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Highlights

Highlights of GAO-10-301, a report to congressional committees

December 2009

FINANCIAL AUDIT

Office of Financial Stability (Troubled Asset Relief Program) Fiscal Year 2009 Financial Statements

Why GAO Did This Study

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (EESA) was signed into law. EESA authorized the Secretary of the Treasury to implement the Troubled Asset Relief Program (TARP) and established the Office of Financial Stability (OFS) within the Department of the Treasury (Treasury) to do so. EESA requires the annual preparation of financial statements for TARP, and further requires GAO to audit these statements.

GAO audited OFS's fiscal year 2009 financial statements for TARP to determine whether, in all material respects, (1) the financial statements were fairly stated, and (2) OFS management maintained effective internal control over financial reporting. GAO also tested OFS's compliance with selected provisions of laws and regulations.

We will be separately reporting to OFS on additional details concerning the findings in this report along with recommendations for corrective actions. In commenting on a draft of this report, the Assistant Secretary, Office of Financial Stability, stated OFS concurred with the two significant deficiencies in its internal control over financial reporting GAO identified. He also stated that OFS is committed to correcting the deficiencies.

View GAO-10-301 or key components.
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What GAO Found

In GAO's opinion, OFS's fiscal year 2009 financial statements for TARP are fairly presented in all material respects. GAO also concluded that, although internal controls could be improved, OFS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2009. GAO found no reportable instances of noncompliance with the provisions of laws and regulations it tested.

Since its inception on October 3, 2008, OFS implemented numerous initiatives under TARP. As of September 30, 2009, net assets related to TARP direct loans, equity investments, and asset guarantees had an estimated value of about $239.7 billion. In addition, for the period ending September 30, 2009, OFS reported an estimated subsidy cost (estimated losses related to its direct loans, equity investments, and asset guarantees) of $41.4 billion and a net cost of operations of $41.6 billion for TARP, which includes the estimated subsidy costs. In valuing TARP direct loans, equity investments, and asset guarantees, OFS management considered and selected assumptions and data that it believed provided a reasonable basis for the estimated costs reported in the financial statements. However, these assumptions and estimates are inherently subject to substantial uncertainty arising from the likelihood of future changes in general economic, regulatory, and market conditions. The estimates have an added uncertainty arising from the uniqueness of transactions for the multiple TARP initiatives and the lack of historical information and program experience upon which to base the estimates. As such, there will be differences between the net estimated values of the direct loans, equity investments, and asset guarantees as of September 30, 2009, and the amounts that OFS will ultimately realize from these assets, and such differences may be material. These differences will also affect the ultimate cost of TARP to the taxpayer.

GAO identified two significant deficiencies in OFS's internal control over financial reporting concerning (1) accounting and financial reporting processes, and (2) verification procedures over the data used for asset valuations. While these deficiencies are not considered material weaknesses, they are important enough to merit management's attention.