

Office of Inspector General

Program Summary by Budget Activity

(Dollars in thousands)

Appropriation	FY 2009 Enacted	FY 2010 Enacted	Request	FY 2011 \$ Change	% Change
Audit	\$20,116	\$22,869	\$23,306	\$437	1.9%
Investigations	\$6,009	\$6,831	\$6,963	\$132	1.9%
Subtotal, Office of Inspector General	\$26,125	\$29,700	\$30,269	\$569	1.9%
Offsetting Collections - Reimbursables	\$7,381	\$8,000	\$10,000	\$2000	25.0%
Total Program Operating Level	\$33,506	\$37,700	\$40,269	\$2,569	6.8%

Explanation of Request

The Fiscal Year (FY) 2011 President's Budget request for the Office of Inspector General (OIG) will be used to provide critical audit and investigative services, ensuring the effectiveness and integrity of Treasury's programs and operations. The OIG will continue to address mandated requirements related to (1) audits of the Department's financial statements, (2) information security, and (3) failed institutions regulated by the Office of the Comptroller of the Currency or the Office of Thrift Supervision resulting in material losses to the deposit insurance fund (material loss is defined as the greater of \$25 million or 2 percent of the institution's assets). To the extent that resources are available, the OIG will conduct audits of the Department's highest risk programs and operations. Five of those programs and operations are discussed below. This list is not all inclusive, and risks change over time and circumstance.

Programs to Ensure the Safety and Soundness of the Nation's Financial Markets – The wave of bank failures that started in 2008 underscore the need for increased audit coverage of a more prospective nature. The material loss reviews are a backward look at the quality of supervision as it relates to the failed institution under review. The OIG believes that it is just as important for regulators to address emerging risks in financial markets and products. The subprime mortgage crises was a costly lesson that serves to remind us that

regulators need to anticipate, recognize, and control business practices that create unreasonable risk.

Another area that the OIG believes requires vigorous oversight is Treasury's responsibilities under the Housing and Economic Recovery Act of 2008. Treasury has taken on an important role to complement the Federal Housing Finance Agency's September 2008 decision to place Fannie Mae and Freddie Mac in conservatorship.

Programs to Promote Economic Recovery – With the enactment of the American Recovery and Reinvestment Act of 2009 (Recovery Act), Treasury was provided with, among other things, over \$4 billion for low-income housing projects and specified energy properties of which the OIG has jurisdiction or joint jurisdiction with the Treasury Inspector General for Tax Administration. Additionally, the Community Development Financial Institutions Fund received a \$100 million supplement to its fiscal year 2009 funding round for qualified program applicants through FY 2011. This FY 2009 funding nearly doubles the amount made available to the Fund through FY 2011.

Programs to Combat Terrorist Financing and Money Laundering – Treasury faces unique challenges in carrying out its responsibilities under the Bank Secrecy Act (BSA) and USA Patriot Act to prevent and detect money laundering and terrorist financing. Past audits

and Congressional hearings have surfaced serious regulatory gaps in the detection of and/or timely enforcement action against financial institutions for BSA and related violations. Furthermore, with the current distress facing so many financial institutions throughout our country, we believe that there is an increased risk that compliance with BSA may have deteriorated further and may continue to worsen.

Efforts to Ensure the Security of Treasury's Information Systems -- The Department faces serious challenges in bringing its systems into compliance with information technology security policies, procedures, standards, and guidelines. In its FY 2008 Federal Information Security Management Act independent audit, the OIG continued to report deficiencies in the Department's information security programs and practices.

Treasury's Management of Capital Investments -- Treasury needs to ensure that large acquisitions of systems and other capital investments are properly managed. The Department's record in this regard has been mixed at best. While the OIG has reported that Treasury was able to complete a high priority national security system upgrade, the upgrade was delayed. Treasury also failed to implement other major system development efforts successfully, such as BSA Direct and IRS's web-based Electronic Fraud Detection System.

The requested funding will also allow OIG to continue to prevent fraud, waste and abuse, at all Treasury non-IRS bureaus and offices, including investigating complaints of alleged employee misconduct, and allegations of fraud and other crimes involving Treasury programs, performing oversight of the Treasury's police operations at the Bureau of Engraving and Printing and the U.S. Mint, continue reviewing and investigating instances where the U.S. Mint's Coin Redemption and Bureau of

Engraving and Printing's Currency Redemption Programs are used to facilitate money laundering, structuring, and other unlawful activities, and conducting proactive efforts to detect, investigate, and deter electronic crimes and other threats to the Department's physical and cyber critical infrastructure.

Resources required to support OIG operations for FY 2011 are \$30,269,000 from direct appropriations, and \$10,000,000 from offsetting collections and reimbursable agreements for contract financial statement audits of other Treasury bureaus.

Purpose of Program

The Treasury OIG plays a major role in support of the Department of the Treasury's goal to ensure accountability and transparency, to protect the integrity of the Department, and to improve overall efficiency and effectiveness in Treasury programs and operations. OIG conducts audits and investigations of eight Treasury bureaus and all non-IRS Treasury offices in accordance with the Inspector General Act, as amended, to (a) promote economy, efficiency, and effectiveness in the administration of Treasury programs and operations, (b) prevent and detect fraud, waste, and abuse in Treasury programs and operations; and (c) keep the Secretary and the Congress fully and currently informed about problems, abuses, and deficiencies in Treasury programs and operations.

There is also appropriated to the Department of the Treasury funds specifically identified for the annual audit of the Treasury-wide Financial Statements. This audit is performed by an independent public accounting firm under the supervision of OIG. These funds are not available for OIG programs and operations.

OIG FY 2011 Budget Highlights

(Dollars in thousands)

Appropriation	Amount
FY 2010 Enacted	29,700
Changes to Base:	
Maintaining Current Levels (MCLs):	\$512
FERS % Change	47
Non-Pay Inflation Adjustment	56
Pay Annualization	115
Pay Inflation Adjustment	294
Efficiencies Savings:	(\$5)
Procurement Savings	(5)
Subtotal FY 2011 Changes to Base	\$507
Total FY 2011 Base	30,207
Program Changes:	
Program Increases:	\$62
CIGIE Fees	62
Subtotal FY 2011 Program Changes	\$62
Total FY 2011 Budget Request	30,269

FY 2011 Budget Adjustments

FY 2010 Enacted

The FY 2010 enacted direct appropriation for OIG is \$29,700,000.

Maintaining Current Levels (MCLs)

Adjustments Necessary to Maintain Current Levels +\$512,000 / +0 FTE

Funds are requested for: FERS % Change of +\$47,000; non-labor related items such as contracts, travel, supplies, equipment and GSA rent adjustments of +\$56,000; FY 2011 cost of the January 2010 pay increase of +\$115,000; and proposed January 2011 pay raise of +\$294,000.

Efficiencies Savings

Procurement Savings -\$5,000 / +0 FTE 3.5%
Procurement Savings to be achieved through improved efficiencies and economies in the procurement process.

Program Increases

CIGIE Fees +\$62,000 / +0 FTE

Funds are requested for Treasury OIG's share of Council of Inspectors General for Integrity and Efficiency (CIGIE) cost of CIGIE operations. This funding will specifically support coordinated government-wide

activities that identify and review areas of weakness and vulnerability in federal programs and operations with respect to fraud, waste, and abuse.

Explanation of Budget Activities

Salaries and Expenses

Audit (\$23,306,000 from direct appropriations and \$10,000,000 from reimbursable programs)

The Office of Audit conducts audits of eight Treasury bureaus and all non-IRS Treasury offices; produces more than 60 products annually; and provides firsthand, unbiased perspectives and recommendations for improving the economy, efficiency, and effectiveness of Treasury programs and operations. The Office of Audit has recently been challenged to keep up with an increasing number of bank failures that require dedicated resources to conduct mandated material loss reviews. The requested funding will better enable OIG to meet those requirements. The requested funding will also be used by OIG to provide initial oversight of more than \$4 billion for low-income housing projects and specified energy properties grants authorized by the American Recovery and Reinvestment Act (Recovery Act). The Office also responds to requests by Treasury officials and the Congress for specific work. Reimbursable funding supports agreements for contract audits of other Treasury-wide financial statements.

Investigations (\$6,963,000 from direct appropriations)

The Office of Investigations prevents, detects and investigates complaints of fraud, waste and abuse at eight Treasury bureaus and all non-IRS Treasury offices. This includes the detection and prevention or deterrence of employee misconduct and fraud, or related financial crimes within or directed against Treasury. The Office of Investigations refers

its cases to the Department of Justice and state or local prosecutors for criminal prosecution or civil litigation, or to agency officials for corrective administrative action.

Legislative Proposals

Treasury OIG has no legislative proposals for FY 2011.

OIG Performance by Budget Activity

Budget Activity	Performance Measure	FY 2007	FY 2008	FY 2009			FY 2010	FY 2011
		Actual	Actual	Target	Actual	Target Met?	Target	Target
Audit	Number of completed audit products (Ot)	64	64	60	68	Y	62	62
Investigations	Percentage (%) of all cases that were accepted by prosecutors, referred for agency action, or closed during the fiscal year and were completed within 18 months of case initiation (E)	NA	NA	B	92	Y	70	70

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and B=baseline

Description of Performance

In FY 2008, the Office of Audit performed or supervised contractors to meet its financial statement and information security mandated audit requirements. It also performed mandated material loss reviews of failed financial institutions supervised by Treasury. Furthermore, the Office of Audit directed its self-initiated work toward addressing Treasury's major management and performance challenges. The Office of Audit completed 64 audit products, and met all statutory completion requirements.

In FY 2008, the Office of Investigations continued investigating all reports of fraud, waste and abuse and other criminal activity. The Office of Investigations referred 93 investigations for criminal prosecution, civil litigation, or corrective administrative action. The Office of Investigations undertook a thorough review of their performance measure methodology, and has developed better and more realistic measures with which to gauge their investigative performance. These new measures went into effect in FY 2009, and will be evaluated through the year.

In FY 2009, the OIG maintained performance at a level consistent with FY 2008, and

continued to direct a significant portion of its limited resources to conducting the increasing number of material loss reviews of failed banks. Furthermore, the OIG began providing oversight of more than \$4 billion for low-income housing projects and specified energy properties grants authorized by the American Recovery and Reinvestment Act (Recovery Act). The OIG also closed 94 investigative cases.

FY 2010 resources will enhance OIG's ability to conduct material loss reviews required as a result of the increasing number of bank failures and OIG will continue to direct its remaining resources to auditing Treasury programs: to ensure the safety and soundness of the nation's financial markets; to promote economic recovery; to combat terrorist financing and money laundering; to ensure the security of treasury's information systems, and; to improve Treasury's management of capital investments.

As in FY 2010, the FY 2011 requested resources will maintain the OIG's ability to conduct material loss reviews of failed banks and critical and high risk Treasury programs and processes.