

OFFICE OF THE SPECIAL INSPECTOR GENERAL
TROUBLED ASSET RELIEF PROGRAM
1500 Pennsylvania Ave., N.W., Suite 1064
Washington, D.C. 20220

January 7, 2009

The Honorable Max Baucus
Chairman
Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

As you are aware, the Senate confirmed my nomination as the Special Inspector General for the Troubled Asset Relief Program on December 8, 2008. Although my first formal report to the applicable Congressional Committees is not due until February 6, 2009, I write to you now, at the thirty-day mark, both to update your Committee on my Office's activities to date and to initiate what I hope will be a regular and open channel of communication with you and your staff.

I was sworn in as Special Inspector General on December 15, 2008. As promised during my confirmation process, oversight activities began immediately. We began meeting with senior Treasury Department officials responsible for the Troubled Asset Relief Program ("TARP"), both in the form of specific detailed debriefings with TARP managers on various topics and weekly meetings with, among others, the head of the Office of Financial Stability and the acting chief of TARP compliance. Through this process, we have begun to identify areas that require additional oversight attention.

One area that was particularly appropriate for immediate attention -- both because of its timeliness and because it was an area in which my Office could have a positive impact even before having an extensive staff -- involved language to be included in TARP's contracts with General Motors, Chrysler and Citigroup. To that end, on December 18, 2008, we suggested that TARP include language in the automobile industry transaction term sheet acknowledging my Office's oversight role and expressly giving my Office access to relevant documents and personnel; language to that effect was included in the term sheet. In that same vein, on December 23, 2008, my Office again suggested, in writing, among other things, that TARP officials include language in upcoming transactions as follows:

- For each condition imposed on the recipient of TARP funds in a relevant agreement, the recipient should be required to (1) establish

internal controls with respect to that condition; (2) report to TARP regarding the implementation of those controls and its compliance with the condition; and (3) provide a signed certification from an appropriate senior official to TARP that such report is accurate.

- The recipient should be required to use best efforts to account for their use of TARP funds, to set up internal controls to comply with such accounting, and to report to TARP on the results, with appropriate certification, in the manner discussed above.

As a result, TARP included language along these lines in its agreements over the past week with GMAC, General Motors, Chrysler, and Citigroup. The most comprehensive language in that regard is language in the Citigroup agreement, which requires Citigroup, among other things, to:

- provide access to my Office and to the Comptroller General to Citigroup personnel and records;
- establish appropriate internal controls to ensure that the conditions in the agreement are being met, including conditions concerning corporate expenses, executive compensation, dividend and stock repurchase conditions; report on a quarterly basis as to its compliance with each of the above listed conditions; and require a senior executive to certify on a regular basis and under criminal penalty that its reports are accurate; and
- use its best efforts to track the money invested by TARP as part of the agreement, to establish internal controls with respect to the monitoring of its use of the money, and to report on a quarterly basis, again with a signed certification under criminal penalty, as to how the TARP investment is being used.

TARP imposed similar requirements with respect to the executive compensation and expense policy restrictions contained in the agreements with GMAC, General Motors and Chrysler. We believe that, from an oversight perspective, those agreements represent a significant improvement over past TARP agreements and will better enable my Office and the other oversight bodies to fulfill their mission.

In the short time we have been in operation, we have also begun to fulfill our statutory obligation of coordinating with the other relevant oversight bodies. Within days of my swearing in, we met with the Acting Comptroller General of the United States and his team at the

Government Accountability Office to discuss ways that we can maximize efficiency in our joint oversight of TARP. We have also been in contact with the Congressional Oversight Panel and the Financial Stability Oversight Board. To further facilitate this coordination role, I am in the process of forming the TARP Inspector General Council ("TARP-IGC"), made up of the Comptroller General and those Inspectors General whose oversight functions are most likely to touch on TARP issues. We look forward to our inaugural TARP-IGC meeting this Friday. In addition, my Office has begun participating in the President's Corporate Fraud Task Force, and I gave a presentation to the Task Force about the Office's mission yesterday. I am confident that, through these coordination efforts, we will be able to leverage effectively our collective resources to best serve the American people as we carry out this vital and historic task.

We are making steady progress in building the Office's senior staff and have filled the positions of Chief of Staff, Deputy SIG of Audit and Deputy SIG of Investigations, among others. We are continuing to recruit, and while hiring a staff has been and will continue to be one of our greatest challenges, I am confident that we have already assembled a very strong core management team. We have also identified permanent office space, located in the same office building as the TARP, and we look forward to moving into that space in the coming weeks, subject to further discussions with the General Services Administration. Finally, following the advice that I received repeatedly during the confirmation process, we have followed the example of the Special Inspector General for Iraq Reconstruction by entering into a contract with a firm to serve as our Program Manager to help in the preparation of our initial and quarterly reports.

We will, of course, provide far more detail on these and many other topics in our initial report to Congress, due on February 6, 2009. In the meantime, I am at your disposal should you have any questions or comments.

Very truly yours,



NEIL M. BAROFSKY
Special Inspector General