

The U.S. Treasury Department
Summary Response to Recommendations in the January 2009 GAO Report

March 18, 2009

Introduction:

The Treasury Department (Treasury) welcomes the recommendations made by the GAO on the Troubled Assets Relief Program (TARP) in all of its reports, including the 9 most recent recommendations set forth in the GAO's January 2009 report. Treasury has actively kept the GAO apprised of all of its progress on all the GAO recommendations to date, as well as on developments with current and proposed programs and policies under the EESA. The Office of Financial Stability (OFS) continues to make tremendous progress on building the organization and related frameworks and procedures, while simultaneously developing and implementing Treasury's policies to respond to the financial crisis.

This document is Treasury's second Summary Response to the GAO's recommendations, with a specific focus on the recommendations in the January 2009 report. This Summary Reponse provides a written, high level summary of Treasury's progress on the January GAO recommendations and identifies the next steps that Treasury plans to take in these areas.

The March report is structured as follows:

- Identification of the January GAO recommendation
- Summary of Treasury's status on that recommendation at the time of the January GAO Report
- High level illustration of Treasury's progress on the issue to-date
- Identification of Treasury's next steps

GAO Recommendation 1 and Treasury Progress

GAO January Recommendation 1:

Treasury should expand the scope of planned monthly CPP surveys to include collecting at least some information from all institutions participating in the program.

Status at January GAO Report:

In January, Treasury launched a monthly bank lending survey, requesting data on lending and intermediation activities from the 20 largest CPP recipients. Treasury's Office of Financial Stability (OFS) was also working with the federal bank to develop a quarterly process for analyzing the CPP program that would include specific metrics, as well as more in-depth qualitative analysis on topical issues.

High Level Summary of Progress since January GAO Report:

- Treasury expanded the Monthly Intermediation Snapshot surveys to the 21 largest CPP recipients because another large CPP investment was made.
- Treasury published two Monthly Intermediation Snapshot surveys of the largest CPP participants, on February 17 and March 15, 2009. The February Snapshot assesses the lending and intermediation activities of 20 institutions over the fourth quarter of 2008 (October 2008 to December 2008), essentially the period following the launch of the CPP. The March 2009 Snapshot covers the month of January for the 21 largest participants. Going forward the results of the survey will be published on the 15th of each month and cover the activities for the prior month.
- Treasury has worked closely with the federal banking agencies and finalized a data collection template for all CPP recipients beyond the top 21. Treasury is finalizing the process of obtaining clearance from the Office of Management and Budget (OMB) for this survey and expects to send out the data request to the CPP participants this week.
- In the expanded survey, Treasury will require all CPP participants to report on their loans outstanding by total amount and by key categories. As with the Monthly Intermediation Snapshot, these surveys will be published monthly at the institution level. The first request will cover data for the months of February and March. The data will be due to Treasury by April 30 and will be published by mid-May.
- Treasury's Quarterly Analysis Project, which it leads in coordination with the 4 federal banking agencies, has advanced into the design stage. The project consists of two work streams:
 1. Research that focuses on identifying the specific metrics that will be calculated and tracked for the Quarterly Analysis report. This work stream will leverage work that the banking regulators have already conducted on lending and intermediation activities during past recessions and incorporate that analysis and metrics into the Report.

2. In-depth qualitative analysis on TARP-related issues, including both exam and research focused. Going forward, this group will coordinate topics of interest to the entire group, ensure that information is shared and conduct research accordingly.
- The quarterly analysis project is holding regular meetings. The first Quarterly Analysis report is scheduled for release on June 30, 2009, and will cover the fourth quarter of 2008 and the first quarter of 2009.

Treasury's Next Steps:

- Small business lending will be added to the Monthly Intermediation Snapshot for the largest CPP recipients beginning with the April 2009 submission, which will be due to Treasury on May 31, 2009.

GAO Recommendation 2 and Treasury Progress

GAO January Recommendation 2:

Treasury should ensure that future CPP agreements include a mechanism that will better enable Treasury to track the use of the capital infusions and seek to obtain similar information from existing CPP participants.

Status at January GAO Report:

The CPP agreements through which Treasury purchases preferred stock in financial institutions do not contain provisions requiring these institutions to report information on their intermediation activities.

High Level Summary of Progress since January GAO Report:

- In January 2009, as noted in the response to Recommendation 1, Treasury initiated a survey of the largest CPP participants regarding their lending and intermediation activities and published 2 Snapshots with results.
- In February 2009, Treasury established the Capital Access Program (CAP). Under the terms of this program, Treasury will require all participating financial institutions to submit a plan outlining their intended use of the capital received through the CAP. If the institution does not meet the goals outlined in its plans, the institution will be required to submit to Treasury a detailed explanation.
- In addition, Treasury will gather data on each institution's lending activity against a pre-established baseline lending level that would have occurred without the capital injection under the CAP. For programs under the Financial Stability Plan, participating financial institutions will submit a monthly report to Treasury outlining the amount of their loans outstanding, both in total and by key category. This amount will be compared to the firms' baseline level. Treasury has met with banking regulators to discuss possible measures and is in the process of finalizing the baseline calculation.
- Treasury will not amend past CPP agreements, but will ask all CPP participants to report lending data to Treasury. See recommendation 1.

Treasury's Next Steps:

- Each month, Treasury will publish the results of its survey of the lending levels of each institution participating in the CAP, along with a comparison against their reported baselines. Institutions that fall short of their baseline will be required to comment on the factors that caused the shortfall.

GAO Recommendation 3 and Treasury Progress

GAO January Recommendation 3:

Treasury should establish a process to ensure compliance with all CPP requirements, including those associated with limitations on dividends and stock repurchase restrictions.

Status at January GAO Report:

In response to a similar recommendation in GAO's December report, Treasury highlighted its progress in increasing the number of OFS staff and also regulating executive compensation through a second interim rule.

High Level Summary of Progress after the January GAO Report:

- *Compliance:* Since GAO's January report, Treasury made significant progress toward institutionalizing a compliance process for CPP requirements. Notably:
 1. Dividend payments are being monitored, and the process flow for these payments is being documented.
 2. All other requirements have been catalogued, and detailed monitoring procedures for dividend and stock purchase restrictions are being developed and documented.
 3. Treasury is developing requirements for a software application to assist in tracking and reporting on compliance.
- *Executive Compensation:* Significant policy developments have occurred since GAO's second report in the area of executive compensation that have affected executive compensation policies and procedures for TARP. On February 4, the Obama Administration announced strict new restrictions for executive compensation, and, on February 17, President Obama signed into law the American Recovery and Reinvestment Act (ARRA) of 2009. This law amended the executive compensation provisions that apply to recipients of financial assistance under the TARP and imposes significant new limitations. In light of the ARRA:
 1. The executive compensation regulation that Treasury posted just prior to GAO's January report did not take effect
 2. Treasury is preparing a new interim rule to implement the requirements of the ARRA.
 3. Treasury has initiated a process to engage outside vendors to help Treasury implement the executive compensation compliance requirements under ARRA.
- The Office of the Chief Compliance Officer continues to make progress in building its staff.

Treasury's Next Steps:

- Treasury will continue to develop and implement a rigorous compliance program for the CPP, complete the interim rule and finalize the procurement of vendors to help implement our oversight of the compliance requirements.
- The Office of the Chief Compliance Officer will continue to build up its staff

GAO Recommendation 4 and Treasury Progress

GAO January Recommendation 4:

Treasury should communicate a clearly articulated vision for TARP and how all individual programs are intended to work in concert to achieve that vision. This vision should incorporate actions to preserve homeownership. Once this vision is clearly articulated, Treasury should document needed skills and competencies.

Status at January GAO reports:

Treasury had used reports to Congress, Congressional testimony, and speeches and interviews by senior Treasury officials as a means to keep all stakeholders informed of the program's status and strategy.

Treasury met all of its reporting requirements on time, and posted all reports, speeches and testimony on the EESA website: <http://www.treas.gov/initiatives/eesa/>. Treasury expanded its outreach to ensure that all stakeholders are informed of TARP program developments as they occur.

- As of January 30, Treasury had published:
 1. 8 transaction reports: <http://www.treas.gov/initiatives/eesa/transactions.shtml>
 2. 2 tranche reports: <http://www.treas.gov/initiatives/eesa/tranche-reports.shtml>
 3. 2 section 105 reports:
<http://www.treas.gov/initiatives/eesa/congressionalreports.shtml>
 4. 1 section 102 report:
<http://www.treas.gov/initiatives/eesa/congressionalreports102.shtml>
 5. 1 response to questions from the Congressional Oversight Panel:
<http://www.treas.gov/press/releases/hp1336.htm>
- Treasury officials also participated in Congressional hearings regarding the TARP on December 4 and December 10:
 1. <http://www.treas.gov/press/releases/hp1312.htm>
 2. <http://www.treas.gov/press/releases/hp1322.htm>
- Treasury officials also made public remarks on the program's status on 6 occasions:
 1. <http://www.treas.gov/press/releases/hp1301.htm>
 2. <http://www.treas.gov/press/releases/hp1314.htm>
 3. <http://www.treas.gov/press/releases/hp1321.htm>

4. <http://www.treas.gov/press/releases/hp1332.htm>
5. <http://www.treas.gov/press/releases/hp1347.htm>
6. <http://www.treas.gov/press/releases/hp1349.htm>

High Level Summary of Progress since January GAO Report:

- On February 10, Secretary Geithner publically outlined Treasury's Financial Stability (FSP) Plan, a new, comprehensive strategy to restore stability to the nation's financial system. In his speech, he also addressed Treasury's plan to address home ownership preservation. The Secretary outlined the following goals of the FSP: to restore confidence in the strength of U.S. financial institutions; restart markets critical to financing American households and businesses; and address housing market problems and the foreclosure crisis. As Secretary Geithner outlined, these programs are built upon all of Treasury's actions to stabilize the financial system under the EESA.
- Treasury has launched a reinvigorated public communications initiative designed to more clearly and effectively explain our comprehensive policies to stabilize the financial system and restore the flow of credit to consumer and businesses. One key to this enhanced public outreach effort Treasury's new, revamped website- www.financialstability.gov which will become a one-stop destination for comprehensive information all programs under the EESA and the FSP. The website will provider more user-friendly information on each program and also works to explain how Treasury's programs work in concert to stabilize the system.
- Treasury has also clearly articulated its plans and policies to preserve home ownership. On March 4, Treasury released information and guidelines on the Homeowner Affordability and Stability Plan which will offer assistance to as many as 7 to 9 million homeowners making a good-faith effort to stay current on their mortgage payments, while attempting to prevent the destructive impact of foreclosures on families and communities. The plan will support low mortgage rates through strengthening confidence in Fannie Mae and Freddie Mac, providing up to 4 to 5 million homeowners with new access to refinancing. Additionally, the Homeowner Stability Initiative will provide a comprehensive approach in order to offer reduced monthly payments for up to 3 to 4 million at-risk homeowners.
- Treasury new programs and comprehensive vision for restoring financial stability have been outlined extensively by Secretary Geithner in a number of public forums, including:
 1. Launch of the Financial Stability Plan on February 10
 2. Testimony to the Senate Banking Committee on February 10
 3. Testimony to the Senate Budget Committee on February 11
 4. Statement following the G-7 meeting on February 14

5. Announcement of the Homeownership Affordability and Stability Plan on February 18
 6. Testimony to the House Ways and Means Committee on March 3
 7. Testimony to the Senate Finance Committee on March 4
 8. Testimony to the House Budget Committee on March 5
 9. Statements made prior to and during the G-20 Finance Ministers and Central Bank Governors Meeting on March 11
 10. March 14 statement following the G20
 11. Testimony to the Senate Budget Committee on March 12
- Treasury continued to utilize reports to Congress, Congressional testimony, and speeches and interviews by senior Treasury officials as a means to keep all stakeholders informed of the program's status and strategy.
 - As of March 13, 2009, Treasury has issued the following reports:
 1. 21 transaction reports: <http://www.treas.gov/initiatives/eesa/transactions.shtml>
 2. 5 tranche reports: <http://www.treas.gov/initiatives/eesa/tranche-reports.shtml>
 3. 4 section 105 reports:
<http://www.treas.gov/initiatives/eesa/congressionalreports.shtml>
 4. 1 section 102 report:
<http://www.treas.gov/initiatives/eesa/congressionalreports102.shtml>
 - As of March 13, 2009, Treasury officials have participated in Congressional hearings regarding the TARP on:
 1. December 4: <http://www.treas.gov/press/releases/hp1312.htm>
 2. December 10: <http://www.treas.gov/press/releases/hp1322.htm>
 3. February 10: <http://www.treas.gov/press/releases/tg02102009.htm>
 4. February 11: <http://www.treas.gov/press/releases/tg02112009.htm>
 5. March 3: <http://www.treas.gov/press/releases/tg47.htm>
 6. March 4: <http://www.treas.gov/press/releases/tg50.htm>
 7. March 5: <http://www.treas.gov/press/releases/tg51.htm>

8. March 11: <http://www.treas.gov/press/releases/tg52.htm>
 9. March 12: <http://www.treas.gov/press/releases/tg55.htm>
- As of March 13, 2009, Treasury officials also made public remarks on the program's status on 6 occasions:
 1. December 1: <http://www.treas.gov/press/releases/hp1301.htm>
 2. December 5: <http://www.treas.gov/press/releases/hp1314.htm>
 3. December 8: <http://www.treas.gov/press/releases/hp1321.htm>
 4. December 19: <http://www.treas.gov/press/releases/hp1332.htm>
 5. January 8: <http://www.treas.gov/press/releases/hp1347.htm>
 6. January 13: <http://www.treas.gov/press/releases/hp1349.htm>
 7. February 8: <http://www.treas.gov/press/releases/tg16.htm>
 8. February 10: <http://www.treas.gov/press/releases/tg18.htm>
 9. February 14: <http://www.treas.gov/press/releases/tg27.htm>
 10. February 17: <http://www.treas.gov/press/releases/tg31.htm>
 11. March 11: <http://www.treas.gov/press/releases/tg53.htm>
 - OFS staff works closely with Treasury public affair's office, which has numerous staff specifically dedicated to TARP, FSP, related domestic finance issues and the new website.
 - With respect to identifying needed skills and competencies, the OFS is charged with executing the Administration's vision and policies for FSP and TARP within Treasury's Department of Domestic Finance. The OFS has staffed according (see section 5 below).

Treasury's Next Steps:

- Treasury will continue to develop, and launch, the new website www.financialstability.gov, posting detailed information about new and existing programs under the EESA.

GAO Recommendation 5 and Treasury Progress

GAO January Recommendation 5:

Treasury should continue to expeditiously hire personnel needed to carry out and oversee TARP.

Status at January GAO Report:

The OFS filled or selected candidates for key leadership positions. As of January 15, 2009, OFS had a staff of 88 employees, including 28 long-term staff and 60 detailees. OFS continued to benefit from broad support across the Department of the Treasury and from individuals detailed to the OFS from within Treasury or other federal organizations.

High Level Summary of Progress since January GAO Report:

- As of March 16, 2009, Treasury had increased the number of OFS staff to 113 employees, including 77 long-term staff and 36 detailees. OFS also continues to benefit from the support of an additional 40 to 50 employees from throughout Treasury. Over the past two months, OFS has:
 1. Increased its overall staffing level by 30 percent;
 2. Increased long-term OFS staff by 175 percent; and
 3. Decreased detailee staff by 39 percent.
- The OFS expects to increase overall staffing levels to approximately 195 full-time employees.
- These staffing changes reflect the success of the OFS in shifting from reliance on Treasury staff (outside of OFS) and detailees to a reliance on long-term OFS staff. In the last month alone, OFS has added 23 long-term hires.
- The OFS is developing a formal Workforce Plan that balances the need for high performing, long-term personnel with that of the potential temporary nature of the OFS.
- The OFS has attracted excellent private and public sector candidates; OFS has received thousands of resumes through the OFS website and each job posting through USAJOBS.com generates a high level of interest.
- The OFS has established effective processes for refinement of staffing requirements, development of appropriate vacancy announcements, recruitment strategies and reviewing applications. There is broad involvement of the OFS staff in the recruitment and interviewing process and OFS is actively interviewing candidates for management and staff positions.
- The OFS developed a flexible Workforce Plan and created a bimonthly review process to address competencies, staffing needs, gaps, and changes in program direction

Treasury's Next Steps:

- The OFS will continue to actively interview and hire candidates for management and staff positions.

GAO Recommendation 6 and Treasury Progress

GAO January Recommendation 6:

Treasury should expedite efforts to ensure that sufficient personnel are assigned and properly trained to oversee the performance of all contractors, especially for contracts priced on a time-and-materials basis, and move toward fixed-price arrangements whenever possible as program requirements are better defined over time.

Status at January GAO Report:

Executives in the OFS and Treasury's Office of the General Counsel managed contract performance. The OFS added additional personnel for procurement management, procurement services, and financial agent management to manage TARP contracts and financial agents. The OFS also continued to design the organizational infrastructure to oversee TARP's contracts and agreements. In addition, contracting officers and OFS staff identified opportunities to transition from labor-hour contracts to firm pricing arrangements where feasible. The Treasury instituted a twice per month contract performance report requirement for OFS procurements, monthly meetings with the financial agent's senior management, and "procurement summit" meetings with broad representation from employees across the Treasury to facilitate requirements planning and contract management. Procurement Services Division (PSD) provided training, support, and recommendations to the OFS with respect to OFS contracts. The OFS committed to complete hiring actions to transition to permanent and more experienced COTRs.

High Level Summary of Progress since January GAO Report:

- Treasury hired an executive Contract Administration Manager who reports to the OFS Chief Operating Officer. His responsibilities include: overseeing the planning of long range requirements, implementing contract management best practices, and providing leadership and guidance to OFS Contracting Officer Technical Representatives (COTRs) and Financial Agent management personnel.
- The OFS transitioned from a model of executive administration for OFS contracts and agreements to the executive oversight of professional COTRs. Trained, certified COTRs are now in place for all OFS contracts. The Contract Administration Manager has instituted weekly roundtable meetings with COTRs to identify significant issues and actions on particular contracts and agreements, facilitate cross-training and professional development of COTRs, and continuously improve the administration and oversight of OFS contracts and agreements.
- The OFS has created a Contract and Agreement Review Board comprised of program and procurement executives; the Board is chartered to monitor contracts and financial agency agreements and ensure sufficient and effective planning, administration, and management.
- Where appropriate, Treasury has begun to shift from time-and-materials based contracts toward fixed-price arrangements. Fixed price arrangements have been negotiated where OFS can accurately estimate the extent or duration of the work associated with a

particular, repeatable transaction type. The programs created under the EESA often involve the creation of new financial structures, forms, and transaction sets. These requirements generally are not estimable at the time of contract due to the underlying complexity of the structures and the amount of information available about affected entities during their formulation. Once these structures are operational, Treasury collects data on the level of effort required to execute discrete transactions. The performance data enables Treasury to anticipate costs with a reasonable degree of confidence, allowing for fixed pricing in some circumstances.

- The OFS is designing an on-line Contracting Officer's Technical Representative (COTR) document management structure for contract and agreement administration to ensure consistent and complete documentation of COTR files, standardize processes, and facilitate personnel transition through access to information and shared practices.

Treasury's Next Steps:

- The OFS will continue to build its contract administration staff and infrastructure to ensure effective oversight of the performance of all contracts and agreements.
- The OFS will continue to select the appropriate contract type considering the complexity and the foreseeability of the need, as well as capabilities in the commercial marketplace.

GAO Recommendation 7 and Treasury Progress

GAO January Recommendation 7:

Continue to develop a comprehensive system of internal control over TARP, including policies, procedures, and guidance for program activities that are robust enough to ensure that program's objectives and requirements are being met.

Status at January GAO Report:

Treasury had established a framework for internal controls and was initiating planning for its OMB Circular A-123 compliance program, including risk assessments, but had not fully established the governance bodies. Continued progress had been made on documenting the detailed elements of transactions that had occurred to date, particularly in the CPP program. Inputs and assumptions for subsidy cost models were generally documented.

High Level Summary of Progress Since January Report:

- Treasury has made considerable progress in the area of governance. Treasury has formed two governance committees that are actively discussing and prioritizing internal control objectives and providing oversight of the internal control program.
 1. The first is the Executive Committee (EC) chaired by the Assistant Secretary for Financial Stability. The EC serves as the primary management vehicle for OFS and also provides a link between the Treasury and OFS policy makers and the operational execution capabilities within OFS.
 2. The second committee is the Senior Assessment Team (SAT) chaired by the Deputy Chief Financial Officer (CFO). This committee oversees the execution by the OFS of the OMB Circular A-123 program and guides the office's efforts to meet the statutory and regulatory requirements surrounding a sound system of internal controls.
- In addition to the two governance committees, OFS formed a New Program Implementation Team (NPIT) to support the implementation of new programs and to help facilitate communication and ensure the right mix of internal controls is put in place by management. The purpose of this team is to strengthen the ability of the OFS to effectively implement new loan, insurance, asset purchase, and investment programs as they are developed. This cross functional team will serve as a bridge between the governance committee structure of the Executive Committee / Senior Assessment Team and the business and support functions that perform the control activities on a daily basis.
- Similarly, on the area of internal controls, the OFS has taken measurable steps as it continues to build a comprehensive system of internal controls to cover its core program and support functions in tandem with the growth and development of its business model. Initial efforts focused on the various equity and debt purchase transactions, but has since been expanded to include connection points with other Departmental Offices and third party service providers.

- In compliance with Treasury departmental requirements, the OFS is conducting its own internal OMB Circular A-123 assessment for Fiscal Year (FY) 2009 and will report the results to Treasury through an Annual Assurance Statement signed by the Assistant Secretary for Financial Stability. OFS's Internal Control Program Office (ICPO) will lead the assessment from within the Office of the CFO. The ICPO will drive the development of policies and procedures, document business processes, conduct internal control assessments, evaluate assessment results, monitor and track corrective action plans (CAPs), and report CAP progress to the Senior Assessment Team. A detailed plan for complying with the requirements of OMB Circular A-123 has been created and will form the basis for defining the scope and timing of these efforts.
- In addition to the governance and internal control framework activities outlined above, the OFS continues to build on its efforts related to control activities, information and communication, and ongoing monitoring. Some examples of these efforts include the following.
 1. Within the office of the CFO, the internal control program office actively monitors transactions involving the disbursement of funds from Treasury, including documenting process flows, narratives, and risk and control matrices for key business and support functions.
 2. Staff gather data supporting the execution of controls on a near real-time basis, providing management with confirmation that the transaction controls are being executed as designed.
 3. The internal control program office is currently scoping and planning the assessment of Information Technology (IT) controls related to the important business and support processes across OFS including working with the Bank of New York Mellon to define the requirements for a TARP-specific SAS 70 examination and the timing of the delivery of a Type II report.
- The OFS has prioritized the documentation of policies and procedures for core program and support functions and is finalizing a plan to complete that documentation by June 30, 2009. The OFS recently completed initial policies and procedures for the following areas: 1) Budget Control and Reporting for Program Funds; 2) Credit Reform Modeling; 3) Accruals for Contracts, Inter/Intra-Agency Agreements and Financial Agent Agreements; and 4) Financial Agent Agreements.
- Treasury continues to utilize the outside expertise of PricewaterhouseCoopers in support of the development and execution of its internal controls framework

Treasury's Next Steps:

- As Treasury continues to rapidly establish new programs to stabilize the financial system, the OFS, still a new Department, will continue to monitor and document the operational processes and associated controls for these "start-up" program transactions on a real-time basis. At the same time, the OFS will continue its implementation of a comprehensive

internal control program, including risk identification, key controls documentation, and effective processes to ensure control objectives are met. The OFS is committed to meeting Treasury and other federal requirements for a sustainable and effective system of internal control.

GAO Recommendation 8 and Treasury Progress

GAO January Recommendation 8:

Treasury should develop and implement a well-defined and disciplined risk-assessment process, as such a process is essential to monitoring program status and identifying any risks of potential inadequate funding of announced programs.

Status at January GAO Report:

Treasury was developing a risk assessment process, but it was informal and not fully documented.

High Level Summary of Progress since January GAO Report:

- The OFS has begun implementation of a well-defined risk assessment process. The process includes a number of steps, including the following:
 1. setting internal operational objectives;
 2. setting risk and other objectives;
 3. identifying major risks and assigning responsibilities;
 4. designing and implementing risk mitigation actions;
 5. monitoring and reporting on risks;
 6. testing risk mitigation actions.
- An Executive Committee and Senior Assessment Team have been established to implement this risk-assessment process. In addition to its other management duties, the Executive Committee has responsibility over setting objectives (e.g., internal, operational, risk, and establishing risk priorities). The Senior Assessment Team, together with the OFS operational units, identifies major risks, designs and implements risk mitigation activities, monitors and reports on risks, and works with the CFO's staff to test risk mitigation actions.
- OFS is undertaking a robust risk identification and assessment process, which is a combination of top-down and bottom-up processes.
 1. *Top Down Process:* Each area within OFS has identified first cut high level risks. This will be refined further over the coming weeks to ensure that all current Joint Chiefs and their Deputies have a chance to provide input on any potential risks to the program..
 2. *Bottom- Up Process:* This process builds on the OMB Circular A-123 control process. OFS is using the GAO checklist process as a way of identifying more granular risks from a variety of sources. The interview process will be

substantially completed by March 13, 2009. The risk office will synthesize this data to develop a picture of potential risks.

Next Steps:

- Once this initial assessment is complete, the Executive Committee will prioritize the risks and assign responsibility for addressing them. The operating areas, in conjunction with the Risk Office, will develop action plans to quickly put the necessary mitigating actions into place.
- This will be an ongoing process, with formal Executive Committee risk oversight meetings occurring monthly.

GAO Recommendation 9 and Treasury Progress

GAO January Recommendation 9:

Treasury should review and renegotiate existing conflict-of-interest mitigation plans, as necessary, to enhance specificity and conformity with the new interim conflicts of interest regulation, and take continued steps to manage and monitor conflicts of interest and enforce mitigation plans.

Status at January GAO Report:

When GAO issued its last report, Treasury had just published its interim final regulations on conflicts of interest. These regulations describe formal steps for identifying, monitoring, and mitigating conflicts of interest during the procurement process and over the contract's term. Prior to these regulations, Treasury controlled conflicts by implementing conflicts guidelines and the Federal Acquisition Regulation.

High Level Summary of Progress after the January GAO Report:

- The compliance office has reviewed all existing contracts and financial agency agreements for conformity with the interim rule on conflicts of interest. Treasury executed nine contracts that contained conflicts mitigation plans before the interim rule took effect. Treasury reviewed all nine, renegotiated the conflicts provisions on two of them, and continues negotiations on four others. Treasury is not renegotiating the terms of the three remaining contracts because they are scheduled to expire shortly. These contracts, however, conform to the conflicts guidelines that were in place prior to the interim rule.
- Treasury has procedures in place to monitor conflicts of interest with contractors and financial agents. The compliance office currently devotes over two full-time employees to conflicts issues that arise with new and existing contracts and financial agency agreements; additional contracting personnel at Treasury also work on these issues.
- In addition to discussions on particular issues, Treasury meets bi-weekly by telephone or in person with our contractors and financial agents to discuss any conflicts issues on the horizon. When a potential conflict does arise in an existing contract, the compliance office takes a standard approach to evaluating the potential conflict and feasibility of mitigation measures.

Treasury's Next Steps:

- Treasury will analyze the interim final conflicts rule and any comments received with respect to the rule and will work to finalize the rule as soon as possible.