



Office of the Special Inspector General for
Pandemic Recovery
Office of Audits

Fiscal Year 2023 Audit Plan

Report Number: SIGPR-A-22-007
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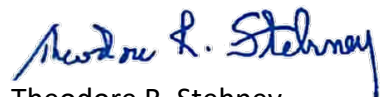
FOREWORD

This audit plan is the culmination of our planning efforts for Fiscal Year 2023. 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, GAO's Assistant Director for CARES Act oversight, the Federal Reserve Board of Governors Office of Inspector General, and staff from the Select Subcommittee on the Coronavirus Crisis for input on the plan. 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 in Title IV, Subtitle A of the CARES Act.

The Fiscal Year 2023 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 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 2023 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 15,700 direct audit hours available in Fiscal Year 2023. The Office of Audits has identified the following projects for the FY 2023 plan:

	# of Hours
Hours for FY 2022 Carryover Audits:	
Audit of Treasury’s Monitoring of the Direct Loan Program	1250
Audit of Treasury’s Process for its Direct Loan to YRC, Worldwide Inc.	600
Audit of Direct Loan Program Recipient – Mesa Airlines, Inc.	2300
FY 2023 – New Starts	
Audit of Treasury’s Role in the Internal Control Program (Books and Records/Tax Treatment) Designed to Monitor its Investment in CARES Act Federal Reserve Facilities	2500
Audit of Direct Loan Recipient - To be Determined	3500
Audit of Treasury’s Use of Outside Entities to Support its CARES Act Programs	2500
Independent Review of Direct Loan Recipient’s Validation Memo – Caribbean Sun Airlines, Inc.	200
Independent Review of Direct Loan Recipient’s Validation Memo – Timco Engine Center, Inc.	200
Independent Review of Direct Loan Recipient’s Validation Memo – Eastern Airlines, LLC	200
Independent Review of Direct Loan Recipient’s Validation Memo – Consolidated Report	1250
Independent Review of Direct Loan Recipient’s Credit Memoranda – Review Guide Development	800
Independent Review of Direct Loan Recipient’s Credit Memoranda – Borrower To Be Determined	1250
Independent Review of Direct Loan Recipient’s Credit Memoranda – Borrower To Be Determined	600
Independent Review of Direct Loan Recipient’s Credit Memoranda – Borrower To Be Determined	600
Less: Hours for FY 2024 Carryover Audits:	
Audit of Treasury’s Use of Outside Entities to Support its CARES Act Programs	1250
Independent Review of Direct Loan Recipient’s Credit Memoranda – Borrower To Be Determined	400
Independent Review of Direct Loan Recipient’s Credit Memoranda – Borrower To Be Determined	400
Net FY 2023 Direct Hours	15,700

FISCAL YEAR 2022 CARRYOVER AUDITS

Title: Audit of the Treasury's Monitoring of the Direct Loan Program

Program Background

Section 4003(b) of the CARES Act authorized Treasury to make up to \$46 billion in loans to passenger air carriers, ticket agents, cargo air carriers, and businesses critical to maintaining national security. In total, Treasury made 35 of these loans. The total authorized loan amount for the 35 loans was \$21,890,983,560. The total disbursements were \$2,677,983,560. Each loan contains requirements that the borrower must meet. Treasury monitors to ensure recipients comply with loan agreements and the CARES Act. Treasury also uses testing to determine whether borrowers are getting into trouble that may prevent them from paying back the loan to Treasury.

Audit Objectives:

1. Determine if Treasury had a sufficient policy in place to guide its monitoring.
2. Determine if Treasury monitored borrowers' compliance with the requirements of the CARES Act and the terms and conditions of the borrowers' loan agreements and followed up to resolve any issues that they detected.

Methodology:

Our scope includes all 35 loans. We will limit our scope to just monitoring, so that excludes anything done before the loans were issued. Our focus is on Treasury and its policies and processes, not how well the borrowers have complied.

Estimated Completion Date: 12/31/2022

Estimated Remaining Hours: 1250

Title: Audit of the Treasury's Process for its Direct Loan to YRC Worldwide, Inc.

Program Background

On April 29, 2020, YRC Worldwide, Inc. (Yellow) applied for a loan under the National Security Loan Program (NSLP). Treasury agreed to a \$700 million loan on July 7, 2020, which was to be made in two tranches. Tranche A would provide \$300 million to meet Yellow's near-term contractual obligations and non-vehicle capital expenditures. Tranche B would provide \$400 million for capital investments subject to Treasury's approval of capital plans developed by Yellow. An initial disbursement of \$245 million was made on July 9, 2020.

On January 7, 2022, the Office of Audits initiated a series of attestation reviews focusing on Treasury's Validation Memos and supporting documentation submitted by approved direct loan recipients to Treasury. These reviews are to obtain limited assurance that Treasury's Validation Memos are fairly presented in all material respects and completed according to Treasury's Underwriting Guide for the Air Carrier Loan Program and National Security Loan Program. Since the loan to Yellow preceded Treasury's formalization of its validation process, no validation memo was completed, and we are, therefore, unable to complete an attestation review. Instead, an audit of the process used to approve Yellow's loan application is required.

Audit Objective:

To determine if Treasury's processes to approve a \$700 million loan to Yellow through the NSLP were equivalent to the loan approval processes for similarly situated borrowers under Section 4003 of the CARES Act and followed CARES Act and other appropriate regulations and guidance.

Methodology:

We will examine Treasury's process to approve Yellow's \$700 million direct loan under Section 4003(b) of the CARES Act and determine if the approval process followed the guidance set forth in the CARES Act, other regulations, and Treasury guidance. This audit intends to review the direct loan made by Treasury to Yellow from the date of their application on April 29, 2020, through the date the final loan disbursement was made.

Estimated Completion Date: 12/31/2022

Estimated Remaining Hours: 600

Title: Audit of Direct Loan Program Recipient – Mesa Airlines, Inc.

Program Background

Treasury agreed to make a loan totaling \$195 million to Mesa Airlines, Inc. (Mesa Airlines). Treasury made the loan pursuant to section 4003(b)(1) of the CARES Act. The loan is secured by aircraft, engines, accounts receivable, tooling inventory, simulators, and ground service equipment. The loan has an interest rate equal to LIBOR plus 3.5% and matures on October 30, 2025. The Company elected to draw \$43 million at close and \$152 million on November 13, 2020. The loan proceeds will be used to provide liquidity to continue Mesa Airlines' operations. The transaction agreement includes covenants by Mesa Airlines to comply with certain restrictions on employee compensation, stock repurchases, dividends, and reductions in employment levels, as required by the CARES Act.

This is the first in a series of routine audits of direct loans. The audits will determine whether the loans are in compliance with the terms of the loan agreement between Treasury and the borrowers.

Audit Objective:

To ensure compliance with the terms of the loan agreement between Treasury and Mesa Airlines.

Methodology:

The audit team will review financial and payroll records and other documentation to ensure compliance with the terms of the loan agreement.

Estimated Completion Date: 3/31/2023

Estimated Remaining Hours: 2300

FISCAL YEAR 2023 AUDIT PLAN

Title: Audit of Treasury's Role in the Internal Control Program (Books and Records/Tax Treatment) Designed to Monitor its Investment in CARES Act Federal Reserve Facilities

Description of Audit:

In 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) prohibited the Federal Reserve Board from establishing any program or facility under section 13(3) of the Federal Reserve Act without the prior approval of the Secretary of the Treasury.

During the COVID pandemic, Treasury exercised that approval authority. Specifically, on April 9, 2020, Treasury announced that it had approved several programs established by the Federal Reserve pursuant to Section 13(3). Further, using funds appropriated by the CARES Act, Treasury invested billions in limited liability companies (LLC), known as special purpose vehicles (SPVs), managed by the Federal Reserve Banks of Boston and New York. The Federal Reserve Banks served as the Managing Members of the SPVs, while Treasury served as the Preferred Equity Member, to implement the following programs, which were designed to provide liquidity to the financial system:

- The Main Street Lending Program (MSLP)
- The Municipal Liquidity Facility (MLF)
- The Term Asset-Backed Securities Loan Facility (TALF II)
- The Primary and Secondary Market Corporate Credit Facilities (PMCCF and SMCCF).

Through the CARES Act, Congress authorized Treasury to invest appropriated funds as applicable. The LLC Agreements for the SPVs provided that with respect to books, records, and tax treatment, the Federal Reserve Banks shall develop, in consultation with Treasury, an internal control program. The Agreements also provided that the Federal Reserve Banks would provide Treasury reporting and documentation, as mutually agreed, subject to confidentiality restrictions, as appropriate.

Preliminary Objectives:

To determine the effectiveness of Treasury's participation in the development of an internal control program (books and records/tax treatment) designed to monitor its CARES Act fund investment in facilities managed by the Federal Reserve.

Staffing needs:

Three individuals: Audit Manager, Auditor in Charge, staff auditor

Projected number of hours required: 2500

Projected timeline: 180 days

Estimated start date: January 2, 2023

Estimated completion date: June 30, 2023

Title: Audit of Direct Loan Recipient—To Be Determined

Description of Audit:

Loan transaction agreements between direct loan borrowers and Treasury include covenants by the borrowers to comply with certain restrictions on employee compensation, stock repurchases, dividends, and reductions in employment levels, as required by the CARES Act. Many of these requirements require only a borrower certification of compliance. We plan to conduct a review to ensure that the loan is in compliance with the terms of the loan agreement between Treasury and the loan recipient.

Preliminary Objective:

To ensure compliance with the terms of the loan agreement between Treasury and the loan recipient.

Staffing needs:

Four individuals: Audit Manager, Auditor in Charge, 2 staff auditors

Projected number of hours required: 3500

Projected timeline: 180 days

Estimated Start Date: April 1, 2023

Estimated Completion Date: September 30, 2023

Title: Audit of Treasury's Use of Outside Entities to Support its CARES Act Programs

Description of Audit:

Treasury contracted with outside private-sector entities in connection with the Treasury's making, purchase, and management of the loans, loan guarantees, and other investments it made under the programs it established under the CARES Act, Section 4003. Treasury established contracts for CARES Act implementation support services, and legal, financial, and budgetary advisory services. We are interested in obtaining more information showing Treasury's process for evaluating and selecting these entities, the role they played in assisting Treasury, and the approximate value of these services.

Preliminary Objectives:

To determine if the process Treasury used to select contractors for CARES Act support services complied with Federal Acquisition Regulation.

Staffing needs:

Three individuals: Audit Manager, Auditor in Charge, Staff Auditor

Projected number of hours required: 2500

Projected timeline: 180 days

Estimated Start Date: July 1, 2023

Estimated Completion Date: December 31, 2023

Title: Independent Review of CARES Act 4003(b) Loan Recipient's Validation Memo – Caribbean Sun Airlines, Inc.

Description of Audit:

On December 7, 2020, Treasury made a loan of \$6,768,749 to Caribbean Sun Airlines, Inc. Treasury made the loan pursuant to section 4003(b)(1) of the CARES Act.

During the application period, Caribbean Sun Airlines, Inc. was required to provide multiple documents, as identified in the Underwriting Guide. To move forward in the loan process, they had to provide financial statements, a financial plan, and certain IRS forms, among other documentation. All documentation provided was to be maintained by Treasury.

Once the required documentation was compiled, Treasury verified and recorded it using a Validation Memo. A completed and signed Validation Memo allowed the applicant to move forward to the loan underwriting process.

We will obtain the Validation Memo Treasury completed for the loan to Caribbean Sun Airlines, Inc. and review the supporting documentation to ensure the memo was completed in accordance with Treasury's underwriting guide.

Preliminary Objectives:

To evaluate Treasury's Validation Memo to ensure that it was completed according to Treasury's L1 Underwriting Guide prior to loan approval.

Staffing needs:

Two individuals: Audit Manager, Auditor in Charge

Projected number of hours required: 200

Projected timeline: 30 days

Estimated start date: October 1, 2022

Estimated completion date: October 31, 2022

Title: Independent Review of CARES Act 4003(b) Loan Recipient's Validation Memo – Timco Engine Center, Inc.

Description of Audit:

On November 5, 2020, Treasury made a loan of \$8.4 million to Timco Engine Center, Inc. Treasury made the loan pursuant to section 4003(b)(1) of the CARES Act.

During the application period, Timco Engine Center, Inc. was required to provide multiple documents, as identified in the Underwriting Guide. To move forward in the loan process, they had to provide financial statements, a financial plan, and certain IRS forms, among other documentation. All documentation provided was to be maintained by Treasury.

Once the required documentation was compiled, Treasury verified and recorded it using a Validation Memo. A completed and signed Validation Memo allowed the applicant to move forward to the loan underwriting process.

We will obtain the Validation Memo Treasury completed for the loan to Timco Engine Center, Inc. and review the supporting documentation to ensure the memo was completed in accordance with Treasury's underwriting guide.

Preliminary Objectives:

To evaluate Treasury's Validation Memo to ensure that it was completed according to Treasury's L1 Underwriting Guide prior to loan approval.

Staffing needs:

Two individuals: Audit Manager, Auditor in Charge

Projected number of hours required: 200

Projected timeline: 30 days

Estimated start date: November 1, 2022

Estimated completion date: November 30, 2022

Title: Independent Review of CARES Act 4003(b) Loan Recipient's Validation Memo – Eastern Airlines, LLC

Description of Audit:

On October 28, 2020, Treasury made a loan of \$15 million to Eastern Airlines, LLC. Treasury made the loan pursuant to section 4003(b)(1) of the CARES Act.

During the application period, Eastern Airlines, LLC was required to provide multiple documents, as identified in the Underwriting Guide. To move forward in the loan process, they had to provide financial statements, a financial plan, and certain IRS forms, among other documentation. All documentation provided was to be maintained by Treasury.

Once the required documentation was compiled, Treasury verified and recorded it using a Validation Memo. A completed and signed Validation Memo allowed the applicant to move forward to the loan underwriting process.

We will obtain the Validation Memo Treasury completed for the loan to Eastern Airlines, LLC and review the supporting documentation to ensure the memo was completed in accordance with Treasury's underwriting guide.

Preliminary Objectives:

To evaluate Treasury's Validation Memo to ensure that it was completed according to Treasury's L1 Underwriting Guide prior to loan approval.

Staffing needs:

Two individuals: Audit Manager, Auditor in Charge

Projected number of hours required: 200

Projected timeline: 30 days

Estimated start date: December 1, 2022

Estimated completion date: December 31, 2022

Title: Independent Review of CARES Act 4003(b) Loan Recipient's Validation Memo – Consolidated Report

Description of Audit:

By the end of calendar year 2022, we plan to have completed 16 Independent Reviews of CARES Act 4003(b) Loan Recipients' Validation Memos, and the Audit of Treasury's Process for its Direct Loan to YRC Worldwide, Inc. Following the completion of those 17 reviews, we will develop a report summarizing the results.

Preliminary Objectives:

To evaluate Treasury's Validation Memos and loan review process and determine whether they were completed according to Treasury's L1 Underwriting Guide.

Staffing needs:

Three individuals: Audit Manager, Auditor in Charge, staff auditor

Projected number of hours required: 1250

Projected timeline: 90 days

Estimated start date: January 2, 2023

Estimated completion date: March 31, 2023

Title: Independent Reviews of 4003(b) Loan Recipients' Credit Memoranda – Review Guide Development

Description of Audit:

Treasury entered into 35 direct loans with qualified borrowers valued at \$2.7 billion. Loan agreements with borrowers stipulated terms and conditions that must be met by the borrowing company.

The review scope is to determine if Treasury performed its due diligence during the underwriting, credit analysis, and approval process (“Credit Review Process”) for the Air Carrier Loan Program, as identified in Treasury’s L2 Underwriting Guide. The scope of our work will include:

- Reviewing Treasury’s L2 Underwriting Guide to determine which documents were required from loan applicants to allow Treasury to complete its Credit Memo;
- Reviewing each borrower’s Credit Memo for completeness and accuracy; and
- Determining whether borrower document submissions were complete and accurate.

The audit team will develop a review guide that will capture the scope of these reviews. Once the team develops the review guide, it will be used to review Treasury’s underwriting, credit analysis, and approval process for each loan reviewed.

Preliminary Objectives:

To develop a guide that will allow the audit team to determine, with limited assurance, whether the Credit Memoranda completed by Treasury for each of the 4003(b) loan recipients are fairly presented in all material respects and were completed according to Treasury’s Underwriting Guide.

Staffing needs:

Three individuals: Audit Manager, Auditor in Charge, staff auditor

Projected number of hours required: 800

Projected timeline: 60 days

Estimated start date: April 1, 2023

Estimated completion date: May 31, 2023

Title: Independent Reviews of 4003(b) Loan Recipients' Credit Memoranda – Borrower To Be Determined

Description of Audit:

Treasury loaned \$2.7 billion in taxpayer money as part of its CARES Act Section 4003(b) Direct Loan Program. The loan process required each borrower to go through a stringent Credit Review Process, as detailed in the L2 Underwriting Guide. The Credit Review Process takes into consideration the need to provide urgent assistance to air carriers and other eligible businesses, to document and consistently apply program policies and procedures, and to protect taxpayers.

We will conduct a review of a direct loan to determine if Treasury performed its due diligence during the underwriting, credit analysis, and approval process (“Credit Review Process”) for the Air Carrier Loan Program, as identified in Treasury’s L2 Underwriting Guide.

By performing these attestation reviews, SIGPR can express a conclusion about whether it is aware of any material modifications that should be made to the Credit Memoranda Treasury completed for each direct loan borrower and that the memoranda were completed in accordance with Treasury’s Credit Review Process and are fairly stated.

Preliminary Objectives:

To determine, with limited assurance, whether the Credit Memoranda completed by Treasury for the 4003(b) loan recipient is fairly presented in all material respects and was completed according to Treasury’s Underwriting Guide.

Staffing needs:

Three individuals: Audit Manager, Auditor in Charge, staff auditor

Projected number of hours required: 1250

Projected timeline: 90 days

Estimated start date: June 1, 2023

Estimated completion date: August 31, 2023

Title: Independent Reviews of 4003(b) Loan Recipients' Credit Memoranda – Borrower To Be Determined

Description of Audit:

Treasury loaned \$2.7 billion in taxpayer money as part of its CARES Act Section 4003(b) Direct Loan Program. The loan process required each borrower to go through a stringent Credit Review Process, as detailed in the L2 Underwriting Guide. The Credit Review Process takes into consideration the need to provide urgent assistance to air carriers and other eligible businesses, to document and consistently apply program policies and procedures, and to protect taxpayers.

We will conduct a review of a direct loan to determine if Treasury performed its due diligence during the underwriting, credit analysis, and approval process (“Credit Review Process”) for the Air Carrier Loan Program, as identified in Treasury’s L2 Underwriting Guide.

By performing these attestation reviews, SIGPR can express a conclusion about whether it is aware of any material modifications that should be made to the Credit Memoranda Treasury completed for each direct loan borrower and that the memoranda were completed in accordance with Treasury’s Credit Review Process and are fairly stated.

Preliminary Objectives:

To determine, with limited assurance, whether the Credit Memoranda completed by Treasury for the 4003(b) loan recipient is fairly presented in all material respects and was completed according to Treasury’s Underwriting Guide.

Staffing needs:

Two individuals: Audit Manager, Auditor in Charge

Projected number of hours required: 600

Projected timeline: 90 days

Estimated start date: September 1, 2023

Estimated completion date: November 30, 2023

Title: Independent Reviews of 4003(b) Loan Recipients' Credit Memoranda – Borrower To Be Determined

Description of Audit:

Treasury loaned \$2.7 billion in taxpayer money as part of its CARES Act Section 4003(b) Direct Loan Program. The loan process required each borrower to go through a stringent Credit Review Process, as detailed in the L2 Underwriting Guide. The Credit Review Process takes into consideration the need to provide urgent assistance to air carriers and other eligible businesses, to document and consistently apply program policies and procedures, and to protect taxpayers.

We will conduct a review of a direct loan to determine if Treasury performed its due diligence during the underwriting, credit analysis, and approval process (“Credit Review Process”) for the Air Carrier Loan Program, as identified in Treasury’s L2 Underwriting Guide.

By performing these attestation reviews, SIGPR can express a conclusion about whether it is aware of any material modifications that should be made to the Credit Memoranda Treasury completed for each direct loan borrower and that the memoranda were completed in accordance with Treasury’s Credit Review Process and are fairly stated.

Preliminary Objectives:

To determine, with limited assurance, whether the Credit Memoranda completed by Treasury for the 4003(b) loan recipient is fairly presented in all material respects and was completed according to Treasury’s Underwriting Guide.

Staffing needs:

Two individuals: Audit Manager, Auditor in Charge

Projected number of hours required: 600

Projected timeline: 90 days

Estimated start date: September 1, 2023

Estimated completion date: November 30, 2023