



# Semiannual Report to Congress

April 1, 2010–September 30, 2010  
OIG-CA-11-002

Office of Inspector General  
Department of the Treasury

## Highlights

During this semiannual reporting period, the Office of Audit issued 17 products and work by the Office of Investigations resulted in three arrests, four indictments/informations, and two convictions. Some of our significant results for the period are described below.

- We completed a joint evaluation with the Federal Deposit Insurance Corporation (FDIC) Office of Inspector General of the Washington Mutual Bank (WaMu) failure. With \$307 billion in assets, WaMu was the largest institution to fail in U.S. history. JPMorgan Chase & Co. acquired WaMu in an FDIC facilitated transaction that resulted in no loss to the Deposit Insurance Fund. WaMu's failure resulted from management's pursuit of a high-risk lending strategy that included liberal underwriting standards and inadequate risk controls. The Office of Thrift Supervision's examinations identified concerns about WaMu's high-risk lending strategy but did not adequately ensure that WaMu corrected those problems early enough to prevent its failure. The Inspectors General for Treasury and FDIC testified on the results of the joint evaluation before the Senate Permanent Subcommittee on Investigations in April 2010.
- We completed material loss reviews of four failed Treasury-regulated financial institutions that together resulted in a loss to the Deposit Insurance Fund of approximately \$5.7 billion. As noted in prior reviews, overly aggressive growth strategies, risky lending products such as option adjustable rate mortgages, unsound underwriting, high concentrations in commercial real estate loans, inadequate risk management systems, and ineffective management and boards, exacerbated by the decline in the real estate market, were primary reasons for the failures.
- As a result of a joint investigation with the Federal Bureau of Investigation, a Treasury official was indicted, pled guilty, and sentenced in the U.S. District Court for the District of Columbia on two counts of unlawful distribution of methamphetamines.
- An Office of Inspector General investigation revealed that an Army financial clerk stole another soldier's stored value card issued through a joint Treasury and Army program and used it for unauthorized purchases. The clerk pled guilty to charges of dereliction of duty, theft of \$10,000 under the Uniform Code of Military Justice, and wire fraud. His sentence included 30 days of confinement, a reduction in rank, and the forfeiture of \$964. In addition, he will receive an Other Than Honorable Discharge from the military upon completion of his sentence.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), enacted in July 2010, raised the threshold loss to the Deposit Insurance Fund triggering a required material loss review of a bank failure from \$25 million to \$200 million. However, Dodd-Frank requires a limited review of all losses under the threshold to determine whether the losses should be reviewed in more depth. We must report on our determinations to Congress every 6 months. This semiannual report includes a new section to fulfill this new reporting requirement. It presents the results of 32 limited reviews. We determined that more in-depth reviews were warranted for 2 of the bank failures and reviews were not warranted for the other 30 bank failures.



## Message From the Inspector General

Over the past 6 months, we continued to focus resources on meeting our statutory obligations, most notably those requiring in-depth reviews of failed Treasury-regulated banks. Unfortunately, weaknesses in both the residential and commercial real estate markets continue to plague a large number of financial institutions. With the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), however, the threshold triggering in-depth reviews of failed banks has been significantly increased. As a result, we do anticipate relief in the number of these required reviews. To date, my staff has done an outstanding job in the conduct of these failed bank reviews. We have identified numerous problems with fundamental risk management and sound banking practices that led to most of these failures. We have also identified numerous weaknesses in the supervision exercised by the regulators and have made over 44 recommendations to improve bank supervision. We have also begun to devote more investigative resources to examining potentially fraudulent transactions identified by our auditors during failed bank reviews. In the end, I cannot stress enough the importance for both the industry and the regulators to take the lessons learned from the current wave of failures and strengthen their practices.

Looking ahead, I will be devoting substantial resources to meet new mandates and other areas of very high risk, including overseeing (1) the transfer of the Office of Thrift Supervision's functions to the other banking agencies, (2) Treasury's non-Internal Revenue Service Recovery Act programs, (3) the Terrorist Financing Tracking Program, (4) Financial Crime Enforcement Network's Bank Secrecy Act information technology modernization effort, and (5) Treasury's efforts to prevent and recover improper payments.

In addition, as the Treasury Inspector General, I chair the Council of Inspectors General on Financial Oversight (CIGFO) established by Dodd-Frank. CIGFO facilitates the sharing of information among inspectors general with a focus on reporting our concerns that may apply to the broader financial sector and ways to improve financial oversight. Accordingly, CIGFO will be an important source of independent, unbiased analysis to the Financial Stability Oversight Council (chaired by the Treasury Secretary), Congress, and the public. I also continue to serve as a statutory member of the Recovery Accountability and Transparency Board, which was established in 2009 to coordinate and conduct oversight of Recovery Act funds to prevent fraud, waste, and abuse.

Dodd-Frank also established the Bureau of Consumer Financial Protection within the Federal Reserve System to be headed by a director appointed by the President and confirmed by the Senate. Until a director is confirmed, however, Treasury has the authority to perform bureau functions. Accordingly, until it is transferred to the Federal Reserve, the bureau is under the jurisdictional oversight of my office. To facilitate effective oversight of this important new consumer protection agency, we are in close coordination with the Federal Reserve Inspector General and her staff, who will have jurisdictional oversight once a director is confirmed.

I think it is important to note that the Small Business Jobs Act of 2010, passed in late September 2010, designated my office to provide oversight of two new important Treasury programs—the Small Business Lending Fund which provides \$30 billion for capital investments to eligible institutions to increase the availability of credit for small businesses, and the State Small Business Credit Initiative which provides up to \$1.5 billion allocable to participating states to fund a variety of programs to encourage lending. As required by the act, I will establish an Office of Small Business Lending Fund Oversight, headed by a Special Deputy Inspector General who will report directly to me. Our oversight plans for these two new Treasury programs are being developed now.

I am very proud of the hard work and dedication of the Treasury Office of Inspector General staff. We have a strong cadre of talented, energized, and motivated employees. It is also with great pleasure that I can report that according to the most recent independent government-wide employee satisfaction survey, our office ranked 3<sup>rd</sup> out of 224 agency subcomponents. I look forward to working with my senior leadership team to build on this outstanding achievement and meet the challenges before us.



Eric M. Thorson  
Inspector General

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## Overview of the Office of Inspector General

The Department of the Treasury's Office of Inspector General (OIG) was established pursuant to the 1988 amendments to the Inspector General Act of 1978. OIG is headed by an Inspector General appointed by the President, with the advice and consent of the Senate. Serving with the Inspector General in the immediate office is a Deputy Inspector General. OIG performs independent, objective reviews of Treasury programs and operations, except for those of the Internal Revenue Service (IRS) and the Troubled Asset Relief Program (TARP), and keeps the Secretary of the Treasury and Congress fully informed of problems, deficiencies, and the need for corrective action. The Treasury Inspector General for Tax Administration performs oversight related to IRS. A Special Inspector General and the Government Accountability Office perform oversight related to TARP.

OIG has four divisions: (1) Office of Audit, (2) Office of Investigations, (3) Office of Counsel, and (4) Office of Management. OIG is headquartered in Washington, DC, and has an audit office in Boston, Massachusetts.

The Office of Audit performs and supervises audits, attestation engagements, and evaluations. The Assistant Inspector General for Audit has two deputies. One is primarily responsible for performance audits, and the other is primarily responsible for financial management, information technology, and financial assistance audits.

The Office of Investigations, under the leadership of the Assistant Inspector General

for Investigations, performs investigations and conducts initiatives to detect and prevent fraud, waste, and abuse in Treasury programs and operations under our jurisdiction. It also manages the Treasury OIG Hotline to facilitate reporting of allegations involving Treasury programs and activities.

The Office of Counsel, under the leadership of the Counsel to the Inspector General, provides legal advice to the Inspector General and all OIG components. The office represents the OIG in all legal proceedings and provides a variety of legal services including, (1) processing all Freedom of Information Act and *Giglio* requests, (2) conducting ethics training, (3) ensuring compliance with financial disclosure requirements, (4) reviewing proposed legislation and regulations, and (5) reviewing administrative subpoenas.

The Office of Management provides services to maintain the OIG administrative infrastructure. The Assistant Inspector General for Management oversees these functions.

As of September 30, 2010, OIG had 158 full-time staff. OIG's fiscal year 2010 appropriation was \$29.7 million.

## Treasury Management and Performance Challenges

In accordance with the Reports Consolidation Act of 2000, the Treasury Inspector General annually provides the Secretary of the Treasury with his perspective on the most serious management and performance challenges facing the Department. The Secretary includes these challenges in Treasury's annual agency financial report. In a memorandum to Secretary Geithner dated October 22, 2010, Inspector General Thorson reported four management and performance challenges. The following is an abridged description of the challenges.

### Transformation of Financial Regulation

In response to the need for stronger financial regulation and reform, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) in July 2010. Dodd-Frank established new responsibilities for Treasury and created new offices to fulfill those responsibilities.

A critical challenge in the near term is Treasury's role in standing up the Bureau of Consumer Financial Protection. When a Director is confirmed, the bureau will become an independent bureau of the Board of Governors of the Federal Reserve System. In the interim, Treasury is charged with supporting the creation and management of the Bureau of Consumer Financial Protection and, to that end, much needs to be done. While the bureau remains in Treasury, it will be subject to our audit and investigative oversight. We are, however, coordinating those oversight efforts with the OIG of the Board of Governors of the Federal Reserve System.

Dodd-Frank also established the Financial Stability Oversight Council (FSOC), and the Council of Inspectors General on Financial Oversight (CIGFO). The mission of FSOC, which is chaired by the Treasury Secretary, is to identify risks to financial stability that could arise from the activities of large, interconnected financial companies; respond to any emerging threats to the financial system; and promote market discipline. CIGFO, which is chaired by the Treasury Inspector General, facilitates information sharing among inspectors general with a focus on reporting concerns that may apply to the broader financial sector and ways to improve financial oversight. Accordingly, CIGFO will be an important source of independent, unbiased analysis to FSOC. In the future, CIGFO may also vote to convene a working group to evaluate the effectiveness and internal operations of FSOC.

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

Intended to streamline the supervision of depository institutions and holding companies, Dodd-Frank requires the transfer of the powers and duties of the Office of Thrift Supervision (OTS) to the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (FDIC) no later than July 2011. Our office, the FDIC OIG, and the Board of Governors of the Federal Reserve

System OIG are required by Dodd-Frank to jointly oversee and periodically report on the transfer of OTS functions.

Clearly, the intention of Dodd-Frank is most notably to prevent, or at least minimize, the impact of a future financial sector crisis on the U.S. economy. In order to accomplish this, Dodd-Frank has placed a great deal of responsibility within Treasury and on the Treasury Secretary. The management challenge from our perspective is to implement an effective FSOC process supported by the newly created offices within Treasury and the streamlined banking regulatory structure that timely identifies and strongly responds to emerging risks. This is especially important in times of economic growth and financial institution profitability when such government action is likely to be unpopular. Our work plans will include reviews of Treasury's effectiveness in establishing the new offices and undertaking its other critical roles.

The other regulatory challenges that we previously reported remain. Specifically, since September 2007, 90 Treasury-regulated financial institutions have failed, with estimated losses to the Deposit Insurance Fund of approximately \$36 billion. Although many factors contributed to the turmoil in the financial markets, our work found that OCC and OTS did not identify early or force timely correction of unsafe and unsound practices by numerous institutions under their supervision. The irresponsible lending practices of many institutions are now well-recognized—including reliance on risky products, such as option adjustable rate mortgages (ARM), and degradation of underwriting standards. At the same time, financial institutions engaged in other high-risk activities, including high asset concentrations in

commercial real estate and overreliance on unpredictable brokered deposits to fund rapid growth.

Recently, the unprecedented speed at which servicers were foreclosing on defaulted mortgages has revealed flaws in the processing of those foreclosures. A number of the largest banks with servicing functions have voluntarily placed moratoriums on foreclosures either in certain states or nationwide until these matters are resolved. While the depth and extent of these problems are not yet fully known, this is yet another troubling development in the manner in which financial institutions have been operating. Addressing this issue could be the first major challenge for FSOC.

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

Congress provided Treasury with broad authorities to address the financial crisis under the Housing and Economic Recovery Act and the Emergency Economic Stabilization Act, both enacted in 2008, the American Recovery and Reinvestment Act of 2009 (Recovery Act), and the Small Business Jobs Act of 2010. Certain authorities in the Housing and Economic Recovery Act and the Emergency Economic Stabilization Act have now expired, but challenges still remain in managing Treasury's outstanding investments. To an extent, Treasury's program administration under these two acts has matured. In contrast, program administration for the Recovery Act is still evolving, and the Small Business Jobs Act programs must be stood up. The following discussion begins with the most recent act passed to support and improve the economy

and moves on to the other new programs for which Treasury is responsible.

### Management of the Small Business Lending Fund and State Small Business Credit Initiative

In late September 2010, Congress enacted the Small Business Jobs Act. It created within Treasury a \$30 billion Small Business Lending Fund (SBLF) and provided \$1.5 billion to be allocated by Treasury to states for eligible state programs through the State Small Business Credit Initiative (SSBCI). The act is intended to increase lending to small business and thereby support job creation. The challenge for Treasury will be to get these two programs up and running quickly while maintaining proper control to ensure transparency, equitable treatment of all participants, and program results.

Under SBLF, Treasury will make capital investments in eligible financial institutions after consultation with the institution's regulator. Eligible institutions are permitted to refinance securities issued to Treasury under TARP's Capital Purchase Program as long as they are current on their purchase program obligations. During the first 4½ years of Treasury's investment, participating institutions initially pay dividends to Treasury of 5 percent, but that rate may be reduced to as low as 1 percent (after 4½ years, the dividend rate increases to 9 percent and Treasury's investment is expected to be repaid within 10 years).

It is important that a strong control structure along with commensurate staffing be provided on the front end of this effort. It is also critical in setting up this program that Treasury build on its experience with the Capital Purchase Program. Furthermore, Treasury and regulators must coordinate to ensure that participating

institutions comply with the terms and conditions of the investments, to include validation of increased small business lending in return for reduced dividend rates on Treasury investments.

Treasury has announced individual SSBCI funding allocations totaling \$1.5 billion for the 50 states, the District of Columbia, and U.S. territories, intended to support new small business lending through local programs. A key feature of SSBCI is that participating states receive their allocations in increments of one-third each. Treasury may withhold a successive increment to a state pending the results of an audit by our office.

### Management of Recovery Act Programs

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

Many of these programs were new to Treasury in 2009 and involve very large dollar amounts. It is estimated that Treasury's Recovery Act payments in lieu of tax credit programs—for specified energy property and to states for low-income housing projects—will cost more than \$20 billion. To date, Treasury has awarded more than \$6 billion under these programs and has yet to implement comprehensive monitoring procedures. In 2009, we reported that Treasury had dedicated only a small number of staff to

award and monitor these funds. That has not changed, and we continue to have concerns that the current staffing level is not commensurate with the size of these programs. Payments made to recipients under the specified energy property program alone represent more than \$5 billion of the funds awarded to date, and the number of applicants continues to grow.

### Management of the Housing and Economic Recovery Act and the Emergency Economic Stabilization Act

Under the Housing and Economic Recovery Act, Treasury continues to address the distressed financial condition of Fannie Mae and Freddie Mac which are under the conservatorship of the Federal Housing Finance Agency. To cover the continuing losses of the two entities and to maintain their positive net worth, Treasury agreed to purchase senior preferred stock in Fannie Mae and Freddie Mac. As of June 30, 2010, Treasury had purchased \$145 billion of senior preferred stock in the two entities. Treasury also purchased and is still holding \$184 billion of mortgage-backed securities issued by Fannie Mae and Freddie Mac under a temporary purchase program that expired in December 2009. Even with this assistance, both entities remain in a weakened financial condition and may require prolonged assistance. Dodd-Frank requires the Secretary of the Treasury to conduct a study on ending the conservatorship of Fannie Mae and Freddie Mac and minimizing the cost to taxpayers. This study is to be presented to Congress no later than January 31, 2011.

TARP, established under the Emergency Economic Stabilization Act, gave Treasury the authorities necessary to bolster credit availability and address other serious problems in the

domestic and world financial markets. Treasury's Office of Financial Stability administers TARP and through several of its programs purchased direct loans and equity investments in many large financial institutions and other businesses and, guaranteed other troubled mortgage-related and financial assets. On October 3, 2010, the authority to make new investments under the TARP program expired. Treasury will, however, continue making payments for programs with existing contracts and commitments. TARP is expected to be less costly than first thought. Treasury has recently estimated that the total cost of TARP will be about \$50 billion. As the life-cycle of TARP matures, Treasury's challenge in this area is morphed from standing up and running TARP programs to winding them down. Therefore, Treasury must now focus on managing and exiting from its current TARP investments.

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

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. The Financial Crimes Enforcement Network (FinCEN) is the Treasury bureau responsible for administering BSA. However, a large number of other federal and state entities participate in efforts to ensure compliance with BSA, including the five federal banking regulators, the IRS, the Securities and Exchange Commission, the Department of Justice, and state regulators. Many of these entities also participate in efforts to ensure compliance with U.S. foreign sanctions programs administered by Treasury's Office of Foreign Assets Control (OFAC).

Treasury must coordinate the efforts of these multiple entities. To this end, FinCEN and OFAC have entered into memoranda of understanding with many federal and state regulators in an attempt to build a consistent and effective process. While they are important to promote coordination and cooperation, these instruments are nonbinding and carry no penalties for violations, and their overall effectiveness has not been independently assessed. Furthermore, the USA Patriot Act has increased the types of financial institutions required to file BSA reports. In fiscal year 2009, financial institutions filed approximately 15 million BSA reports. FinCEN needs to work with regulators to ensure that financial institutions establish effective BSA compliance programs and file BSA reports, as required.

Adding to this risk in the current environment is that financial institutions and their regulators may have decreased their attention to BSA and OFAC program compliance as they address safety and soundness concerns during the current economic crisis.

FinCEN also has a particularly difficult challenge in dealing with money services businesses. FinCEN has been working with IRS to ensure that these businesses comply with BSA registration and report-filing requirements. IRS serves as the examining agency for these businesses but does not have the resources necessary to annually inspect all money services businesses or even identify unregistered money services businesses, estimated to be in the tens of thousands. Within this framework, FinCEN has been concerned with money services businesses that use informal value transfer systems and with money services businesses

that issue, redeem, or sell prepaid (or stored value) cards.

In September 2010, to add transparency to possible illicit wire transfer use of the financial system, FinCEN proposed a regulatory requirement for certain depository institutions and money services businesses to report cross-border electronic transmittals of funds. The purpose of this proposal is to establish a centralized database that will assist law enforcement in detecting and ferreting out transnational organized crime, multinational drug cartels, terrorist financing, and international tax evasion. If this proposal is implemented, ensuring that financial institutions comply with the cross-border electronic transmittals of funds reporting requirements and managing the database will be significant challenges.

### Management of Capital Investments

Managing large capital investments, particularly information technology investments, is a difficult challenge for any organization, public or private. In prior years, we reported on a number of capital investment projects that had either failed or had serious problems. This year, we identified challenges in four ongoing investments, two of which were identified by the Office of Management and Budget (OMB) as high-risk projects.

#### Replacement telecommunications platform

OMB rated Treasury's Information Technology Infrastructure Telecommunications investment, with an overall value of \$3.7 billion, as high-risk. Treasury's Acting Chief Information Officer rated it as poorly performing.

### Common identity management system

OMB identified Treasury's Consolidated Enterprise Identity Management system as a high-risk project. This system is a \$147 million effort to implement the requirements of Homeland Security Presidential Directive 12. The system has also been identified as being more than \$40 million over budget and significantly behind schedule.

### Data center consolidation

OMB began the Federal Data Center Consolidation Initiative to consolidate the number of federal data centers. Treasury has over 60 data centers around the country. Treasury plans to ultimately reduce the number of its data centers by 2015. This reduction would require Treasury to restructure its information technology (IT) infrastructure over a relatively short time.

### BSA IT modernization

Treasury, through FinCEN, is undertaking a major project known as BSA IT Modernization. Already underway, the project is expected to cost about \$120 million. A prior attempt, from 2004 to 2006, to develop a new BSA system ended in failure with over \$17 million wasted because of shortcomings in project planning, management, and oversight.

Treasury's decentralized management of IT investments presents a significant hurdle to the successful implementation of major department-wide and government-wide initiatives.

# Significant Audits and Evaluations

## Financial Management

### Financial Audits

The Chief Financial Officers Act, as amended by the Government Management Reform Act, requires annual financial statement audits of

Treasury and OMB–designated entities. In this regard, OMB has designated IRS for annual financial statement audits. The financial statements of certain other Treasury component entities are audited pursuant to other requirements due to their materiality to Treasury’s consolidated financial statements, or for other reasons. The following table shows audit results for fiscal years 2009 and 2008.

Treasury-audited financial statements and related audits						
Entity	Fiscal year 2009 audit results			Fiscal year 2008 audit results		
	Opinion	Material weaknesses	Other significant deficiencies	Opinion	Material weaknesses	Other significant deficiencies
<b>Government Management Reform Act/Chief Financial Officers Act requirements</b>						
Department of the Treasury	UQ	2	2	UQ	1	2
Internal Revenue Service (A)	UQ	2	0	UQ	3	1
<b>Other required audits</b>						
Department of the Treasury’s Special-Purpose Financial Statements	Q	1	0	UQ	0	1
Office of Financial Stability (TARP) (A)	UQ	0	2	N/A	N/A	N/A
Bureau of Engraving and Printing	UQ	0	0	UQ	0	0
Community Development Financial Institutions Fund (B)	UQ	0	3	UQ	0	2
Office of DC Pensions	UQ	0	0	UQ	0	0
Exchange Stabilization Fund	UQ	0	1	UQ	1	1
Federal Financing Bank	UQ	0	0	UQ	0	0
Office of the Comptroller of the Currency	UQ	0	0	UQ	0	0
Office of Thrift Supervision	UQ	0	0	UQ	0	0
Treasury Forfeiture Fund	UQ	0	0	UQ	0	0
<b>Mint</b>						
Financial statements	UQ	0	0	UQ	0	2
Custodial gold and silver reserves	UQ	0	0	UQ	0	0
<b>Other audited accounts that are material to Treasury financial statements</b>						
<b>Bureau of the Public Debt</b>						
Schedule of Federal Debt (A)	UQ	0	0	UQ	0	0
Government trust funds	UQ	0	0	UQ	0	1
<b>Financial Management Service</b>						
Treasury-managed accounts	UQ	0	1	UQ	0	1
Operating cash of the federal government	UQ	0	1	UQ	0	0
<b>Management-initiated audit</b>						
FinCEN	UQ	0	0	UQ	0	0
Alcohol and Tobacco Tax and Trade Bureau (C)	UQ	2	0	N/A	N/A	N/A
UQ Unqualified opinion Q Qualified opinion due to omission of a required disclosure and misstatement of certain account balances in the financial statement notes (A) Audited by the Government Accountability Office (B) Full-scope audit of financial statements for fiscal year 2009, audit of the Statement of Financial Position only for fiscal year 2008 (C) Audit of balance sheet only 2008 N/A Entity was not audited						

Audits of the fiscal year 2010 financial statements or schedules of the Department and component reporting entities were in progress at the end of this semiannual reporting period.

The following instances of noncompliance with the Federal Financial Management Improvement Act, which all relate to IRS, were

reported in connection with the audit of the Department’s fiscal year 2009 consolidated financial statements. The status of these areas of noncompliance, including progress in implementing remediation plans, will be evaluated as part of the audit of Treasury’s fiscal year 2010 financial statements.

Condition	Type of noncompliance
Core general ledger system does not conform to Federal Financial Management System Act Requirements contained in OMB Circular A-127, Financial Management Systems. (first reported in fiscal year 1997)	Federal financial management systems requirements
Material weaknesses in internal control over information security continue to threaten (1) the integrity of the financial statements and the accuracy and availability of financial information needed to support day-to-day decision making and (2) the confidentiality of proprietary information. (first reported in fiscal year 1997)	Federal financial management systems requirements
Automated systems for tax-related transactions did not support the net taxes receivable amount on the balance sheet and other required supplemental information related to uncollected taxes—compliance assessments and write-offs in accordance with Statement of Federal Financial Accounting Standards No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting. (first reported in fiscal year 1997)	Federal accounting standards
IRS’s core general ledger system for tax-related activities does not comply with the U.S. Government Standard General Ledger at the transaction level and also does not post transactions in conformance with Standard General Ledger posting models. (first reported in fiscal year 1997)	U.S. Government Standard General Ledger

Four financial audits were completed during this semiannual reporting period.

**Audit of the Alcohol and Tobacco Tax and Trade Bureau's Fiscal Year 2009 Balance Sheet**

KPMG LLP (KPMG), an independent public accounting firm (IPA) under our supervision, examined the Alcohol and Tobacco Tax and Trade Bureau's fiscal year 2009 balance sheet and issued an unqualified opinion thereon. KPMG identified two significant deficiencies related to controls over (1) property capitalization; and (2) accounts payable accruals, testing and review of journal entry support, and review of allowances for accounts receivable, which were considered material weaknesses. KPMG noted no instances of reportable noncompliance with laws and regulations tested. **(OIG-10-041)**

**Reports on the Processing of Transactions by BPD**

Three reports described below were completed in support of the audit of Treasury’s fiscal year 2010 consolidated financial statements and the financial statement audits of certain other federal agencies.

KPMG, under our supervision, examined the accounting processing and general computer controls related to financial management services provided to various federal agencies by the Bureau of the Public Debt’s Administrative Resource Center. KPMG found that (1) the description of controls for these activities fairly presented, in all material respects, the controls that had been placed in operation as of June 30, 2010; (2) the controls were suitably designed; and (3) the controls tested by KPMG were

effective from July 1, 2009, to June 30, 2010. KPMG noted no instances of reportable noncompliance with laws and regulations tested. **(OIG-10-047)**

KPMG, under our supervision, performed examinations that covered the general computer and investment/redemption processing controls related to Bureau of the Public Debt's transactions processing of investment accounts for various federal agencies and the general computer and trust fund management processing controls related to the bureau's transactions processing of investment accounts of various federal and state agencies. KPMG found that (1) the bureau's description of these controls fairly presented, in all material respects, the controls that had been placed in operation as of July 31, 2010; (2) the controls were suitably designed; and (3) the controls tested by KPMG were effective during the period August 1, 2009, to July 31, 2010. KPMG noted no instances of reportable noncompliance with the laws and regulations tested. **(OIG-10-048, OIG-10-049)**

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## Information Technology

### Fiscal Year 2010 Audit of Treasury's FISMA Implementation for Its Intelligence Systems

The Federal Information Security Management Act (FISMA) requires an annual independent evaluation of Treasury's information security program and practices. During this semiannual period, we performed an audit to determine the adequacy of the information security program and practices for Treasury's intelligence systems and noted that improvement is needed. Our report is classified. **(OIG-10-046)**

### Bureau of the Public Debt Successfully Demonstrated Recovery of the Authentication Services for the Fiscal Services Certificate Authority System

We found that Bureau of the Public Debt successfully demonstrated disaster recovery capability for the Authentication Services of the Fiscal Services Certificate Authority system in January 2010. During the test, the bureau successfully recovered the system at an alternate location, tested the functionality of the certification authority, and restored service at the primary location. **(OIG-10-039)**

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## Programs and Operations

### Failed Bank Reviews

OCC and OTS regulate and supervise many of the nation's largest banks and thrifts. OCC regulates national chartered banks, and OTS regulates thrifts.

In 1991, Congress enacted the Federal Deposit Insurance Corporation Improvement Act amending the Federal Deposit Insurance Act. The law was enacted following the failures of about a thousand banks and thrifts from 1986 to 1990, which resulted in billions of dollars in losses to the FDIC's Deposit Insurance Fund. The amendments require that banking regulators take specified supervisory actions when they identify unsafe or unsound practices or conditions.

Section 38(k) of the act requires that the Inspector General for the primary federal regulator of a failed financial institution conduct a material loss review (MLR) when the estimated loss to the Deposit Insurance Fund is

“material.” As part of the MLR, we determine the causes of the failure and assess the supervision of the institution, including the implementation of the prompt corrective action provisions of the act.<sup>1</sup> As appropriate, we also make recommendations for preventing any such loss in the future.

Prior to the enactment of Dodd-Frank in July 2010, the Federal Deposit Insurance Corporation Improvement Act defined a material loss as a loss to the Deposit Insurance Fund that exceeded the greater of \$25 million or 2 percent of the institution’s total assets. Dodd-Frank has redefined the threshold loss amount to the Deposit Insurance Fund triggering a material loss review to a loss that exceeds \$200 million for 2010 and 2011, \$150 million for 2012 and 2013, and \$50 million for 2014 and thereafter (with a provision to temporarily raise the threshold to \$75 million in certain circumstances). The act also requires a review of all bank failures with losses under these threshold amounts for the purposes of (1) ascertaining the grounds identified by OCC or OTS for appointing FDIC as receiver and (2) determining whether any unusual circumstances exist that might warrant a more in-depth review of the loss. This provision applies to bank failures from October 1, 2009, forward.

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<sup>1</sup> Prompt corrective action is a framework of supervisory actions for insured institutions that are not adequately capitalized. It was intended to ensure that action is taken when an institution becomes financially troubled in order to prevent a failure or minimize resulting losses. These actions become increasingly severe as the institution falls into lower capital categories. The capital categories are well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized.

From the beginning of the current economic crisis in 2007 through September 30, 2010, FDIC and other banking regulators closed 294 banks and thrifts. Eighty-nine of these institutions were regulated by Treasury. Of these 89 failures 37 did not result in a material loss to the Deposit Insurance Fund, so an MLR was not required. In prior semiannual reports, we reported on 17 MLRs completed during the current crisis. During this semiannual reporting period, we completed 4 MLRs, 2 for OCC supervised institutions and 2 for OTS. We also completed a joint evaluation with the FDIC OIG of Washington Mutual Bank (WaMu). These reviews are described in more detail below. As of the end of the reporting period, we had the remaining 31 MLRs in progress.

From the evaluation of the WaMu failure and the 21 MLRs that we have completed during the current economic crisis, we have seen a number of trends emerge. With respect to the causes of institutions’ failures, we found poor underwriting and overly aggressive growth strategies fueled by volatile and costly wholesale funding (e.g., brokered deposits, Federal Home Loan Bank loans); risky lending products such as option ARMs; high asset concentrations to include commercial real estate loans; and inadequate risk management systems. In addition, the management and boards of these institutions were often not effective in monitoring and managing their risks. The economic recession and the decline in the real estate market were also factors in most of the failures.

With respect to OCC’s and OTS’s supervision, we found that the regulators conducted regular and timely examinations and identified operational problems, but were slow to take timely and aggressive enforcement action. We

also found that in rating these institutions, examiners gave too much weight to the fact that the institutions were profitable and their loans were performing and not enough weight given to the amount of risk that these institutions had taken on. We also noted that regulators took the appropriate prompt corrective action actions when warranted but those actions did not save the institutions. While it is too soon to comment on the general effectiveness of the prompt corrective action provisions of the Federal Deposit Insurance Corporation Improvement Act, this is an area we plan to examine further.

### OTS-Regulated Institutions Reviewed

#### **Federal Regulatory Oversight of Washington Mutual Bank of Seattle, Washington (closed September 25, 2008; estimated loss to the Deposit Insurance Fund – none at this time)**

We conducted a joint evaluation with the FDIC OIG of the failure of WaMu, the largest bank failure in U.S. history. On September 25, 2008, OTS, the thrift's primary federal regulator, closed WaMu and appointed FDIC as receiver. JPMorgan Chase & Co. acquired WaMu through an FDIC facilitated transaction that, so far, has resulted in no loss to the Deposit Insurance Fund. At the time of its closing, WaMu had total assets of \$307 billion. Because there was no loss to the Deposit Insurance Fund, this review was not statutorily required. However, given WaMu's size, the circumstances leading up to WaMu's sale, and other losses (e.g., shareholder equity), the Treasury Inspector General and the FDIC Inspector General believed that a review was warranted.

We reported that WaMu failed primarily because of management's pursuit of a high-risk

lending strategy that included liberal underwriting standards and inadequate risk controls. WaMu's high-risk strategy, combined with the housing and mortgage market collapse in mid-2007, left WaMu with loan losses, borrowing capacity limitations, and a falling stock price. In September 2008, depositors withdrew significant funds after high-profile failures of other financial institutions and rumors of WaMu's problems. WaMu was unable to raise capital to keep pace with depositor withdrawals, prompting OTS to close the institution.

OTS's examinations of WaMu identified concerns with WaMu's high-risk lending strategy, including repeat findings concerning WaMu's single family loan underwriting, management weaknesses, and inadequate internal controls. However, OTS's supervision did not ensure that WaMu corrected those problems early enough to prevent a failure of the institution. Furthermore, OTS largely relied on a WaMu system to track the thrift's progress in implementing corrective actions on hundreds of OTS examination findings. We concluded that had OTS implemented its own independent system for tracking those findings, OTS could have better assessed WaMu management's efforts to take appropriate and timely action.

We have made a number of recommendations to OTS as a result of completed MLRs of failed thrifts during the current economic crisis. These recommendations pertain to taking more timely formal enforcement action when circumstances warrant, ensuring that CAMELS ratings are properly supported, reminding examiners of the risks associated with rapid growth and high-risk concentrations, ensuring thrifts have sound internal risk management systems, ensuring repeat conditions are reviewed and corrected,

and requiring thrifts to hold adequate capital.<sup>2</sup> OTS has taken or plans to take action in response to these recommendations. Additionally, OTS established a large bank unit to oversee regional supervision of institutions with assets of more than \$10 billion. In this report, we recommended that OTS use its own internal report of examination system to formally track the status of examiner recommendations and related thrift corrective actions. OTS concurred with our recommendation and has completed action to address it.

Our report also made several observations about FDIC's role as the deposit insurer for WaMu and included two recommendations to the FDIC Chairman. **(EVAL-10-002)**

On April 16, 2010, the Treasury Inspector General and the FDIC Inspector General testified about the results of the joint evaluation of WaMu before the Permanent Subcommittee on Investigations of the Senate Committee on Homeland Security and Governmental Affairs. The testimony was part of the subcommittee's hearing entitled Wall Street and the Financial Crisis: The Role of Bank Regulators. **(OIG-CA-10-006)**

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<sup>2</sup> CAMELS is an acronym for performance rating components for financial institutions: Capital adequacy, Asset quality, Management administration, Earnings, Liquidity, and Sensitivity to market risk. Numerical values range from 1 to 5, with 1 being the best rating and 5 being the worst. Each institution is also assigned a composite rating based on an assessment of its overall condition and level of supervisory concern.

### **Material Loss Review of BankUnited, FSB of Coral Gables, Florida (closed May 21, 2009; estimated loss to the Deposit Insurance Fund - \$4.9 billion)**

The primary cause of BankUnited's failure was a high-risk growth strategy with excessive concentration in option ARMs without adequate controls to manage the associated risks. Option ARMs are high-risk loans that feature, among other things, the possibility of negative amortization and payment shock as rates reset. Deficient underwriting and credit administration, combined with the rapid decline in the real estate market, resulted in the deterioration of the thrift's asset quality, including a substantial volume of problem loans and significant loan losses. In turn, these loan losses significantly diminished earnings and resulted in negative capital, and ultimately, the failure of BankUnited.

Regarding supervision, OTS did not impose limits on or restrict BankUnited's concentration and growth in high-risk option ARMs. In addition, OTS did not adequately assess BankUnited's underwriting practices, partly because it used inappropriate risk indicators to measure the performance of the loan portfolio and relied on the thrift's mitigating controls which proved inadequate. Furthermore, OTS did not identify or address the thrift's inaccurate risk-weighting of its loan assets. Inaccurate risk-weighting can have the effect of misstating capital ratios as it did in the case of BankUnited. We also found that OTS improperly directed the thrift to backdate a capital infusion from its holding company. We concluded that OTS used its authority under prompt corrective action in a timely manner as BankUnited's capital levels fell, but those actions did not prevent

BankUnited's failure or a material loss to the Deposit Insurance Fund.

During our MLR, OTS completed an internal failed bank review of BankUnited. It concluded similarly to our review, that BankUnited's deficient underwriting increased the credit risk of its option ARMs portfolio, contributing to its failure. The internal review also found that there were objectionable practices which occurred at BankUnited in 2004, 2005, and 2006 that were not timely addressed by supervisory staff. The internal review recommended that OTS emphasize to supervisory staff the importance of timely identification of unsafe and unsound practices and of a vigilant supervisory approach when evaluating the risks of new products.

We have reported on excessive concentrations in option ARMs and a lack of strong supervisory response in a number of our MLRs during the current crisis. OTS issued guidance to thrifts in July 2009 regarding asset and liability concentrations and related risk management practices. The guidance reemphasizes important risk management practices and encourages financial institutions to revisit existing concentration policies in light of the environment. While we believe the guidance is better than what had been previously available to thrifts, it is too soon to tell whether it will be effective at controlling risky concentrations going forward. Furthermore, there has been no recent update to examiner procedures that identify a trigger point where concentrations are excessive from a safety and soundness perspective or provide examiners a range of responses to address excessive concentrations. This is an area we believe requires continued OTS management action.

As a final note, we referred a number matters involving BankUnited's financial reporting to our Office of Investigations.

OTS concurred with our recommendations to (1) implement the recommendations from its internal failed thrift review of BankUnited, and (2) caution examiners to pay particular attention to the risk-weighting of option ARMs and, going forward, ensure that decisions by thrifts to risk-weight these loans at anything other than 100 percent be adequately justified. In this regard, OTS agreed to issue clarifying guidance to thrifts and examiners as to those option ARMs that qualify for risk-weighting other than 100 percent. **(OIG-10-042)**

### **Material Loss Review of Peoples Community Bank of West Chester, Ohio (closed July 31, 2009; estimated loss to the Deposit Insurance Fund - \$136 million)**

Mayer Hoffman McCann P.C., an IPA firm, performed under our supervision, the MLR of Peoples Community Bank (PCB). The IPA found that PCB failed primarily because of large concentrations in higher risk commercial real estate loans that resulted in large loan losses that led to the thrift having insufficient capital. While pursuing aggressive growth, PCB's board and management did not establish adequate risk management systems to properly monitor and manage elevated risks in its loan portfolio. As a result, when the real estate market began deteriorating in 2006, PCB was exposed to rapid asset quality deterioration and corresponding losses that ultimately led to the thrift's demise. OTS's supervisory actions complied with its guidance at the time. However, the aggregate limit for high-risk loans in place from 2004 through 2006 was too high to effectively reduce PCB's risk profile to a manageable level.

Furthermore, there was little examination guidance available during this time frame to assist the examiners in their evaluation of the effectiveness of the limits set by PCB, which were proven to be excessive. As a result, OTS's supervision of PCB did not prevent a material loss to the Deposit Insurance Fund.

OTS conducted an internal failed bank review of PCB and concluded that (1) supervision of the thrift could have been improved in the area of concentration limitations; (2) although underwriting, administration, and monitoring systems did improve between 2000 and 2004, the thrift continued to originate aggressively underwritten loans that placed a heavy reliance on continued strong collateral valuations in a concentrated segment of the market; and (3) the timing and nature of enforcement actions were generally considered to be effective. The IPA's report affirmed OTS's first two findings. The IPA also agreed that the OTS's supervisory actions complied with its guidance at the time; however, its supervision did not prevent the thrift's failure.

The IPA recommended that OTS (1) ensure that action is taken on the lessons learned and that the recommendations made from OTS's internal review are implemented and (2) work with its regulatory partners to determine whether to propose legislation and/or change regulatory guidance to establish limits or other controls for concentrations that pose an unacceptable safety and soundness risk and determine an appropriate range of examiner responses to high risk concentrations. OTS concurred with the first recommendation. With respect to the second recommendation, OTS responded that it works with other regulators and the Federal Financial Institutions Examination Council to develop guidance on a

variety of subjects where common issues and/or concerns exist. OTS stated that it would continue to review the situation and work with regulatory partners to determine whether to propose legislation or change regulatory guidance for concentrations that pose an unacceptable level of risk.

As a final note, we referred possible fraudulent activities involving two PCB loan transactions to our Office of Investigations. **(OIG-10-040)**

### **OCC-Regulated Institutions Reviewed**

#### **Material Loss Review of Vineyard Bank of Corona, California (closed July 17, 2009; estimated loss to the Deposit Insurance Fund - \$597 million)**

Vineyard failed because of significant losses in its commercial real estate loan portfolio. Vineyard pursued an aggressive growth strategy beginning in 2001. Vineyard's board and management, however, did not adequately control concentration risk or ensure that credit underwriting and administrative controls were adequate. The weak controls led to deterioration in underwriting standards. These deficiencies were made worse by the decline in the real estate market and borrowers' inability to pay off loans as they matured.

OCC's supervision of Vineyard did not prevent a material loss to the Deposit Insurance Fund. In May 2006, OCC approved Vineyard's conversion to a nationally chartered bank after OCC conducted a pre-conversion examination to determine if the bank's application for charter conversion should be approved. During the examination, OCC examiners identified significant concerns with Vineyard's high concentration in commercial real estate loans. Because of significant weaknesses identified by

OCC examiners during the pre-conversion examination, we believe that OCC should have deferred approval of Vineyard's conversion to a nationally chartered bank until those weaknesses had been addressed.

We reaffirmed prior recommendations that OCC (1) determine that banks seeking conversions satisfactorily address significant deficiencies before approval, and (2) formalize its process for second level reviews of charter conversions. We did not make any new recommendations in our MLR of Vineyard. In a written response, OCC stated that appropriate steps have been taken to address the prior recommendations. **(OIG-10-044)**

### **Material Loss Review of Union Bank of Gilbert, Arizona (closed August 14, 2009; estimated loss to the Deposit Insurance Fund - \$54.5 million)**

Mayer Hoffman McCann P.C., performed under our supervision the MLR of Union Bank. The IPA found that Union Bank failed primarily because of high commercial real estate concentrations with a particular focus on construction and land development loans in Arizona. Once the real estate market began declining, Union Bank was exposed to rapid asset quality deterioration and the losses ultimately led to its demise. A stronger supervisory response by OCC was warranted to address the high commercial real estate concentrations.

The IPA recommended that OCC work with its regulatory partners to determine whether to propose legislation and/or change regulatory guidance to establish limits or other controls for concentrations that pose an unacceptable safety and soundness risk and to determine an

appropriate range of examiner responses to high risk concentrations. OCC responded that it works with other regulators to develop guidance on a variety of subjects where common issues or concerns exist. Also, federal banking agencies are in the process of evaluating a number of factors that contributed to current problems in the banking industry and will consider what regulatory changes are needed. OCC also responded that although it was too early to determine whether the final outcome of the agencies' deliberations will include changes in concentration limits or risk management expectations, it offered assurances that OCC will continue to study the situation and work with other regulatory partners.

**(OIG-CA-10-009)**

### **Nonmaterial Loss Reviews**

During the semiannual reporting period, we issued final reports on our reviews of three failed thrifts with loss amounts that were less than \$200 million, the current threshold triggering a material loss review. We determined that there were no unusual circumstances surrounding the thrifts' failures or the supervision exercised by OTS. Accordingly, we have determined that a more in-depth review of the thrifts' failures by our office was not warranted. The thrifts we reviewed were (1) Turnberry Bank (closed July 16, 2010; estimated loss to the Deposit Insurance Fund - \$34.4 million), (2) Olde Cypress Community Bank (closed July 16, 2010; estimated loss to the Deposit Insurance Fund - \$31.5 million), and (3) Bayside Savings Bank, FSB (closed July 30, 2010; estimated loss to the Deposit Insurance Fund - \$16.2 million) **(OIG-10-050, OIG-10-051, OIG-10-052)**

### Other Performance Audits

#### **OFAC Should Have Better and More Timely Documented Its Review of Potential Sanctions Violations**

We assessed OFAC's handling of potential violations referred by a financial institution. Our report details deficiencies in OFAC's processes and recommended corrective actions. The report is Sensitive But Unclassified.

**(OIG-10-045)**

# Significant Investigations

## New Initiatives

### Check Forgery Insurance Fund

In August 2010, the Office of Investigations embarked on an initiative involving the Check Forgery Insurance Fund. The fund, established in 1941, is a revolving fund administered by the Financial Management Service (FMS) to settle claims of nonreceipt of U.S. Treasury checks. The Check Forgery Insurance Fund ensures that the intended payees, whose checks were fraudulently negotiated, receive settlement in a timely manner. According to FMS, the fund has disbursed an estimated \$41.2 million over the last 2 years. FMS estimated that losses in excess of \$2.6 million dollars have been suffered due to suspected fraudulent activity.

During this semiannual period, OIG special agents made three arrests as part of this new initiative.

We anticipate that this initiative will assist FMS with investigative and prosecutorial support regarding improper claims made against the Check Forgery Insurance Fund and deter criminal activity involving U.S. Treasury checks.

### Bank Failure

During this reporting period, based on referrals from OIG auditors resulting from MLRs they performed of OCC or OTS regulated failed banks, we opened several investigations. These investigations are related to potentially fraudulent acts that contributed to the banks' failures. In a number of cases, we have partnered with the OIGs of FDIC and the Board of Governors of the Federal Reserve System to conduct these investigations. The

objective of this initiative is to bring to justice individuals who impede or defraud the regulatory oversight functions of Treasury's bank regulators. The intent of our collective efforts is to deter others contemplating similar criminal activity and help maintain the public's confidence in the nation's financial systems.

## Investigations

### Army Clerk Charged for Theft of Funds Involving FMS EagleCash Card Program

We were contacted by the U.S. Army Criminal Investigation Command concerning an allegation that an Army financial clerk stationed in Afghanistan used his official position to modify another soldier's EagleCash Card account to fraudulently obtain funds and goods. The EagleCash Card program is a stored value card jointly managed by the U.S. Air Force, the U.S. Army, and FMS.

Our investigation revealed that the clerk, in his normal course of duties, stole another soldier's EagleCash card from a kiosk in Afghanistan. The clerk raised the limit and reset the personal identification number for the stolen EagleCash card without the victim's authorization. The clerk then wired \$10,000 from the victim's personal bank account to the stolen EagleCash Card, and made three purchases.

The clerk was charged by military prosecutors under General Court Martial for dereliction of duty, theft of \$10,000 under the Uniform Code of Military Justice, and wire fraud under the U.S. Code. On September 27, 2010, the suspect pled guilty to all charges and was sentenced to 30 days of confinement, reduction in rank, and forfeiture of \$964. In addition, he will receive an

Other Than Honorable Discharge from the military upon completion of his sentence.

### **Treasury Official Sentenced for Selling Controlled Substance**

Our office completed a joint investigation with the Federal Bureau of Investigation involving a Treasury official who was observed selling methamphetamines during an undercover operation. A search and arrest warrant was executed at his residence, where additional controlled substances were seized along with three Treasury identification cards.

The official was indicted, pled guilty, and sentenced in the U.S. District Court for the District of Columbia on two counts of violating 21 USC § 841, unlawful distribution of methamphetamines.

### **Acceptance of Gifts by OCC Examiner**

Our office was contacted by OCC regarding violations of standards of conduct by an OCC national bank examiner. The examiner allegedly accepted golf fees and dinner from bank executives during business hours while he was the bank's examiner-in-charge.

Our investigation confirmed the allegations that the OCC examiner accepted gratuities in the form of golf fees, played golf during official duty hours, and recorded his official time and attendance hours as working while playing golf with bank employees. The U.S. Attorney's Office for the Southern District of Georgia declined criminal prosecution in the matter. In August 2010, we forwarded the results of this matter to OCC for administrative action as it deems appropriate.

### **Misuse of Subordinates' Time by U.S. Mint Official**

We received information from the Mint alleging that a senior Mint official misused her official position, creating a hostile work environment by abusing her authority and misusing subordinates' time.

Our investigation revealed that the Mint official requested subordinate employees to perform work outside of their job description on her behalf. We also determined that there was an appearance of abuse of authority by the Mint official when asking staff to perform personal errands. In August 2010, we forwarded the results of this matter to the Mint for administrative action as it deems appropriate.

### **Individual Arrested for Cashing a Stolen U.S. Treasury Check**

Our office was contacted by FMS regarding a stolen U.S. Treasury check in Virginia. Our investigation revealed that an individual had cashed the stolen check at a check cashing store using a counterfeit Virginia identification card.

After the suspect was identified, we obtained and executed a felony arrest warrant issued by the Commonwealth of Virginia for grand larceny. The investigation is ongoing.

### **Unauthorized Use of the Federal Express Mailing System by an FMS Employee**

Our office completed an investigation involving an FMS employee who misused the Federal Express Mailing System while on official duty. During our investigation, the employee admitted mailing personal documents by using the FMS Federal Express Mailing System over a period of 6 years.

The U.S. Attorney's Office for the District of Maryland declined criminal prosecution of the FMS employee; therefore, the matter has been referred to FMS for administrative action as it deems appropriate.

### **Misuse of Government-Issued Badge and Credentials by an OCC Official**

Our office completed an investigation concerning allegations that an OCC official used his government issued credentials and badge inappropriately during a traffic incident. Our investigation determined that the OCC official violated Treasury policy by improperly presenting his badge and credentials to a Washington D.C. Metropolitan police officer and another individual during a traffic incident.

The U.S. Attorney's Office for the District of Columbia declined criminal prosecution of the OCC official; therefore, the matter has been referred to OCC for administrative action as it deems appropriate.

### **Misuse of Position for Personal Gain by Bureau of Engraving and Printing Police Officer**

We completed an investigation concerning allegations that a Bureau of Engraving and Printing police officer used his public office for private gain and neglected his basic financial obligations of public service. It was alleged that the police officer violated the terms of the U.S. Department of Housing and Urban Development Federal Housing Administration Officer and Teacher Next Door Sales Program. Under this program, police officers are able to purchase a home at a discounted value if they use the property as their primary residence for at least 3 years.

The joint investigation substantiated the allegation that the police officer did not reside in the home for the required period. As a result, U.S. Department of Housing and Urban Development demanded that the police officer return \$36,900. The police officer did not comply with the demand letter. The U.S. Attorney's Office for the District of Maryland declined criminal prosecution of the police officer; therefore, the matter has been referred to the Bureau of Engraving and Printing for administrative action as it deems appropriate.

### **Misuse of Government Time and Vehicle**

Our office completed an investigation involving an allegation that an employee of the Alcohol and Tobacco Tax and Trade Bureau, was using government work hours and a government-owned vehicle for personal errands. Our surveillance and subsequent interview of the employer substantiated the allegation.

The U.S. Attorney's Office for the District of Florida declined criminal prosecution of the employee; therefore, the matter has been referred to the bureau for administrative action as it deems appropriate.

### **Misuse of OTS Resources to Solicit Prostitution**

We investigated an OTS official's alleged misuse of OTS IT resources to solicit prostitution. The official admitted to communicating with prostitutes using OTS email, meeting with prostitutes locally and while on official travel, and using an OTS-issued travel card for non-official purposes. The U.S. Attorney's Office for the District of Columbia declined criminal prosecution of the OTS official and he retired during the course of the investigation.

### **Contracting Issues at the U.S. Mint in San Francisco**

Our office completed an investigation involving improper contracting practices at the San Francisco Mint. The investigation found that a contracting officer was negligent in his duties for the following reasons: (1) he did not always conduct market research on companies before a contract was awarded, (2) he failed to obtain necessary documentation throughout the procurement process, (3) he provided information to a contractor during bid solicitations, and (4) he entered information inappropriately into a federal government acquisition database. The investigation revealed that the contracting officer also did not have the required training that had been previously recommended in an audit conducted by the Office of the Procurement Executive.

The investigation also found that a contractor over-billed the Mint \$25,276 for work hours when the contractor was not present at the Mint in accordance with the contract. The U.S. Attorney's Office in the Northern District of California declined prosecution in the matter. The matter has been referred to the Mint for reclamation.

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The following is an update to a significant investigative activity reported in a prior semiannual report.

### **Abuse of Official Government Position by an FMS Official**

As previously reported, our office conducted an investigation which determined that a senior FMS official violated criminal law and Treasury policy by soliciting and approving numerous

FMS employees to attend a professional conference in which the senior official received compensation for presenting at the conference.

### **Update**

The senior FMS official received a 2-day suspension for soliciting, approving, and utilizing government funds to register FMS employees for the training conference.

## Other OIG Accomplishments and Activity

### Inspector General Testimonies

On April 16, 2010, Inspector General Thorson testified along with FDIC Inspector General Jon Rymer before the Permanent Subcommittee on Investigations of the Senate Committee on Homeland Security and Governmental Affairs on the results of a joint Treasury OIG and FDIC OIG review of the WaMu failure. **(EVAL-10-002)**

On April 28, 2010, Inspector General Thorson testified before the Subcommittee on Oversight and Investigations of the House Committee on Financial Services in a hearing titled Reviewing FinCEN Oversight Reports. Mr. Thorson's testimony covered the key findings in our report *SAR Data Quality Requires FinCEN's Continued Attention* (OIG-10-030; issued January 19, 2010), FinCEN's response, and our prospective views to improve suspicious activity report data quality. Mr. Thorson also discussed how the current wave of bank failures requiring MLRs affected OIG's ability to conduct oversight of FinCEN's activities. Lastly, Mr. Thorson shared his observations with respect to FinCEN for Congress to consider.

As Mr. Thorson noted, OIG has issued four audit reports on suspicious activity report data quality. Each reported that a large percentage of suspicious activity reports contained missing or inaccurate data. As discussed in the January 2010 report, our latest audit concluded that suspicious activity report data quality had not significantly improved by 2006. We found that 59 percent of the approximately 1.1 million suspicious activity reports filed in fiscal year 2006 contained omissions or incorrect,

inconsistent, or inappropriate information in 1 or more of 17 data fields that FinCEN deemed critical to law enforcement. In a written response to our report, FinCEN noted that the findings in the report were based on suspicious activity report data filed in fiscal year 2006 and that FinCEN has since completed efforts to improve the quality and integrity of suspicious activity report data. FinCEN concurred with our recommendations and noted that it has issued specific guidance to enhance filer education, established an initiative to identify systemic filing errors, and worked with federal regulators to resolve many of those types of errors, among other actions.

Mr. Thorson also informed the subcommittee that as a result of mandated MLRs we had deferred our discretionary audit work in the Treasury anti-money laundering and terrorist financing mission. (Subsequent to this hearing, Dodd-Frank was enacted and provided the OIG with some relief from the MLR mandate and should allow us to undertake more discretionary oversight work.) With respect to FinCEN, Mr. Thorson said that going forward Treasury will face continuing challenges in this mission area. He also noted the need for diligent oversight over two related system development efforts being undertaken to support FinCEN, the electronic content management system and BSA information technology modernization. **(OIG-CA-10-007)**

Also testifying at this hearing were FinCEN Director James Freis and the Government Accountability Office officials.

### OIG Ranked Third in Best Places to Work in the Federal Government

The Partnership for Public Service and American University's Institute for the Study of

Public Policy Implementation issued the “Best Places to Work in the Federal Government” rankings by evaluating data from the Office of Personnel Management’s Employee Viewpoint Survey. This year, we ranked number 3 among the “Best Places to Work in the Federal Government” out of a total of 224 individual agency subcomponents.

We ranked first or second government-wide in a range of categories including strategic management, effective leadership, performance based rewards and advancement, support for diversity, and work/life balance. We were ranked first in more than 70 percent of the individual questions on the survey, and in the top 3 for 85 percent of the questions. In fact, according to the Office of Personnel Management’s definitions, we did not have a single identified weakness in any of the areas covered by the survey. Nonetheless, OIG is taking deliberate steps to maintain progress in these important areas and ensure that OIG continues to be an employer of choice in the federal government. More information can be found at <http://bestplacestowork.org/BPTW/rankings/>.

### Integrity Briefings to the Departmental Offices and the Bureaus

During the reporting period, OIG investigators conducted 15 integrity awareness briefings for more than 350 Treasury employees throughout the country. These briefings are designed to educate employees about the misuse of a public official’s position and to deter employees from committing such offenses.

### OIG Hosts Delegation from Afghanistan

In May 2010, Inspector General Eric Thorson and OIG executives met with a delegation from

Afghanistan to discuss the mission of U.S. government inspectors general and Treasury OIG.

The senior Afghan officials we briefed were Major General Mohammad Wakil Akbari, Inspector General, Ministry of Interior Affairs; Major General Sadar Abul Fazil, Inspector General, Ministry of Defense; and Major General Jan Khan, Inspector General, General Staff.



*Pictured above are OIG executives with members of the Afghan delegation.*

### OIG Audit Leadership Roles

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

**Marla Freedman**, Assistant Inspector General for Audit, serves as co-chair of the Federal Audit Executive Council’s Professional Development Committee which is actively involved in auditor training and development matters. **Bob Taylor**, Deputy Assistant Inspector General for Performance Audits also serves on this committee.

**Joel Grover**, Deputy Assistant Inspector General for Financial Management and Information Technology Audits, serves as co-chair of the Federal Audit Executive Council's Financial Statements Committee which develops and coordinates the council's positions on a variety of accounting and auditing issues related to federal financial reporting. The committee also jointly sponsors with the Government Accountability Office an annual federal financial statement audit update conference.

Mr. Grover is a member of the Government Performance and Accountability Committee of the American Institute of Certified Public Accountants and also serves as a co-chair of the Maryland Association of Certified Public Accountants Members in Government Committee.

# Statistical Summary

## Summary of OIG Activity

For the 6 months ended September 30, 2010

OIG Activity	Number or Dollar Value
<b>Office of Counsel Activity</b>	
Regulation and legislation reviews	6
Instances where information was refused	3
<b>Office of Audit Activities</b>	
Reports issued and other products	17
Disputed audit recommendations	0
Significant revised management decisions	0
Management decision in which the IG disagrees	0
<b>Monetary benefits (audit)</b>	
Questioned costs	0
Funds put to better use	0
Revenue enhancements	0
Total monetary benefits	0
<b>Office of Investigations Activities</b>	
<b>Criminal and judicial actions (including joint investigations)</b>	
Cases referred for prosecution and/or litigation	22
Cases accepted for prosecution and/or litigation	6
Arrests	3
Indictments/informations	4
Convictions (by trial and plea)	2

## Significant Unimplemented Recommendations

For reports issued prior to October 1, 2009

The following list of OIG audit reports with unimplemented recommendations is based on information in Treasury's automated audit recommendation tracking system, which is maintained by Treasury management officials.

Number	Date	Report Title and Recommendation Summary
OIG-06-030	05/06	<i>Terrorist Financing/Money Laundering: FinCEN Has Taken Steps to Better Analyze Bank Secrecy Act Data but Challenges Remain</i> FinCEN should enhance the current FinCEN database system or acquire a new system. An improved system should provide for complete and accurate information on the case type, status, resources, and time expended in

performing the analysis. This system should also have the proper security controls to maintain integrity of the data. (1 recommendation)

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OIG-08-035      06/08      *Network Security at the Office of the Comptroller of the Currency Needs Improvement*  
 OCC should ensure that the principle of least privilege is enforced and applied to all OCC computer users as required by OCC policy. (1 recommendation)

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OIG-08-036      06/08      *BEP Needs to Enforce and Strengthen Controls on Its Eastern Currency Facility to Prevent and Detect Employee Theft*  
 BEP management should (1) establish clear, written policies and procedures that specify assignment of responsibility and actions to be taken when discrepancies are found in the production process and (2) ensure that employees, including supervisors, are trained and periodically retrained in product security-related policies and procedures. (2 recommendations)

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OIG-09-024      01/09      *General Management: Treasury Should Reactivate State-Held Federal Unclaimed Assets Recovery Program (Corrective Action Verification on OIG-02-105)*  
 Treasury should reactivate the state-held federal unclaimed assets recovery program with appropriate policies, procedures, and controls. This recommendation has a potential revenue enhancement monetary benefit of \$10.5 million over 3 years. (1 recommendation)

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OIG-09-027      01/09      *Management Letter for Fiscal Year 2008 Audit of the Office of the Comptroller of the Currency's Financial Statements*  
 OCC should continue to dedicate resources to fully implement the necessary System Management Server process to automatically and promptly detect and remove unauthorized personal and public domain software from OCC systems (workstations) and implement controls to restrict users from downloading and installing unapproved software. (1 recommendation)

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OIG-CA-09-011    07/09      *Information Technology: FY 2009 Evaluation of Treasury's FISMA Implementation for Its Intelligence Program*  
 Due to the sensitive nature of the finding and recommendation, we designated the report Limited Official Use. One recommendation in this report has not been implemented.

## Summary of Instances Where Information Was Refused

April 1, 2010 through September 30, 2010

There is one matter where the Treasury OIG believes that it is being denied the assistance and cooperation of a Treasury bureau in connection with our investigative responsibilities. Specifically, OIG is being denied unrestricted and unfettered access to information from OCC for use in investigations of possible fraud upon OCC by individuals of failed OCC-regulated financial institutions. These requests for information are made pursuant to OIG's obligation to investigate issues relating to Treasury's programs and operations, which include the national bank safety and soundness examinations conducted by OCC, and attempts to interfere with or defraud those examinations.

This matter was precipitated by an OIG request during this semiannual period to OCC for bank examination-related information. In response, OCC asserted the Right to Financial Privacy Act, which precludes it from transferring such information unless OCC determines that it has reason to believe the records are relevant to a legitimate law enforcement inquiry within the jurisdiction of the receiving agency. However, the act also makes exceptions to this rule, one being our authority under the Inspector General Act to have access to all records, reports, audits, reviews, documents, papers, recommendations, or other material available to OCC.

In letters dated September 1, 2010, Inspector General Thorson informed the Chairmen and Ranking Members of the Senate Committee on Finance and Senate Committee on Homeland Security and Governmental Affairs, Permanent Subcommittee on Investigations, about this matter. The letters were sent pursuant to a standing request by the Ranking Members of those committees for continuing notice of instances when the Department or any of its offices or bureaus resisted or objected to our oversight activities or restricted our access to information.

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## Listing of Audit Products Issued

April 1, 2010, through September 30, 2010

### Financial Audits and Attestation Engagements

*Audit of the Alcohol and Tobacco Tax and Trade Bureau's Fiscal Year 2009 Balance Sheet*, OIG-10-041, 6/16/2010

*Report on Controls Placed In Operation and Tests of Operating Effectiveness for the Bureau of the Public Debt's Administrative Resource Center for the Period July 1, 2009 to June 30, 2010*, OIG-10-047, 9/20/2010

*Report on Controls Placed In Operation and Tests of Operating Effectiveness for the Bureau of the Public Debt's Federal Investments Branch for the Period August 1, 2009 to July 31, 2010, OIG-10-048, 9/20/2010*

*Report on Controls placed in Operation and Tests of Operating Effectiveness for the Bureau of the Public Debt's Trust Funds Management Branch for the Period August 1, 2009 to July 31, 2010, OIG-10-049, 9/24/2010*

### Information Technology Audits

*Information Technology: BPD Successfully Demonstrated Recovery of the Authentication Services-Fiscal Services CA System, OIG-10-039, 5/11/2010*

*FY 2010 Audit of Treasury's FISMA Implementation for Its Intelligence System, OIG-10-046, 9/8/2010 (Classified)*

### Performance Audits

*Safety and Soundness: Material Loss Review of Peoples Community Bank, OIG-10-040, 5/7/2010*

*Safety and Soundness: Material Loss Review of Union Bank National Association, OIG-CA-10-009, 5/11/2010*

*Safety and Soundness: Material Loss Review of BankUnited, OIG-10-042, 6/22/2010*

*Safety and Soundness: Material Loss Review of Vineyard Bank, National Association, OIG-10-044, 7/13/2010*

*Foreign Assets Control: OFAC Should Have Better and More Timely Documented Its Review of Potential Sanctions Violations, OIG-10-045, 9/1/2010 (Sensitive But Unclassified)*

*Safety and Soundness: Failed Bank Review of Bayside Savings Bank, FSB, OIG-10-050, 9/29/2010*

*Safety and Soundness: Failed Bank Review of Turnberry Bank, OIG-10-051, 9/29/2010*

*Safety and Soundness: Failed Bank Review of Olde Cypress Community Bank, OIG-10-052, 9/29/2010*

### Evaluation and Other Products

*Evaluation of Federal Regulatory Oversight of Washington Mutual Bank, EVAL-10-002, 4/9/2010*

*Statement of Inspector General Thorson Before the Senate Homeland Security and Governmental Affairs Committee, Permanent Subcommittee on Investigations—Hearing on Wall Street and the Financial Crisis: The Role of Bank Regulators, OIG-CA-10-006, 4/16/2010*

*Statement of Inspector General Thorson Before the House Committee on Financial Services, Subcommittee on Oversight and Investigations—Hearing on Reviewing FinCEN Oversight Reports, OIG-CA-10-007, 4/28/2010*

## Audit Reports Issued With Questioned Costs

April 1, 2010, through September 30, 2010

Category	Total No. of Reports	Total Questioned Costs <sup>a</sup>	Total Unsupported Costs <sup>a</sup>
For which no management decision had been made by beginning of reporting period <sup>b</sup>	1	\$995,367	0
Which were issued during the reporting period	0	0	0
Subtotals	1	\$995,367	0
For which a management decision was made during the reporting period	1	\$995,367	0
Dollar value of disallowed costs <sup>c</sup>	1	\$600,000	0
Dollar value of costs not disallowed <sup>c</sup>	1	\$395,367	0
For which no management decision was made by the end of the reporting period	0	0	0
For which no management decision was made within 6 months of issuance	0	0	0
<sup>a</sup> Questioned costs include unsupported costs. <sup>b</sup> Audit was performed by the Defense Contract Audit Agency. <sup>c</sup> One report was partially agreed to and partially not agreed to.			

## Audit Reports Issued With Recommendations That Funds Be Put to Better Use

April 1, 2010, through September 30, 2010

At the beginning of the period, there were no audit reports from prior periods pending a management decision on recommendations that funds be put to better use. There were also no audit reports issued during this period with recommendations that funds be put to better use.

## Previously Issued Audit Reports Pending Management Decisions (Over 6 Months)

There are no previously issued audit reports pending management decisions for the reporting period.

## Significant Revised Management Decisions

April 1, 2010, through September 30, 2010

There were no significant revised management decisions during the period.

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## Significant Disagreed Management Decisions

April 1, 2010, through September 30, 2010

There were no management decisions this period with which the Inspector General was in disagreement.

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## Peer Reviews

April 1, 2010, through September 30, 2010

### Office of Audit

Audit organizations that perform audits and attestation engagements of federal government programs and operations are required by *Government Auditing Standards* to undergo an external peer review every 3 years. The objective of an external peer review is to determine whether, during the period under review, the audit organization's system of quality control was suitably designed and whether the audit organization was complying with its quality control system in order to provide the audit organization with reasonable assurance that it was conforming to applicable professional standards.

No external peer reviews were conducted of the Treasury OIG Office of Audit during the period. The date of the last external peer review was November 19, 2009, and was conducted by the Department of State OIG. In its report, the Department of State rendered the opinion that the system of quality control for the audit organization of Treasury OIG in effect for the year ended March 31, 2009, had been suitably designed and complied with to provide Treasury OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Federal audit organizations can receive a rating of pass, pass with deficiencies, or fail. Treasury OIG received a peer review rating of pass. There are no outstanding recommendations from this external peer review. A copy of the Department of State OIG's external peer review report is available on our website at [www.ustreas.gov/inspector-general/peer-audit-reports/Treasury%20OIG%20Peer%20Review%20Final%202009.pdf](http://www.ustreas.gov/inspector-general/peer-audit-reports/Treasury%20OIG%20Peer%20Review%20Final%202009.pdf).

During this semiannual reporting period, we completed an external peer review of the National Aeronautics and Space Administration OIG's system of quality control for its audit organization. Our report on that external peer review was dated June 30, 2010. The National Aeronautics and Space

Administration OIG reported to our office that it does not have any outstanding recommendations related to this peer review.

### **Office of Investigations**

The Council of Inspectors General for Integrity and Efficiency requires that OIG investigative operations undergo an external peer review every 3 years. In 2008, the Environmental Protection Agency OIG concluded a peer review of the Treasury OIG Office of Investigations. Treasury Office of Investigations received a rating of pass for the review and has addressed or implemented all of the recommendations made by the Environmental Protection Agency.

Treasury OIG Office of Investigations performed no external peer reviews during the reporting period. Previously, the Office of Investigations reviewed the General Services Administration OIG in 2007. The General Services Administration OIG received a rating of pass and reported that there are no outstanding recommendations from this external peer review.

## Bank Failures and Non-Material Loss Reviews

We conducted reviews of 32 failed banks and thrifts with losses to the Deposit Insurance Fund that did not meet the definition of a material loss in the Federal Deposit Insurance Act. These reviews were performed to fulfill the requirements of section 987 of Dodd-Frank.

Among other things, Dodd-Frank redefined the term “material loss” as it relates to a loss to the Deposit Insurance Fund and, in turn, when a material loss review (MLR) is triggered. Accordingly, for 2010 and 2011, a loss to the Deposit Insurance Fund is defined as material if it exceeds \$200 million; for 2012 and 2013, if it exceeds \$150 million; and, for 2014 going forward, if it exceeds \$50 million (with a provision to temporarily raise the threshold to \$75 million in certain circumstances). Prior to the enactment of Dodd-Frank, a loss was defined as material if it exceeded the greater of \$25 million or 2 percent of the failed institution’s total assets.

For losses that are not material, section 987 of the act requires that for the 6-month period ending March 31, 2010, and for each 6-month period thereafter, the OIG of each federal banking agency must (1) identify the estimated losses that have been incurred by the Deposit Insurance Fund during that 6-month period and (2) determine the grounds identified by the failed institution’s regulator for appointing the FDIC as receiver and whether any unusual circumstances exist that might warrant an in-depth review of the loss. For each 6-month period, we are also required to prepare a report to the failed institutions’ regulators and Congress that identifies (1) any losses that warrant an in-depth review, together with the reasons why such a review is warranted and when the review will be completed, and (2) any losses for which we determine that no in-depth review is warranted, together with an explanation of how we came to that determination.

The table below fulfills this reporting requirement to Congress for the 6-month periods ended March 31 and September 30, 2010. Of the 32 banks and thrifts reviewed, we determined that an in-depth review should not be performed for 28 institutions and we have issued or will issue separate audit reports on our determinations to the responsible Treasury regulator. For 2 institutions, we determined that in-depth reviews are warranted, and those reviews are in progress. The other 2 institutions were owned by the First Bank of Oak Park Corporation, which owned 4 other national banks that were all closed on the same day. We have MLRs in progress on the 4 other national banks because the related losses to the Deposit Insurance Fund exceeded the material loss threshold at the time of failure. Our report on those material loss reviews will discuss the 2 banks that did not require MLRs.

## Bank Failures and Non-Material Loss Reviews

Bank Failures and Non-Material Loss Reviews				
Bank Name/Location	Date Closed/Loss to the Deposit Insurance Fund	OIG Summary of Regulator's Grounds for Receivership	In-Depth Review Determination	Reason / Anticipated Completion Date of the In-Depth Review
<b>Regulator – OCC</b>				
Southern Colorado National Bank, Pueblo, Colorado	October 2, 2009 \$10.5 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Dissipation of assets or earnings due to unsafe or unsound practices</li> <li>• Unsafe or unsound condition</li> </ul>	No	No unusual circumstances noted
Bank USA, N.A., Phoenix, Arizona	October 30, 2009 \$21.1 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Dissipation of assets or earnings due to unsafe or unsound practices</li> <li>• Unsafe or unsound condition</li> </ul>	No	No unusual circumstances noted <sup>1</sup>
Citizens National Bank, Teague, Texas	October 30, 2009 \$24.9 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Assets are less than obligations to creditors</li> </ul>	No	No unusual circumstances noted <sup>1</sup>
Valley Capital Bank, Mesa, Arizona	December 11, 2009 \$10.8 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Dissipation of assets or earnings due to unsafe or unsound practices</li> <li>• Unsafe or unsound condition</li> </ul>	No	No unusual circumstances noted
Marshall Bank, Hallock, Minnesota	January 29, 2010 \$6.9 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Dissipation of assets or earnings due to unsafe or unsound practices</li> <li>• Unsafe or unsound condition</li> </ul>	No	No unusual circumstances noted
The La Coste National Bank, La Coste, Texas	February 19, 2010 \$3.7 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Assets are less than obligations to creditors</li> </ul>	No	No unusual circumstances noted
Granite Community Bank, Granite Bay, California	May 28, 2010 \$20.2 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Dissipation of assets or earnings due to unsafe or unsound practices</li> <li>• Unsafe or unsound condition</li> </ul>	No	No unusual circumstances noted
American National Bank, Parma, Ohio	March 19, 2010 \$16.9 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Dissipation of assets or earnings due to unsafe or unsound practices</li> <li>• Unsafe or unsound condition</li> </ul>	No	No unusual circumstances noted
Unity National Bank, Cartersville, Georgia	March 26, 2010 \$66.9 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Dissipation of assets or earnings due to unsafe or unsound practices</li> <li>• Unsafe or unsound condition</li> </ul>	Yes	Unusual circumstance identified <sup>2</sup> ; estimated completion date is February 2011
Beach First National Bank, Myrtle Beach, South Carolina	April 9, 2010 \$123.8 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Dissipation of assets or earnings due to unsafe or unsound practices</li> <li>• Unsafe or unsound condition</li> </ul>	No	No unusual circumstances noted
BC National Bank, Butler, Missouri	April 30, 2010 \$15.7 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Dissipation of assets or earnings due to unsafe or unsound practices</li> <li>• Unsafe or unsound condition</li> </ul>	No	No unusual circumstances noted

## Bank Failures and Non-Material Loss Reviews

Bank Failures and Non-Material Loss Reviews				
Bank Name/Location	Date Closed/Loss to the Deposit Insurance Fund	OIG Summary of Regulator's Grounds for Receivership	In-Depth Review Determination	Reason/Anticipated Completion Date of the In-Depth Review
First National Bank, Rosedale, Mississippi	June 4, 2010 \$20.4 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Assets are less than obligations to creditors</li> <li>• Dissipation of assets or earnings due to unsafe or unsound practices</li> <li>• Unsafe or unsound condition</li> </ul>	No	No unusual circumstances noted
First National Bank, Savannah, Georgia	June 25, 2010 \$105.8 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Dissipation of assets or earnings due to unsafe or unsound practice and violations of laws and regulations</li> <li>• Unsafe or unsound condition</li> </ul>	No	No unusual circumstances noted
Bay National Bank, Baltimore, Maryland	July 9, 2010 \$17.3 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Dissipation of assets or earnings due to unsafe or unsound practices</li> <li>• Unsafe or unsound condition</li> </ul>	No	No unusual circumstances noted
Home National Bank, Blackwell, Oklahoma	July 9, 2010 \$72.2 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Dissipation of assets or earnings due to unsafe or unsound practices</li> <li>• Unsafe or unsound condition</li> </ul>	No	No unusual circumstances noted
First National Bank of the South, Spartanburg, South Carolina	July 16, 2010 \$73.4 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Dissipation of assets or earnings due to unsafe or unsound practices</li> <li>• Unsafe or unsound condition</li> </ul>	No	No unusual circumstances noted
Williamsburg First National Bank, Kingstree, South Carolina	July 23, 2010 \$8.5 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Dissipation of assets or earnings due to unsafe or unsound practices</li> <li>• Unsafe or unsound condition</li> </ul>	No	No unusual circumstances noted
Community National Bank at Bartow, Bartow, Florida	August 20, 2010 \$10.1 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Dissipation of assets or earnings due to unsafe or unsound practices</li> <li>• Unsafe or unsound condition</li> </ul>	No	No unusual circumstances noted
Independent National Bank, Ocala, Florida	August 20, 2010 \$22.9 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Dissipation of assets or earnings due to unsafe or unsound practices</li> <li>• Unsafe or unsound condition</li> </ul>	No	No unusual circumstances noted
<b>Regulator – OTS</b>				
Home Federal Savings Bank, Detroit, Michigan	November 6, 2009 \$8.3 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Unsafe and unsound condition</li> </ul>	No	No unusual circumstances noted
Waterfield Bank, Germantown, Maryland	March 5, 2010 \$54 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Assets are less than obligations to creditors</li> <li>• Unsafe and unsound condition</li> <li>• Board of directors consented to appointment of receiver</li> </ul>	Yes	Unusual circumstance identified <sup>2</sup> ; estimated completion date is December 2010
Key West Bank, Key West, Florida	March 26, 2010 \$21.3 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Unsafe and unsound condition</li> <li>• Board of directors consented to appointment of receiver</li> </ul>	No	No unusual circumstances noted

## Bank Failures and Non-Material Loss Reviews

Bank Failures and Non-Material Loss Reviews				
Bank Name/Location	Date Closed/Loss to the Deposit Insurance Fund	OIG Summary of Regulator's Grounds for Receivership	In-Depth Review Determination	Reason/Anticipated Completion Date of the In-Depth Review
First Federal Bank of North Florida, Palatka, Florida	April 16, 2010 \$21.6 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Unsafe and unsound condition</li> <li>• Board of directors consented to appointment of receiver</li> </ul>	No	No unusual circumstances noted
Ideal Federal Savings Bank, Baltimore, Maryland	July 9, 2010 \$2.1 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Unsafe and unsound condition</li> <li>• Board of directors consented to appointment of receiver</li> </ul>	No	No unusual circumstances noted
Woodlands Bank, Bluffton, South Carolina	July 16, 2010 \$114.9 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Unsafe and unsound condition</li> <li>• Board of directors consented to appointment of receiver</li> </ul>	No	No unusual circumstances noted
Olde Cypress Community Bank, Clewiston, Florida	July 16, 2010 \$31.4 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Unsafe and unsound condition</li> <li>• Board of directors consented to appointment of receiver</li> </ul>	No	No unusual circumstances noted
Mainstreet Savings Bank, Hastings, Michigan	July 16, 2010 \$11.3 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Board of directors consented to appointment of receiver</li> </ul>	No	No unusual circumstances noted
Turnberry Bank, Aventura, Florida	July 16, 2010 \$34.1 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Unsafe and unsound condition</li> <li>• Board of directors consented to appointment of receiver</li> </ul>	No	No unusual circumstances noted
Bayside Savings Bank, Port Saint Joe, Florida	July 30, 2010 \$16.1 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Board of directors consented to appointment of receiver</li> </ul>	No	No unusual circumstances noted
Los Padres Bank, Solvang, California	August 20, 2010 \$8.6 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Unsafe and unsound condition</li> </ul>	No	No unusual circumstances noted
Imperial Savings and Loan Association, Martinsville, Virginia	August 20, 2010 \$3.5 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> </ul>	No	No unusual circumstances noted
Maritime Savings Bank, West Allis, Wisconsin	September 17, 2010 \$83.5 million	<ul style="list-style-type: none"> <li>• Capital impaired</li> <li>• Board of directors consented to appointment of receiver</li> </ul>	No	No unusual circumstances noted
<sup>1</sup> The bank was owned by First Bank of Oak Park Corporation. <sup>2</sup> A full scope MLR was substantially underway when Dodd-Frank passed and a decision was made not to terminate the MLR.				

## References to the Inspector General Act

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## Abbreviations

ARM	adjustable rate mortgage
BSA	Bank Secrecy Act
CIGFO	Council of Inspectors General on Financial Oversight
Dodd-Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
FDIC	Federal Deposit Insurance Corporation
FinCEN	Financial Crimes Enforcement Network
FISMA	Federal Information Security Management Act of 2002
FMS	Financial Management Service
FSOC	Financial Stability Oversight Council
IPA	independent public accountant
IRS	Internal Revenue Service
IT	information technology
KPMG	KPMG LLP
MLR	material loss review
OCC	Office of the Comptroller of the Currency
OFAC	Office of Foreign Assets Control
OIG	Office of Inspector General
OMB	Office of Management and Budget
OTS	Office of Thrift Supervision
PCB	Peoples Community Bank
Recovery Act	American Recovery and Reinvestment Act of 2009
SBLF	Small Business Lending Fund
SSBCI	State Small Business Credit Initiative
TARP	Troubled Asset Relief Program
WaMu	Washington Mutual Bank

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# The Wall Street Reform and Consumer Protection Act of 2010



President Obama signing the Wall Street Reform and Consumer Protection Act into law on July 21, 2010

## contact us

### Headquarters

Office of Inspector General  
1500 Pennsylvania Avenue, N.W.,  
Room 4436  
Washington, D.C. 20220  
Phone: (202) 622-1090;  
Fax: (202) 622-2151

### Office of Audit

740 15th Street, N.W., Suite 600  
Washington, D.C. 20220  
Phone: (202) 927-5400;  
Fax: (202) 927-5379

### Office of Investigations

799 9th Street, N.W., 8<sup>th</sup> Floor  
Washington, D.C. 20220  
Phone: (202) 927-5260;  
Fax: (202) 927-5421

### Office of Counsel

740 15th Street, N.W., Suite 510  
Washington, D.C. 20220  
Phone: (202) 927-0650;  
Fax: (202) 927-5418

### Office of Management

740 15th Street, N.W., Suite 510  
Washington, D.C. 20220  
Phone: (202) 927-5200;  
Fax: (202) 927-6492

### Eastern Field Audit Office

408 Atlantic Avenue, Room 330  
Boston, Massachusetts 02110-3350  
Phone: (617) 223-8640;  
Fax (617) 223-8651



Treasury OIG Hotline

Call Toll Free: 1.800.359.3898

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