Priority Open Recommendations: Department of the Treasury

Dear Mr. Secretary:

The purpose of this letter is to provide an update on the overall status of the U.S. Department of the Treasury’s implementation of GAO’s recommendations and to call your personal attention to areas where open recommendations should be given high priority.\(^1\) In November 2018, we reported that on a government-wide basis, 77 percent of our recommendations made 4 years ago were implemented.\(^2\) Treasury’s recommendation implementation rate was 78 percent. As of March 2019, Treasury had 141 open recommendations, not including recommendations to the Internal Revenue Service, which are addressed in a separate letter to the Commissioner. We have sent a copy of that letter to your office. Fully implementing all open recommendations could significantly improve Treasury’s operations.

Since our April 2018 letter, Treasury has implemented two of our 24 open priority recommendations. In doing so, Treasury updated its analysis of potential unexpended balances by estimating future expenditures of the Making Home Affordable program. As a result, $4 billion was deobligated, which Congress can rescind and use for other priorities. Treasury also established a process to determine whether required agencies are submitting spending data in accordance with the Digital Accountability and Transparency Act of 2014 (DATA Act).\(^3\)

Treasury has 22 priority recommendations remaining from those we identified in the 2018 letter.\(^4\) We ask your continued attention on those remaining priority recommendations. We also are adding three new recommendations related to modernizing the U.S. financial regulatory system, improving cybersecurity, and improving interagency coordination to address national

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\(^1\)Priority recommendations are those that GAO believes warrant priority attention from heads of key departments or agencies. They are highlighted because, upon implementation, they may significantly improve government operation, for example, by realizing large dollar savings; eliminating mismanagement, fraud, and abuse; or making progress toward addressing a high-risk or duplication issue.


\(^4\)The Office of Management and Budget is the implementing entity for two of these priority recommendations. We determined that Treasury’s collaboration on them was important enough to highlight in this letter.
security concerns, bringing the total number of priority recommendations to 25. (See enclosure for the list of recommendations).

We have also raised concerns about the current approach to managing the federal debt limit and its implications for Treasury. One cannot overstate the importance of preserving investors’ confidence that debt backed by the full faith and credit of the U.S. government will be honored. Failure to increase or suspend the debt limit in a timely manner could have serious negative consequences for financial markets, including the market for Treasury securities, and could increase Treasury’s borrowing costs. In 2015, we reported on options for Congress to better align decisions about the level of debt with decisions on spending and revenue and minimize disruption to the market.\(^5\) We asked Congress to consider alternative approaches that better link decisions about the debt limit with decisions about spending and revenue at the time those decisions are made.

The 25 priority recommendations fall into the following seven areas.

**Modernizing the U.S. financial regulatory system.**

This is among the highest risks facing the federal government. We first designated this area as high risk in 2009 because the U.S. financial regulatory system had failed to respond effectively to developments in the markets and to the increase in systemic risks that contributed to the financial crisis. It remains high risk, in part, because the U.S. financial regulatory structure remains complex, with responsibilities fragmented among a number of regulators that have overlapping authorities.

With regard to Treasury, we made two priority recommendations. One in September 2012 that members of the Financial Stability Oversight Council as well as the Office of Financial Research (OFR) should clarify responsibility for implementing requirements to monitor threats to financial stability to avoid duplicative efforts. While Treasury says it is clarifying these responsibilities as part of its ongoing reform of OFR, these efforts are not yet complete.

In addition, we made another recommendation in February 2018 that the Director of the Federal Crimes Enforcement Network (FinCEN) should jointly conduct a retrospective review of the Bank Secrecy Act/anti-money laundering (BSA/AML) regulations and their implementation for banks with the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System (Federal Reserve), and the Office of the Comptroller of the Currency to focus on how banks’ regulatory concerns may be influencing their willingness to provide services. Without assessing the full range of BSA/AML factors that may be influencing banks to derisk or close branches, FinCEN, the federal banking regulators, and Congress do not have the information needed to determine if BSA/AML regulations and their implementation can be made more effective or less burdensome.

Resolving the federal role in housing finance also will require leadership commitment and action by Congress and Treasury. Treasury provided significant capital support to Fannie Mae and Freddie Mac following the financial crisis and their futures remain uncertain with billions of federal dollars at risk. For this reason, in January 2019 we urged Congress to consider legislation for the future federal role in housing finance that addresses the structure of the enterprises, establishes clear and prioritized goals, and considers all relevant federal entities, such as the Federal Housing Administration and Ginnie Mae.\(^6\) In March 2019 the President


issued a memorandum directing the Secretary of the Treasury to develop a plan, among other things, for ending the conservatorships of Fannie Mae and Freddie Mac, and directing the Secretary of Housing and Urban Development to develop a plan for reforming the Federal Housing Administration and Ginnie Mae. This action represents an important step towards needed reforms of the housing finance system. We have made no recommendations to Treasury on this matter, but Treasury will likely play a role as Congress considers legislative reforms.

**Improving federal financial management.**

Treasury should focus on 14 recommendations we made in this area from October 2003 through July 2017 related to the long-standing material weaknesses we identified in the processes used to prepare the consolidated financial statements of the U.S. government. The federal government needs to improve federal financial management to operate as effectively as possible and to make difficult decisions to address its financial challenges. Congress, the administration, and federal managers must have ready access to reliable and complete financial and performance information.

These material weaknesses have contributed to our being prevented from expressing an opinion on the accrual-based consolidated financial statements for the U.S. government. The weaknesses relate to (1) accounting for and reconciling intragovernmental activity and balances, (2) preparing the consolidated financial statements, and (3) reconciling the budget deficit to net operating cost and changes in cash balance. Treasury needs to address these long-standing material weaknesses by continuing to update corrective action plans and implement corrective actions with support from the Office of Management and Budget (OMB).

**Evaluating the performance and effectiveness of tax expenditures.**

It is critically important to assess the performance of tax expenditures in accomplishing their objectives, and we have two priority recommendations in this area. First, we recommended in September 2005 that Treasury focus on developing and implementing a framework for conducting performance reviews of tax expenditures. Many tax expenditures function as spending programs, although with less transparency, and do not compete overtly in the annual budget process. To date, Treasury has not taken action on this recommendation. We continue to believe that a framework for evaluating tax expenditures could help identify redundancies in related tax and spending programs and determine how well specific tax expenditures work to achieve their goals and how their benefits and costs compare to those of programs with similar goals.

Second, in July 2014, we recommended that Treasury issue guidance on how funding or assistance from other government programs can be combined with the New Markets Tax Credit (NMTC), including the extent to which other government funds can be used to leverage this credit. Issuing further guidance would help ensure that Treasury has controls in place to limit the risk of unnecessary duplication in government subsidies or above market rates of returns on NMTC projects. Without such guidance and controls, the impact of the NMTC program on low-income communities could be diluted. To fully implement this recommendation, Treasury needs to use data that the Community Development Financial Institutions Fund intends to collect on NMTC-financed projects to identify and analyze projects that may be receiving more government funding than necessary by using other public funds to leverage the NMTC.

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8 26 U.S.C. § 45D.
Improving IT workforce planning.

We have one priority recommendation in this area from November 2016 for Treasury to address shortfalls in IT workforce planning. To date, Treasury has not developed an action plan that addresses key IT workforce planning steps. Fully implementing this plan would ensure that Treasury has the necessary knowledge, skills, and abilities to execute a range of management functions that support the agency’s mission and goals.

Improving cybersecurity.

Treasury should focus attention on a priority recommendation we made in February 2018 to consult with respective sector partners, such as the private-sector led Financial Services Sector Coordinating Council, the Department of Homeland Security, and the National Institute of Standards and Technology (NIST), as appropriate, to develop methods for determining the level and type of adoption by entities across the financial services sector of NIST’s Framework for Improving Critical Infrastructure Cybersecurity.⁹

In February 2018, we found that Treasury, which is the federal lead agency for the financial services critical infrastructure sector, did not capture data on framework adoption rates for its sector. In responding to this recommendation, Treasury said it does not have the authority to compel entities to share cybersecurity framework adoption data but would continue engaging with NIST and its other public and private sector partners to help ensure the adoption of this framework. More recently, Treasury began discussions with NIST to identify or develop methods for determining the level and type of framework adoption by the financial sector. A more comprehensive understanding of the framework’s use by financial services entities is necessary to ensure that its facilitation efforts are successful and to determine whether organizations are realizing positive results by adopting the framework.

Improving interagency coordination to address national security concerns.

Treasury, as chair of the Committee on Foreign Investment in the United States (CFIUS), should focus attention on a priority recommendation we made in February 2018, which Treasury generally agreed with, to coordinate with member agencies on efforts to better understand the staffing levels needed to address the current and projected CFIUS workload associated with core committee functions.¹⁰ CFIUS reviews certain foreign acquisitions and mergers of U.S. businesses for national security concerns. Its workload has increased substantially in volume and complexity, but its staffing levels have only increased modestly, according to officials. Treasury has not provided information on steps taken to understand or address these issues. Without a better understanding of the staffing levels needed to address the current and future workload, CFIUS may be limited in its ability to fulfill its objectives and address national security threats.

Implementing the DATA Act.

Treasury should focus on four recommendations related to the DATA Act, which directs OMB and Treasury to establish government-wide data standards and requires agencies to report financial spending data using these standards.¹¹ Our recommendations from July 2015 through November 2017 cover a range of issues, including establishing a clear data governance

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¹¹FFATA, § 4.
structure, creating and communicating guidance to agencies, designing and implementing quality controls, and more clearly disclosing known data limitations.

Full and effective implementation of these recommendations will contribute to more reliable and consistent federal data to measure the cost and magnitude of federal investments as well as facilitate efforts to share data across agencies to improve transparency, accountability, decision-making, and oversight. For example, implementing improvements to its monitoring controls would help Treasury ensure the completeness and accuracy of agency data submissions. Further, while Treasury has made progress by increasing transparency about known quality issues, such as unreported spending, the agency could do more to disclose limitations on its USAspending.gov website.

As you know, in March we issued our biennial update to our high-risk program, which identifies government operations with greater vulnerabilities to fraud, waste, abuse, and mismanagement or the need for transformation to address economy, efficiency, or effectiveness challenges. Our high-risk program has served to identify and help resolve serious weaknesses in areas that involve substantial resources and provide critical service to the public.

Two of our high-risk areas, modernizing the U.S. financial regulatory system and enforcement of tax laws, center directly on Treasury. Several other government-wide high-risk areas including (1) ensuring the cybersecurity of the nation, (2) improving the management of IT acquisitions and operations, (3) strategic human capital management, (4) managing federal real property, and (5) government-wide security clearance process also have direct implications for Treasury and its operation. We urge your attention to these government-wide issues as they relate to Treasury. Progress on high-risk issues has been possible through the concerted actions and efforts of Congress, OMB, and the leadership and staff in agencies, including Treasury.

Copies of this report are being sent to the Director of the Office of Management and Budget and appropriate congressional committees including the Committees on Appropriations, Budget, and Homeland Security and Governmental Affairs, United States Senate; and the Committees on Appropriations, Budget, and Oversight and Reform, House of Representatives.

In addition, the report will be available at no charge on the GAO website at http://www.gao.gov.

I appreciate Treasury’s continued commitment to these important issues. If you have any questions or would like to discuss any of the issues outlined in the letter, please do not hesitate to contact me or J. Christopher Mihm, Managing Director, Strategic Issues, at mihmj@gao.gov or 202-512-6806. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Our teams will continue to coordinate with your staff on all of the 141 open recommendations, as well as those additional recommendations in the high-risk areas for which Treasury has a leading role. Thank you for your attention to these matters.

Sincerely yours,


Gene L. Dodaro  
Comptroller General  
of the United States  
Enclosure - 1  

cc:  The Honorable Justin Muzinich, Deputy Secretary, Treasury  
The Honorable Mick Mulvaney, Director, OMB  
The Honorable Charles P. Rettig, Commissioner, IRS  
The Honorable Kenneth A. Blanco, Director, FinCEN  
The Honorable Cornelius Crowley, Deputy Director and Chief Data Officer, OFR
Enclosure - Priority Open Recommendations to Treasury
Modernizing the U.S. Financial Regulatory System


Recommendation: The Financial Stability Oversight Council (FSOC) and the Office of Financial Research (OFR) should clarify responsibility for implementing requirements to monitor threats to financial stability across FSOC and OFR, including FSOC members and member agencies, to better ensure that the monitoring and analysis of the financial system are comprehensive and not unnecessarily duplicative.

Action needed: Treasury agreed to consider the recommendation and said that it continues to work with the OFR to reorganize and restructure the organization to better fulfill its mission and support FSOC as well as clarify roles and responsibilities. As of January 2019, Treasury still needs to complete these efforts to address the recommendation.

High-risk area: Modernizing the U.S. Financial Regulatory System

Managing Director: Lawrance L. Evans, Jr., Financial Markets and Community Investment

Contact information: evansl@gao.gov or (202) 512-8678


Recommendation: The Director of the Financial Crimes Enforcement Network (FinCEN) should jointly conduct a retrospective review of the Bank Secrecy Act/anti-money laundering (BSA/AML) regulations and their implementation for banks with the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve, and the Office of the Comptroller of the Currency (OCC). This review should focus on how banks' regulatory concerns may be influencing their willingness to provide services. In conducting the review, the FDIC, the Federal Reserve, OCC, and FinCEN should take steps, as appropriate, to revise the BSA regulations or the way they are being implemented to help ensure that BSA/AML regulatory objectives are being met in the most effective and least burdensome way.

Action needed: FinCEN did not indicate whether it agreed or disagreed with our recommendation. In April 2018, FinCEN agreed that the retrospective review would be beneficial and FinCEN has proactively working with stakeholders to review the effectiveness of the BSA regulatory and supervisory framework. FinCEN expected to complete its retrospective review by late March 2019.

High-risk area: Modernizing the U.S. Financial Regulatory System

Managing Director: Lawrance L. Evans, Jr., Financial Markets and Community Investment

Contact information: evansl@gao.gov or (202) 512-8678
Improving Federal Financial Management


Recommendations: Treasury should focus on recommendations related to the long-standing material weaknesses in the processes used to prepare the consolidated financial statements of the U.S. government.\(^\text{14}\) As of July 2018, 14 recommendations remained open at the end of our fiscal year 2017 audit.

Action needed: Treasury agreed with 12 of the 14 recommendations and neither agreed nor disagreed with the other two recommendations. In July 2018, Treasury and Office of Management and Budget (OMB) officials expressed their continuing commitment to addressing these material weaknesses. We are encouraged by Treasury’s and OMB’s significant efforts in developing more detailed corrective actions to address these material weaknesses, as documented in Treasury and OMB’s Remediation Plan for the Financial Report of the U.S. Government.\(^\text{15}\) Treasury needs to continue to work to address these long-standing material weaknesses by continuing to update corrective action plans and implement corrective actions with OMB’s support.

Director: Dawn B. Simpson, Financial Management and Assurance

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Evaluating the Performance and Effectiveness of Tax Expenditures


Recommendation: To ensure that policymakers and the public have the necessary information to make informed decisions and to improve the progress toward exercising greater scrutiny of tax expenditures, the Director of OMB, in consultation with the Secretary of the Treasury, should develop and implement a framework for conducting performance reviews of tax expenditures. In developing the framework, the Director should

- determine which agencies will have leadership responsibilities to review tax expenditures, how reviews will be coordinated among agencies with related

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responsibilities, and how to address the lack of credible performance information on tax expenditures;

- set a schedule for conducting tax expenditure evaluations;
- re-establish appropriate methods to test the overall evaluation framework and make improvements as experience is gained; and
- identify any additional resources that may be needed for tax expenditure reviews.

**Action needed:** Treasury did not submit comments on this report and deferred to OMB. OMB agreed that this recommendation had promise and also said that tax expenditure evaluations were the responsibility of Treasury, which had access to the necessary data. Neither Treasury nor OMB had taken action on this recommendation as of March 2019 when the President’s fiscal year 2020 budget was released. We continue to believe that Treasury should consult with OMB to develop and implement a framework for evaluating tax expenditures and preliminary performance measures. Such action would inform policy decisions about the efficiency, effectiveness, and equity of tax expenditures or whether they are the best tool for accomplishing federal objectives within a functional area.

**Director:** James R. McTigue, Jr., Strategic Issues

**Contact information:** mctiguej@gao.gov or (202) 512-9110


**Recommendation:** The Secretary of the Treasury should issue guidance on how funding or assistance from other government programs can be combined with the New Markets Tax Credit (NMTC). This includes the extent to which other government funds can be used to leverage the NMTC by being included in the qualified equity investment.

**Action needed:** While Treasury neither agreed nor disagreed with this recommendation, Community Development Financial Institutions (CFDI) Fund officials informed us in February 2019 about additional actions they plan to take to address our recommendations. The CDFI Fund intends to solicit public comments on additional data to be collected from the Community Development Entities and plans to use these data to identify NMTC-financed projects that may have excessive public funding. These actions, if used to monitor the extent to which other government funds are used to leverage the NMTC, will help to address this recommendation. Issuing further guidance would help ensure that Treasury has controls in place to limit the risk of unnecessary duplication in government subsidies or above market rates of returns on NMTC projects. Without such guidance and controls, the impact of the NMTC program on low-income communities could be diluted.

**Director:** James R. McTigue, Jr., Strategic Issues

**Contact information:** mctiguej@gao.gov or (202) 512-9110

*Improving IT Workforce Planning*


**Recommendation:** To facilitate the analysis of gaps between current skills and future needs, the development of strategies for filling the gaps, and succession planning, the Secretary of the Treasury should require the Chief Information Officer, Chief Human Capital Officer, and other
senior managers as appropriate to address the shortfalls in IT workforce planning, including the following actions:

- establish and maintain a workforce planning process;
- develop competency and staffing requirements for all positions;
- assess competency and staffing needs regularly;
- assess gaps in competencies and staffing for all components of the workforce;
- develop strategies and plans to address gaps in competencies and staffing for all components of the workforce;
- implement activities that address gaps, including a career path for program managers and special hiring authorities, if justified and cost-effective;
- monitor the department's progress in addressing competency and staffing gaps; and
- report to department leadership on progress in addressing competency and staffing gaps for all components of the workforce.

**Action needed:** Treasury agreed with our recommendation. As of March 2019, Treasury has made progress in addressing our recommendation but it still needs to develop an IT workforce plan that contains the key actions we outlined to address IT workforce skill gaps.

**High-risk areas:** Improving the Management of IT Acquisitions and Operations and Strategic Human Capital Management

**Director:** Carol C. Harris, Information Technology and Cybersecurity

**Contact information:** harriscc@gao.gov or (202) 512-4456

**Improving Cybersecurity**


**Recommendation:** The Secretary of Treasury should take steps to consult with respective sector partner(s), such as the sector coordinating council, Department of Homeland Security, and the National Institute of Standards and Technology (NIST), as appropriate, to develop methods for determining the level and type of framework adoption by entities across their respective sector.

**Action needed:** Treasury neither agreed nor disagreed with this recommendation, stating that it does not have the authority to compel entities to share cybersecurity framework adoption data. However, Treasury officials provided information in October 2018 that stated Treasury had continued to encourage the adoption of the NIST Cybersecurity Framework through its engagement with private- and public-sector partners. Since receiving our recommendation, Treasury also stated it had begun to engage with NIST to discuss identifying or developing methods for determining the level and type of framework adoption by the financial sector. In addition, Treasury stated that for both comparability across sectors and because of cross-sector interdependencies, it would be ideal to develop a single methodology to measure framework adoption that could be leveraged for use by various sectors.

To address this recommendation, Treasury will need to continue the actions it is taking to engage NIST and its other public and private sector partners. A more comprehensive understanding of the framework’s use by financial services entities is necessary to ensure that
Treasury’s facilitation efforts are successful and to determine whether organizations are realizing positive results by adopting the framework.

**High-risk area:** Ensuring the Cybersecurity of the Nation

**Director:** Nicholas H. Marinos, Information Technology and Cybersecurity

**Contact information:** marinosn@gao.gov or (202) 512-9342

**Improving Interagency Coordination to Address National Security Concerns**


**Recommendation:** The Secretary of the Treasury, as the chair of the Committee on Foreign Investment in the United States (CFIUS), and working with member agencies, should coordinate member agencies’ efforts to better understand the staffing levels needed to address the current and projected CFIUS workload associated with core committee functions.

**Action needed:** Treasury generally agreed with this recommendation. In December 2018, Treasury noted that the Foreign Investment Risk Review Modernization Act of 2018 requires each CFIUS member agency to submit detailed spending plans annually for 7 years to the appropriate congressional committees, including estimated expenditures and staffing levels, and requires annual testimony for 7 years from the CFIUS staff chairperson regarding anticipated resource needs. However, Treasury did not provide information on any steps taken to better understand the staffing levels needed to address the current and future workload associated with core committee functions.

**Director:** Kimberly M. Gianopoulos, International Affairs and Trade, and Marie A. Mak, Contracting and National Security Acquisitions

**Contact information:** gianopoulosk@gao.gov or (202) 512-8612 and makm@gao.gov or (202) 512-2527

**Implementing the DATA Act**


**Recommendation:** To ensure that the integrity of data standards is maintained over time, the Director of OMB, in collaboration with the Secretary of the Treasury, should establish a set of clear policies and processes for developing and maintaining data standards that are consistent with leading practices for data governance.

**Action needed:** Treasury neither agreed nor disagreed with this recommendation. As of December 2018, Treasury was continuing to work with OMB to develop a structure for governing the data standards established under the DATA Act. These efforts include outreach to stakeholders regarding changes to technical guidance and working with members of the Chief Financial Officers Council to make updates to established standards. Treasury should continue to work with OMB, as appropriate, to build on initial efforts in this area and establish a data governance framework that fully reflects the leading practices we identified.

**Director:** Michelle Sager, Strategic Issues

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16Pub. L. No. 115-232, § 1721(b), (c).
DATA Act: Data Standards Established, but More Complete and Timely Guidance is Needed to Ensure Effective Implementation. GAO-16-261.

Recommendation: To help ensure that agencies report consistent and comparable data on federal spending, the Director of OMB, in collaboration with the Secretary of the Treasury, should provide agencies with additional guidance to address potential clarity, consistency, or quality issues with the definitions for specific data elements including “Award Description” and “Primary Place of Performance” and that they clearly document and communicate these actions to agencies providing this data as well as to end users.

Action needed: OMB generally agreed with the recommendation and Treasury deferred to OMB’s response. OMB and Treasury took steps in June 2018 to correct inconsistencies in reporting requirements by issuing guidance which provides additional clarification on reporting requirements for some data element definitions. In December 2018, Treasury officials told us that they regularly meet with members of the Chief Financial Officers Council working group to discuss identified challenges related to interpreting data standard definitions consistently across all agencies and award types. They also meet to formulate recommendations to address these challenges. To produce consistent and comparable information, however, additional guidance is needed to help agencies implement certain data definitions, such as “Award Description” and “Primary Place of Performance.” Given the challenges these data elements continue to present, Treasury should continue to work with OMB, as appropriate, to clarify, document, and communicate data element definitions that may allow for more than one interpretation, potentially resulting in inconsistent and misleading information when aggregated across government or compared between agencies.

Director: Michelle Sager, Strategic Issues
Contact information: sagerm@gao.gov or (202) 512-6806


Recommendation: The Secretary of the Treasury should reasonably assure that ongoing monitoring controls to help ensure the completeness and accuracy of agency submissions are designed, implemented, and operating as designed.

Action needed: Treasury generally agreed with the recommendation. According to Treasury, the department has ongoing monitoring controls to help ensure the completeness and accuracy of agency submissions. In December 2018, Treasury provided documentation and additional explanation of their controls. However, it is not clear how these controls ensure the accuracy and completeness of the agency submission files. Treasury needs to implement monitoring controls to help to ensure the completeness and accuracy of agency submissions.

Director: Paula Rascona, Financial Management and Assurance
Contact information: rasconap@gao.gov or (202) 512-9816

Recommendation: The Secretary of the Treasury should disclose known data quality issues and limitations on the new USAspending.gov.

Action needed: Treasury generally agreed with the recommendation. As of December 2018, the department had made progress by disclosing limitations related to Department of Defense
reporting delays and unreported spending, among other things. However, Treasury could do
more to disclose limitations on USAspending.gov, such as alerting users to missing linkages
between spending data and award data. This action will help users make more informed
decisions about how to interpret and use the data provided on the website.

Acting Director: Triana McNeil, Strategic Issues
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