FOREWORD

This audit plan is the culmination of our planning efforts for Fiscal Year 2022. We developed the audits identified in this document through an assessment of the loan programs within Title IV, Subtitle A of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. We conducted our assessment based on input both from officials within our organization, and external stakeholders. We met with the Special Inspector General for Pandemic Recovery and his senior staff to discuss potential audits. We also met with the Department of the Treasury’s Chief Recovery Officer, and officials within the White House’s American Rescue Plan implementation team to obtain their input. We reached out to the Office of Management and Budget, and staffers in both the House and Senate Subcommittees on Financial Services and General Government. The Office of Audits took the input from these discussions along with our own evaluation of vulnerabilities and risks to develop an audit plan for the programs under our jurisdiction – the Treasury’s Direct Loan Program; the Federal Reserve Bank of Boston’s Main Street Lending Program; and the Federal Reserve Bank of New York’s investment programs: the Municipal Liquidity Facility, the Term Asset-Backed Securities Loan Facility; the Primary Market Corporate Credit Facility, and the Secondary Market Corporate Credit Facility.

The Fiscal Year 2022 Audit Plan represents our forecast for allocating available resources during the fiscal year. This plan is based on a current resource base of 11 audit staff and takes into account resources required for current audits that will carry over into the next fiscal year.

We anticipate that members of Congress, other government entities, and CARES Act program managers will request additional audits over the coming year. We will make an effort to respond to these requests as our resources allow. This audit plan is a living document, and the Office of Audits will adjust as priorities change.

We would also like to note that to conduct the audits on our plan, we need coordination from Federal Reserve and Treasury officials and access to data, documentation, and program administrators to make sufficient progress to meet our anticipated timelines. Resources and timelines will be adjusted as needed.

Theodore R. Stehney
Assistant Inspector General for Auditing
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Proposed Fiscal Year 2022 Audit Resources

The SIGPR Office of Audits currently has 11 auditors/analysts on staff. After accounting for leave, holidays, training, administrative duties, and other similar “indirect hours,” we estimate that the 11 audit staff will have a combined 16,800 direct audit hours available in Fiscal Year 2022. The Office of Audits has identified the following projects for the FY 2022 plan:

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<th>Hours for FY 2021 Carryover Audits:</th>
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<td>Audit of the Direct Loan Program</td>
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<th>Net FY 2022 Direct Hours</th>
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<td>Total Hours: Pending Products</td>
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Title: Audit of the Direct Loan Program

Program Background

Section 4003 of the CARES Act authorizes the Department of the Treasury to make loans, loan guarantees, and other investments to provide liquidity to eligible businesses related to losses incurred because of the coronavirus pandemic.

Specific to the Section 4003 loans (hereinafter referred to as the “Direct Loan Program”) the CARES Act provided up to:

1. $25 billion for loans and loan guarantees for passenger air carriers; eligible businesses that are certified under 14 CFR Part 145 and approved to perform inspection, repair, replace, or overhaul services; and ticket agents (as defined in 49 U.S.C. Section 40102);
2. $4 billion for loans and loan guarantees for cargo air carriers; and
3. $17 billion for loans and loan guarantees for businesses critical to maintaining national security.

Treasury entered into 35 direct loans with qualified borrowers. Although the loans and loan guarantees totaled $21.9 billion, only $2.7 billion was disbursed to the 35 borrowers.

Audit Objective:

Determine whether the processes used to approve loans under the Direct Loan Program followed the requirements under Section 4003 of the CARES Act and other appropriate regulations and guidance.

Estimated Completion Date: January 15, 2022
Estimated Remaining Hours: 1300
Title: Audit of the Main Street Lending Program—Survey

Program Background

The Main Street Lending Program (MSLP) was designed to provide support to small and medium-sized businesses and their employees across the United States during the COVID-19 pandemic. The program was intended to help companies that were in sound financial condition prior to the onset of the pandemic maintain their operations and payroll until conditions normalize. In total, the MSLP issued 1830 loans valued at over $17.3 billion.

The MSLP offers three separate loan facilities:
   (1) Main Street New Loan Facility (MSNLF)
   (2) Main Street Priority Loan Facility (MSPLF)
   (3) Main Street Expanded Loan Facility (MSELF).

Each loan facility uses the same borrower eligibility criteria and has similar commercial components. The facilities differ in the maximum loan amount available and in the way they interact with the borrower’s existing debt.

Audit Objective:

To assess the process used by banks to issue loans under the MSLP, evaluate the process used by the Federal Reserve’s Special Purpose Vehicle to purchase the loans, determine vulnerabilities based on a risk-based analysis, and identify specific areas that warrant further audit work.

Methodology:

As part of this effort, the audit team distributed a survey to all MSLP lender banks and borrowers to get an assessment of the program from the borrowers’ and lenders’ vantage point. We will report on the results of the survey once we collect and analyze the results.

Estimated Completion Date: March 31, 2022
Estimated Remaining Hours: 1800
FISCAL YEAR 2022 AUDIT PLAN

Direct Loan Program

Program Background

Section 4003 of the CARES Act authorizes the Department of the Treasury to make loans, loan guarantees, and other investments to provide liquidity to eligible businesses related to losses incurred because of the coronavirus pandemic.

Treasury entered into 35 direct loans with qualified borrowers. As of September 1, 2021, Treasury has 28 outstanding loans with a remaining principal balance of $1.3 billion. The loan agreements contain several requirements for borrowers. Borrowers must:

- Maintain employment levels as of March 24, 2020 to the extent practicable, and in any case shall not reduce their employment levels by more than 10 percent from the levels on such date, until September 30, 2020;
- Place certain restrictions on employee compensation;
- Avoid repurchasing stock, except to the extent required under a contractual obligation in effect as of March 27, 2020; and
- Avoid paying dividends or making other capital distributions with respect to the borrower’s common stock until 12 months after the loan has been repaid.

In addition, the CARES Act requires that the Department of the Treasury receive a warrant or equity instrument in the borrower if the borrower is a public company (unless Treasury determines that the issuance of warrants or equity is infeasible, in which case the company must provide a senior debt instrument), or a warrant, equity instrument, or senior debt instrument if the borrower is a private company, to compensate taxpayers.
Title: Audit of the Direct Loan Program—Use of Lobbyists

Description of Audit:

Based on the survey results received during the ongoing audit of the Direct Loan Program, it was determined that 7 of the 35 qualified borrowers who received a loan and 2 of the 56 unsuccessful applicants who responded to our survey indicated that they used third party firms to assist in the loan application process.

Preliminary Objectives:

1. Determine the extent to which outside firms – lobbyists – assisted applicants in submitting their applications for a direct loan; and
2. Determine, to the extent possible, the process used and impact of an applicant’s use of outside parties to obtain a direct loan.

Staffing needs:

Two individuals: Audit Manager, Auditor in Charge
Projected number of hours required: 1650
Projected timeline: 165 days
Estimated Start Date: January 15, 2022
Estimated Completion Date: June 30, 2022
Title: Audit of Direct Loan Recipient—To be Determined

Description of Audit:

Although the loan agreements between the Department of the Treasury and the direct loan recipients contain several requirements that borrowers must adhere to, these requirements require only a borrower certification to remain in compliance. We plan to conduct a review to ensure the program requirement to maintain employment levels was met by the borrowers. We will also review borrower employee compensation, stock repurchasing, and dividend payouts to ensure that borrowers remained in compliance with program terms.

Preliminary Objective:

Determine if loan recipients are fully compliant with the terms and conditions of their loan agreements.

Staffing needs:

Two individuals: Audit Manager, Auditor in Charge
Projected number of hours required: 1800
Projected timeline: 180 days
Estimated Start Date: July 1, 2022
Estimated Completion Date: December 31, 2022
Title: Audit of the Department of the Treasury’s Direct Loan Program Loan Portfolio Management

Description of Audit:

During our ongoing audit work on the Direct Loan Program, we learned that the Department of the Treasury has a web portal which collects data directly from direct loan recipients. This data is used to monitor compliance with loan terms and conditions. We plan to review the flow of data to determine if the Department of the Treasury is monitoring this data appropriately to assess risk in its loan portfolio. Specifically, we plan to determine whether the Department of the Treasury, while acting in the capacity of a lender of last resort, clearly defined portfolio oversight roles and responsibilities; performed risk identification, analysis, and assessment of its loan portfolio; performed stress testing of its loan portfolio; and has sufficient monitoring controls in place to protect the interests of American taxpayers.

Preliminary Objectives:

- Determine the Direct Loan Program’s loan portfolio objectives.
- Determine how and to what extent the Department of the Treasury performed risk identification, analysis, and assessment of the Direct Loan Program loan portfolio.
- Determine whether, how, and to what extent the Department of the Treasury performed stress testing of the Direct Loan Program loan portfolio.
- Determine how and to what extent the Department of the Treasury performs loan portfolio management supervision.
- Maintain up-to-date status on all outstanding loans.
- Identify poor performing loans for potential future audits.

Staffing needs:

Two individuals: Audit Manager, Auditor in Charge
Projected number of hours required: 1800
Projected timeline: 180 days
Main Street Lending Program

Program Background

The Main Street Lending Program (MSLP) was designed to provide support to small and medium-sized businesses and their employees across the United States during the COVID-19 pandemic. The program was intended to help companies that were in sound financial condition prior to the onset of the pandemic maintain their operations and payroll until conditions normalize. In total, the MSLP issued 1830 loans valued at $17.5 billion.

While the Department of the Treasury provided the funding for MSLP, implementation was handled by the Federal Reserve. The Federal Reserve Bank of Boston set up a Special Purpose Vehicle (SPV) to purchase participations in loans originated by eligible lenders. The SPV purchased 95% of the principal loan amount from the lending institution, thereby limiting the Lender’s exposure to 5% of the loan amount.

To be eligible for an MSLP loan, a business must have less than 15,000 employees or have an annual revenue of $5 billion or less. In addition, Borrowers must meet several other requirements, including, but not limited to the following:

- Must be a U.S. based business;
- Must be a business established prior to March 13, 2020;
- Cannot be an ineligible business listed in 13 CFR Section 120.110;
- Must be able to certify that the business can meet its financial obligations for the next 90 days from application date; and
- Loan cannot exceed four times the business’ earnings before interest, taxes, depreciation, and amortization (EBITDA) for MSNLF loans, or six times the EBITDA for MSPLF and MSELF loans.

Eligible MSLP Lenders may rely on an Eligible Borrower’s certifications and covenants, as well as any subsequent self-reporting by the Borrower. The Lender is not expected to independently verify the Borrower’s certifications or actively monitor ongoing compliance with covenants required for Borrowers. If a Lender becomes aware that a Borrower made a material misstatement or otherwise breached a covenant during the term of an MSLP loan, the Lender should notify the Federal Reserve Bank of Boston.
Title: Audit of Main Street Lending Program—Review of Interrelated Borrowers

Description of Audit:

During our review of the MSLP loan universe, we identified different Borrowers with similar business names, similar business phone numbers, or similar email addresses. In some cases, these “relationships” existed across over 15 separate MSLP loans. We plan to conduct a review of these potentially interrelated MSLP loan recipients to determine if the recipients obtained loans according to the terms of the program.

Preliminary Objectives:

To identify if there are improper interrelated loans in the MSLP loan universe. If so, determine the circumstances surrounding each loan.

Staffing needs:

Two individuals: Audit Manager, Auditor in Charge
Projected number of hours required: 1800
Projected timeline: 180 days
Estimated Start Date: April 1, 2022
Estimated Completion Date: September 30, 2022
Title: Audit of Main Street Lending Program—Review of Borrowers with Multiple Businesses

Description of Audit:

While businesses are eligible to receive more than one MSLP loan, the loans when added together cannot exceed the maximum loan threshold for any given loan facility, and the loans must all be of the same facility. For example, any given business may receive multiple MSPLF loans, if the combined loan amount is less than $50 million (MSPLF loan limit). However, a business receiving an MSPLF loan may not also receive an MSNLF loan or an MSELF loan.

While reviewing the universe of MSLP loans, we identified instances where multiple businesses that received loans had the same principal borrower (individual). We plan to conduct a review of these businesses to determine if the borrowers stayed within the program guidelines when obtaining MSLP loans.

Preliminary Objectives:

Determine if individual borrowers receiving more than one MSLP loan adhered to the program’s requirements, including limitations on loan amount and restrictions upon receiving loans in more than one MSLP facility.

Staffing needs:

Two individuals: Audit Manager, Auditor in Charge
Projected number of hours required: 1800
Projected timeline: 180 days
Title: Audit of Main Street Lending Program—Review of Borrower Tax Liens

Description of Audit:

While conducting a risk analysis of the universe of loans extended as part of MSLP, we found indications that loans may have been extended to businesses that were subject to Federal or State tax liens. The existence of tax liens may indicate that a business is not in sound financial condition and would be a considerable loan risk. We intend to conduct an audit to determine if MSLP loans were indeed granted to businesses under a Federal or State tax lien, and if so, the circumstances surrounding each loan.

Preliminary Objectives:

Determine if the Federal Reserve’s Special Purpose Vehicle purchased MSLP loans to businesses subject to Federal or State tax liens. If so, conduct a review of these loans to determine if they were in accordance with the terms of the program.

Staffing needs:

Two individuals: Audit Manager, Auditor in Charge
Projected number of hours required: 1800
Projected timeline: 180 days
Title: Audit of Main Street Loan Program Lender or Borrower—To be Determined

Description of Audit:

The Office of Audits is in the process of conducting a risk analysis on the universe of MSLP loans, encompassing the program’s 319 lenders and 1830 borrowers. As we continue our assessment of the MSLP loan universe, we plan to identify MSLP loans, lenders, and/or borrowers to audit.

Preliminary Objectives:

1. Assess the process used by banks to issue loans under the MSLP;
2. Evaluate the process used by the Federal Reserve’s Special Purpose Vehicle to purchase the loans; and
3. Evaluate whether MSLP loans were awarded and administered in accordance with the terms of the program.

Staffing needs:

Two individuals: Audit Manager, Auditor in Charge
Projected number of hours required: 1800
Projected timeline: 180 days
Title: Audit of Main Street Lending Program—Compendium

Description of Audit:

The Office of Audits plans to conduct a number of audits into various aspects of the Main Street Lending Program in the coming years. We will use the results of these audits to draw overall conclusions on the program and present those conclusions in a final report on the program.

Preliminary Objectives:

1. Assess the effectiveness of the Main Street Lending Program by reviewing the process used by banks to issue loans;
2. Evaluate the process used by the Federal Reserve’s Special Purpose Vehicle to purchase the loans; and
3. Identify program vulnerabilities.

Staffing needs:

Two individuals: Audit Manager, Auditor in Charge.
Projected number of hours required: 4800
Projected timeline: 1440 days
Project completion date: September 2025
Secondary Market Corporate Credit Facility

Program Background

The Federal Reserve established the Secondary Market Corporate Credit Facility (SMCCF) to support credit to employers by providing liquidity to the market for outstanding corporate bonds.

The SMCCF was designed to support market liquidity by purchasing secondary market corporate bonds issued by investment grade U.S. companies, as well as U.S. listed exchange-traded funds whose investment objective is to provide broad exposure to the market for U.S. corporate bonds. The Department of the Treasury, using funds appropriated through the CARES Act, made an equity investment in a Special Purpose Vehicle (SPV) established by the Federal Reserve for the SMCCF and the Primary Market Corporate Credit Facility.

The SMCCF ceased purchasing assets on December 31, 2020. In June 2021, the Federal Reserve Board announced plans to begin winding down the SMCCF portfolio. The Federal Reserve Board stated that SMCCF portfolio sales will be gradual and orderly. They further stated that these sales will aim to minimize the potential for any adverse impact on the market by considering daily liquidity and trading conditions for exchange traded funds and corporate bonds. As of August 30, 2021, SMCCF has sold all its exchange traded funds and all but $128.8 million of its corporate bonds.

The SMCCF signed an agreement with BlackRock Financial Management, Inc. (BlackRock) in May 2020. BlackRock, an expert asset management advisor with experience advising official institutions, central banks, leading pension plans, and global financial institutions, will perform investment management services for the SMCCF. The agreement was amended in June 2021 when the SMCCF decided to begin to sell its corporate bonds and exchange traded funds.
Title: Audit of the Secondary Market Corporate Credit Facility (SMCCF)

Description of Audit:

It is important for the government to have a plan when it is purchasing billions of dollars in corporate bonds and exchanged traded funds. Similarly, with such a large investment, it is important for the portfolio to be diversified so there is less risk. It is also important to ensure that controls are in place and working properly to prevent BlackRock from taking advantage of its agreement with the government. The audit will examine the Federal Reserve’s plan for the SMCCF portfolio and determine if controls were in place to monitor the agreement with BlackRock.

Preliminary Objectives:

The audit will determine whether:

1. The Federal Reserve's plan showed a prudent investment strategy, and whether BlackRock selected and managed the portfolio in a prudent, competent, and expert manner. How, if at all, did the Federal Reserve's unique position and goals for the SMCCF influence the plan or portfolio?
2. The SMCCF disproportionately bought exchange traded funds from BlackRock. Were controls implemented to detect or prevent such an occurrence?
3. The Federal Reserve had a plan for selling the SMCCF portfolio. How closely did SMCCF’s sales match the plan?
4. The SMCCF disproportionately sold exchange traded funds from BlackRock. Were controls implemented to detect or prevent such an occurrence?
5. The controls for how BlackRock mitigates the risk of its employees using confidential information from SMCCF benefit themselves and their clients.
6. BlackRock was selected appropriately, and if any changes can be made to improve the competitiveness and preparedness of any future investment advisor awards during a crisis.

Staffing needs:

Two individuals: Audit Manager, Auditor in Charge
Projected number of hours required: 2250
Projected timeline: 225 days
Estimated Start Date: October 1, 2021
Estimated Completion Date: May 15, 2022
Municipal Liquidity Facility

Program Background

Due to the COVID-19 pandemic, state and local governments faced potential cash flow problems resulting from reduced tax revenue, increased expenses, or similar financial problems. The Municipal Liquidity Facility (MLF) was established by the Federal Reserve, under the authority of Section 13(3) of the Federal Reserve Act, to help State and Local governments manage these cash flow pressures by purchasing short-term notes directly from states, counties, and cities.

The Department of the Treasury Secretary, using funds appropriated to the Exchange Stabilization Fund under Section 4027 of the CARES Act, made an initial equity investment of $35 billion to the Special Purpose Vehicle (SPV), which was authorized to purchase up to $500 billion in eligible notes.

The original criteria limited borrowing to eligible states, cities, counties, or multi-state entities at or above specified credit ratings. On June 3, 2020, the Federal Reserve expanded the criteria to revenue bond issuers designated by state Governors. These issuers must also meet a minimum credit rating.

The Dodd-Frank Act prohibits lending under Section 13(3) of the Federal Reserve Act to insolvent borrowers and requires the Federal Reserve to adopt policies and procedures to protect taxpayers from losses as a result of emergency lending.

The MLF became operational on May 26, 2020 and during its existence, purchased eligible notes totaling about $6.6 billion - $3.2 billion from State of Illinois and $3.4 billion from the New York Metropolitan Transit Authority. The MLF ceased purchasing eligible notes on December 31, 2020.

As of August 31, 2021, about $2.2 billion has been prepaid by the State of Illinois, leaving about $4.4 billion worth of notes outstanding.
Title: Audit of the Municipal Liquidity Facility (MLF)

Description of Audit:

The MLF is an investment made by the Department of the Treasury using taxpayer funds. Its purpose is to provide short-term relief to municipalities that have a temporary cash flow shortage due to the pandemic but anticipate having the revenue to repay the funds later. If MLF borrowers are not able to repay the debt, the Department of the Treasury could lose up to billions of dollars of taxpayer funds. It is important that the Department of the Treasury’s investments appropriately account for risk and that Treasury does not fund billions of dollars’ worth of loans to entities that are at high risk of defaulting.

Preliminary Objectives:

1. Determine whether MTA qualified for the MLF based on the facility’s requirements at the time the transactions were made.
2. Determine whether the Federal Reserve risked losing Department of the Treasury funds by allowing MTA to participate in the MLF.

Staffing needs:

Two individuals: Audit Manager, Auditor in Charge
Projected numbers of hours required: 1800
Projected timeline: 180 days
Estimated Start Date: May 15, 2022
Estimated Completion Date: November 30, 2022
Term Asset-Backed Securities Loan Facility

Program Background

The Term Asset-Backed Securities Loan Facility (TALF) is a credit facility authorized under Section 13(3) of the Federal Reserve Act intended to help meet the credit needs of consumers and businesses by facilitating the issuance of asset-backed securities.

The Federal Reserve Bank of New York established a Special Purpose Vehicle (SPV) to operate the TALF. The Department of the Treasury, using funds appropriated to the Exchange Stabilization Fund under Section 4027 of the CARES Act, made an equity investment of $10 billion in the SPV.

The TALF SPV was authorized to make up to $100 billion of loans available to borrowers who are unable to secure adequate credit accommodations from other banking institutions. In total, the TALF SPV made $4.4 billion in loans.

Section 4003(c)(3)(C) of the CARES Act requires loan recipients to be created or organized in the United States or have the majority of its employees based in the United States:

A program or facility in which the Secretary makes a loan, loan guarantee, or other investment under subsection (b)(4) shall only purchase obligations or other interests (other than securities that are based on an index or that are based on a diversified pool of securities) from, or make loans or other advances to, businesses that are created or organized in the United States or under the laws of the United States and that have significant operations in and a majority of its employees based in the United States.

In addition to the CARES Act requirement on domestic borrowers, Federal Reserve internal guidance states that eligible borrowers include businesses that (a) are created or organized in the United States or under the laws of the United States, (b) have significant operations in and a majority of their employees based in the United States, and (c) maintain an account relationship with a TALF Agent.
Title: Audit of Term Asset-Backed Securities Loan Facility (TALF) Borrowers and Material Investors

Description of Audit:

Congress specifically put in the requirement that the borrowers under TALF are located in the United States, and the Department of the Treasury’s equity investment in the Special Purpose Vehicle is from taxpayer funds. However, while all TALF borrowers are in the United States, just 150 of the 371 material investors in the TALF borrowers are located in the United States. Although that does not violate the CARES Act requirement, this issue may be of interest to Congress, Treasury, the Federal Reserve, and the public. We plan to review the universe of TALF borrowers to determine if they have employees working in the United States. We will also review if borrowers’ certifications that they could not secure adequate credit from other banking institutions were valid.

Preliminary Objectives:

1. Determine how borrowers and material investors interacted and who ultimately benefitted from the loans
2. Determine the percentage of loans that went to borrowers with foreign material investors
3. Determine how the borrowers operate in the United States, including present functions and number of employees, and how they certified that they were unable to secure adequate credit accommodations from other banking institutions

Staffing needs:

Two individuals: Audit Manager, Auditor in Charge
Projected number of hours required: 2100
Projected timeline: 210 days
Ongoing Effort - Data Analytics and Investigative Support

Description of Work:

One of the Office of Audits’ first tasks was to identify the program data that related to the Main Street Lending Program and Direct Loan Program loans authorized by the CARES Act and merge that information into useable datasets. These datasets contain more than 70 million rows of data, covering billions of dollars in CARES Act funding.

Using an analytical approach, the Office of Audits developed “risk scores” to identify areas of potential vulnerabilities and financial risk in CARES Act programs. This approach provides a detailed analysis to pinpoint financial risks of all CARES Act programs—a process that is critically important to the mission of SIGPR. In addition, this data-driven process allows audit teams to deliver a premier, qualitative view of financial processes and results. This information will enable audit team members to consider key performance indicators of multiple operational aspects, as well as variances, relationships, patterns, and anomalies. It will eventually offer new objectives and overall perspectives on the use of CARES Act funding.

A natural by-product of the evaluation process is to generate vital insights and provide potential investigative leads. The Office of Audits’ data analytical capabilities is used to support ongoing investigations to assess monetary transactions and trace the receipt and use of CARES Act funds.

The Office of Audits remains unwavering in developing risk assessment models to identify areas of potential vulnerabilities and financial risk in CARES Act programs under its purview. The Office of Audits continues its collaboration with other SIGPR offices in developing custom proactive analytics and technical support in identifying abuse and fraudulent schemes.

Continued Staffing needs:

Three individuals: Program Director, Audit Manager, and 1 staff auditor/analyst
Projected number of hours required: 5750
Projected timeline: Continuing