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Highlights

Highlights of GAO-11-174, a report to congressional committees

November 2010

FINANCIAL AUDIT

Office of Financial Stability (Troubled Asset Relief Program) Fiscal Years 2010 and 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 years 2010 and 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.

In commenting on a draft of this report, the Acting Assistant Secretary, Office of Financial Stability, stated OFS concurred with the significant deficiency in its internal control over financial reporting that GAO identified. He also stated that OFS is committed to correcting the deficiency.

View GAO-11-174 for key components.
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What GAO Found

In GAO's opinion, OFS's fiscal years 2010 and 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, 2010. GAO found no reportable noncompliance in fiscal year 2010 with the provisions of laws and regulations it tested.

As of September 30, 2010 and 2009, net assets related to TARP direct loans, equity investments, and asset guarantee program had an estimated value of about $145.5 billion and $239.7 billion, respectively. In addition, for fiscal years 2010 and 2009, OFS reported an estimated subsidy income of $24.2 billion and subsidy cost of $41.4 billion, respectively related to its direct loans, equity investments, and asset guarantee program and net income of $23.1 billion and net cost of $41.6 billion, respectively for TARP. The estimated net cost of TARP transactions from inception through September 30, 2010, was $18.5 billion. In valuing TARP direct loans, equity investments, and asset guarantee program, OFS management considered and selected assumptions and data that it believed provided a reasonable basis for the estimated subsidy costs (income) 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. In addition, there are significant uncertainties related to the potential effect of proposed transactions, such as the restructuring of American International Group, Inc., on the amounts that OFS will realize from its investments. As such, there will be differences between the net estimated values of the direct loans, equity investments, and asset guarantee program, 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.

During fiscal year 2010, OFS sufficiently addressed the issues that resulted in a significant deficiency in fiscal year 2009 regarding OFS's verification procedures over the data used for asset valuations such that we no longer consider this to be a significant deficiency as of September 30, 2010. In addition, OFS addressed many of the issues related to the other significant deficiency we reported for fiscal year 2009 concerning its accounting and financial reporting processes. However, the remaining control issues along with other control deficiencies in this area that we identified in fiscal year 2010 collectively represent a continuing significant deficiency in OFS's internal control over its accounting and financial reporting processes. While this deficiency is not considered a material weakness, it merits management's attention. We will be separately reporting to OFS on additional details regarding this significant deficiency along with recommendations for corrective actions.