



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

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MEMORANDUM FOR SHERYL R. MORROW
COMMISSIONER
BUREAU OF THE FISCAL SERVICE

FROM: James L. Lisle, Jr. /s/
Acting Deputy Assistant Inspector General for Audit

SUBJECT: Audit Termination Memorandum – Treasury’s Securities
Auction Program

In March 2014, we initiated an audit of the Bureau of the Fiscal Service’s (Fiscal Service) administration of auctions to sell marketable Department of the Treasury- (Treasury) issued securities. We started this audit out of concern surrounding an incident that occurred on September 9, 2013, in which one bidder was unable to enter bids for itself or its clients in the 3-month Treasury bill auction (the auction incident). In addition to reviewing the circumstances surrounding the auction incident, we planned to determine the controls in place over the auction process and whether those controls were consistent with the Secretary of the Treasury’s authorities to issue United States obligations.

We are terminating this audit because we found that the auction incident, which occurred due to an information system flaw rather than a break down in Fiscal Services’ internal control, was independently reviewed by Treasury’s Office of Financial Markets and the Government Accountability Office (GAO). Fiscal Service performed an internal review and took immediate action, along with Treasury’s Office of Financial Markets, to make procedural changes to prevent future auction incidents. In addition, GAO performs annual financial audits of the schedules of Federal debt managed by Fiscal Service, which includes reviewing controls over Fiscal Services’ information systems, specifically the Treasury Automated Auction Processing System (TAAPS). The following provides details on which we based our decision to terminate our audit.

- We made inquiries of GAO and reviewed documentation related to the *Bureau of the Fiscal Service’s Fiscal Years 2013 and 2012 Schedules of Federal Debt* (GAO-14-173; December 2013). We noted the following:

- The circumstances surrounding the September 9, 2013 auction incident, while not specifically mentioned in GAO's report, was reviewed and considered as part of their overall assessment on internal controls.
- GAO reviewed information systems controls over key Fiscal Service financial systems relevant to the schedules of Federal debt.
- The electronic receipt and tender of auction orders via the TAAPS system were among the controls over Treasury's auction process identified by GAO in its August 2013 *Auction and Issuance of Debt Held by the Public Securities Cycle Memo*. Testing these controls would be a duplication of effort.
- Fiscal Service's Office of Information Systems and Services conducted an internal review of the systematic causes of the auction incident. The review found that the auction incident was caused by a bidder placing duplicate orders in TAAPS. Once TAAPS recognized the duplication, it did not allow the bidder, Fiscal Service, or the Federal Reserve Bank of New York to re-enter the order.¹ According to Fiscal Service personnel, system controls have been put in place to prevent duplicate orders being recorded in TAAPS.
- In response to the auction incident, Treasury's Assistant Secretary for Financial Markets and Fiscal Assistant Secretary issued an *Action Memorandum: Recommended Changes to Auction Procedures Following a Review of September 9, 2013 3-Month and 6-Month Bill Auctions*, recommending four procedural changes to reduce the risk of future auction errors, which were approved by Acting Deputy Secretary in October 2013. Fiscal Service officials told us that the Office of Treasury Securities Services implemented the recommendations over the course of fiscal year 2014 which include the following:
 - Standardize and simplify contingent system procedures for addressing any operational contingency that may arise during an auction.
 - Remove the time pressure by instilling in all auction monitors the understanding that while smoothly executed auctions that release data to the public in a timely fashion are a goal, accuracy and the integrity of the auction are more important than any other considerations.

¹ The Federal Reserve Act of 1913 provides that the Federal Reserve Banks will act as fiscal agents and depositories of the United States when required to do so by the Secretary of the Treasury. As fiscal agents, the Reserve Banks support the Department of the Treasury with services related to the Federal debt. For example, they receive bids for auctions of Treasury securities to finance the debt and issue the securities in book-entry form.

- Empower all auction monitors to recommend that the auction supervisor pause an auction. Members of any auction monitoring group should not hesitate to recommend the pausing of an auction when there is any doubt about auction's integrity.
- Recognize that a large bidder may miss the auction. While Treasury wants to provide all bidders the opportunity to bid, if there is a problem with the bid from a large bidder that cannot be remedied using regular processes then the auction should go on without the bidder.

In consideration of the above activities, we determined that continuing our audit as planned would not lead to further corrective actions of the circumstances surrounding the September 9, 2013 auction incident. However, we will continue to monitor the implementation of control activities noted above and assess their effectiveness in a future audit.

Should you have any questions, please contact me at (202) 927-6345 or Andrea Smith, Acting Director, at (202) 927-8757.

cc: Derrick Watson, Audit Liaison