# Annual Plan
# Fiscal Year 2006

## Office of Inspector General

DEPARTMENT OF THE TREASURY

# FOREWORD

We are pleased to provide our Fiscal Year 2006 Annual Plan. This document outlines the major initiatives, priorities, and challenges of our office in assisting the Department of the Treasury with fulfilling its mission.

The projects described in this Annual Plan represent the best collective judgment by our office of the areas of known or emerging risk and vulnerabilities of the Department, based on our planning process. To achieve the maximum benefit of this Annual Plan, we strongly encourage Treasury and bureau management to use it to identify areas for self-assessment and to take corrective measures when vulnerabilities and control weaknesses are identified. This is especially important for those audit issues we have identified as significant but, because of our resources, we do not expect to address this year.

December 2005

**This page intentionally left blank.**

# CONTENTS

**Foreword** ..... i

**Overview** ..... 1
- Introduction ..... 1
- Background ..... 1
- Organizational Structure and Fiscal Resources ..... 5
- OIG Performance Measures ..... 6

**Component Organizations and Fiscal Year 2006 Initiatives** ..... 9
- Office of Audit ..... 9
- Office of Investigations ..... 13
- Office of Counsel ..... 18
- Office of Management ..... 19

**OIG Issue Areas and Planned Audit Projects** ..... 21
- Introduction, Management Challenges, and Administration Initiatives ..... 21
- Treasury General Management and Infrastructure Support ..... 25
  - Financial Management ..... 25
  - Information Systems Security ..... 28
  - General Management ..... 33
- Terrorist Financing, Money Laundering, and Foreign Assets Control ..... 43
- Government-wide Financial Services and Debt Management ..... 52
- Safety, Soundness, and Accessibility of Financial Services ..... 57
- Revenue Collection and Industry Regulation ..... 64
- Bill and Coin Manufacturing, Marketing, and Distribution Operations ..... 70
- Domestic and International Assistance Programs ..... 74

**Appendixes**
- Appendix A: Office of Audit Fiscal Year 2006 Resource Allocation ..... 78
- Appendix B: Index of Fiscal Year 2006 In Progress and Planned New Audits by Issue Area ..... 81
- Appendix C: Index of Fiscal Year 2006 In Progress and Planned New Audits by Bureau/Office ..... 83
- Appendix D: Index of Office of Audits Projects Under Consideration for Future Annual Plans ..... 86

**Abbreviations** ..... 89

**This page intentionally left blank.**

# OVERVIEW

## Introduction

This planning document outlines the major initiatives, priorities, and challenges of our office to assist the Department of the Treasury (Department or Treasury) in fulfilling its mission, priorities, and plans. This planning document further provides senior officials of the Department, the Administration, members of Congress, and other stakeholders with a greater understanding of who we are, what we do, and what our intended work will be for fiscal year 2006.

Each of the four components of the Office of Inspector General (Audit, Investigations, Counsel, and Management) has contributed to the development of this plan. In their respective sections, each component describes its function, role, organizational structure, and the expected challenges its respective workforce may encounter in fiscal year 2006.

## Background

In 1989, the Secretary of the Treasury, as a result of the 1988 amendments to the Inspector General (IG) Act, established the Office of Inspector General (OIG). Section 2 of the IG Act sets out the following major duties and responsibilities of the OIG:

- Conduct and supervise audits and investigations.
- Provide leadership and coordination of policies that (1) promote economy, efficiency, and effectiveness in Treasury programs and operations; and (2) prevent and detect fraud and abuse in Treasury programs and operations.
- Provide a means for keeping the Secretary and the Congress fully and currently informed about problems and deficiencies in Treasury programs and operations.
- Submit semiannual reports to the Congress, through the Secretary of the Treasury, summarizing the activities of the OIG during the preceding period that disclose problems, abuses, or deficiencies in the administration of Treasury programs and operations. These semiannual reports also discuss the recommendations for corrective action made by the OIG.

The OIG is headed by an Inspector General who is appointed by the President of the United States, with the advice and consent of the Senate. The Inspector General

exercises his duties and responsibilities for Treasury's operations, with the exception of the Internal Revenue Service (IRS).[1]

Specifically, the Treasury OIG has jurisdiction over the following Treasury bureaus:

- **Alcohol and Tobacco Tax and Trade Bureau** (TTB) – enforces and administers laws covering the production, use, and distribution of alcohol and tobacco products. TTB also collects excise taxes for firearms and ammunition. Annual net tax collections for TTB are approximately $15 billion.

- **Bureau of Engraving and Printing** (BEP) – produces U.S. currency and other government securities and redeems damaged or mutilated currency for the public. BEP is also authorized by the Bureau of Engraving and Printing Security Printing Amendments Act of 2000 (P.L. 106-849) to produce currency and other documents for foreign governments. During fiscal year 2004, BEP delivered 8.8 billion Federal Reserve Notes and 6.1 billion stamps. Its cumulative results of operations decreased $29 million during the fiscal year.

- **Bureau of the Public Debt** (BPD) – borrows the money needed to operate the federal government and accounts for the resulting debt. BPD administers the public debt by issuing and servicing U.S. Treasury marketable, savings, and special purpose securities. The total debt held by the public is approximately $4.6 trillion. This amount includes all Federal debt held by individuals, corporations, state or local governments, foreign governments, and other entities outside of the United States Government less agency securities. BPD is also responsible for $3.3 trillion of intragovernmental debt holdings.

- **Financial Crimes Enforcement Network** (FinCEN) – collects, analyzes, and shares information to support law enforcement investigative efforts and foster interagency and global cooperation against domestic and international financial crimes. FinCEN's flagship program is its direct case support to over 150 different law enforcement agencies. It provides an average of 5,000 analytical case reports each year involving over 25,000 individual subjects to federal, state, local, and international agencies.

- **Financial Management Service** (FMS) – provides central payment services for all Executive Branch agencies; operates the federal government's collections and deposit systems; provides government-wide accounting and accounting

[1] In 1998, through the Internal Revenue Service Restructuring and Reform Act of 1998, Congress established the Treasury Inspector General for Tax Administration, which exercises authority for the IRS under the IG Act.

services, including preparation of the Financial Report on the U.S. Government's consolidated financial statements; and manages the collection of delinquent non-tax debt owed the government. FMS collected approximately $2.1 trillion in receipts for fiscal year 2005. Total cash outlays for government obligations for fiscal year 2004 approximated $2.7 trillion.

- **U.S. Mint** (Mint) – produces circulating coinage for use by the general population; produces and sells commemorative, numismatic, and investment products; and protects the U.S. Treasury's precious metals and other monetary assets that are held in the custody of the Mint. In 2004, the Mint transferred $665 million to the Treasury General Fund. During fiscal year 2006, the Mint expects to manufacture 12.7 billion coins for the Federal Reserve System.

- **Office of the Comptroller of the Currency** (OCC) – charters, regulates, and supervises national banks to ensure a safe, sound, and competitive banking system. As of September 2005, there are 1,934 national banks and 52 Federal branches with total assets of more than $5.6 trillion.

- **Office of Thrift Supervision** (OTS) – charters, regulates, and examines federal thrift institutions to ensure their safety and soundness. As of September 2004, OTS oversees 870 thrifts with total assets of $1.3 trillion.

In addition to the above bureaus, other offices and programs under our jurisdiction include the following:

- **Departmental Offices** (DO) – formulates policy and manages Treasury operations.

- **Office of Terrorism and Financial Intelligence** (TFI) – develops, organizes, and implements U.S. government strategies to combat terrorist financing and financial crime, both internationally and domestically. Reporting to TFI are **FinCEN**, the **Office of Foreign Assets Control** (OFAC), and the **Treasury Executive Office for Asset Forfeiture** (TEOAF). OFAC administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign countries, terrorists, international narcotics traffickers, and those engaged in activities related to the proliferation of weapons of mass destruction. TEOAF manages the **Treasury Forfeiture Fund** which supports Treasury's national asset forfeiture program in a manner that results in federal law enforcement's continued effective use of asset forfeiture as a law enforcement sanction to punish and deter criminal activity.

- **Office of International Affairs** (OIA)—advises and assists in the formulation and execution of U.S. international economic and financial policy, including the development of policies with respect to international financial, economic, monetary, trade, investment, bilateral aid, environment, debt, development, and energy programs, including U.S. participation in international financial institutions.

- **Exchange Stabilization Fund** (ESF) – through the Secretary of the Treasury, deals in gold and foreign exchange and other instruments of credit and securities as deemed necessary, consistent with U.S. obligations in the International Monetary Fund, regarding orderly exchange arrangements and a stable system of exchange rates.

- **Community Development Financial Institutions (CDFI) Fund** – provides equity investments, grants, loans, and technical assistance to new and existing community development financial institutions; provides grants to insured depository institutions to facilitate investment in CDFI and increase community lending activities; administers the New Markets Tax Credit Program by providing allocations of tax credits to Community Development Entities (CDE), which in turn provide the tax credits to entities that invest in the CDE.

- **Treasury Working Capital Fund** (WCF) – established as a revolving fund, provides centralized administrative services to be used by more than one bureau or agency. The WCF is financed by advance payments and reimbursements from user bureaus, agencies, and activities to cover the cost of operations.

- **Federal Financing Bank** (FFB) – provides federal and federally-assisted borrowing, primarily to finance direct agency activities such as the construction of federal buildings by the General Services Administration (GSA) and meeting the financing requirements of the U.S. Postal Service, and ensures the coordination of such borrowing from the public in a manner least disruptive to private financial markets and institutions.

- **Treasury Franchise Fund** – operated as an entrepreneurial government enterprise, provides common administrative support services on a competitive and fully cost-reimbursable basis. The desired result is to have internal administrative services delivered in the most effective and least costly manner. The Fund's services/products are offered on a voluntary and competitive basis to promote greater economy (reduced costs), increase productivity and efficiency in the use of resources, and ensure compliance with applicable laws

and regulations. For fiscal year 2006, service activities are expected to have spending authority of over $800 million.

- **Office of D.C. Pensions** – makes federal benefit payments associated with the District of Columbia retirement programs for police officers, firefighters, teachers, and judges.

- **Air Transportation Stabilization Board** (ATSB) – issues federal credit instruments (loan guarantees) to assist air carriers that suffered losses as a result of the terrorist attacks on September 11, 2001.

Established in one Department, these entities have broad and complex responsibilities to promote prosperous and stable U.S. and world economies; preserve the integrity of financial systems; manage the government's finances effectively; and manage Treasury resources efficiently to accomplish the mission and provide high quality customer service.

## Organizational Structure and Fiscal Resources

As previously stated, the Inspector General heads the OIG. Serving with the Inspector General in the immediate office is the Deputy Inspector General. The Deputy Inspector General shares responsibility for the leadership of the OIG workforce and management of the OIG's resources.

The OIG is structured into four components headquartered in Washington, D.C.:

- Office of Audit
- Office of Investigations
- Office of Counsel
- Office of Management

The Department of the Treasury Appropriations Act, 2006, funded the funded the OIG at $17 million for fiscal year 2006.

# OVERVIEW

## OIG Performance Measures

OIG established performance measures for the Office of Audit and the Office of Investigations, as discussed below.

**Office of Audit**
**Program Performance Measures**

For the Office of Audit, we established the following performance and audit workload measures:

Audit Performance Measure 1 – *During fiscal year 2006, it is our goal to complete 58 audits and evaluations.*

The purposes of audits and evaluations are to (1) promote economy, efficiency, and effectiveness of Treasury programs and operations; (2) prevent and detect fraud, waste, and abuse in those programs and operations; and (3) keep the Secretary of the Treasury and the Congress fully informed. Audits and evaluations are also a key element in fulfilling the government's duty to be accountable to the public. Our audits and evaluations result in written products that are sequentially numbered and provide the basis for reporting under this performance measure.

Audit Performance Measure 2 - *During fiscal year 2006, it is our goal to complete 100 percent of audits required by statute by the required date.*

Underlying legislation mandating certain audit work generally prescribes, or authorizes the Office of Management and Budget (OMB) to prescribe, the required completion date for recurring audits, such as those for annual audited financial statements. For other types of mandated audit work, such as a material loss review (MLR) of a failed financial institution, the legislation generally prescribes a timeframe to issue a report (6 months for an MLR, as an example) from the date of an event that triggers the audit. The date an audit report is issued establishes whether the audit was completed by the required date. For nonrecurring audits, such as MLRs, the report will state the date of the event that triggered the audit, and the date the report was issued will establishes whether the audit was completed by the required date.

In addition to the above performance measures, we will report the following Office of Audit workload measure:

Audit Workload Measure - *Monetary Benefits Identified*.

Our audits and evaluations may identify *questioned costs and make recommendations that funds be put to better use* or *that action be taken to generate revenue enhancements*. The term *questioned cost* means a cost that is questioned by our office because of (1) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable. The term *recommendation that funds be put to better use* means a recommendation by our office that funds could be used more efficiently if management of an entity took actions to implement and complete the recommendation, including: (1) reductions in outlays; (2) deobligation of funds from programs or operations; (3) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (4) costs not incurred by implementing recommended improvements related to the operations of the entity, a contractor, or a grantee; (5) avoidance of unnecessary expenditures noted in pre-award reviews of contract or grant agreements; or (6) any other savings that are specifically identified. The term *revenue enhancements* means an action recommended by our office that would, if implemented, increase the General Fund receipts of the federal government. Our audit and evaluation reports include, where appropriate, a schedule of monetary benefits identified, which provides the basis for reporting the workload measure.

**Office of Investigations**
**Program Performance Measures**

For the Office of Investigations, we established the following program performance measures:

Investigative Performance Measure 1 - *100 percent of investigations sampled will meet the **President's Council on Integrity and Efficiency** (PCIE) standards.*

Investigative Performance Measure 2 - *Refer investigations for **criminal prosecution** and/or **civil litigation**.*

Our goal for referrals of investigations for ***criminal prosecution*** is within 1 year of case initiation. Our goal for referrals of investigations for ***civil litigation*** is within 1 year of case initiation (or within 120 calendar days of judicial clearance to proceed when criminal prosecution precludes a parallel civil proceeding).

Investigative Performance Measure 3 – *Refer investigations for corrective* ***administrative*** *action.*

Our goal for referrals of ***conduct*** matters for administrative ***disciplinary*** action is within 120 calendar days of prosecutorial or judicial clearance. Examples of such disciplinary actions include: (1) suspension of access to national security information, (2) suspension of security clearance, or (3) revocation of security clearance upon termination of the employee or contractors upon conviction or entering a guilty plea. Our goal for referrals of ***conduct*** matters for administrative ***suspension*** and/or ***debarment*** action is within 20 work days (30 calendar days) of prosecutorial or judicial clearance. Examples of such actions include: (1) the suspension of a contractor or individual upon return of an indictment or information filing; and/or (2) the permanent debarment of a contractor or individual at the time of conviction or upon entering a guilty plea.

Our office also issues Management Implications Reports on a suspected or identified ***weakness*** or ***vulnerability*** identified during an investigation requiring administrative action to correct and/or improve the economy, efficiency, and effectiveness of Treasury programs and operations.

# OIG Component Organizations and Fiscal Year 2006 Initiatives

This section describes the functions, organizational structures, priorities, and fiscal year 2006 initiatives for the four components of the OIG.

## Office of Audit

The Assistant Inspector General for Audit (AIGA) is responsible for supervising auditing activities relating to Treasury programs and operations.

The Office of Audit conducts or oversees the conduct of performance, financial, information technology (IT), and contract audits as well as evaluations. The purpose of these audits and evaluations is to improve the quality, reduce the cost, and increase the integrity of Treasury's programs and operations. The work of the Office is performed in compliance with the standards and guidelines established by the Comptroller General of the United States and the PCIE.

Organizational Structure The AIGA has two deputies—one for Performance Audits and the other for Financial Management and Information Technology Audits. In addition, the AIGA's immediate office includes staff responsible for policy, planning, and quality assurance. These offices are located in Washington, D.C. The Office of Audit also has a field office located in Boston.

In addition to its authorized staffing, the Office of Audit uses Independent Public Accounting (IPA) firms under contract to perform the Treasury consolidated financial statement audit and a substantial portion of the financial statement audits of Treasury bureaus and other activities required pursuant to the Chief Financial Officer (CFO) Act, the Government Management Reform Act (GMRA), and other statutes. The Office also uses a contracted IPA to perform the required annual independent evaluation of the Department's information security program and practices for its unclassified systems.

*Performance Audit*

Under the management and direction of the Deputy Assistant Inspector General for Performance Audit are four Directors of Audit. The Directors of Audit are responsible for performance audits conducted by their staff in Washington, D.C., and Boston, as well as for coordinating audit planning for their assigned functional areas to ensure that audits of highest priority are included in the annual plan. The functional areas of the Directors are described below:

Director, Banking Audit, provides leadership for performance audits of OCC, OTS, and other banking-related Treasury components.

Director, Fiscal Service Audit, provides leadership for performance audits of FMS, BPD, CDFI Fund, and OIA. The Director is also responsible for managing OIG's responsibilities under the Single Audit Act.

Director, Departmental Offices/Manufacturing/Procurement Audit, provides leadership for performance audits of Treasury's Departmental Offices, BEP, and the Mint, as well as for performance audits of procurement activities in all Treasury bureaus and offices. The Director is also responsible for managing OIG's contract audit function.

Director, Revenue/Terrorist Financing and Money Laundering Audit, provides leadership for performance audits of the operations in all Treasury bureaus with a concentration of work in TTB, TFI, FinCEN, OFAC, and TEOAF.

*Financial Management and Information Technology Audit*

Under the management and direction of the Deputy Assistant Inspector General for Financial Management and Information Technology Audit are two Directors of Audit. The Directors are responsible for audits performed by Washington, D.C., staff and for oversight of work performed by contracted IPA firms. Also, they are responsible for planning the audits in their assigned functional areas to ensure that audits of highest priority are included in the annual plan. The functional areas addressed by each Director are described below:

Director, Consolidated Financial Audit, is responsible for performing or providing oversight of contractors performing the annual audit of the Department's consolidated financial statements pursuant to the CFO Act and GMRA, and for performing or overseeing contractors performing audits of other components or activities that are material to Treasury or are required to be audited by other statutes. The Director coordinates with the U.S. Government Accountability Office (GAO) with respect to its audits of IRS and BPD's Schedule of Federal Debt, as the amounts from IRS and BPD's Schedule of Federal Debt are included in the Department's consolidated financial statements.

Director, Information Technology Audit, conducts or oversees contractors conducting reviews of the acquisition, use, and disposal of complex computer and other information technology systems. The Director is also responsible for the overall management of information technology as a capital and managerial asset of the Department. The reviews are performed to ensure that the systems are effective, efficient, productive, and economical; contain adequate safeguards to protect data integrity and data processing; consistently support Treasury needs;

and are developed and operated in accordance with all applicable policies, standards, and procedures.

Fiscal Year 2006 Planning Approach This plan reflects our effort to provide appropriate audit and evaluation coverage to Treasury and its bureaus given our available resources. In formulating the plan, we also considered (a) observations and suggestions by our managers, auditors, evaluators, and investigators; (b) Treasury's fiscal year 2006 budget justification priorities; and (c) recent Congressional activity, testimony by Treasury officials, and remarks by Treasury, OMB, and Congressional officials and staff indicating significant areas of interest.

Key features of this plan include:

- *Department-wide Perspective.* The plan emphasizes the issues of greatest significance to the Department rather than to individual bureaus.

- *Customer and Stakeholder Participation.* We provided a draft plan to Treasury officials for comment. The Directors and their staffs met with Department and bureau officials and staff throughout the year to solicit audit suggestions. We also solicited input from other interested staff with OMB, various Congressional committees, and GAO.

- *Responsiveness to Changing Priorities and Needs.* The plan will be subject to revision throughout the year to accommodate new legislative requirements, changing bureau missions, and unforeseeable events or high-priority requests for our audit services.

- *Continuity.* The plan is a dynamic document that will be updated and continued beyond fiscal year 2006. With current resources, we are able to perform only a limited number of audits that are not mandated.

## Audit Priorities for Fiscal Year 2006

***Priority 1 - Audit products mandated by law***

Our office must allocate significant resources to meet legislative requirements related to (1) audited financial statements and financial-related review work; (2) information security; (3) in certain instances, failed financial institutions; and (4) Treasury's Franchise Fund procurement activities on behalf of the Department of Defense.

***Priority 2 - Audit products that support the President's Management Agenda***

We recognize that the President's Management Agenda (PMA) parallels our mission of improving the economy, effectiveness, and efficiency of the Department's programs and operations. Accordingly, for fiscal year 2006, we have included audits to assess the Department's progress in addressing the PMA's five government-wide initiatives (*Strategic Management of Human Capital, Competitive Sourcing, Improved Financial Performance, Expanded Electronic Government, and Budget and Performance Integration*).

***Priority 3 – Audit products that address known serious deficiencies and emerging risks in the Department's programs and operations***

We will undertake audits during fiscal year 2006 to assess the Department's progress in addressing serious deficiencies and emerging risks. Principal areas of our continued focus will be IT security and Terrorist Financing/Money Laundering. A significant body of work is planned in these areas.

Relationship of Audit Plan to Treasury Strategic Plan The mission of the Department of the Treasury, as stated in its strategic plan for fiscal years 2003-2008, is to promote the conditions for prosperity and stability in the United States and encourage prosperity and stability in the rest of the world. To accomplish this mission, the Department identified five strategic goals. As part of our audit planning process, we identified 7 core "issue areas" that address one or several of Treasury's strategic goals. The OIG issue areas to the Department's goals that they principally address:

| Treasury Strategic Goal | OIG Issue Area |
|---|---|
| Promote Prosperous U.S. and World Economies | • Domestic and International Assistance Programs |
| Promote Stable U.S. and World Economies | • Bill and Coin Manufacturing, Marketing, and Distribution Operations |
| Preserve the Integrity of Financial Systems | • Terrorist Financing, Money Laundering, and Foreign Assets Control<br>• Safety, Soundness, and Accessibility of Financial Services |
| Manage the Government's Finances Effectively | • Government-wide Financial Services and Debt Management<br>• Revenue Collection and Industry Regulation |
| Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury | • Treasury General Management and Infrastructure Support (Financial Management, Information Systems Security, and General Management) |

The Treasury General Management and Infrastructure Support issue area cuts across all five of the Department's strategic goals. It encompasses such activities as financial management, IT security, major systems and other capital investments, human capital, initiatives to identify and reduce improper payments, and procurement.

Audit Initiatives for Fiscal Year 2006 Through our planning process, we identified 32 projects that we will initiate during fiscal year 2006. We will also complete work on 14 projects started during fiscal year 2005. Additionally, we identified 61 high-priority projects that must be deferred to a future year because our resources do not permit them to be undertaken in fiscal year 2006. Our in-process and planned work and projects for future consideration are described in more detail in the *OIG Issue Areas and Planned Audit Projects* section of this Annual Plan.

In addition to the planned audit projects for fiscal year 2006, we will perform a "peer review" of the Department of Education OIG under the auspices of the PCIE Audit Committee. Likewise, our Office of Audit will undergo a peer review by the Social Security Administration OIG. The objective of a peer review is to determine whether the audit agency under review has an effective quality control system that provides reasonable assurance that applicable auditing standards and requirements are followed. Under U.S. generally accepted government auditing standards, each OIG must undergo a peer review every three years.

## Office of Investigations

The Assistant Inspector General for Investigations (AIGI) is the Treasury Inspector General's senior law enforcement official responsible for the overall investigative and oversight activities of the OIG relating to the programs and operations of the Department of the Treasury, except for the IRS.

**Organizational Structure** The AIGI is supported by a Deputy Assistant Inspector General for Investigations who manages two divisions—the Investigations Division and the Operations Division. At present, the office responds to all allegations of fraud and other crimes from our office in Washington, D.C.

**The Role of Investigations** The Office of Investigations' (OI) role within the OIG is to conduct and provide oversight of investigations relating to programs and operations of the Department and its bureaus. OI is responsible for the prevention, detection, and investigation of fraud, waste, and abuse in Treasury programs and operations.

Types of investigations conducted by OI include allegations of serious employee misconduct, procurement fraud, and other criminal acts perpetrated by Treasury

employees and/or external parties. OI receives and investigates complaints or information from employees, contractors, members of the public, GAO, and Congress alleging criminal or other misconduct constituting a violation of laws, rules, or regulations.

OI performs both ***reactive*** and ***proactive*** work. The majority of the work involves responding to and mitigating ongoing criminal activity by conducting, supervising, or otherwise overseeing investigations involving fraud and other crimes. Proactively, OI exercises a law enforcement or criminal investigative-oriented leadership role designed to engage and support Treasury's bureaus and offices. As a team, our collective objective is to ***prevent or deter*** and ***detect or identify*** activities that range from improper to illegal conduct. Together, our collective efforts ensure that the Secretary and Congress are kept fully and currently informed.

In accordance with the IG Act, the Treasury OIG's ***primary*** responsibility is to counter wasteful and abusive practices. However, the IG Act also empowered the IG community with the responsibility to combat fraud. As such, the Treasury OIG has ***concurrent*** responsibility with the Federal Bureau of Investigation (FBI) to combat ***fraud and other crimes*** that occur within or are directed against the Department's programs and operations. Therefore, a significant amount of our work has the potential to be investigated jointly with the FBI and other federal law enforcement partners—often as part of a task force working in close cooperation with the U.S. Department of Justice (DOJ).

Because the IG community is responsible for the ***programs and operations*** of their departments or agencies, we investigate ***fraud and other crimes*** that occur within and are directed against government programs and operations. Such crime often involves perpetrators who are either on the inside (government employees or contractors) or on the outside (the regulated community, external parties, and the public at large) acting alone or in collusion with another to obtain access to inside information or resources, the top investigative priority of the Treasury OIG is to seek out and rectify ***criminal misconduct by employees*** across the Department's programs and operations.

Challenges

*Resources*

Obtaining sufficient resources remain our top management challenge. Accordingly, we continue to work closely with Treasury's senior leadership and OMB to address the remaining investigative programmatic needs for fiscal year 2006 and beyond.

*Articulating Roles and Responsibility for the Investigation of Crime in Treasury Programs and Operations*

The Department has regulatory enforcement programs that are statutorily authorized by Congress to bring administrative and civil actions (e.g., OCC, OTS, TTB, OFAC, FinCEN, FMS, and BPD), but either lack the statutory authority to establish a criminal enforcement program or have elected not to create such an in-house capability. Instead, they have historically opted to refer or defer regulatory and related program criminal violations for investigation to the FBI or other federal law enforcement agencies with concurrent investigative responsibility (i.e., in the case of Treasury, the United States Secret Service (Secret Service) and U.S. Immigration and Customs Enforcement at the Department of Homeland Security (DHS), and the Bureau of Alcohol, Tobacco, Firearms, and Explosives at DOJ).

Problematic, however, is the fact that – while these law enforcement agencies have new missions that have refocused their priorities and resource allocations to combat terrorism, securing the homeland, or countering the use of guns which are at the core of violent crime in our streets – it has left the criminal enforcement of criminal allegations (involving millions of dollars in fraud and a host of related white-collar crimes that continue to adversely affect Department programs and operations), at best, in a state of constant flux or, at worst, not worked.

Treasury policy directs Department personnel to report criminal conduct related to Treasury programs to either the Treasury OIG or the Treasury Inspector General for Tax Administration (TIGTA). Also, in accordance with the IG Act, the IG is required to notify the Attorney General of the United States about such conduct. OI continues to forward notification of criminal conduct it receives to programs with primary and/or concurrent investigative jurisdiction.

Investigative Priorities for Fiscal Year 2006

We are committed to developing a vigorous, comprehensive, and capable investigative program that contributes to the Secretary's ability to excel in all of his top-priority policy areas. With this in mind, we established the following four overarching investigative priorities for 2006 which are intended to detect and prevent fraud and other crimes against the Department's programs and operations.

*Priority 1 – Criminal and Serious Employee Misconduct*

Investigating complaints involving alleged criminal and other serious misconduct by employees of the Department is our highest investigative priority. OI investigates allegations of the general crimes enumerated in Title 18 of the United States Code,

other federal crimes, alleged violations of the Ethics in Government Act, and allegations of serious misconduct prohibited by the Standards of Ethical Conduct for Employees of the Executive Branch. In addition, several bureaus and offices of the Department have additional rules and regulations relating to ethical standards for their own employees, and OI investigates complaints of alleged violations of these rules and regulations.

OI produces reports of investigations that refer criminal and other serious employee misconduct matters to DOJ for criminal prosecution or, upon declination, to the Department's legal and personnel professionals for administrative adjudication that ranges from verbal reprimands to letters of counseling, suspension, demotion, and removal.

*Priority 2 – Fraud Involving Contracts, Grants, Guarantees, and Funds*

We conduct investigations into allegations of fraud and other crimes involving Treasury contracts, grants, loan guarantees, and federal funds. Such allegations often involve contractors who are providing or seeking to provide goods or services to the Department. Complaints are received from employees, contractors, members of the public, and the Congress alleging criminal or other misconduct constituting a violation of laws, rules, or regulations.

*Priority 3 – Financial Programs and Operations Crime*

The Treasury OIG conducts and supervises a wide variety of investigations relating to the financial programs and operations of the Department. These programs and operations involve issuing licenses, providing benefits, and exercising oversight of U.S. financial institutions. Such investigations are usually conducted jointly with the Secret Service, Federal Deposit Insurance Corporation (FDIC) OIG, FBI, and DOJ.

*Priority 4 – Critical Infrastructure and Fiscal Protection*

Treasury has an important role in securing the homeland's financial sector. Our efforts in this area focus on detecting, investigating, and deterring electronic crimes and addressing threats to the Department's critical infrastructure.

Relationship of Investigative Priorities to the Department's Top Priorities

OIG's four overarching investigative priorities are intended to detect and prevent fraud and other crimes against the Department's programs and operations. The following chart identifies the Secretary of the Treasury's top policy priorities for fiscal year 2006

and provides a crosswalk to our investigative priorities to demonstrate the relationship between the investigative and policy priorities.

| Secretary's Fiscal Year 2006 Top Policy Priorities | OIG Investigative Priorities | | | |
|---|---|---|---|---|
| | Criminal and Serious Employee Misconduct | Fraud Involving Contracts, Grants, Guarantees, and Funds | Financial Programs and Operations Crimes | Critical Infrastructure and Fiscal Protection |
| Promoting Prosperous and Stable U.S. and World Economies | | √ | √ | |
| Maintaining Public Trust and Confidence in Our Economic and Financial Systems | | √ | √ | √ |
| Fighting the War on Terrorism and Safeguarding Our Financial Systems | | | | √ |
| Ensuring Professionalism, Excellence, Integrity, and Accountability in Management of Treasury | √ | √ | | |

Investigative Products

The following table depicts the OIG product and service line, or tools, we use to address the investigative priorities and initiatives.

| Product/Service | Definition | Remedy Support | | |
|---|---|---|---|---|
| | | Criminal | Civil | Administrative |
| Investigation | An investigation or inquiry conducted under the cognizant criminal, civil, or administrative standards. | √ | √ | √ |
| Management Implication Report | A report identifying policy or systemic deficiencies, vulnerabilities, and conditions that leave a program or office susceptible to fraud. | | √ | √ |
| Quality Assurance Review | A review or spot check intended to assess compliance with laws, rules and regulations, and policy. | | √ | √ |
| Awareness Briefing | A presentation to employees and contractors that provides an understanding of ethical conduct and red flags of misconduct | | | √ |

Communication

OI continues to enhance and promote the OIG Hotline program as a mechanism that employees, contractors, and the general public can use to report instances of waste, fraud, and abuse relating to Treasury's programs and operations. The OIG website offers individuals the opportunity to forward complaints and allegations directly to the OIG.

## Office of Counsel

The Counsel to the Inspector General serves as the senior legal and policy adviser to the Inspector General, Deputy Inspector General, and the Assistant Inspectors General. The Counsel has responsibility for all legal work in the OIG.

The Role of the Office of Counsel The Office of Counsel provides legal advice on issues arising during the statutorily mandated investigative, oversight, and audit activities conducted by the Offices of Audit and Investigations. In addition, the Office of Counsel provides legal advice on issues concerning government contracts, appropriations, budget formulation and execution, disclosure, records retention, tax information safeguards, equal employment opportunity, and personnel law. The office represents the OIG in administrative proceedings before the Merit Systems Protection Board (MSPB) and the Equal Employment Opportunity Commission (EEOC).

The office manages the OIG ethics program, which includes financial disclosure, training, and advice on the governing law and regulations. In the area of disclosure law, the Office of Counsel manages the OIG's Freedom of Information Act (FOIA) and Privacy Act programs. The Office of Counsel also coordinates document requests from Congress and from litigation, as well as responding to Giglio[2] requests from the Department of Justice for information on Treasury personnel.

Counsel Initiatives for Fiscal Year 2006 The Office of Counsel will support OIG investigative, oversight, and audit activities by responding to requests for legal advice, and through reviewing and processing requests for the issuance of Inspector General subpoenas. In the area of disclosure, the Office of Counsel will focus resources to provide timely responses to FOIA and Privacy Act requests, and to carry out its litigation responsibilities in MSPB and EEOC cases. Based upon past experience, the Office of Counsel expects to process 40 initial FOIA/Privacy Act requests and

[2] Giglio v. United States, 405 U.S. 150 (1972), requires the Government to provide potential impeachment evidence to criminal defendants about government employees who may testify at their trials. Such evidence generally includes specific instances of proven misconduct, evidence of reputation for credibility, prior inconsistent statements, and evidence suggesting bias.

7 appeals from those initial responses. In the area of electronic FOIA, the Office of Counsel expects to review approximately 50 audit, evaluation, and oversight reports for posting on the OIG web site. The Office of Counsel will amend the Privacy Act systems of records notices for both OIG's investigative and administrative records systems, and will provide procedural review and training services as the OIG Senior Agency Official for Privacy. The Office will coordinate with the Department in updating the Treasury Order and Directives that establish and define the OIG's authority, responsibility, and organization. Finally, the Office of Counsel will respond to Giglio requests, coordinate responses to document requests from Congress, and respond to discovery requests arising from litigation involving the Department and its bureaus. The Office of Counsel will provide training on the IG Act and other subjects in connection with new employee orientation and in-service training. The Office will obtain necessary training in order to provide advice in emerging areas of OIG responsibility. As statutorily mandated, the Office will review legislative and regulatory proposals and, where appropriate, will coordinate comments.

## Office of Management

The Office of Management coordinates resources and policy activities that support the OIG mission. Resources and policy activities include the following functions: administrative services, budget and finance, human resources, information technology, general policies and procedures, and liaison to PCIE and other organizations.

Organizational Structure The Administrative Services function coordinates internal and external services relating to the acquisition, maintenance, and disposition of all OIG material assets. This includes the procurement of goods and services and all logistics support, auditor and investigator travel, credentials and official identification issuance, records management and disposal, facilities management, issuance of OIG-wide policy, health and safety, and physical and information security at all OIG offices.

The Budget and Finance function synchronizes the formulation, coordination and presentation, and execution of OIG integrated financial and performance plans and financial management services to the OIG. This comprises the development, justification, and presentation of future-year budget requests to the Department, OMB, and the Congress. Through budget execution, the OIG determines annual funding allocations, tracks and analyzes spending patterns, processes financial documents, and reports on the use of resources.

The Human Resources function manages a complete range of internal and external personnel and payroll services to OIG employees. These services include recruitment and staffing; position classification and management; employee relations and

performance management; training, awards, and recognition; employee development; benefits; personnel actions processing; and payroll processing.

The Information Technology function develops and maintains OIG automated data and integrated voice systems. This includes ensuring electronic infrastructure sufficiency and the proper installation, support, maintenance, and management of hardware, software, and voice and data telecommunications.

Management Initiatives for Fiscal Year 2006 The Office of Management will continue to identify operational efficiencies to improve management support, while identifying opportunities to reduce costs. It will continue to enable the OIG to maintain its independence from Treasury programs and policies, while continuing to provide OIG offices with required administrative support.

Specifically, for the Administrative Services function, OIG has a working agreement with the BPD Administrative Resources Center (ARC) for procurement, travel, permanent change of station, leasing, and space management services on an annual and individual service basis. Additionally, the Administrative Services function continues to coordinate efforts for the published policy directives issuance using plain language, to-the-point style, photos, and graphics and to conduct an annual physical inventory of certain property.

For the Budget and Finance function, OIG has a working agreement with ARC for budget execution and accounting services. The function oversees the use of the Oracle financial system for the OIG, which increases the timeliness of financial information and provides for reconciling transactions more efficiently and effectively.

For the Human Resources function, OIG has a working agreement with ARC for time and attendance coordination, which ensures the efficient and effective processing of payroll and routine personnel actions. In addition, OIG uses CareerConnector, the Department's automated recruitment system, which facilitates the hiring of employees within 30 days after the closing of vacancy announcements.

For the Information Technology function, OIG has streamlined operations. Efforts continue to support the implementation of new management information systems; improve the implementation and quality of mobile communications; and ensure automated systems are fully maintained, up-to-date, and operational at all times.

# OIG Issue Areas and Planned Audit Projects

## Introduction, Management Challenges, and Administration Initiatives

## Introduction

This section provides general background information on our overall assessment of significant management challenges facing the Department and a summary of progress in meeting certain Administration initiatives. Following this background are brief descriptions of each OIG Issue Area, including: (1) a description of significant risks to Treasury programs and operations, (2) in-progress audit projects and new audit projects to be started during fiscal year 2006, and (3) audit projects that have been identified through our planning process but will not be undertaken this fiscal year because of our resources. Our discussion of risks is based principally on (1) prior audit work, (2) the initiation of new programs or operations, and/or (3) increased funding initiatives in mature programs or operations.

## Management Challenges

We are required by the Reports Consolidation Act of 2000 to annually provide the Secretary of the Treasury with our perspective on the most serious management and performance challenges facing the Department. In this regard, we identified the following six challenges in October 2005, which were repeat challenges from prior years.

- Corporate Management With nine bureaus and many program offices, Treasury is a highly decentralized organization. Treasury needs to provide effective corporate leadership in resolving serious deficiencies at the bureau level that adversely affect the performance of Treasury as a whole. In particular, Treasury needs to assert strong leadership and supervision over the IRS to resolve longstanding material weaknesses and system deficiencies that continue to inhibit the timely and reliable information necessary to effectively manage IRS operations. Since the IRS is such a large component, the ability of Treasury to meet its management goals and objectives is heavily dependent on major progress at the IRS. Treasury also needs to ensure consistency, cohesiveness, and economy among all bureaus in achieving Treasury's goals and objectives. Specific challenges in this area include establishing clear lines of accountability between corporate and bureau level management, providing enterprise solutions for core business activities, ensuring consistent application of accounting principles, and providing effective oversight of information technology investments and security. There has been little progress in corporate management during the past year, due in part to the fact that several key executive positions were vacant for a significant part of the year and have just recently been filled.

- Management of Capital Investments Treasury needs to better manage large, multiyear acquisitions of systems and other capital investments. For example, the Department incurred significant cost escalations in its HR Connect system and the Treasury and Annex Repair and Restoration (TBARR) project. Another current major capital

investment activity is the Department's transition from the Treasury Communication System to the Treasury Communications Enterprise (TCE). The transition to TCE has been delayed due in part to a successful protest of the bid award, and the Department changing course on how it would address the bid protest decision.

- Information Security The Department faces serious challenges in bringing its systems into compliance with information technology security policies, procedures, standards, and guidelines. A core issue continues to be the need to establish and maintain a system inventory. In fiscal year 2004, we reported that Treasury's system inventory was not accurate, complete, or consistently reported. Treasury is still in the process of gathering data to develop its system inventory. Deficiencies also exist in certification and accreditation, contractor oversight, plans of action and milestones, tracking corrective actions, training, and security configuration policies. The Department has made some progress in addressing information security issues during the past year; however, major improvements are still needed in order to meet information security requirements.

- Linking Resources to Results The Department generally has not developed and incorporated managerial cost accounting into its business activities; therefore, financial resources cannot be adequately linked to operating results. This inhibits comprehensive program performance reporting and meaningful cost-benefit analyses of the Department's programs and operations. It could also result in inaccurate or incomplete cost information in evaluating competitive sourcing activities. Managerial cost accounting is designed to provide reliable and timely information on the full cost of programs, activities and outputs, and it should be a fundamental part of a financial management system. Cost information is needed by federal executives and stakeholders in making decisions about allocating resources and evaluating program performance. It is also needed by program managers to improve operating economy and efficiency. The Department has made progress during the past year by introducing more efficiency measures in its performance reporting; however, it needs to make underlying systemic changes to integrate cost accounting with financial and performance reporting.

- Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement FinCEN is responsible for administering the Bank Secrecy Act (BSA), but largely relies on other Treasury and non-Treasury regulatory agencies to enforce the requirements of the BSA, including the enhanced terrorist financing provisions in the USA PATRIOT Act. Past audits and a series of Congressional hearings have revealed regulatory gaps in either the detection of BSA violations or its timely enforcement. The Department continued efforts to strengthen BSA administration and has taken significant enforcement actions against several financial institutions. For example, FinCEN recently entered into a memorandum of understanding (MOU) with the five federal

banking regulators to enhance communication and coordination, and now has similar agreements in place with the IRS and many states. However, it is still too soon to assess the effectiveness of these agreements to achieve improved BSA compliance by financial institutions. In response to other recent work by our office, FinCEN is taking action to improve the data quality of suspicious activity reporting, encourage greater e-filing of BSA reports, and enhance its money services business registration program. This management challenge will continue to be a major focus of our audit program, and we currently have audit work on-going at TFI, FinCEN, OFAC, and OCC.

We will be providing the Secretary of the Treasury an update on these management challenges in October 2006.

## Administration Initiatives

The PMA consists of five government-wide management initiatives on which each department and major agency is to be measured annually. These initiatives are: (1) Strategic Management of Human Capital, (2) Competitive Sourcing, (3) Improved Financial Performance, (4) Expanded Electronic Government, and (5) Budget and Performance Integration. The Executive Branch Management Scorecard tracks how well these five initiatives are being executed, using a color-coded scoring system. An agency's status is given a green for success, yellow for mixed results, and red for unsatisfactory. Similarly, progress ratings are given, with green indicating implementation is proceeding as planned, yellow indicating that there is slippage in the implementation schedule, and red indicating that the initiative is in serious jeopardy. As of the third quarter of fiscal year 2005, Treasury's status was "green" for Competitive Sourcing, "yellow" for Strategic Management of Human Capital and Budget and Performance Integration, and "red" for Financial Performance and Expanded Electronic Government.

In conjunction with the Budget and Performance Integration initiative, OMB developed the **Program Assessment Rating Tool (PART)** in 2002 to assess agency programs. Fiscal year 2006 will mark the fourth year the PART will be used to assess program performance, help link performance to budget decisions, and make recommendations to improve program results. Together in the fiscal year 2004 and 2005 Budgets, approximately 40 percent of federal programs were assessed using the PART. For the 2006 Budget, an additional 20 percent of programs were assessed.

The following table summarizes the results of PART assessments during the fiscal years 2004 through 2006 Budget cycles for Treasury programs that are subject to our oversight:

| Program | Budget Year of Assessment | Rating |
|---|---|---|
| ATF Consumer Product Safety Activities (TTB) | 2004 | Adequate |
| Bank Enterprise Award (CDFI Fund) | 2004 | Results Not Demonstrated |
| Coin Production (Mint) | 2004 | Effective |
| International Development Association (OIA) | 2004 | Adequate |
| OCC Bank Supervision | 2004 | Effective |
| Office of Foreign Assets Control | 2004 | Results Not Demonstrated |
| OTS Thrift Supervision | 2004 | Effective |
| Administering the Public Debt (BPD) | 2005 | Effective |
| African Development Fund (OIA) | 2005 | Results Not Demonstrated |
| Debt Collection (FMS) | 2005 | Effective |
| New Currency Manufacturing (BEP) | 2005 | Effective |
| Treasury Technical Assistance (OIA) | 2005 | Adequate |
| CDFI Fund: Financial and Technical Assistance | 2006 | Adequate |
| FMS Collections | 2006 | Effective |
| Global Environment Facility (OIA) | 2006 | Results Not Demonstrated |
| Tropical Forest Conservation Act | 2006 | Results Not Demonstrated |
| U.S. Mint: Numismatic Program | 2006 | Effective |

## Treasury General Management and Infrastructure Support - Financial Management

OIG Contact: Mike Fitzgerald, Director of Audit (202) 927-5789

### Issue Area Discussion

Legislative Mandates Financial audits are required for the Department and certain component entities pursuant to various statutes and other reporting requirements. The annual audit of the Department's financial statements is performed pursuant to the GMRA. OMB also designated the IRS to issue stand-alone audited financial statements under GMRA. Other Treasury component entities required to have stand-alone audited financial statements are BEP, ESF, FFB, OCC, Mint, Treasury Forfeiture Fund, Office of the District of Columbia Pensions, CDFI Fund, and OTS. In addition, certain programs and activities of BPD and FMS that are material to the Department's financial statements are audited separately. Furthermore, FinCEN, as a management initiative, started with fiscal year 2005 to prepare audited financial statements.

The Federal Financial Management Improvement Act (FFMIA) of 1996 requires that our annual audits of Treasury's financial statements report on whether its financial management systems comply with the federal financial management systems requirements, applicable federal accounting standards, and the standard general ledger at the transaction level. FFMIA also requires us to include in our semiannual reports to Congress instances when the Department has not met targets in making its accounting systems compliant with FFMIA requirements.

IPAs, GAO, and the OIG will perform the financial statement audits. IPAs, under OIG supervision, will audit the Department's consolidated financial statements and the financial statements and schedules prepared by component entities except for (1) IRS's financial statements and BPD's Schedule of Federal Debt, which will be audited by GAO, and (2) the Mint's Schedule of Custodial Gold and Silver Reserves, which OIG staff will audit.

Program Responsibilities The Department has responsibility for certain recently implemented government programs. These programs may create complex accounting and auditing issues that must be closely monitored and ultimately resolved as part of the audit of the Department-wide financial statements. Recent programs that will need to be reviewed as part of the audit of the fiscal year 2006 Department-wide financial statements include the following:

- Terrorism Risk Insurance Act of 2002 (P.L. 107-297) The purpose of this program is to stabilize market disruptions due to acts of terrorism. The program provides funding for a temporary federal program that will pay 90 percent of the insured losses arising from acts of terrorism above an insured's deductible. The program has a $100 billion cap. The Act sunsets on December 31, 2005.

- Air Transportation Stabilization Program The Air Transportation Safety and System Stabilization Act of 2001 established this program to compensate air carriers for losses incurred as a result of the terrorist attacks on the United States on September 11, 2001. ATSB may issue loan guarantees up to $10 billion. ATSB approved and closed on six loan guarantees. As of September 30, 2005, ATSB loan guarantees totaled approximately $799 million for $879 million in gross loans outstanding.

Known Weaknesses The Department received an unqualified audit opinion on its fiscal year 2005 financial statements. However, this was achieved in some cases by utilizing costly labor-intensive procedures. Limited progress has been made in addressing the long-standing material weaknesses that continue to exist at key bureaus. The IPA's audit report on the Department's fiscal year 2005 consolidated financial statements disclosed one material weakness, one other reportable condition (both were repeat conditions from prior years), and two instances of noncompliance with laws and regulations exclusive of FFMIA. The IPA also reported that the Department's financial management systems did not substantially comply with the requirements of FFMIA. The following material weakness in internal controls and other reportable conditions at the Department-wide level were identified in our audit report:

Material Weakness

- Financial Management and Reporting at IRS Needs Improvement.

Reportable Condition

- EDP Controls and Information Security Programs Over Financial Systems Should Be Strengthened.

## In Progress and Planned Fiscal Year 2006 Audit Projects

### *Audits of Financial Statements for the Department and Financial Statements or Schedules for Component Entities and Activities (In Progress)*

Objective To determine whether the financial statements and schedules are fairly presented in all material respects. The audits will also report on internal control, compliance with laws and regulations, and compliance with FFMIA. During fiscal year 2006, we will complete audit work for the fiscal year 2005 financial statements and schedules. We will also begin audit work for the fiscal year 2006 financial statements and

schedules. We anticipate that these projects will require 8,450 hours by OIG staff during the fiscal year. (PMA Initiative Supported: Improved Financial Performance)

### *Treasury's Working Capital Fund*

Objective To determine if the costs that the Department's Working Capital Fund (WCF) charges to the bureaus are consistent with the costs the WCF incurs for projects it performs on their behalf. Specifically, we plan to review: (1) the existence, timeliness, and consistency of reconciliations between the actual costs incurred by the WCF and costs billed to bureaus; (2) whether costs charged by the WCF are appropriate; (3) whether costs charged by the WCF to specific bureaus are supported by appropriate documentation; and (4) the reasonableness of assumptions, data, processes, or models used by the WCF to estimate its annual costs. We anticipate that this project will require 2,000 hours. (PMA Initiative Supported: Improved Financial Management)

## Treasury General Management and Infrastructure Support - Information Systems Security

OIG Contact: Louis King, Director of Audit (202) 927-5774

### Issue Area Discussion

Threats to Treasury's information systems include terrorists, criminals, and computer hackers. Such external threats are likely to be increasing given that hacking tools are becoming more readily available and relatively easy to use. In addition, information security systems face potential threats from insiders (i.e., authorized users) who have a significant knowledge of Treasury's systems and their operation. Because of the nature of Treasury's missions, top-notch information security is paramount to prevent malicious outsiders or insiders from:

- Disrupting key Treasury functions (e.g., collection of revenues, issuing payments, managing the government's cash, making money, preventing financial crimes, etc.),
- Compromising classified or confidential Treasury information,
- Obtaining or disclosing sensitive or private citizen information,
- Destroying or altering information needed to accomplish Treasury's missions,
- Stealing valuable equipment or technology, and
- Inappropriately using Treasury resources.

In addition, recent and new technologies (e.g., wireless networks) have provided greater convenience and accessibility to the honest Treasury user, but at the same time have increased the vulnerability of Treasury information and resources. Because IT plays a crucial role in accomplishing all of Treasury's strategic objectives and activities, it is indispensable that Treasury have an information security program that ensures the integrity of Treasury's information systems and the reliability and confidentiality of its data.

Legislative Mandate The Federal Information Security Management Act (FISMA) requires Treasury to have an annual independent evaluation of its information security program and practices to determine the effectiveness of such program and practices. As required by law, the TIGTA conducts the annual independent evaluation as it pertains to IRS. A contractor under our supervision conducts the annual independent evaluation as it pertains to the remainder of Treasury's unclassified systems. The results of the evaluations are provided to OMB by the date set by OMB. In addition, FISMA requires that agencies with

national security systems include such systems in the annual evaluation process. Treasury OIG staff conduct the annual evaluations of Treasury's national security systems.

Known Weaknesses Based on the results of the OIG's FISMA independent evaluation of the Department's unclassified systems and TIGTA's evaluation of IRS's systems, we reported in October 2005 that despite some progress, Treasury had significant deficiencies that constitute substantial noncompliance with FISMA. As the most important of these deficiencies:

- We were unable to assess the accuracy, completeness, and consistency of Treasury's system inventory because, as of our report issuance, the Treasury CIO was in the process of developing an updated system inventory.
- Treasury was not fully in compliance with OMB's current requirement to include all systems in the FISMA report and to categorize these systems by impact level.
- As reported by TIGTA, IRS continues to have significant deficiencies in its information security program and practices.
- Our contractor reported concerns in the following areas at various bureaus – certification and accreditation, training, plans of actions and milestones, security self-assessments, and system inventory categorization.

Our fiscal year 2005 FISMA independent evaluation of the Department's classified system also noted weaknesses.

## In Progress and Planned Fiscal Year 2006 Audit Projects

### *Fiscal Year 2006 FISMA Independent Evaluation – Unclassified Systems*

Objective A contractor under our supervision will determine if Treasury's information security program and practices, as they related to Treasury's unclassified systems, are adequate. In addition, the contractor will determine the progress made in resolving previously reported FISMA weaknesses. We anticipate that 500 hours by OIG staff will be need needed to supervise the contractor. (PMA Initiative Supported: Expanded Electronic Government)

### *Fiscal Year 2006 FISMA Independent Evaluation – National Security Systems*

Objective To determine if Treasury's information security program and practices, as they relate to Treasury's national security systems, are adequate. In addition, we will determine the progress made in resolving previously reported FISMA weaknesses. We anticipate that this evaluation will require 400 hours. (PMA Initiative Supported: Expanded Electronic Government)

### *Network and System Vulnerabilities Assessment*

Objective To identify potential security vulnerabilities that may compromise Treasury bureaus' networks and systems, leaving them open to misuse and malicious attacks. For fiscal year 2006, we plan to focus on FinCEN, TTB, and FMS's Hyattsville Regional Operating Center. We anticipate each Treasury bureau review will require between 1,500 and 2,000 hours. (PMA Initiative Supported: Expanded Electronic Government)

### *Penetration Testing*

Objective To determine if (1) computer hackers can use common or specialized tools to gain unauthorized and illegal access to Treasury's networks, (2) malicious internal users can use these same tools or other techniques to gain unauthorized access to systems, and (3) unauthorized outsiders or personnel can gain access to sensitive computer equipment. For fiscal year 2006, we plan to perform this audit at BEP. We anticipate that each Treasury bureau review will require 1,000 hours. (PMA Initiative Supported: Expanded Electronic Government)

### *Disaster Recovery Exercises (On-going)*

Objective To determine if Treasury and its components can recover their operations in the event of a disaster (e.g., terrorist attacks, severe weather events). We will observe scheduled disaster recovery exercises on a selective basis. We anticipate each observation and evaluation of the exercise will require 400 hours. (PMA Initiative Supported: Expanded Electronic Government)

### *System Reviews and Methodologies Used to Identify Systems*

Objective To determine whether (1) Treasury's processes for conducting reviews of systems installed at Treasury and contractor facilities are adequate and compliant with applicable requirements and (2) Treasury's system inventory methods can be relied on to accurately and completely identify all systems at Treasury. We anticipate that this project will require 1,000 hours. (PMA Initiative Supported: Expanded Electronic Government)

## Audit Projects Under Consideration for Future OIG Annual Plans

### *System Certification and Accreditation Processes*

Objective To determine whether Treasury's processes to certify and accredit systems are adequate to (1) identify risks to Treasury's assets, information, and personnel associated with the implementation of systems; (2) allow accrediting officials to properly evaluate and assume responsibility for such risks; and (3) provide a documented basis for management's determinations to accredit systems. We anticipate that this project will require 1,000 hours. (PMA Initiative Supported: Expanded Electronic Government)

### *Cyber-Based Systems – Critical Infrastructure Protection Program*

Objective To determine (1) what progress Treasury has made in identifying and prioritizing its critical infrastructure, (2) if Treasury is adequately protecting this infrastructure from terrorist attacks, and (3) if Treasury is in compliance with other requirements of Homeland Security Presidential Directive 7. We anticipate that this audit project require 800 hours. (PMA Initiative Supported: Expanded Electronic Government)

### *Treasury's Enterprise Environment*

Objective To determine if the Treasury Chief Information Officer (CIO) and bureau CIOs have implemented an enterprise environment framework that eliminates redundancy, reduces cost, improves quality and timeliness of information, enhances system integration, and properly secures information. We anticipate that this project will require 1,600 hours. (PMA Initiative Supported: Expanded Electronic Government)

### *Data Centers – Security Reviews*

Objective To determine if physical and logical controls are implemented to protect bureau data centers from malicious intrusions, destruction or disclosure of sensitive data, and theft or damage to valuable assets. Specifically, we plan to review (1) organization and management, (2) computer operations, (3) physical security, (4) environmental controls, (5) hardware and software inventory management, and (6) continuity of operations. We anticipate that this project will require 1,600 hours. (PMA Initiative Supported: Expanded Electronic Government)

### *Wireless Network Security*

Objective To determine whether (1) the use of wireless networks at Treasury and its bureaus is exposing sensitive information to increased security risks (e.g., unauthorized disclosure), (2) there are any unauthorized wireless networks on Treasury premises, and (3) Treasury has established adequate policy and oversight regarding wireless networking. We anticipate that this project will require 800 hours. (PMA Initiative Supported: Expanded Electronic Government)

### *Web Servers – Controls and Security*

Objective To determine if Treasury and its bureaus have adequate security controls over its web servers, which provide internet users access to Treasury information and services, to protect against unauthorized access or malicious attacks from outside users. We anticipate that this project will require 2,000 hours. (PMA Initiative Supported: Expanded Electronic Government)

## Treasury General Management and Infrastructure Support – General Management

OIG Contact: Thomas Byrnes, Director of Audit (202) 927-5904

### Issue Area Discussion

In addition to the Financial Management and IT Security, the Treasury General Management and Infrastructure Support issue area encompasses other management activities to ensure that the Department's resources are used efficiently and effectively to carry out Treasury programs and operations. While not all-inclusive, examples of broad management activities that warrant audit coverage are discussed below.

Repair and Renovation of the Treasury Building After a June 1996 roof fire resulted in major damage to the Main Treasury building, Treasury decided to modernize the building. The Treasury Building and Annex Repair and Restoration (TBARR) Program was established in August 1998 to (1) repair and restore the Main Treasury building to correct the damage caused by the roof fire, (2) restore the historic fabric of the building, and (3) modernize the building and its systems to comply with current codes and standards. Starting with emergency funding received in fiscal year 1996 for the fire damage, Treasury has received funding each year since, in accordance with no-year and multi-year spending plans. Through fiscal year 2005, the Congress appropriated a total of $237 million for the TBARR Program. The President's fiscal year 2006 budget requested $10 million for the final investment in TBARR.

Information Technology Capital Investments Sound business practices for the acquisition and maintenance of information systems (including hardware and software) are necessary to support Treasury's mission to manage resources effectively. Absent such practices, Treasury may:

- Develop or inadvertently acquire duplicative systems;
- Pay higher prices for commercial off-the-shelf products by not obtaining volume discounts;
- Develop systems that do not adequately or fully address Treasury's needs or provide management with information needed to accomplish Treasury's key missions;
- Exceed projected or reasonable costs to develop, acquire, or maintain systems;
- Acquire or develop systems that do not adequately secure and protect Treasury's classified, confidential, or sensitive information; and

- Implement systems that do not readily integrate with existing systems.

In an August 2005 memorandum, OMB outlined a number of steps federal agencies must take for all new major IT projects, ongoing major IT developmental projects, and high-risk projects to better ensure improved execution and performance as well as promote more effective oversight (OMB Memorandum M-05-23, *Improving Information Technology (IT) Project Planning and Execution*). Specific procedures were prescribed to implement the principles of: (1) establishing and validating performance measurement baselines with clear cost, schedule, and performance goals; (2) managing and measuring projects to within 10 percent of baseline goals through use of an Earned Value Management System (EVMS)[3] or, for steady-state projects, perform operational analyses[4]; (3) assigning to each project a qualified project manager; and (4) avoiding duplication by leveraging inter-agency and government-wide investments to support common missions or other common requirements. The memorandum also prescribed milestones for certain actions. For example, for all ongoing major IT projects with development efforts, it required that current cost, schedule, and performance baselines be independently validated for reasonableness by March 31, 2006, and before obligating fiscal year 2006 funds. Additionally, the memorandum required that agencies work with OMB to identify any high-risk projects by August 15, 2005. Beginning September 15, 2005, and quarterly thereafter, the CIO must assess, confirm, and document the performance of these high-risk projects. For high-risk projects that are not meeting performance criteria, the CIO must provide documentation (quarterly) to OMB and the IG on the specific performance shortfalls, their cause, the plan of action and milestones to correct the shortfalls, and additional funding and the source of funding to improve performance.

Human Capital In the area of human capital management, the Federal Activities Inventory Reform (FAIR) Act of 1998 has major implications for Treasury. According to recent data, Treasury ranks fifth among federal government agencies in the number of positions classified as commercial in nature.

The Department is also engaged in implementing a multi-year automated, integrated Human Resources (HR) system called "HR Connect." This Department-wide system is intended to bring about significant changes in HR practices through the year 2007.

[3] "Earned value" is a management technique that relates resource planning to schedules and to technical cost and schedule requirements. All work is planned, budgeted, and scheduled in time-phased "planned value" increments constituting a cost and schedule measurement baseline. There are two major objectives of an earned value system to (1) encourage contractors to use effective internal cost and schedule management control systems and (2) permit the customer to be able to rely on timely data produced by those systems for determining product-oriented contract status.

[4] Operational analysis is a system to measure the performance and cost of an operational asset against the baseline established in the planning phase.

Appropriated funding to support this initiative is maintained at the Department and managed by the HR System Program Office. In its fiscal year 2005 Capital Asset Plan and Business Case, the HR Connect Program Office (HRCPO) reported that over the 15-year life of the program, it expected to incur total project investment and operational costs of about $415 million and receive total benefits of about $899 million. HRCPO attributed $174 million of productivity savings, and over $110 million to other savings for staff redirection. In February 2005, TIGTA reported that, among other things, the underlying analysis provided by the HRCPO does not support the savings claimed, especially those related to staff reassignments or reductions. As such, the expected savings of $899 million was unsubstantiated.

Improper Payments Erroneous payments in Federal programs can result from payments to ineligible program beneficiaries, over- or underpayments to beneficiaries, or duplicative payments. The Improper Payments Information Act of 2002 requires agencies to review annually all programs vulnerable to significant erroneous payments. Agencies must also estimate the extent of erroneous payments. Agencies estimating more than $10 million in erroneous payments are required to send a report to Congress and to develop a plan for reducing those payments. GAO and OMB have estimated that improper payments cost the federal government at least $30 billion a year, and there is strong evidence that the costs actually exceed this level. The Administration has made the reduction of improper and erroneous payments a focus of the President's Management Agenda. Treasury reported that for fiscal year 2005, no non-IRS programs or activities were a high-risk for significant erroneous payments.

Procurement Contract activity involving major procurements by the Department and its bureaus totals approximately $1.3 billion annually. Use of government credit cards for micro-purchases (generally for goods and services under $2,500) is also extensive, and a strong control environment over this activity is essential to prevent abuse. The OIG is the Department's focal point for obtaining pre-award, costs incurred, and other contract audits requested by Departmental Offices and the bureaus. These audits are typically performed by the Defense Contract Audit Agency (DCAA) under OIG oversight. During fiscal year 2005, approximately $76 million of incurred contract costs for Treasury bureaus and $20 million dollars of contract close-out costs were audited.

Non-Appropriated Activities Four Treasury bureaus (BEP, the Mint, OCC, and OTS) do not receive appropriated funds; instead, they operate with revolving funds. BEP and the Mint assess charges for manufactured goods, while OCC and OTS assess fees for regulatory activities. These four bureaus generally have greater latitude than Treasury's appropriated bureaus in how they conduct their operations.

Treasury Franchise Fund First piloted pursuant to GMRA, the Treasury Franchise Fund was permanently established by the Transportation, Treasury, Independent Agencies, and

General Government Appropriations Act, 2005 (P.L. 108-447). The Fund is a revolving fund that is used to supply financial and administrative services on a fee-for-service basis. Activities include Consolidated/Integrated Administrative Management; Financial Management Administrative Support; and Financial Systems, Consulting, and Training Services. The Fund consists of four entities: FedSource, ARC, Federal Consulting Group (FCG), and Treasury Agency Services (TAS). The Fund was recognized as a Center of Excellence in the Financial Management Line of Business in 2005, making it eligible to enter into competitions to provide cross-agency financial management services on a government-wide basis. For fiscal years 2003 through 2005, the Fund facilitated procurement services totaling over $1 billion. For fiscal year 2006, service activities are expected to have spending authority of $803 million and employ 713 people.

## In Progress and Planned Fiscal Year 2006 Audit Projects

### *Contract Audit Oversight Activities (On-Going)*

Objective To oversee and coordinate DCAA contract audit services requested by procurement officers. We anticipate that 500 hours will be required for this activity during fiscal year 2006. (PMA Initiative Supported: Improved Financial Performance)

### *Treasury Procurements on Behalf of the Department of Defense (In Progress)*

Background In coordination with the Department of Defense (DoD) OIG, we are auditing Treasury procurements on behalf of DoD. This coordinated audit is pursuant to a mandate in Section 801 of the pending National Defense Authorization Act for Fiscal Year 2006 (S. 1042). Specifically, Section 801 requires an audit to be performed on each non-Defense agency of the Federal Government that procured property or services in excess of $100 million on behalf of DoD during fiscal year 2005.

Objective To determine whether Treasury's procurement policies, procedures, and internal controls applicable to the procurement of products and services on behalf of DoD, and the manner in which they are administered, are adequate to ensure Treasury's compliance with laws and regulations that apply to procurements of property and services made directly by DoD. Based on our preliminary inquiries, our audit will focus on FedSource, a component of the Treasury Franchise Fund. We anticipate that this project will require 2,000 hours to complete during fiscal year 2006. (PMA Initiative Supported: Improved Financial Management)

### *Treasury Building and Annex Repair and Restoration Program (In Progress)*

Discussion The Conference Report (H.R. 108-401) for the Consolidated Appropriations Act, 2004, directed our office to comprehensively audit all TBARR Program contracts since fiscal year 1998. The audit is to include (1) a review of compliance with all applicable procurement laws, rules, and regulations and with the Architectural Barriers Act of 1968, as amended; (2) a review of the scope, requirements, and cost reasonableness of the project, as well as the process for managing change orders to the original scope and design; and (3) a review of the effectiveness, efficiency, and economy of contractor operations. These objectives are being addressed in a series of audit reports. The Conference Report (108-792) for the Consolidated Appropriations Act, 2005, directed our office to complete the audit work on the TBARR Program, including building code compliance. As part of this work, we were asked to identify costs associated with delays in employee moves into alternative space during restoration phases. We have issued four interim audit reports on the TBARR project. During fiscal year 2004, we issued reports on TBARR project planning and contract award and administration. During fiscal year 2005, we issued reports on costs associated with delays in employee moves during renovation and building code compliance of the renovation work.

Objective As specific work to be undertaken in fiscal year 2006, we plan to (1) assess contract and other costs charged to the TBARR appropriations accounts and (2) follow up on the findings in our Interim Audit Reports. We anticipate that these projects will require a total of 2,000 hours to complete during fiscal year 2006.

### *Treasury Communications Enterprise Investment (In Progress)*

Objective To determine whether the business case for TCE was based on appropriate and supportable assumptions and cost/benefit estimates. We anticipate that this project will require 160 hours to complete during fiscal year 2006. (PMA Initiative Supported: Expanded Electronic Government)

### *Treasury Audit Follow-up System*

Objective To determine whether Treasury's audit follow-up system is effective to ensure that audit recommendations are promptly and properly acted upon and that progress on corrective actions is adequately monitored. As part of this audit, we will follow up on the recommendations in OIG-02-059, *GENERAL MANAGEMENT: The Department Needs to Strengthen Its Audit Follow-up System*. We anticipate that this project will require 1,600 staff hours.

### *BPD Administrative Resource Center User Fees Collection and Reimbursable Agreements*

Objective To determine if (1) ARC is operating independently from BPD funding, (2) ARC is collecting user fees and reimbursements for all of its services in a timely manner, (3) ARC has appropriate systems established to monitor its collection efforts, (4) reimbursable agreements provide for reimbursement for all the services provided by ARC, and (5) ARC is accounting for the full cost incurred for providing its services. We anticipate that this audit will require 2,400 hours. (PMA Initiative Support: Improved Financial Management)

### *Treasury Information Technology Project Planning and Execution*

Objective To assess the Department's implementation of the IT project planning and execution requirements prescribed in OMB Memorandum M-05-23. As part of this audit, we plan to assess the use of EVMS and operational analyses where appropriate and the process used by the Department to identify and, as appropriate, monitor high-risk projects. We anticipate that this project will require 2,400 hours. (PMA Initiatives Supported: Improved Financial Management and Expanded Electronic Government)

### *Treasury's Workers' Compensation Program*

Background When a federal employee is injured while performing his/her duties, prompt action should be taken to ensure the employee receives appropriate Federal Employees' Compensation Act (FECA) benefits and returns to duty as quickly as possible. Once an employee reports an injury, he/she is to be informed of his/her rights and obligations under FECA. Generally, employees should receive appropriate medical attention from either a Treasury health unit, a hospital emergency room, or a private physician. If the employee is unable to return to his/her duties as a result of the injury, then he/she is entitled to up to 45 days of continuation of pay. If the employee is still unable to return to work at the end of the 45 days, he/she is entitled to compensation for lost wages following a short period without pay. Compensation is based on an assessment of medical conditions and pay rate at the time of the injury. The employee's case should then be monitored until a physician certifies the employee as fit to return to work. Among other things, agencies need to stay in touch with injured employees while they are receiving compensation, identify jobs suitable for them, and take steps to reemploy recovered or recovering employees as soon as the medical evidence shows that this is possible.

Objective To determine whether Treasury offices and bureaus have effective programs in place to monitor employees receiving workers' compensation payments. We will perform this project jointly with the Office of Investigations. We anticipate that this project will

require 1,200 staff hours at each Treasury bureau. (PMA Initiative Supported: Improved Financial Performance)

## Audit Projects Under Consideration for Future OIG Annual Plans

### *Treasury Privacy and Data Protection Procedures*

Background The Transportation, Treasury, Independent Agency, and General Government Appropriation Act, 2005 (P.L. 108-447, division H) requires that within 12 months of the law's enactment (December 2005), each agency shall establish and implement comprehensive privacy and data protection procedures governing the collection, use, sharing, disclosure, transfer, storage, and security of information in an identifiable form relating to the agency employees and the public. The Act also requires that at least every 2 years, the IG contract with an independent third party that is a recognized leader in privacy consulting, privacy technology, data collection and data use management, and global privacy issues, to (1) evaluate the agency's use of information in identifiable form, (2) evaluate the privacy and data protection procedures of the agency, and (3) recommend strategies and specific steps to improve privacy and data protection management.

Objective To evaluate, using an independent contractor under our supervision, Treasury's (1) use of information in identifiable form and (2) privacy and data protection procedures. We anticipate that the selection and supervision of the independent contractor will require 500 hours by OIG staff. (PMA Initiative Supported: Expanded Electronic Government)

### *HR Connect Processing Controls*

Objective To determine if appropriate controls were implemented over the processing of personnel actions and access to employee information. We anticipate that this project will require 2,000 hours. (PMA Initiative Supported: Strategic Management of Human Capital)

### *Analysis of Procurement Methods Used Within the Department*

Objective To determine whether Treasury offices and bureaus could benefit from employing a strategic approach to procurement. As part of this project, we plan to use "spend analysis" to identify opportunities for taking an enterprise-wide approach to buying goods and services. We anticipate that this project will require 2,400 hours. (PMA Initiative Supported: Improved Financial Performance)

### *Treasury Reporting on Competitive Sourcing Efforts*

Background The Consolidated Appropriations Act, 2004 (P.L. 108-199) established a government-wide requirement for each executive agency to report to Congress by December 31st on its competitive sourcing efforts for the prior fiscal year. OMB annually issues guidance to assist agencies in preparing their Congressional reports, and requires agencies to provide a draft of the report for OMB review and clearance before submission to the Congress.

Objective To determine whether Treasury has provided accurate and reliable information on its competitive sourcing efforts in accordance with OMB guidance, including information on costs associated with conducting competitions, anticipated savings, and actual savings. We plan to sample non-IRS bureaus and offices reporting competitive sourcing activity. We anticipate that this project will require 2,000 hours. (PMA Initiative Supported: Competitive Sourcing)

### *Treasury Implementation of IPv6*

Background Internet Protocol Version 6 (IPv6) is the next generation protocol designed by the Internet Engineering Task Force to replace the current protocol, IPv4. Most of today's internet uses IPv4, which is now nearly 20 years old. IPv6 fixes a number of problems in IPv4, such as the limited number of available IPv4 addresses. IPv6 is expected to gradually replace IPv4, with the two coexisting for a number of years during a transition period. OMB set a June 2008 deadline for civilian agencies to add the new technology to their networks.

Objective To determine what steps Treasury has taken to prepare for implementation of IPv6 throughout the Department. We anticipate that this project will require 800 hours.

### *Mint Leasing Practices*

Objective To determine whether the Mint followed logical procurement procedures and prudent business practices when it procured leased space for its operations. As part of this audit, we will follow up on the recommendations in OIG-02-074, *GENERAL MANAGEMENT: The Mint Leased Excessive Space for Its Headquarters' Operation*. We anticipate that this project will require 1,600 hours.

### *Employee Bonus Policies at Non-Appropriated Bureaus*

Objective To determine whether (1) policies for employee bonuses at non-appropriated bureaus are in accordance with the law and (2) bonuses paid conform with established

policies. Separate audits are planned at each bureau, beginning with a pilot audit at the Mint. We anticipate that each audit will require 1,200 hours. (PMA Initiative Supported: Strategic Management of Human Capital)

***FAIR Act Implementation***

Objective To determine if Treasury has identified government activities that are "commercial in nature" in accordance with the FAIR Act and taken action to meet OMB requirements to compete or outsource the commercial activities. We anticipate that this project will require 2,000 hours. (PMA Initiative Supported: Competitive Sourcing)

***Treasury Communications Enterprise Implementation***

Objective To determine if Treasury is managing the transition to the TCE in a manner that (1) ensures that users will have the services they require without disruption, (2) provides adequate security for sensitive Treasury information, (3) results in volume discounts; and (4) improves the integration of Treasury systems. We anticipate that this project will require 1,600 hours. (PMA Initiative Supported: Expanded Electronic Government)

***Treasury Integration of IT Life-Cycle Security Costs Into Its Capital Planning and Investment Control Process***

Objective To determine whether the Department is appropriately budgeting for IT life-cycle security costs in its capital planning and investment process. Further we will determine whether the Department is effectively focusing on system life-cycle security needs and can support the requested funding to address IT security weaknesses. We anticipate that this project will require 2,000 hours. (PMA Initiative Supported: Expanded Electronic Government)

***Treasury Safety and Health Program***

Background In January 2004, the President announced the Safety, Health, and Return-To-Employment (SHARE) initiative. Under SHARE, each department and independent agency established goals for reducing workplace illness and injury rates, speeding the submission of injury claims forms, and reducing the percentage of Federal employees' production days lost to workplace injuries and illnesses each year. These goals cover fiscal years 2004 through 2006.

Objective To determine Treasury's progress toward established goals for reducing workplace injuries and illnesses. This includes ensuring that the initial submission of injury and illness claim forms are processed in a timely manner, as well as reducing the

percentage of employee production days lost to workplace injury or illness. We anticipate that this project will require 1,000 hours. (PMA Initiative Supported: Strategic Management of Human Capital)

***Resolution of Accountable Officer Irregularities***

Background Accountable officers include certifying officers, disbursing officers, collecting officials, cashiers, and other officers or employees who are responsible for or have custody of public funds. Treasury Directive (TD) 32-04, *Settlement of Accounts and Relief of Accountable Officers*, establishes the policy and procedures to settle irregularities (e.g., erroneous or improper payments) in the accounts of accountable officers. Requests for relief of accountable officers for liability for irregularities exceeding established thresholds must be referred to GAO for resolution. The resolution of irregularities under these thresholds has been delegated to certain Treasury officials.

Objective To determine whether irregularities in the accounts of Treasury accountable officers are resolved in accordance with TD 32-04. We anticipate that this project will require 800 staff hours. (PMA Initiative Supported: Improved Financial Management)

***Treasury's Implementation of the Improper Payments Information Act***

Objective To determine if the Department has implemented an effective process to assess the risks of improper payments by its offices and bureaus that could be subject to reporting under the Improper Payments Information Act of 2002. We anticipate that this project will require 800 hours. (PMA Initiative Supported: Improved Financial Performance)

***Bureau Controls Over Government-Issued Travel Cards***

Objective To determine whether bureau controls over the use of travel cards are adequate. Separate audits are planned for selected bureaus. We anticipate that each audit will require 1,200 hours. (PMA Initiative Supported: Improved Financial Performance)

## Terrorist Financing, Money Laundering, and Foreign Assets Control

OIG Contact: Donald Benson, Director of Audit (617) 223-8640

### Issue Area Discussion

A critical Treasury strategic goal is to preserve the integrity of U.S. financial systems and ensure that access is closed to the individuals, groups, and nations that threaten U.S. vital interests. This goal is coordinated through the Under Secretary for Terrorism and Financial Crimes, a position established in March 2004 to strengthen Treasury's prevention and detection of money laundering and terrorist financing. The Under Secretary leads the Office of Terrorism and Financial Intelligence (TFI). The functions of TFI include providing policy, strategic, and operational direction to the Department on issues relating to terrorist financing; financial crimes, including money laundering, counterfeiting, and other offenses threatening the integrity of the financial system; U.S. economic sanctions programs; implementation of Titles I and II of the Bank Secrecy Act (BSA), as amended; other enforcement matters; and the Department's security functions and programs.

TFI includes two major components—the Office of Terrorist Financing and Financial Crimes (TFFC) and Office of Intelligence and Analysis (OIA).

- TFFC is responsible for TFI's enforcement functions and integrates the efforts of FinCEN, OFAC, and TEOAF. TFFC also works in partnership with the IRS's Criminal Investigations unit.

- OIA is responsible for the receipt, analysis, collation, and dissemination of intelligence and counterintelligence information related to the operations and responsibilities of the entire Department, including all components and bureaus of the Department. OIA's primary functions are to build analytical capability on terrorist financing by coordinating and overseeing work involving intelligence analysts in all Treasury components and to provide intelligence support to senior Treasury officials on a wide range of international economic and other relevant issues. This office also serves in a liaison capacity with the intelligence community and represents the Department in various intelligence-related activities.

TFI became more firmly established over the last fiscal year as remaining open key positions were filled. One important position filled was the Assistant Secretary for OIA, which had been vacant for months following establishment of TFI. Treasury's fiscal year 2006 budget request included more than $100 million to fund Treasury's efforts to detect and deter financial crimes, money laundering, and terrorist financing.

The Department, through FinCEN, and financial institution regulators are responsible for enforcing several key pieces of legislation:

- Bank Secrecy Act (BSA) The BSA, enacted to help deter, detect, and investigate money laundering, requires financial institutions to file Currency Transaction Reports (CTR) for transactions exceeding $10,000 and Suspicious Activity Reports (SAR) for transactions that are of a suspicious nature. These reports are provided to FinCEN but the report data are managed by the IRS's Detroit Computing Center.

- Annunzio-Wylie Anti-Money Laundering Act (1992) This Act increased penalties for depository institutions that violate federal anti-money laundering laws.

- Money Laundering Suppression Act (1994) This Act mandated certain exemptions to filing CTRs in an effort to reduce the number being reported by 30 percent, directed the Treasury Secretary to designated a single agency to receive SAR filings, required the registration of money service businesses (MSB), and clarified the applicability of the BSA to state-chartered and tribal gaming establishments.

- Money Laundering and Financial Crimes Strategy Act (1998) This Act directed the Treasury Secretary to develop a national strategy for combating money laundering.

- Title III of the USA PATRIOT Act (2001) The USA PATRIOT Act clarified that combating terrorist financing would be prosecutable under existing money laundering laws. The Act (1) requires that each financial institution establish an anti-money laundering program, (2) extends the SARs filing requirement to broker-dealers, (3) requires financial institutions to establish procedures to verify the identities and addresses of customers seeking to open accounts, and (4) requires FinCEN to maintain a highly secure network that allows financial institutions to file BSA reports electronically. (This network was established and is now known as BSA Direct E-Filing.)

FinCEN is primarily responsible for Treasury's effort to enforce the BSA and USA PATRIOT Act. FinCEN has taken steps to more effectively manage this responsibility. For example, FinCEN established an Office of Compliance in September 2004 to oversee the implementation of the BSA regulatory regime by agencies with delegated examination authority such as OCC and OTS. FinCEN also created an Office of Regulatory Support to provide analytic capability to its regulatory programs. Moreover, FinCEN finalized an MOU with the five federal banking agencies—OCC, OTS, FDIC, the Board of Governors of the Federal Reserve System, and the National Credit Union Administration—to better share information and improve coordination in ensuring that the BSA is effectively implemented. FinCEN also executed similar MOUs with the IRS and most states and territories. FinCEN is working to obtain agreements with the Securities and Exchange Commission and the Commodities Futures Trading Commission to enhance BSA compliance oversight in the non-bank financial sectors.

OFAC's authority to impose controls on transactions and to freeze foreign assets is derived from the President's constitutional and statutory wartime, and national emergency powers. In performing its mission, OFAC relies principally on delegations of authority made pursuant to the President's broad powers under the Trading with the Enemy Act, International Emergency Economic Powers Act, and the United Nations Participation Act to prohibit or regulate commercial or financial transactions involving specific foreign countries, entities, or individuals. In administering and enforcing economic sanctions programs, OFAC maintains a close working relationship with other federal agencies to ensure that these programs are implemented properly and enforced effectively. OFAC works directly with the Department of State; the Department of Commerce; the Department of Justice, the FBI, the Department of Homeland Security's U.S. Customs and Border Protection (CBP) and U.S. Immigration and Customs Enforcement (ICE); bank regulatory agencies; and other law enforcement agencies. OFAC currently administers 30 economic sanctions programs against foreign governments, entities, and individuals. Though 8 of these programs have been terminated, they still require residual administrative and enforcement activities.

In June 2005, FinCEN and the Federal Financial Institutions Examination Council (FFIEC), composed of the five federal banking agencies, issued the *Bank Secrecy Act/Anti-Money Laundering Manual* for uniformly conducting BSA examinations. The publication of this guidance was designed to further ensure consistency and identify additional clarity for conducting these examinations. In addition, OFAC has endorsed the FFIEC BSA procedures for reviewing its programs.

Treasury also works globally to combat money laundering and terrorist financing. The United States is a member of the international Financial Action Task Force (FATF). FATF is an inter-governmental body created in 1989 whose purpose is the development and promotion of policies, both at national and international levels, to combat money laundering and terrorist financing. The FATF holds an annual exercise to examine the methods and trends – the *typologies* – of money laundering and, since 2001, of terrorist financing. The primary objective is to help FATF policy makers develop and refine anti-money laundering and counter-terrorist financing standards. In addition, the findings obtained from the annual exercise serve as the basis for informing regulatory authorities, law enforcement agencies and financial intelligence units, as well as the general public – on the characteristics and trends of money laundering and terrorist financing. FATF has published "40 + 9 Recommendations" to help bring about international legislative and regulatory reforms. One aspect of FATF's work is assessing a country's compliance with the international anti-money laundering and combating terrorist financing standards as contained in the "40 + 9 Recommendations." This year, the international body will be assessing the United States. We will consider the results of this assessment in planning future audit work.

Potential Weaknesses. OIG audits in prior years have found problems in either the detection of BSA violations or timely enforcement of BSA. As a significant risk, FinCEN is dependent on many federal and other regulators to examine for compliance with program requirements. Following these audits and Congressional hearings that also exposed deficiencies, the Department has taken steps to strengthen BSA administration as discussed above. OIG completed several audits in the past year concerned with Treasury's administration of the BSA that found improvements but a need for the Department and bureaus to continue to strengthen the anti-money laundering and terrorist financing effort.

- An audit completed in March 2005 on SAR data quality found that improvements were made over the last several years but that FinCEN still needed to enhance its internal controls to detect and prevent SARs with data quality problems from being entered into the automated data system. (*FinCEN: Heightened Management Attention Needed Over Longstanding SAR Data Quality Problems*, OIG-05-033)

- An audit of FinCEN's BSA Direct E-Filing, an electronic filing system developed in response to a USA PATRIOT Act requirement, provides for a potentially more effective means for filers to accurately complete their SAR and CTR reporting requirements. The system was found to provide controls that could improve the timeliness, accuracy, and security of data being entered into the BSA reports database; however, at the time of the audit the system was used by only 1 to 2 percent of filers. (*TERRORIST FINANCING/MONEY LAUNDERING: Additional Outreach and System Enhancements are Needed to Encourage Greater Use of FinCEN's BSA E-Filing*, OIG-05-034)

- An audit of FinCEN's Office of Compliance completed in March 2005 pursuant to a Congressional mandate reported that the Office was staffed with 5 employees and expected to increase this staffing to 22 employees by August 2005. However, at the time, we were unable to make a fully informed assessment of staffing sufficiency because FinCEN management needed to determine the nature and extent of the Office of Compliance workload. We also reported that a satisfactory level of compliance had been achieved at that point under the MOU with the five Federal banking agencies. However, we noted that it was still early in the life of the MOU and there was no provision or consideration in the MOU for non-compliance by the parties to the agreement (i.e., no penalty). *(TERRORIST FINANCING/MONEY LAUNDERING: Status Report on the Establishment of the Financial Crimes Enforcement Network (FinCEN) Office of Compliance*, OIG-05-030)

- An audit of FinCEN's registration of MSBs found that FinCEN faces major challenges to better ensure that MSBs comply with the requirement to register with FinCEN. Approximately 22,000 MSBs had registered by January 2005 out of an

estimated universe of between 100,000 and 160,000. The audit also found that the IRS, which conducts inspections of MSBs for FinCEN, may not have the resources to conduct timely MSB BSA examinations. *(BANK SECRECY ACT: Major Challenges Faced by FinCEN in Its Program to Register Money Services Businesses*, OIG-05-050)

In April 2002, we reported that OFAC was limited in its ability to directly monitor financial institution compliance with foreign sanction requirements due to legislative impairments. Like FinCEN, OFAC is dependent on other regulators to examine for compliance, and our testing found gaps in examination coverage. We have a follow-up audit in progress at OFAC on these matters.

## In Progress and Planned Fiscal Year 2006 Audit Projects

### *Treasury's Administration of the BSA (In Progress)*

Objective To determine if Treasury's authorities, delegation, and resources are consistent with its responsibility under the BSA and enhanced provisions of the USA PATRIOT Act. We anticipate that this project will require 1,600 hours.

### *FinCEN Analysis and Dissemination of BSA and Criminal Data (In Progress)*

Objective To determine whether FinCEN is furnishing law enforcement authorities and other appropriate parties with research, analytical, and informational services in an effective manner. We anticipate that this project will require 400 hours to complete in fiscal year 2006.

### *OCC BSA and USA PATRIOT Act Compliance Examinations and Enforcement Actions (In Progress)*

Objective To determine the effectiveness of OCC's programs to conduct supervisory activities and, when necessary, take enforcement actions to ensure that national banks have controls in place and provide the requisite notices to law enforcement to deter and detect money laundering, terrorist financing, and other related criminal acts. Our review will focus on, but not be limited to, changes made by OCC in response to the Riggs Bank matter. Our sample of banks will include Wells Fargo Bank, and we plan to issue a separate report on OCC's supervision of the bank's BSA program. We anticipate that this project will require 2,400 hours to complete in fiscal year 2006.

### *OFAC Monitoring of Compliance Examinations by Financial Institution Regulators for Sanction Programs (In Progress)*

Objective To determine whether OFAC has an effective monitoring program to ensure that financial institution regulators adequately examine and enforce financial institution compliance with sanction programs. As part of this audit, we are reviewing the OFAC program compliance examinations by OCC and OTS for a sample of financial institutions and plan to issue separate reports to these regulators. We anticipate that this project will require 800 hours to complete during fiscal year 2006.

### *FinCEN's Background Checks Over Individuals Handling Sensitive Bank Secrecy Act Reports*

Objective To determine if Treasury employees and contractors processing sensitive BSA reports have current background checks. We anticipate that 2,000 hours will be required to complete this project.

### *OTS BSA Compliance Examinations*

Objective To assess the adequacy of OTS's examination program for thrift compliance with the BSA and USA PATRIOT Act. We anticipated that this project will require 2,000 hours.

### *Financial Institution Filing of Reports to OFAC and FinCEN on Blocked Transactions*

Background In interpretive guidance issued in December 2004, FinCEN advised institutions subject to suspicious activity reporting under the BSA that under certain circumstances, reports filed with OFAC of blocked transactions with designated terrorists, foreign terrorist organizations, and narcotics traffickers and trafficker kingpins would fulfill the requirement to file suspicious activity reports with FinCEN on such transactions (i.e., a separate suspicious activity report to FinCEN on the same blocked transaction would no longer be required). However, if the filer has information not included on the blocking report filed with OFAC, a separate suspicious activity report must still be filed with FinCEN including that information.

Objective To determine if OFAC and FinCEN have implemented adequate controls to ensure that the information in reports filed with OFAC on blocked transactions is made available to law enforcement through FinCEN databases as appropriate. We anticipate that 1,200 hours will be required to complete this project.

### *FinCEN Memoranda of Understanding with Financial Institution Regulators*

Objective To determine whether (1) FinCEN is receiving timely, complete, and reliable information under the MOUs and (2) the purpose of the MOUs (enhanced communication and coordination to help financial institutions identify, deter, and interdict terrorist financing and money laundering) is being achieved. To address these objectives, we plan to conduct a series of audits at FinCEN, OCC, and OTS. We also plan to initiate our work in the 4th quarter of fiscal year 2006 so that there will be a sufficient history of performance under the MOUs to evaluate. We anticipate that the audits will require a total of 4,000 hours.

### *Follow-up Audit of Treasury Controls Over Intelligence Sharing*

Background During fiscal year 2004, we completed an evaluation, requested by the Treasury General Counsel, which found weaknesses in the automated process by which certain Treasury bureaus and offices obtained sensitive and classified intelligence information. (OIG-CA-04-003 Classified)

Objective To determine whether management's planned corrective actions to our prior evaluation report were implemented and effective. We anticipate that this project will require 800 hours.

## Audit Projects Under Consideration for Future OIG Annual Plans

### *Financial Industry Use of Interdiction Software To Comply With OFAC Compliance*

Background To assist financial institutions in complying with its economic and trade sanctions, OFAC maintains a list of targeted foreign countries, terrorists, international narcotics traffickers, and those engaged in activities related to the proliferation of weapons of mass destruction. While not specifically required by law, many financial institutions use commercial interdiction software to compare customers to the OFAC list. A number of companies produce and sell related software products and services. While OFAC's position is that software is the main method that financial institutions use to identify and report OFAC-related violations, OFAC does not approve or sanction any particular packages for use.

Objective To determine what risks may exist associated with the use of interdict software to comply to OFAC requirements, and actions that should be considered to reduce those risks. We anticipate that 1,600 hours will be required to complete this project.

### *FinCEN Enforcement of the Timely Filing of Bank Secrecy Act Reports*

Objective To determine if FinCEN has effective controls in place to (1) monitor the timeliness of the filing of BSA reports as mandated by the BSA regulations and (2) take enforcement action when warranted. We anticipate that 2,000 hours will be required for this project.

### *Banking Services Offered To Money Services Businesses*

Objective To determine (1) the extent MSBs are facing impediments in obtaining banking services and (2) the effectiveness of Treasury guidance to address these impediments. We anticipate that 2,000 hours will be required to complete this project.

### *FinCEN's Information Sharing Procedures (Section 314 of the USA PATRIOT Act)*

Objective To determine if FinCEN has implemented an effective system to provide for the sharing of information between law enforcement authorities and financial institutions, and amongst financial institutions themselves, in accordance with Section 314 of the USA PATRIOT Act. We anticipate that 2,000 hours will be required to complete this project.

### *OCC BSA Examination of Private Banking (Follow-Up)*

Objective Determine whether OCC has implemented the management corrective actions to OIG report OIG-02-016, *Bank Secrecy Act: OCC Examination Coverage of Trust and Private Banking Services* (OIG-02-016). We anticipate that this audit will require 1,200 hours.

### *OTS BSA Enforcement (Follow-Up)*

Objective Determine whether OTS has implemented the management corrective actions to the OIG report OIG-03-095, *OTS Enforcement Actions Taken for Bank Secrecy Act Violations*. We anticipate that this project will require 800 hours.

### *Insurance Industry Compliance with BSA*

Background In November 2005, Treasury amended the BSA regulations to implement new requirements for insurance companies to establish anti-money laundering programs and report suspicious transactions. The USA PATRIOT Act amended prior law and required anti-money laundering programs for all financial institutions. Insurance companies have long been defined as financial institutions but had not been subject to BSA requirements. Treasury deferred issuing these regulations until 2005 to study the

insurance industry and consider how anti-money laundering controls could best be applied to the industry. Federal law enforcement has previously discovered the use of insurance policies to launder proceeds from drug trafficking. The policies would be bought with illicit funds and then cashed prematurely.

Objective To determine whether FinCEN is exercising effective oversight to ensure insurance companies comply with the amended BSA regulations. We anticipate that this project will require 2,000 hours.

### *OFAC Oversight of the Money Services Business Industry*

Objective To determine whether OFAC is effectively coordinating with IRS (the regulator of the MSB industry) to ensure compliance by the industry with OFAC requirements. We anticipate that this project will require 1,600 hours.

### *TEOAF Use of Treasury Forfeiture Fund Receipts to Support Law Enforcement*

Objective To determine whether TEOAF has appropriate controls to: (1) distribute funds to eligible law enforcement agencies in accordance with applicable laws, regulations, and policies; and (2) ensure the distributed receipts are used for intended purposes. We estimate that this project will require 2,400 hours.

## Government-wide Financial Services and Debt Management

OIG Contact: Donald Kassel, Director of Audit (202) 927-6512

### Issue Area Discussion

Acting as the federal government's money manager, FMS provides centralized payment, collection, and reporting services for the government. BPD borrows the money needed to operate the federal government and accounts for the resulting debt.

Disbursement and Collections FMS's goal is to provide reliable and accurate processing of federal payments which is an essential part of supporting the U.S. economy. These payments total approximately $1.5 trillion annually. Accurate, on-time payments are of considerable financial importance to American citizens, whether recipients of Social Security or Veterans' benefits, income tax refunds, or other federal payments. During fiscal year 2005, FMS issued more than 950 million payments via paper check and electronically transferred funds to more than 100 million individuals and businesses.

FMS also collected approximately $2.7 trillion annually in payments to the government through 10,000 financial institutions. Nearly $2.1 trillion of this amount is collected electronically.

The Debt Collection Improvement Act of 1996 (DCIA) authorizes the Secretary of the Treasury to collect delinquent non-tax debt owed to the federal government. The DCIA requires that agencies turn over to FMS for collection any non-tax debt that has been delinquent for a period of 180 days. FMS collects the debt while working closely with federal agencies, such as the Departments of Education, Housing and Urban Development, and Health and Human Services, to identify eligible debts and encourage referral to FMS for collection. Critical to the success of collection efforts is the cooperation of the participating federal program agencies.

Public Debt The goal of Treasury debt management is to achieve the lowest borrowing costs over time, and Treasury debt managers commit to regular and predictable debt issuance in pursuing this goal. Treasury debt management decisions are made in an ongoing process, which incorporates deliberate and distinct processes but also is flexible in that it takes into account new information as it may become available.

The federal debt has two major components: Debt Held by the Public and Intragovernmental Holdings. Debt Held by the Public is the federal debt held by individuals, corporations, state or local governments, foreign governments, and other entities outside of the U.S. government. Types of securities held by the public include Treasury Bills, Treasury Notes, Treasury Bonds, Treasury Inflation-Protected Securities, U.S. Savings Bonds, State and Local Government Series, Foreign Series, and Domestic Series. Intragovernmental Holdings are primarily Government Account Series securities held by federal government trust funds, revolving funds, and special funds. As of

September 30, 2005, the total federal debt outstanding was $7.9 trillion, of which $4.6 trillion was Debt Held by the Public, and $3.3 trillion was Intragovernmental Holdings. The interest expense on the federal debt managed by BPD for fiscal year 2005 was approximately $355 billion.

Like FMS, BPD's operations demand modernized electronic and information system technology. BPD implemented the TreasuryDirect system in 2002. As of November 2005, there were more than 450,000 TreasuryDirect accounts with approximately 8,500 new accounts being opened weekly.

Due to competing priorities of our office, FMS programs have received little performance audit coverage during recent years. In this regard, our most recent work included a 2003 audit of FMS Plastic Card Network, a system established on behalf of federal agencies to collect fees and other revenues through credit cards. This audit identified several opportunities to better use funds totaling $3.6 billion dollars. The last time we reviewed FMS's DCIA activities was in 1999. Since we last substantively reviewed FMS payment and collection systems, federal payments and collections have grown substantially, and become increasingly electronic.

Likewise, we have not performed any recent performance audits of BPD's programs for managing the public debt.

## In Progress and Planned Fiscal Year 2006 Audit Projects

### *FMS Special Procedures Addressing Federal Check Disbursements To The Gulf Coast Region As A Result of Hurricane Katrina*

Objective To determine the adequacy of FMS internal controls when disbursement processing schedules and delivery mechanisms are accelerated in emergency situations such as Hurricane Katrina. We anticipate that this project will require 1,600 hours. (PMA Initiative Supported: Improved Financial Performance)

### *FMS Controls Over Disbursements*

Objective To determine, through a series of audits involving both electronic funds transfers and check payments, whether FMS has adequate internal controls over its disbursement process to ensure the integrity of payments is appropriate. We anticipate that this first audit will require 2,000 hours. (PMA Initiative Supported: Improved Financial Performance)

### *FMS Acquisition of Banking Services (Follow-Up)*

Background The Consolidated Appropriations Act, 2004, authorized a permanent, indefinite appropriation for FMS to use to acquire banking services. In the past, these services were paid for through compensating balances maintained with certain financial institutions. A fiscal year 2003 OIG audit of FMS's Plastic Card Network (OIG-03-088) found that the use of compensating balances was expensive and FMS did not have adequate controls to ensure that the costs of banking services acquired through compensating balances were appropriate.

Objective To determine whether FMS is acquiring banking services in an appropriate and cost effective manner. We anticipate that this audit will require 2,000 hours. (PMA Initiative Supported: Improved Financial Performance)

### *FMS Implementation of the Internet Payment Platform*

Background The Internet Payment Platform (IPP) is an Internet database that accumulates information about all parties involved in agency disbursement transactions, and with a user interface, allows parties to execute different roles of authorizing, certifying, or stopping payments—as well as to view the status of transactions and download accounting information. The goal is for IPP to provide a digital alternative to paper-based purchasing processes; speed vendor payments while providing enhanced payment data in a central, Internet-accessible repository; and foster communication and cooperation between agencies, vendors, FMS, and the Federal Reserve Bank. These disbursement transactions are settled through the Automated Clearing House (ACH) network. The ACH network is a nationwide electronic funds transfer system that provides for the inter-bank clearing of credit and debit transactions and for the exchange of information among participating financial institutions. FMS piloted the IPP from January 2003 to June 2004, and is working on the rollout which is scheduled for November 2006.

Objective To determine if FMS (1) implemented proper security measures and controls for the IPP, (2) identified and addressed issues found in the IPP pilot program, and (3) established an implementation plan to provide IPP to all agencies. We estimate this audit will require 2,000 hours. (PMA Initiative Supported: Improved Financial Performance)

### *Survey of Treasury's Debt Issuance Process*

Objective To determine if Treasury's debt-issuance process is appropriately documented, and accountability is defined. We anticipate that this project will require 800 hours and work will be coordinated with GAO, who is the auditor for the Schedule of Federal Debt. (PMA Initiative Supported: Improved Financial Performance)

## Audit Projects Under Consideration for Future OIG Annual Plans

### *BPD's TreasuryDirect System*

Objective To determine whether BPD has adequate controls, including fraud deterrence, for transactions conducted over the internet-based TreasuryDirect system. We anticipate that this audit will require 2,000 hours.

### *FMS Debt Check Program*

Discussion FMS developed a debt management program – Debt Check – which allows agencies and outside lenders to determine whether applicants for federal loans, loan insurance, or loan guarantees owe delinquent non-tax debt or delinquent child support to the federal government. Federal agencies are required to deny loans, loan insurance, or loan guarantees to entities that owe delinquent, non-tax debt to the federal government. By Executive Order, this prohibition has been extended to delinquent child-support debtors whose debts have been referred to the Treasury Offset Program for administrative offset.

Initial rollout of the program began with the Small Business Administration in February 2003. The current process is web-based; batch application processing is expected to be available in 2005. Agencies are being phased in gradually.

Objective To determine if FMS has effectively implemented the Debt Check program and is working with other federal agencies to ensure that delinquent debtors do not receive further Federal funds. We anticipate that this project will require 2,000 hours. (PMA Initiative Supported: Improved Financial Performance)

### *FMS Plastic Card Network - Assigning/Charging Costs to Benefiting Agencies (Follow-Up)*

Discussion Our fiscal year 2003 audit of the PCN identified an opportunity for FMS to save nearly $800 million over a 5-year period if the costs associated with operating the PCN were passed on to the benefiting federal agencies. Previously, these costs were paid for through compensating balances maintained with the banks that operated the PCN.

Objective To determine whether FMS has taken action to charge benefiting federal agencies for the costs of operating the PCN. We anticipate that this audit will require 800 hours. (PMA Initiative Supported: Improved Financial Performance)

### *Treasury's Offset Program*

Objective To determine if Treasury's Offset Program is effective in implementing all DCIA offset provisions that assist in recovery of federal debts. We anticipate that this project will require 2,000 hours. (PMA Initiative Supported: Improved Financial Performance)

### *Federal Agency Referral of Delinquent Non-Tax Debt Under the Debt Collection Improvement Act of 1996*

Objective To determine if creditor Federal agencies are referring debt when appropriate to FMS for collection in accordance with the DCIA. We anticipate that this project will require 2,000 hours. (PMA Initiative Supported: Improved Financial Performance)

### *FMS Cross-Servicing Efforts to Collect Non-Tax Delinquent Debts*

Objective To determine whether FMS has adequate oversight of its cross-servicing operations and over private collection agencies to ensure that they are operating efficiently and effectively, and in accordance with the DCIA. We anticipate that this project will require 2,000 hours. (PMA Initiative Supported: Improved Financial Performance)

### *FMS Administration of the Federal Surety Bond Program*

Background Under certain laws, a person must give the federal government a surety bond obtained through a Treasury-recognized surety company. To become a Treasury-recognized surety, the company must apply to FMS, who reviews the application to ensure they are financially sound. FMS also is responsible for continually reviewing and monitoring the financial status of approved surety companies. Currently, there are approximately 250 surety companies subject to FMS supervision.

Objective To determine whether FMS has adequate internal controls over its administration of the surety bond program to ensure that companies are able to meet their legal and financial responsibilities. We anticipate that this project will require 1,200 hours. (PMA Initiative Supported: Improved Financial Performance)

## Safety, Soundness, and Accessibility of Financial Services

OIG Contact: Alain Dubois, Director of Audit (202) 927-0382

### Issue Area Discussion

One of Treasury's strategic objectives is to provide a flexible legal and regulatory framework that ensures a safe and sound national financial system promoting the growth of financial services, access to financial services, and fair treatment of banking and thrift customers. Two important components of this financial system are the nation's banking and thrift industries with over $10 trillion in combined assets. OCC and OTS are Treasury's two main regulatory agencies responsible for overseeing the two industries.

As of September 2005, OCC was responsible for licensing, regulating, and supervising 1,846 nationally chartered banks and 52 federal branches or agencies of foreign banks. Although only accounting for 25 percent of the nation's commercial banks, OCC supervised national banks held 66 percent ($5.9 trillion) of the nation's total commercial banking assets. OCC has approximately 2,700 employees located throughout the U.S., and funds its operations ($472 million) largely through assessments levied on national banks and from various licensing fees.

OTS charters, regulates and supervise the vast majority of the nation's savings associations, commonly referred to as "thrifts". As of September 2005, OTS supervised 866 (66 percent) of the nations' 1,314 thrifts accounting for $1.4 trillion (82 percent) of total thrift assets. OTS also supervised 486 U.S.-domiciled holding company enterprises with approximately $7.1 trillion in consolidated assets. These enterprises owned 455 thrifts with total assets exceeding $1.1 trillion, or 80 percent of total thrift industry assets, and are engaged in business lines other than banking such as insurance, retailing, and manufacturing. OTS has over 900 employees located in Washington, D.C., and across four regional offices. OTS's fiscal year 2005 operating budget totaled approximately $188 million, which like OCC, is largely funded through assessments.

OCC and OTS share four similar strategic goals: (1) a safe and sound national banking and thrift system; (2) fair access to financial services and fair treatment of customers; (3) a flexible legal and regulatory framework that enables their respective industries to provide a full competitive array of financial services; and (4) an expert, highly motivated, and diverse workforce.

Over the last 3 years the banking and thrift industries have sustained strong growth marked by record earnings, profits, and capitalization. National bank earnings have remained at historically high levels for a decade. Since 2002, national banks have exceeded earnings milestones in every quarter but one. National banks continue to set new records for both return on equity and return on assets. Although the slow economy led to weakness in some areas, including business lending, the contractions in these areas were more than offset by growth elsewhere, notably in mortgage related lending. The thrift industry exhibited similar

financial results with first quarter 2005 earnings marking yet another earnings record with income hitting $4 billion, and over 99 percent of the industry exceeded well-capitalized standards. Equity capital at the end of the first quarter was 9.18 percent of assets, an increase over the prior period that was attributed to the growth in retained earnings and new capital brought into the industry.

Besides financial performance, traditional measures and indicators of safety and soundness have also reflected the industries continued healthy performance. The number of problem national banks has remained relatively level at under 27 since 2001, whereas problem thrifts have largely declined by more than half to 6 thrifts by year-end 2004. The number of failing institutions has also declined since 2002 from a high of 11 to 2 in 2004.

Although the two regulated industries are enjoying prosperity, one must be mindful of a lesson of economic history: good times end, often suddenly, and financial service laws, regulations, and supervisory systems must be ready to anticipate, avoid. and/or respond to crisis. Following all the good news of the last several years are possibly emerging warning signs that regulators and capital markets have raised over safety and soundness concerns. For example, credit risk could be increasing given recent bankruptcy reforms; the explosive growth in home equity loans and non-traditional mortgage products such as interest-only and negative-amortization loans; increasing competition in the commercial and industrial lending sector resulting in less stringent underwriting standards and loan pricing not fully reflecting risk. Potentially affecting smaller institutions holding long-term assets such as mortgages is the prospect of increased interest rate risk in light of the Federal Reserve's recent interest rate increases, as well as other inflationary indicators such as the U.S. dollar's historically low value relative to other industrialized nations' currencies.

As an emerging event in the banking industry, OCC and OTS, with the Federal Reserve and the FDIC, have been working to move towards adoption of a revised framework for capital measurement and standards, referred to as Basel II. Basel II was developed in June 2004 by the Bank for International Settlements' Basel Committee on Banking Supervision and represents a significant change from the international capital standards, referred to as Basel I, which were adopted by the U.S. federal banking regulators in 1988 to assist in determining capital adequacy. We will be following OCC's and OTS's efforts in moving towards adoption of Basel II, and monitoring its impact on safety and soundness.

During 2005, devastating hurricanes impacted banks and thrifts as well as their customers. To ease the regulatory burden, OCC and OTS allowed affected institutions greater discretion on how to conduct business. In coordination with the OIGs of the other federal banking regulators, we plan to review OCC's and OTS's response to such events, focusing on their assessment of additional risks associated with the easing of requirements on institutions.

Besides safety and soundness concerns, reoccurring events over the last 3 years also raises concerns over customers' fair access to financial services and consumer protections. For the first time, Home Mortgage Disclosure Act (HMDA) data includes the race, sex, and income range of borrowers receiving relatively high-rate loans. Recent data disclosed by banks shows that minority borrowers have been far more likely than whites to receive such loans raising concerns over possible discriminatory and predatory lending.

Another area of growing concern has been the reoccurring incidences of customer financial privacy and identity theft. The latest incident involved more than 670,000 customers at four different banks whereby sensitive customer information was allegedly sold by bank employees to an information broker. Other notable incidences include a large bank repeatedly losing customer files via stolen computers, and one large data broker being scammed out of confidential information by identity thieves.

Accordingly, the *OIG Fiscal Year 2006 Plan* attempts to address the major challenges affecting the Department, OCC, and OTS ability to effectively carry out their respective strategic objectives and core mission. The following planned audits were developed taking into account emerging risks, recent industry developments, the President's Management Agenda as applicable, weaknesses previously reported by the OIG, and audit issues reflected in OIG audit plans for the other federal banking regulators (i.e., the FDIC, the Federal Reserve, and the National Credit Union Administration).

Another key OIG concern deals with Treasury's role in ensuring that our nation's financial infrastructure is able to maintain continuity of operations and avoid disruptions due to national disasters or terrorist attacks. The OIG will continue audit oversight of critical infrastructure protection issues as provided under Homeland Security Presidential Directive 7, *Critical Infrastructure Identification, Prioritization and Protection.*

It should be noted one key area of risk dealing with bank and thrift compliance with the BSA and critical infrastructure are provided in another section of the audit plan dealing with Terrorist Financing, Money Laundering, and Foreign Assets Control.

## In Progress and Planned Fiscal Year 2006 Audit Projects

### *Material Loss Reviews of Failed Financial Institutions*

Background The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) requires our office to review a failed financial institution supervised by OCC or OTS if the loss to a deposit insurance fund exceeds $25 million or 2 percent of the institution's total assets.

Objective In the event an OCC- or OTS-regulated institution fails during fiscal year 2006 that results in a material loss, we will conduct an MLR to: (1) determine the cause(s) of the failure; (2) assess the supervision exercised over the institution, including the use of the Prompt Corrective Action provisions of FDICIA; and (3) as applicable, make recommendations to prevent similar losses in the future. A material loss review typically requires 5,000 staff hours.

### *OCC/OTS Supervisory Response to the 2005 Hurricane Season*

Objective To determine the regulators': (1) preparedness for the recent hurricanes with respect to financial institutions and their customers and (2) management of risk during periods where requirements are relaxed for impacted institutions. We anticipate that this project will require 1,600 hours.

### *OCC/OTS Examiner Coverage of Non-Conventional Home Mortgage Loan Risk*

Objective To (1) determine whether regulators give adequate weight to non-conventional loans in assessing the related risk to the institution's loan portfolio and in assessing an institution's CAMELS rating[5]; (2) ensure that examination procedures provide a level of testing of non-conventional loans that is commensurate with the adverse effects that higher interest rates could have on the loan portfolio, and consequently on the institution's safety and soundness; and (3) determine whether the examiners ensure that the institution's Allowance for Loan and Lease Losses appropriately reflects the higher risks associated with certain non-conventional loans. We plan to perform separate audits at OCC and OTS, with work commencing at OTS during fiscal year 2006. In addition, we will coordinate with any on-going GAO reviews of this area before initiating our work. We anticipate each audit will require 1,600 hours.

### *OCC Use of Home Mortgage Disclosure Act Data*

Objective To determine if OCC (1) was making effective use of HMDA data; and (2) taking appropriate action to address possible discriminatory lending practices based on HMDA data. We anticipate that this audit will require 2,000 hours.

[5] Financial institution regulators use the Uniform Financial Institutions Rating System to evaluate an institution's performance. CAMELS is an acronym for the performance rating components: Capital adequacy, Asset quality, Management administration, Earnings, Liquidity, and Sensitivity to market risk. Numerical values range from 1 to 5, with 1 being the highest rating and 5 representing the worst rated banks.

### *OCC Examinations of Mega Banks*

Objective Assess the effectiveness and adequacy of OCC's examinations of banks with assets exceeding $100 billion relative to OCC's four-pronged strategic goals. This would include areas such as staffing, subject matter expertise, aggregate and unit risk assessments, compliance, fraud, examiner rotation, and reliance placed on internal/external auditors work. We anticipate that this audit will require 2,400 hours.

## Audit Projects Under Consideration for Future OIG Annual Plans

### *OCC Examinations Covering Bank's Non-Banking Subsidiaries*

Objective To assess the adequacy of OCC examinations of bank operating subsidiaries engaged in non-bank activities such as securities, insurance, and similar financial services authorized under the Gramm-Bliley-Leach Act of 1999 (GBLA). As part of this project, we will follow up on the corrective actions taken in response to our prior audit report OIG-00-098, *OCC Supervision of Banks Selling Insurance.* We anticipate that this project will require 2,000 hours.

### *Protecting the Financial Services Sector Critical Infrastructure*

Objective To determine the effectiveness of the coordination efforts by Treasury, as the sector-specific agency for the banking and finance sector, with private sector entities to protect this portion of the nation's critical infrastructure. Also, to determine the effectiveness of the Financial Service's Information Sharing Analysis Centers in establishing open communication and information sharing between the various entities in the financial services sector with Treasury and the federal government. We anticipate this project will require 1,600 hours.

### *Impact of Functional Regulation on OCC/OTS Consumer Compliance Examinations*

Objective To assess whether OCC's and OTS's consumer compliance examinations performed since the passage of GBLA have adequately taken into consideration the risks of reliance on other functional regulators. We anticipate that this audit will require 2,000 hours at each regulator.

### *OCC Review and Assessment of Risks Taken On By Banks Engaging In Tax Shelter Transactions*

Background In recent years, IRS significantly increased its efforts to fight abusive tax shelters used by numerous individuals and corporations to substantially reduce their tax liability. Those engaged in abusive tax shelters can incurred substantial financial penalties and negative publicly. For example, in August 2005, a major accounting firm that promoted and sold tax shelters admitted to criminal wrongdoing and agreed to pay $456 million in fines, restitution, and penalties as part of an agreement to defer prosecution of the firm. Some of the other steps taken by IRS include: (1) identifying a list of published transactions as tax avoidance transactions; (2) requiring disclosure of the use of tax shelter transactions by their promoters, sellers, and users to IRS; and (3) increasing penalties related to abusive tax shelters.

Objective To determine (1) if OCC is reviewing banks' tax shelter activity, whether as providers of tax shelters to customers or as users; and (2) how OCC evaluates the risk taken on by banks that engage in such tax shelter activity. Before undertaking this project, we plan to develop indicators as to the extent banks may be engaged in tax shelter activity. We anticipate that this audit will require 2,000 hours.

### *OTS Examinations of Holding Companies*

Objective Assess the effectiveness of OTS holding company examination policies, procedures, and practices. We anticipate that this audit will require 2,000 hours.

### *OCC Examination Coverage of Privacy and Identity Risks When National Banks Outsource Functions to Third Party Service Providers*

Objective To determine if OCC examinations provide adequate coverage of banks' third party service providers when they are provided customer financial information subject to the Financial Privacy Act. We anticipate this audit will require 2,000 hours.

### *OCC/OTS Examinations Coverage of Identity Theft Risk*

Objective Determine the effectiveness and adequacy of examinations to ensure banks and thrifts have sufficient controls to prevent or mitigate identity theft. We anticipate that 1,600 hours will be required for this audit at each regulator.

### *OCC/OTS Examiner Safeguards Over Bank Sensitive Information*

Objective To determine whether examiners adhere to safeguarding polices and procedures over financial institutions and or customer bank sensitive information. We anticipate that this audit will require 2,000 hours at each regulator.

## Revenue Collection and Industry Regulation

OIG Contact: Donald Benson, Director of Audit (617) 223-8640

### Issue Area Discussion

Treasury annually collects more than $2 trillion in revenue and processes more than 220 million tax-related documents. Most of Treasury's revenue collection is accomplished through the IRS. However, Treasury also collects significant revenue through TTB and oversees certain customs revenue functions. TTB is the primary focus of our office in the issue area of revenue collection and industry regulation.

Alcohol and Tobacco Revenue and Regulation

TTB is responsible for the regulation of the alcohol and tobacco industries, and the collection of alcohol, tobacco, firearms and ammunition excise taxes. TTB ensures that alcohol and tobacco beverages are properly labeled, advertised, and marketed; facilitates the importation and exportation of alcohol beverages and non-beverage products; promotes tax compliance, and collects excise tax revenue. TTB administers and enforces: (1) the Internal Revenue Code pertaining to the excise taxation and authorized operations of alcohol and tobacco producers and related industries; (2) the Federal Alcohol Administration Act; (3) the Alcohol Beverage Labeling Act; and (4) the Webb-Kenyon Act, which prohibits the shipment of alcoholic beverages into a state in violation of the state's laws.

Collecting the Revenue In fiscal year 2006, TTB expects to receive and review more than 400,000 tax returns and operational reports, 100,000 label applications, and more than 4,000 applications for permits to enter the alcohol and tobacco industries. TTB collects about $15 billion annually in excise taxes from the alcohol, tobacco, firearms, and ammunition industries, as well as permit and license fees.

One of the taxes TTB has collected over the years is known as the Special Occupational Tax (SOT). This tax has been collected from those businesses engaged in alcohol and tobacco industries at the manufacturing, wholesale/importing, and retailing levels (excluding tobacco retailers). The American Job Creations Act of 2004 (P.L. 108-357) suspends this tax for certain businesses for the 3-year period July 1, 2005, through June 30, 2008. SOT will no longer be required from producers, wholesalers, importers, and retailers of alcohol beverages, or from manufacturers of non-beverage products. SOT will continue to be due from tax-free alcohol users and specially denatured alcohol users and dealers, as well as tobacco products manufacturers and tobacco export warehouse proprietors.

TTB has recently focused on improving its electronic government initiatives to make better use of its limited resources and expedite tax collections and service to the industry. As a result, TTB has established a number of new initiatives. These include

allowing the electronic filing of tax returns, reports, applications, claims, and other related information. TTB has also been encouraging voluntary compliance by taxpayers through an approach that attempts to balance a field audit and investigations program that uses analysis to target non-compliant industry members. TTB believes that successful analysis, evaluation, and monitoring will allow for more effective and efficient use of limited resources. TTB's Federal Excise Tax sampling strategy is to target taxpayers based on their size, use high-risk assessment, and apply statistical sampling techniques. The large taxpayers, about 400 which account for 98 percent of the tax collections, are to be audited every 4 to 5 years. The remaining tax payers, which account for the other 5 percent of the tax collections, are to be audited on the basis of risk and random sampling.

Protecting the Public Although collecting revenue is a large part of TTB's mission, an equally important role for TTB is to protect the public by ensuring that alcoholic beverages are produced, labeled, advertised, and marketed in accordance with Federal law. TTB reviews labels and formulas for domestic and imported beverage alcohol products and maintains public access to Certificates of Label Approvals (COLA). COLAs are required for every alcoholic beverage and TTB receives about 100,000 applications for COLA per year. TTB laboratories test alcoholic products to ensure integrity. TTB further ensures that only qualified applicants enter the regulated alcohol and tobacco industries by requiring applicants to apply for and receive permits.

More recently, TTB has notified the alcoholic beverage industry that aspects of the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (P.L. 107-188) may affect members of the alcohol beverage industry. The Act, in part, authorizes the Secretary of Health and Human Services, acting through the Food and Drug Administration, to issue regulations to protect the Nation's food and drug supplies against bioterrorism and food-borne illness. Alcoholic beverages are classified as a food item under the Act. Specifically, the Act requires registration of food facilities, prior notification of importation, establishment and maintenance of records that identify immediate non-transport sources of the items and subsequent non-transport recipients, and administrative detention of food by the Food and Drug Administration, if credible evidence points toward a serious threat of illness or death.

Organization TTB has authority for 559 FTEs. Approximately 150 employees are in Washington, D.C., and the remainder in field locations. In addition to its headquarters operation, TTB has an Office of Field Operations comprised of five units: (1) National Revenue Center (NRC) in Cincinnati, Ohio; (2) Risk Management Staff; (3) Trade Investigations Division (7 field offices); (4) Tax Audit Division (10 field offices); and (5) Tobacco Enforcement Programs Division. TTB also has alcohol and tobacco laboratories in Ammendale, Maryland, and Walnut Creek, California.

Potential Risks As in prior years, the major risk in this issue area is the failure by industry members to pay all taxes due, coupled with the concurrent failure of TTB to detect this underpayment, which can result in significant dollars not being collected. Also, failure to comply with industry regulations can result in unsafe or deceptively advertised products reaching the marketplace.

Prior Audit Work We have completed only one audit of TTB programs in the last 4 years. Our most recent audit report was issued in February 2004 and was a follow-up to prior audits that found significant vulnerabilities in the controls over excise tax waivers associated with exported alcohol and tobacco products. The prior audits, conducted in fiscal years 1999 and 2000 when TTB programs were part of the former Bureau of Alcohol, Tobacco and Firearms, found missing documentary support at the NRC for these waivers that raised questions about whether the products were actually exported and the waivers appropriate. The waivers provided tax exemptions in the hundreds of millions of dollars. Despite improvements in controls, the 2004 follow-up audit found continuing problems with documentation not being available at the NRC to support the exportation of these products. In response, TTB has revised the process. Now, rather than having all supporting documentation submitted to NRC for administrative review, TTB requires the manufacturers and importers to maintain documentary support at their premises for review by the Tax Audit Division during on-site audits.

Our most recent audit work in the area of industry regulation was conducted in the years 1999 through 2001 and found control weaknesses in a number of areas. For example, a program to sample beverages for product compliance lacked clear and measurable goals and did not conduct statistically valid sampling that would allow the bureau to make better use of the results. An audit of the alcohol and tobacco laboratory found many of the test results were unused by requesting managers. Another audit found inconsistent handling of applications for approval of product labels.

Customs Revenue Functions

The Homeland Security Act of 2002 (HSA) transferred the former U.S. Customs Service from Treasury to DHS in March 2003. However, as provided by HSA, Treasury retained the sole authority to approve any regulations concerning import quotas or trade bans, user fees, marking, labeling, copyright and trademark enforcement, and the completion of entry or substance of entry summary including duty assessment and collection, classification, valuation, application of the U.S. Harmonized Tariff Schedules, eligibility or requirements for preferential trade programs, and the establishment of related recordkeeping requirements.

## In Progress and Planned Fiscal Year 2006 Audit Projects

### *TTB Tax Audit Division Targeting Program (In Progress)*

Objective To determine the effectiveness of the Tax Audit Division's targeting and auditing programs designed to assess excise tax and regulatory compliance by industry members. The audit will review the risk factors the Tax Audit Division considers in selecting its audit targets. We anticipate that this project will require 1,600 hours to complete in fiscal year 2006. (PMA Initiative Supported: Improved Financial Performance)

### *TTB Approval of Permits*

Objective To determine whether TTB is denying prohibited or ineligible persons from entry into the regulated industries. We estimate this audit will require 2,000 hours.

### *TTB Collection Procedures*

Objective To determine whether TTB has effective collection procedures for delinquent accounts, and is using these procedures to ensure prompt payment. We estimate this project will require 1,200 hours. (PMA Initiative Supported: Improved Financial Performance)

## Audit Projects Under Consideration for Future OIG Annual Plans

### *TTB Surety Bonds to Cover Excise Tax Liability*

Objective To determine whether TTB has obtained sufficient bond amounts to protect against loss of excise tax revenue. We estimate this audit will require 800 hours. (PMA Initiative Supported: Improved Financial Performance)

### *Alcohol and Tobacco Tax-Free Export Control (Follow-Up)*

Objective To determine if TTB's Tax Audit Division fully implemented audit procedures that ensure manufacturers of alcohol and tobacco products have documentary proof to support the exportation (and tax-free status) of these products. We estimate this audit will require 1,200 hours. (PMA Initiative Supported: Improved Financial Management)

### *Manufacturer Non-Beverage Drawback Program*

Objective To determine whether TTB is adequately protecting excise tax revenue through non-beverage product manufacturers and their claims for drawback (refund). We estimate this audit will require 1,600 hours. (PMA Initiative Supported: Improved Financial Performance)

### *TTB Approval to Share Winemaking Facilities and Obtain Wine Tax Credits*

Objective To determine if TTB has adequate controls to ensure that applicants for these arrangements are legitimate, qualified, and eligible for wine credits. We estimate this audit will require 1,600 hours. (PMA Initiative Supported: Improved Financial Management)

### *TTB Security Controls Over Taxpayer Data*

Objective To determine if TTB has ensured that adequate security controls exist over sensitive taxpayer data. As part of this review, we plan to determine if TTB has adequate controls to ensure employees and contractors with access to tax return data have up-to-date background investigations. We estimate this audit will require 2,000 hours.

### *Alcohol and Tobacco Laboratories*

Objective To determine if TTB alcohol and tobacco laboratories providing timely and responsive service to their customers. We estimate this audit will require 2,000 hours.

### *TTB Investigative Activities*

Objective To determine if the Trade Investigation Division has established priorities, how they were established, and how the Division's results are measured. We estimate this audit will require 1,600 hours.

### *TTB On-Line Certificate of Label Approval*

Objective To determine how effectively COLA On-line is working and if it is meeting user needs. We anticipate that this project will require 2,000 hours.

### *TTB Designations of American Viticultural Areas*

Objective To determine if adequate program controls are in place for TTB's processing and approval of petitions for the American Viticultural Area designation. We estimate this audit will require 2,000 hours.

## Bill and Coin Manufacturing, Marketing, and Distribution Operations

OIG Contact: Thomas Byrnes, Director of Audit (202) 927-5904

### Issue Area Discussion

This issue area focuses on the programs and operations of BEP and the Mint.

- BEP produces U.S. currency and many other security documents issued by the federal government. Its other activities include engraving plates and dies; manufacturing certain inks used to print security products; purchasing materials, supplies and equipment; and storing and delivering products in accordance with requirements of customers. In addition, BEP provides technical assistance and advice to other federal agencies in the design and production of documents, which, because of their innate value or other characteristics, require counterfeit deterrence. The bureau audits cash destruction and unfit currency operations at Federal Reserve Banks, and it is responsible for the accountability and destruction of internally generated security waste products. BEP also processes claims for the redemption of mutilated paper currency. BEP's production facilities are located in Washington, D.C., and Fort Worth, Texas.

  In 2004, BEP delivered 8.7 billion Federal Reserve Notes to the Federal Reserve System and 6.1 billion postage stamps to the U.S. Postal Service. This resulted in revenue of $525 million and an excess of expenses over revenue of $28.8 million. When setting currency prices for 2004, the BEP chose to fund the additional costs incurred to prepare for the production of next generation currency through working capital and productivity improvements rather than price increases.

- The Mint's principal mission is to produce the nation's circulation coinage for trade and commerce. Along with the Mint's headquarters in Washington, D.C., there are four production facilities (Philadelphia, West Point, Denver, and San Francisco) and the bullion depository at Fort Knox. During fiscal year 2006, the Mint expects to manufacture approximately 15.7 billion coins for the Federal Reserve System.

  In fiscal year 1996, the Mint Public Enterprise Fund (PEF) was created to enable the Mint to operate as a revolving fund. All receipts deposited into the PEF are available for Mint operations and the cost of safeguarding government assets in the Mint's custody without fiscal year limitations. Also, a portion of the fund's profits is retained for start-up operations in subsequent fiscal periods and to improve Mint facilities. Excess profits, as determined by the Secretary of the Treasury, are deposited into the Treasury General Fund. For fiscal year 2005, the Mint transferred $775 million to the Treasury General Fund. Even though the Mint is not dependent on appropriated funds, its spending authority is approved each fiscal year.

Weaknesses/Potential Risks Because their operations are financed through revolving funds, BEP and the Mint are subject to less Congressional oversight scrutiny through the federal

budget process than appropriated agencies. The PEF legislation also accorded the Mint with greater flexibilities in conducting its procurement and personnel activities. For example, the Mint is exempt from following the Federal Acquisition Regulation. In a 2002 audit, we noted weaknesses in the Mint's use of the PEF authority to acquire leased space for its headquarters operations, including acquiring space in excess of its needs. In 2001, the Department reviewed the Mint's procurement operations, also noting significant weaknesses. Continued prudent use of its PEF authority flexibilities is necessary to ensure a maximum return to the Treasury General Fund from the Mint's operations.

Two recent OIG audits noted various weaknesses in BEP security matters. In fiscal year 2003, we reported that among other things, employees did not always have the level of security clearance commensurate with their work assignments (OIG-03-004). In fiscal year 2004, we reported that the dual reporting structure for security operations at its two currency facilities have resulted in inconsistent policies and practices. We also reported weaknesses with BEP police officer training and firearms re-qualifications and security system (OIG-04-025). In addition, inquiries into the recent loss of currency at one facility have identified a number of internal control weaknesses.

## In Progress and Planned Fiscal Year 2006 Audit Projects

### *BEP Internal Controls Over Currency Operations (In Progress)*

Background In October 2004, BEP uncovered an employee theft at the Western Currency Facility (WCF). A joint Treasury OIG and U.S. Secret Service investigation identified that the employee allegedly removed at least $5,000 of $50 Federal Reserve Notes slated for destruction. The investigation also disclosed that the employee had been stealing currency, in the form of uncut notes, from BEP since 1998. In July 2005, the employee pled guilty to one count of interstate transportation of stolen property for the $30,000 of currency that he admitted to stealing from the WCF.

Objective To determine (1) the internal control failures that allowed the theft to be perpetrated and (2) whether BEP has enhanced internal controls to prevent and detect the occurrence theft in the future. Our audit will focus on the WCF, and will be performed jointly with the Office of Investigations. We anticipate that this project will require 2,000 to complete during fiscal year 2006.

### *BEP Pricing of Currency (In Progress)*

Objective To evaluate BEP's methodology for pricing its currency and other products. We anticipate that 100 hours will be needed to complete this audit during fiscal year 2006. (PMA Initiative Supported: Improved Financial Performance).

### *Mint Competitive Sourcing Study for the Production of Coin Blanks (In Progress)*

Background In October 2003, the Mint publicly announced that it would undertake a standard OMB Circular A-76 study involving the manufacturing processes of blanking, annealing, and upsetting (BAU) of coin blanks. We initiated an audit of this A-76 study pursuant to a requirement in House Report 108-401 to the Consolidated Appropriations Act, 2004. In October 2004, we issued an Interim Audit Report on the Mint's progress at that point. We reported that (1) the Mint had missed certain critical intermediate steps and milestone dates for completing the BAU competition study and accordingly, did not complete the study within the 12-month timeframe required by the Circular; (2) draft performance work statements prepared by the Mint included inconsistent BAU manufacturing specifications and inspection criteria; (3) the Mint did not prepare the required justification for its decisions regarding Government Furnished Property to be offered to potential contractors/offerors (bidders); and (4) potential conflicts of interest by Mint officials and staff involved in the Mint's A-76 process existed. We made a number of recommendations to address these manners which the Mint agreed to implement.[6]

Objective To determine whether the Mint is following OMB Circular A-76 in its competitive sourcing study involving the preparation of ready-to-coin planchets. We anticipate that this project will require 400 hours to complete in fiscal year 2006. (PMA Initiative Supported: Competitive Sourcing)

### *Mint Procurement Operations*

Objective To determine whether the Mint follows logical and prudent business practices when procuring goods and services. We anticipate that this project will require 2,000 hours. (PMA Initiative Supported: Improved Financial Performance)

[6] *MANUFACTURING OPERATIONS: Mint's Standard A-76 Competition Study for the Preparation of Ready-to-Coin Planchets Is Delayed and Requires Significant Actions to Complete* (OIG-05-002; October 29, 2004).

### *Mint Production Scheduling*

Objective To determine whether the Mint identifies its production requirements to meet customer needs in an effective manner. As part of this project, we plan to follow up on our prior report OIG-02-066, *MANUFACTURING OPERATIONS: The Mint Suspends Its FY2002 Planned Production of Golden Dollar Coins*. We anticipate that this project will require 2,000 hours. (PMA Initiative Supported: Improved Financial Performance)

## Audit Projects Under Consideration for Future OIG Annual Plans

### *BEP Controls Over Security (Follow-Up)*

Objective To determine what actions BEP has taken in response to our 2004 report to ensure consistent security, training, firearms re-qualification policies are followed at its two production facilities. We anticipate that this project will require 800 hours.

### *BEP Controls Over Background Investigations (Follow-Up)*

Objective To determine if BEP has implemented recommendations from our October 2002 report. We anticipate that this project will require 800 hours.

### *Mint Consolidated Information System*

Background Mint's Consolidated Information System (COINS) integrates the Mint's financial, manufacturing, and marketing management systems. Its primary objective is to have one-time capture of information at its source. It was expected that the system would reduce the time the financial staff spent reconciling the Mint's accounts and help control and reduce production and inventory costs. The last time the OIG audited COINS was during fiscal year 1999, in its early implementation phase.

Objective To determine if COINS is meeting user needs. We anticipate that this project will require 2,000 hours. (PMA Initiative Supported: Budget and Performance Integration)

### *BEP Capital Investment Program*

Objective To determine whether BEP's capital investment program ensures that all capital needs are being identified and sufficient funds are being allocated to meet current and future capital needs. We estimate this audit will require 2,000 hours.

## Domestic and International Assistance Programs

OIG Contact: Donald Kassel, Director of Audit (202) 927-6512

### Issue Area Discussion

Treasury plays an important role in a number of domestic and international assistance programs that have a significant impact on the economy. Domestic programs range from those that enhance the availability of financial education and of credit, investment capital, and financial services to communities around the U.S., to programs that assist in coping with the after-effects of the September 11th terrorist attacks. International programs address the role of international financial institutions and promote economic stability and growth in other countries.

Domestic Assistance Treasury provides assistance to promote economic growth and raise the standard of living in distressed communities in the U.S. by increasing the availability of business capital and financial services. The CDFI Fund, for example, works to increase economic growth and create jobs in distressed urban and rural communities by providing an array of community development financial services through CDFIs and Community Development Entities. The New Markets Tax Credit (NMTC) Program, one of the more recent initiatives in this arena, provides for a total of $15 billion in tax incentives to help spur investments in low-income communities. During the first three award cycles, the CDFI Fund has designated 170 CDEs and made available $8 billion in tax credits. Other CDFI Fund programs during fiscal year 2005 provided 167 awards totaling approximately $49 million. The CDFI Fund announced that for the 2006 award cycle, extensions to submit program applications would be granted on a case-by-case basis to organizations located in areas declared as major disasters after July 15, 2005.

International Assistance A prosperous world economy serves the U.S. in many ways, including creating markets for U.S. goods and services, and promoting stability and cooperation among nations. Treasury focuses on preventing crises and minimizing the impact of those that occur. International financial institutions (IFI), such as the International Monetary Fund and the multilateral development banks (MDB), such as the World Bank, play a key role in enabling global economic growth and stability.

Treasury's OIA oversees U.S. interests in IFIs. The U.S. participates in the IFIs to support poverty reduction, private sector development, the transition to market economies, and sustainable economic growth and development; and thereby to advance U.S. economic, political, and commercial interests abroad. Treasury has the responsibility for ensuring that these institutions appropriately use the resources the U.S. contributes, and for this reason systematically reviews how the IFIs use the money the U.S. government has invested in them. Improving the effectiveness of the MDBs has been a high priority for the Administration. Accordingly, Treasury has been pursuing a reform agenda that emphasizes raising living standards and reducing poverty; measuring the results of U.S.

contributions; and strengthening efforts to stimulate private-sector investment, promote good government and the rule of law, and fight corruption.

Treasury also plays a key role in the financial and economic reconstruction of Iraq, through activities such as uncovering and transferring to the Development Fund for Iraq the assets controlled by the former Iraqi regime's officials, stabilizing the new currency, and restoring and revitalizing the banking sector.

## In Progress and Planned Fiscal Year 2006 Audit Projects

### *Single Audit Act Activities (On-going)*

Objective To ensure action is taken on findings related to Treasury programs identified by Single Audits of state and local governments. We anticipate this project will require 200 hours. (PMA Initiative Supported: Improved Financial Management)

### *Treasury Activities for Iraq Reconstruction (In Progress)*

Objective To determine the adequacy of the financial controls and reporting in carrying out Treasury programs for Iraqi reconstruction programs. We anticipate this project will require 160 hours to complete during fiscal year 2006. (PMA Initiative Supported: Improved Financial Management).

### *CDFI Fund Award Process and Compliance Monitoring of the New Market Tax Credit Program*

Background The legislation authorizing the NMTC program requires GAO to report to Congress on the program by January 31, 2004, 2007, and 2010. In January 2004, GAO reported that, according to CDFI Fund officials, not many NMTC projects were started by the end of 2003, and that they were unlikely to know the status of projects until early 2005. GAO also reported that the CDFI Fund and IRS have made progress in identifying data to use in monitoring NMTC compliance with allocation agreements and tax laws, respectively, and in developing and implementing systems to collect these data. However, many details remain to be settled on how these data will actually be used to monitor compliance. Additionally, in terms of evaluating the NMTC program, the CDFI Fund has decided to contract for an evaluation. GAO recommended that the CDFI Fund and IRS

develop plans, including milestones, to ensure that compliance-monitoring processes are in place when needed.[7]

Objective To determine the effectiveness of the NMTC Program's application and allocation procedures, allocation of shares of available tax credits, and monitoring of compliance with the allocation agreements. As part of this project, we plan to assess the CDFI Fund's actions to address the prior GAO recommendations. We anticipate this project will require 2,000 hours.

## Audit Projects Under Consideration for Future OIG Annual Plans

### *CDFI Fund Post Award Administration (Follow-Up)*

Objective To determine the effectiveness of the CDFI Fund's post-award administration of Bank Enterprise Award, Financial Assistance, Technical Assistance, and Native American Communities programs to ensure funds are used for the intended purpose and program objectives are achieved. The audit will follow up on the findings and recommendations in our prior report *Community Development Financial Institutions Fund Post-Award Administration Process* (OIG-02-122). We anticipate that this project will require 1,200 hours. (PMA Initiative Supported: Budget and Performance Integration)

### *OIA Oversight of Multilateral Development Banks' Anti-Corruption Programs*

Objective To determine the effectiveness of OIA's efforts to promote and monitor anti-corruption programs at MDBs. We anticipate that this project will require 2,000 hours.

### *OIA Use of Funds for Tropical Forest Conservation Act Activities*

Background The purpose of the Tropical Forest Conservation Act (TFCA) program is to facilitate greater protection of tropical forests by providing for the alleviation of debt in countries where tropical forests are located, thus allowing the use of additional resources to protect these critical resources and reduce economic pressures that have led to deforestation. Assistance is provided to selected countries through negotiated agreements in the form of debt reduction, debt swap, or debt buy back. For fiscal year 2003, this assistance ($20 million for the fiscal year) was initially allocated to the U.S. Agency for International Development (USAID) and transferred to Treasury. Once the agreements with the selected countries are negotiated, Treasury obligates the subsidy cost of the debt reduction for use by USAID or the U.S. Department of Agriculture. This

[7] *NEW MARKETS TAX CREDIT PROGRAM: Progress Made in Implementation, but Further Actions Needed to Monitor Compliance*; GAO-04-326.

allows for the "re-direction" of debt payments by the beneficiary country for tropical forest conservation. P.L. 108-323 reauthorized TFCA through fiscal year 2007, with $20 million authorized for fiscal year 2005. The reauthorization also included a provision authorizing $200,000 each year to carry out audits and evaluations of the TFCA programs.

Objective To determine whether Treasury has administered its responsibilities for TFCA funds in accordance with the Act. As part of this project, we will review plans by OIA to establish a mechanism with USAID to fund independent programs audits of TFCA activities. We anticipate that this project will require 800 hours.

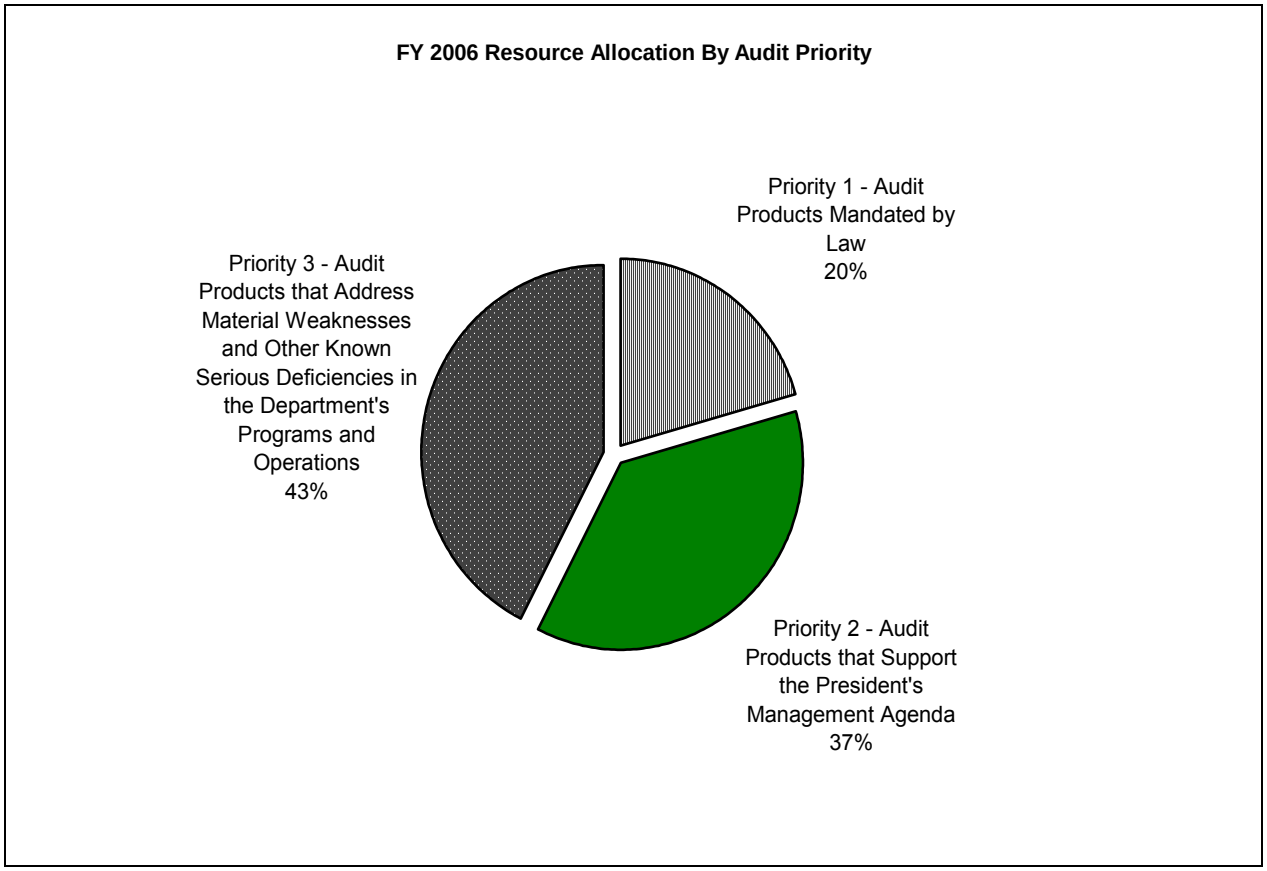
***Treasury's Implementation of the Terrorism Risk Insurance Program***

Objective To determine if the Department's financial controls for processing claims under this re-insurance program (if extended by the Congress after the current sunset of December 31, 2005) are appropriate. We anticipate that this project will require 600 hours.

## APPENDIX A:

## OFFICE OF AUDIT FISCAL YEAR 2006 RESOURCE ALLOCATION

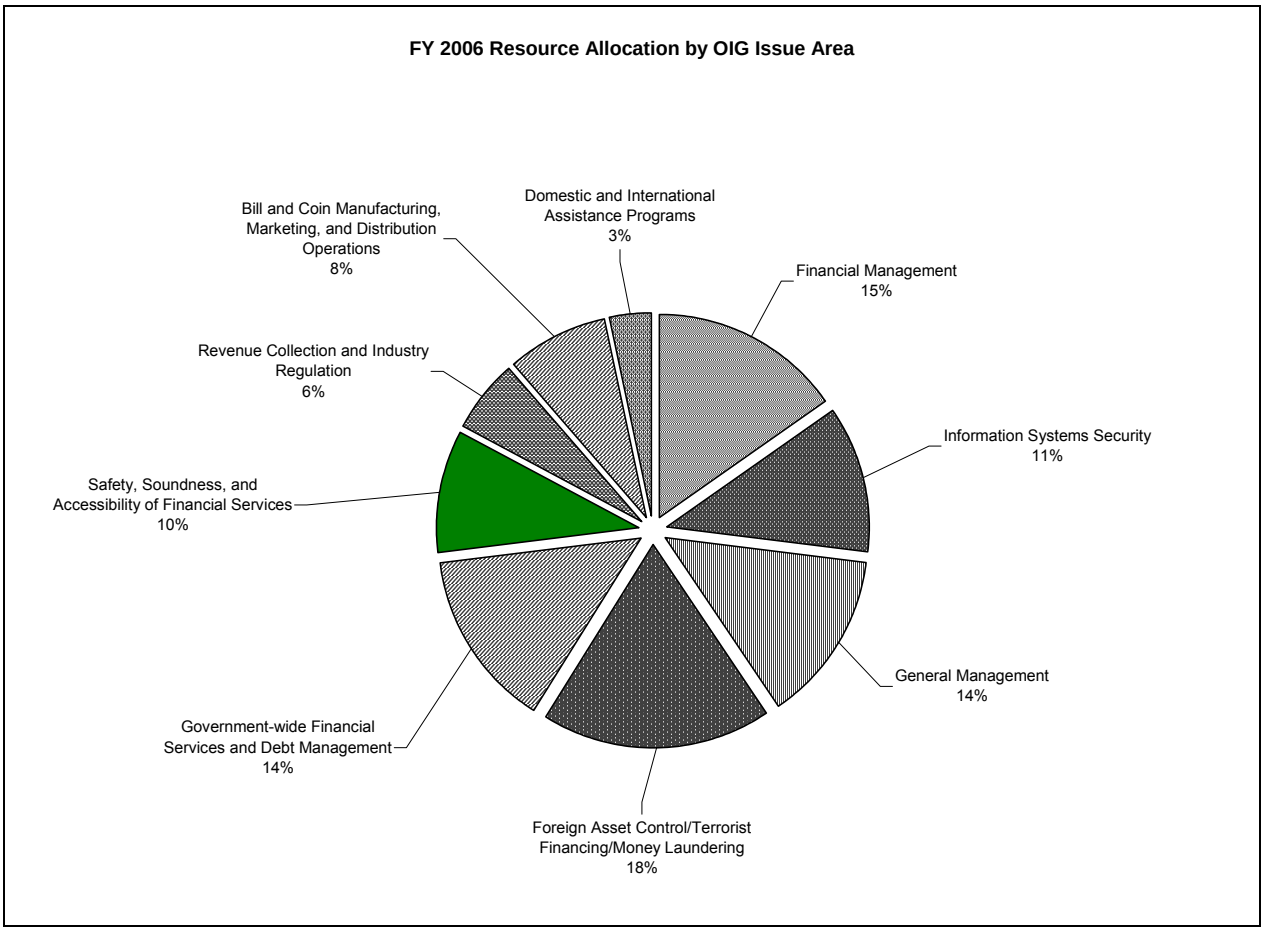
Our planned OIG audit staff resource utilization by the three priority areas for fiscal year 2006 is shown in the following chart:



# APPENDIX A:

# OFFICE OF AUDIT FISCAL YEAR 2006 RESOURCE ALLOCATION

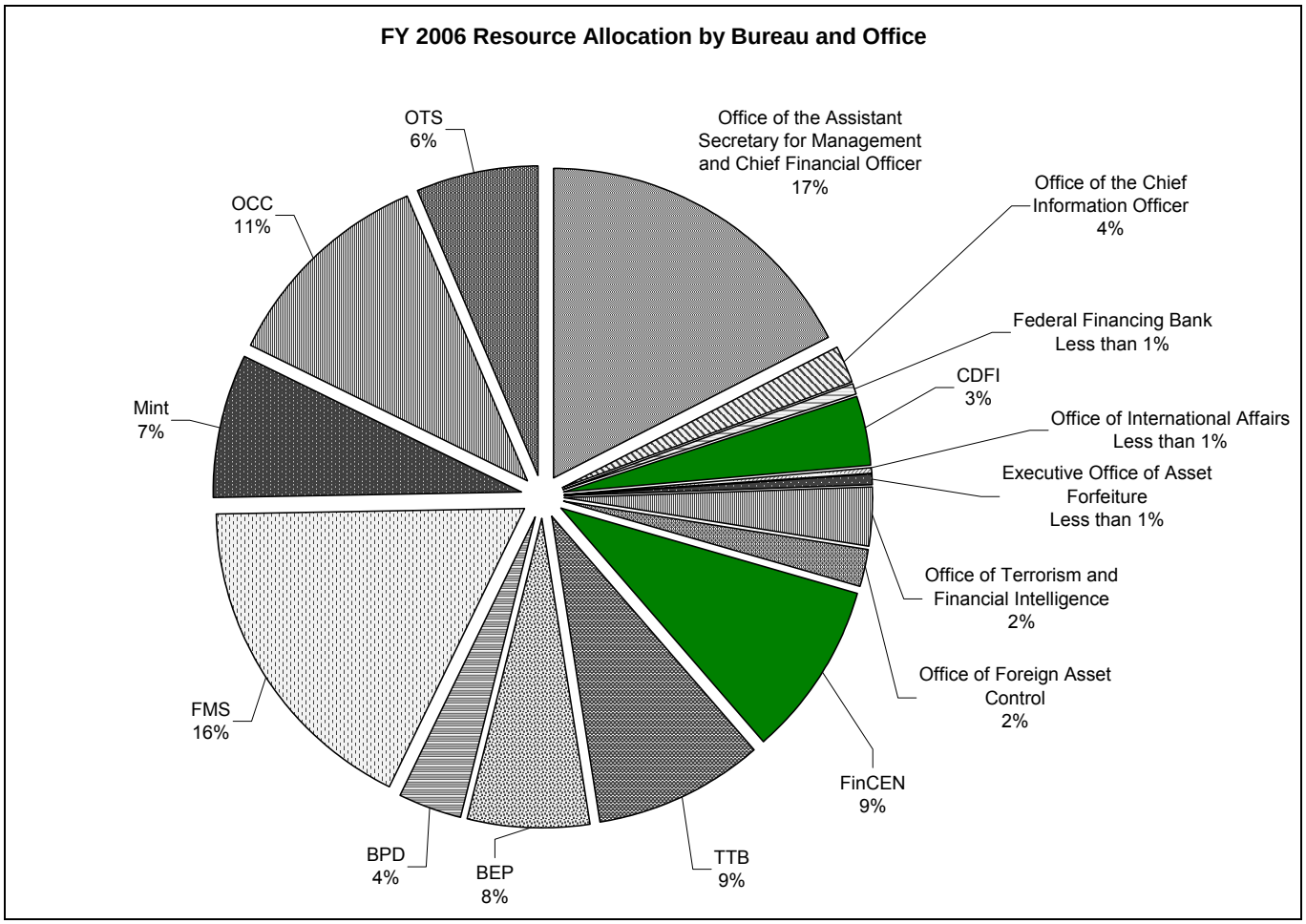
Our planned OIG audit staff resource allocation by OIG Issue Area is depicted below:



# APPENDIX A:

## OFFICE OF AUDIT FISCAL YEAR 2006 RESOURCE ALLOCATION

Our planned OIG audit staff allocation by Treasury bureau and headquarters operational component is depicted in the following chart:



# APPENDIX B:
# INDEX OF FISCAL YEAR 2006 IN PROGRESS AND PLANNED NEW AUDITS BY ISSUE AREA

***Treasury General Management and Infrastructure Support***

**Financial Management**


Audits of Financial Statements for the Department and Financial Statements or Schedules for Component Entities and Activities (In Progress) ..... 26
Treasury's Working Capital Fund ..... 27


**Information Systems Security**


Fiscal Year 2006 FISMA Independent Evaluation – Unclassified Systems ..... 29
Fiscal Year 2006 FISMA Independent Evaluation – National Security Systems ..... 30
Network and System Vulnerabilities Assessment ..... 30
Penetration Testing ..... 30
Disaster Recovery Exercises (On-going) ..... 30
System Reviews and Methodologies Used to Identify Systems ..... 30


**General Management**


Contract Audit Oversight Activities (On-going) ..... 36
Treasury Procurements on Behalf of the Department of Defense (In Progress) ..... 36
Treasury Building and Annex Repair and Restoration Program (In Progress) ..... 37
Treasury Communications Enterprise Investment (In Progress) ..... 37
Treasury Audit Follow-up System ..... 37
BPD Administrative Resource Center User Fees Collection and Reimbursable Agreements ..... 38
Treasury Information Technology Project Planning and Execution ..... 38
Treasury Workers' Compensation Program ..... 38


***Terrorist Financing, Money Laundering, and Foreign Assets Control***


Treasury's Administration of the BSA (In Progress) ..... 47
FinCEN Analysis and Dissemination of BSA and Criminal Data (In Progress) ..... 47
OCC BSA and USA PATRIOT Act Compliance Examinations and Enforcement Actions (In Progress) ..... 47
OFAC Monitoring of Compliance Examinations by Financial Institution Regulators for Sanction Programs (In Progress) ..... 48
FinCEN's Background Checks Over Individuals Handling Sensitive Bank Secrecy Act Reports ..... 48
OTS BSA Compliance Examinations ..... 48
Financial Institution Filing of Reports to OFAC and FinCEN on Blocked Transactions ..... 48
FinCEN Memoranda of Understanding with Financial Institution Regulators ..... 49
Follow-up Audit of Treasury Controls Over Intelligence Sharing ..... 49

# APPENDIX B:
# INDEX OF FISCAL YEAR 2006 IN PROGRESS AND PLANNED NEW AUDITS BY ISSUE AREA

***Government-wide Financial Services and Debt Management***


FMS Special Procedures Addressing Federal Check Disbursements To The Gulf Coast Region As A Result of Hurricane Katrina ..... 53
FMS Controls Over Disbursements ..... 53
FMS Acquisition of Banking Services (Follow-Up) ..... 54
FMS Implementation of The Internet Payment Platform ..... 54
Survey of Treasury's Debt Issuance Process ..... 54


***Safety, Soundness, and Accessibility of Financial Services***


Material Loss Reviews of Failed Financial Institutions ..... 59
OCC/OTS Supervisory Response to the 2005 Hurricane Season ..... 60
OCC/OTS Examiner Coverage of Non-Conventional Home Mortgage Loan Risk ..... 60
OCC Use of Home Mortgage Disclosure Act Data ..... 60
OCC Examinations of Mega Banks ..... 61


***Revenue Collection and Industry Regulation***


TTB Tax Audit Division Targeting Program (In Progress) ..... 67
TTB Approval of Permits ..... 67
TTB Collection Procedures ..... 67


***Bill and Coin Manufacturing, Marketing, and Distribution Operations***


BEP Internal Controls Over Currency Operations (In Progress) ..... 71
BEP Pricing of Currency (In Progress) ..... 71
Mint Competitive Sourcing Study for the Production of Coin Blanks (In Progress) ... 72
Mint Procurement Operations ..... 72
Mint Production Scheduling ..... 72


***Domestic and International Assistance Programs***


Single Audit Act Activities (In Progress) ..... 75
Treasury Activities for Iraq Reconstruction (In Progress) ..... 75
CDFI Fund Award Process and Compliance Monitoring of the New Market Tax Credit Program ..... 75

# APPENDIX C:
# INDEX OF FISCAL YEAR 2006 IN PROGRESS AND PLANNED NEW AUDITS BY BUREAU/OFFICE

***Multi Bureau***


Audits of Financial Statements for the Department and Financial Statements or Schedules for Component Entities and Activities (In Progress) ..... 26
Treasury's Working Capital Fund ..... 27
Fiscal Year 2006 FISMA Independent Evaluation – Unclassified Systems ..... 29
Fiscal Year 2006 FISMA Independent Evaluation – National Security Systems ..... 30
Network and System Vulnerabilities Assessment ..... 30
Penetration Testing ..... 30
Disaster Recovery Exercises (On-going) ..... 30
Contract Audit Oversight Activities (On-going) ..... 36
Financial Institution Filing of Reports to OFAC and FinCEN on Blocked Transactions ..... 48
Material Loss Review of Failed Financial Institutions ..... 59
OCC/OTS Supervisory Response to the 2005 Hurricane Season ..... 60
OCC/OTS Examiner Coverage of Non-Conventional Home Mortgage Loan Risk ..... 60


***Departmental Offices***


Treasury Procurements on Behalf of the Department of Defense (In Progress) ..... 36
Treasury Building and Annex Repair and Restoration Program (In Progress) ..... 37
Treasury Communications Enterprise Investment (In Progress) ..... 37
Treasury Audit Follow-up System ..... 37
Treasury Information Technology Project Planning and Execution ..... 38
Treasury Workers' Compensation Program ..... 38
Treasury's Administration of the BSA (In Progress) ..... 47
Follow-up Audit of Treasury Controls Over Intelligence Sharing ..... 49
Survey of Treasury's Debt Issuance Process ..... 54
Treasury Activities for Iraq Reconstruction (In Progress) ..... 75


***Office of Foreign Assets Control***


OFAC Monitoring of Compliance Examinations by Financial Institution Regulators for Sanction Programs (In Progress) ..... 48


***Community Development Financial Institutions Fund***


Single Audit Act Activities (In Progress) ..... 75
CDFI Fund Award Process and Compliance Monitoring of the New Market Tax Credit Program ..... 75

# APPENDIX C:
# INDEX OF FISCAL YEAR 2006 IN PROGRESS AND PLANNED NEW AUDITS BY BUREAU/OFFICE

***Alcohol and Tobacco Tax and Trade Bureau***


TTB Tax Audit Division Targeting Program (In Progress) ..... 67
TTB Approval of Permits ..... 67
TTB Collection Procedures ..... 67


***Bureau of Engraving and Printing***


BEP's Internal Controls Over Currency Operations (In Progress) ..... 71
BEP Pricing of Currency (In Progress) ..... 71


***Bureau of the Public Debt***


BPD Administrative Resource Center User Fees Collection and Reimbursable Agreements ..... 38


***Financial Crimes Enforcement Network***


FinCEN's Analysis and Dissemination of BSA and Criminal Data (In Progress) ..... 47
FinCEN's Background Checks Over Individuals Handling Sensitive Bank Secrecy Act Reports ..... 48
FinCEN Memoranda of Understanding with Financial Institution Regulators ..... 49


***Financial Management Service***


FMS Special Procedures Addressing Federal Check Disbursements To The Gulf Coast Region As A Result of Hurricane Katrina ..... 53
FMS Controls Over Disbursements ..... 53
FMS Acquisition of Banking Services (Follow-Up) ..... 54
FMS Implementation of the Internet Payment Platform ..... 54


***U.S. Mint***


Mint Competitive Sourcing Study for the Production of Coin Blanks (In Progress) ... 72
Mint Procurement Operations ..... 72
Mint Production Scheduling ..... 72


***Office of the Comptroller of the Currency***


OCC BSA and USA PATRIOT Act Compliance Examinations and Enforcement Actions (In Progress) ..... 47
OCC Use of Home Mortgage Disclosure Act Data ..... 60

OCC Examinations of Mega Banks..... 61

***Office of Thrift Supervision***

OTS BSA Compliance Examinations..... 48

# APPENDIX D:
# INDEX OF OFFICE OF AUDIT PROJECTS UNDER CONSIDERATION FOR FUTURE ANNUAL PLANS

***Treasury General Management and Infrastructure Support***

**Information Systems Security**


System Certification and Accreditation Processes ..... 31
Cyber-Based Systems – Critical Infrastructure Protection Program ..... 31
Treasury's Enterprise Environment ..... 31
Data Centers – Security Reviews ..... 31
Wireless Network Security ..... 32
Web Servers – Controls and Security ..... 32


**General Management**


Treasury Privacy and Data Protection Procedures ..... 38
HR Connect Processing Controls ..... 39
Analysis of Procurement Methods Used Within the Department ..... 39
Treasury Reporting on Competitive Sourcing Efforts ..... 39
Treasury Implementation of IPv6 ..... 39
Mint Leasing Practices ..... 40
Employee Bonus Policies at Non-Appropriated Bureaus ..... 40
FAIR Act Implementation ..... 40
Treasury's Communications Enterprise Implementation ..... 40
Treasury Integration of IT Life-Cycle Security Costs Into Its Capital Planning and Investment Control Process ..... 40
Treasury Safety and Health Program ..... 41
Resolution of Accountable Officer Irregularities ..... 41
Treasury's Implementation of the Improper Payments Information Act ..... 41
Bureau Controls Over Government Issued Travel Cards ..... 42


***Terrorist Financing, Money Laundering, and Foreign Assets Control***


Financial Industry Use of Interdiction Software To Comply With OFAC Compliance ..... 49
FinCEN Enforcement of the Timely Filing of Bank Secrecy Act Reports ..... 50
Banking Services Offered To Money Services Businesses ..... 50
FinCEN's Information Sharing Procedures (Section 314 of the USA PATRIOT Act) . 50
OCC BSA Examination of Private Banking (Follow-Up) ..... 50
OTS BSA Enforcement (Follow-Up) ..... 50
Insurance Industry Compliance with BSA ..... 50
OFAC Oversight of the Money Service Business Industry ..... 51
TEOAF Use of Treasury Forfeiture Fund Receipts to Support Law Enforcement ..... 51

# APPENDIX D:
# INDEX OF OFFICE OF AUDIT PROJECTS UNDER CONSIDERATION FOR FUTURE ANNUAL PLANS

***Government-wide Financial Services and Debt Management***


BPD's TreasuryDirect System ..... 55
FMS Debt Check Program ..... 55
FMS Plastic Card Network – Assigning/Charging Costs to Benefiting Agencies (Follow-Up) ..... 55
Treasury's Offset Program ..... 56
Federal Agency Referral of Delinquent Non-Tax Debt Under the Debt Collection Improvement Act of 1996 ..... 56
FMS Cross-Servicing Efforts to Collect Non-Tax Delinquent Debts ..... 56
FMS Administration of the Federal Surety Bond Program ..... 56


***Safety, Soundness, and Accessibility of Financial Services***


OCC Examinations Covering Bank's Non-Banking Subsidiaries ..... 61
Protecting the Financial Services Sector Critical Infrastructure ..... 61
Impact of Functional Regulation on OCC/OTS Consumer Compliance Examinations ..... 61
OCC Review and Assessment of Risks Taken On By Banks Engaging In Tax Shelter Transactions ..... 62
OTS Examinations of Holding Companies ..... 62
OCC Examination Coverage of Privacy and Identity Risks When National Banks Outsource Functions to Third Party Service Providers ..... 62
OCC/OTS Examinations Coverage of Identity Theft Risk ..... 62
OCC/OTS Examiner Safeguards Over Bank Sensitive Information ..... 63


***Revenue Collection and Industry Regulation***


TTB Surety Bonds to Cover Excise Tax Liability ..... 67
Alcohol and Tobacco Tax-Free Export Control (Follow-Up) ..... 67
Manufacturer Non-Beverage Drawback Program ..... 68
TTB Approval to Share Winemaking Facilities and Obtain Wine Tax Credits ..... 68
TTB Security Controls Over Taxpayer Data ..... 68
Alcohol and Tobacco Laboratories ..... 68
TTB Investigative Activities ..... 68
TTB On-Line Certificate of Label Approval ..... 68
TTB Identification of American Viticultural Areas ..... 69

# APPENDIX D:
# INDEX OF OFFICE OF AUDIT PROJECTS UNDER CONSIDERATION FOR FUTURE ANNUAL PLANS

***Bill and Coin Manufacturing, Marketing, and Distribution Operations***


BEP Controls Over Security (Follow-Up) ..... 73
BEP Controls Over Background Investigations (Follow-Up) ..... 73
Mint Consolidated Information System ..... 73
BEP Capital Investment Program ..... 73


***Domestic and International Assistance Programs***


CDFI Fund Post Award Administration (Follow-Up) ..... 76
OIA Oversight of Multilateral Development Banks' Anti-Corruption Programs ..... 76
OIA Use of Funds for Tropical Forest Conservation Act Activities ..... 76
Treasury's Implementation of the Terrorism Risk Insurance Program ..... 77

## ABBREVIATIONS

| | |
|---|---|
| ATFE | Bureau of Alcohol, Tobacco, Firearms, and Explosives |
| AIGA | Assistant Inspector General for Audit |
| AIGI | Assistant Inspector General for Investigations |
| ATSB | Air Transportation Stabilization Board |
| BEP | Bureau of Engraving and Printing |
| BPD | Bureau of the Public Debt |
| ARC | Bureau of the Public Debt Administrative Resource Center |
| BSA | Bank Secrecy Act |
| CDE | Community Development Entities |
| CDFI | Community Development Financial Institutions Fund |
| CFO | Chief Financial Officer |
| CIO | Chief Information Officer |
| CMIR | Currency or Monetary Instruments |
| COINS | Consolidated Information System |
| COLA | Certificate of Label Approval |
| CTR | Currency Transaction Reports |
| D.C. | District of Columbia |
| DCAA | Defense Contract Audit Agency |
| DCIA | Debt Collection Improvement Act of 1996 |
| Department | Department of the Treasury |
| DHS | Department of Homeland Security |
| DoD | Department of Defense |
| DO | Departmental Offices |
| DOJ | Department of Justice |
| EEOC | Equal Employment Opportunity Commission |
| ESF | Exchange Stabilization Fund |
| FAIR Act | Federal Activities Inventory Reform Act |
| FATF | Financial Action Task Force |
| FBI | Federal Bureau of Investigation |
| FDIC | Federal Deposit Insurance Corporation |
| FDICIA | Federal Deposit Insurance Corporation Improvement Act of 1991 |
| FECA | Federal Employees' Compensation Act |
| FFB | Federal Financing Bank |
| FFMIA | Federal Financial Management Improvement Act of 1996 |
| FinCEN | Financial Crimes Enforcement Network |
| FISMA | Federal Information Security Management Act |
| FMS | Financial Management Service |
| FOIA | Freedom of Information Act |
| FY | Fiscal Year |
| GAO | U.S. Government Accountability Office |
| GLBA | Gramm-Leach-Bliley Act of 1999 |
| GMRA | Government Management Reform Act |

## ABBREVIATIONS

| | |
|---|---|
| GPRA | Government Performance and Results Act |
| GSA | Government Services Administration |
| HR | Human Resources |
| HRCPO | HR Connect Program Office |
| HMDA | Home Mortgage Disclosure Act |
| HSA | Homeland Security Act of 2002 |
| IFI | International Financial Institution |
| IG | Inspector General |
| IPA | Independent Public Accountant |
| IPP | Internet Payment Platform |
| IRS | Internal Revenue Service |
| IT | Information technology |
| MDB | Multilateral Development Bank |
| Mint | U.S. Mint |
| MLR | Material loss review |
| MSB | Money Services Businesses |
| MSPB | Merit Systems Protection Board |
| NMTC | New Markets Tax Credit |
| NRC | National Revenue Center |
| OCC | Office of the Comptroller of Currency |
| OFAC | Office of Foreign Assets Control |
| OI | Office of Investigations |
| OIA | Office of International Affairs |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |
| OTS | Office of Thrift Supervision |
| PART | Program Assessment Rating Tool |
| PCIE | President's Council on Integrity and Efficiency |
| PEF | Public Enterprise Fund |
| PMA | President's Management Agenda |
| SAR | Suspicious Activity Report |
| Secret Service | United States Secret Service |
| SHARE | Safety, Health, and Return-To-Employment |
| SOT | Special Occupational Tax |
| TBARR | Treasury Building and Annex Repair and Restoration |
| TCE | Treasury Communications Enterprise |
| TEOAF | Treasury Executive Office for Asset Forfeiture |
| TFCA | Tropical Forest Conservation Act |
| TFFC | Office of Terrorist Financing and Financial Crimes |
| TFI | Office of Terrorism and Financial Intelligence |
| TIGTA | Treasury Inspector General for Tax Administration |
| Treasury | Department of the Treasury |

## ABBREVIATIONS

| | |
|---|---|
| TTB | Alcohol and Tobacco Tax and Trade Bureau |
| USA PATRIOT Act | Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act |
| USAID | U.S. Agency for International Development |
| WCF | Working Capital Fund |
| WNCF | Western Currency Facility |

**This page intentionally left blank.**

# Contact Us

Headquarters
Office of Inspector General
1500 Pennsylvania Avenue, N.W.,
Room 4436
Washington, D.C. 20220
Phone: (202) 622-1090; Fax: (202) 622-2151

Office of Audit
740 15th Street, N.W., Suite 600
Washington, D.C. 20220
Phone: (202) 927-5400; Fax: (202) 927-5379

Office of Investigations
740 15th Street, N.W., Suite 500
Washington, D.C. 20220
Phone: (202) 927-5260; Fax: (202) 927-5421

Office of Counsel
740 15th Street, N.W., Suite 510
Washington, D.C. 20220
Phone: (202) 927-0650; Fax: (202) 927-5418

Office of Management
740 15th Street, N.W., Suite 510
Washington, D.C. 20220
Phone: (202) 927-5200; Fax: (202) 927-6492

Eastern Field Audit Office
408 Atlantic Avenue, Room 330
Boston, Massachusetts 02110-3350
Phone: (617) 223-8640; Fax (617) 223-8651

## Treasury OIG Hotline
## Call Toll Free: 1.800.359.3898

## Treasury OIG Web Page

OIG reports and other information are now available via the Internet. The address is http://www.treas.gov/offices/inspector-general