office of Terrorism and Financial Intelligence
TIGTA	Treasury Inspector General for Tax Administration
TMA	Treasury Managed Account

## Abbreviations

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TOP	Treasury Offset Program
Treasury or the Department	Department of the Treasury
Trust Fund	Gulf Coast Restoration Trust Fund
TTB	Alcohol and Tobacco Tax and Trade Bureau
USA PATRIOT Act	United and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act