



DEPARTMENT OF THE TREASURY
WASHINGTON

October 26, 2004

INSPECTOR GENERAL

MEMORANDUM FOR SECRETARY SNOW

FROM:

Dennis S. Schindel
Acting Inspector General

SUBJECT:

Management and Performance Challenges Facing the
Department of the Treasury

The Reports Consolidation Act of 2000 requires that we provide you with our perspective on the most serious management and performance challenges facing the Department of the Treasury, for inclusion in the Department's annual performance and accountability report.

Last year we identified six challenges that we believe seriously impeded the Department's ability to conduct its program responsibilities and ensure the integrity of its operations. We have dropped one challenge from last year, *Vacant Senior Leadership Positions*. While certain key positions remained or became vacant during the past year and are still a concern, many critical positions were filled. For example, a Deputy Secretary, an Under Secretary for Enforcement, and an Assistant Secretary for Terrorist Financing have been appointed. Additionally, under the leadership of the Deputy Secretary, progress has been made in addressing longstanding problems with the Department's daily business operations, most notably with improvements in information security by its non-Internal Revenue Service (IRS) bureaus. We have recast two of last year's challenges - *Prompt Correction of Material Weaknesses* and *Duplicated, Wasteful Practices*. *Prompt Correction of Material Weaknesses* has been broadened to more appropriately reflect the need for more robust *Corporate Management*, while *Duplicated, Wasteful Practices* has been broadened into *Management of Capital Investments* to better reflect the Department's challenge in managing large, multiyear capital projects. We have also identified a new challenge, *Management of Classified and Other Sensitive Information*, as a result of work our office completed this year. Accordingly, the six current challenges are summarized as follows:

Challenge 1 - 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 impact 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. The increasing emphasis on consolidated agency-wide reporting and accountability, as embodied in the management reform legislation of the past decade and the President's Management Agenda, has underscored the need for effective corporate management at Treasury. The mandated consolidated reports on financial statements, internal control, program performance, information systems, and other areas are prime sources used to evaluate Treasury's overall performance in managing its operations.

Challenge 2 - Management of Capital Investments

Treasury needs to better manage large, multiyear acquisitions of systems and other capital investments. The Department has incurred significant cost escalations in its HR Connect system and Treasury and Annex Repair and Restoration (TBARR) projects. A recent audit of TBARR found that the project was not adequately planned at its inception and numerous changes in scope and inefficiencies during renovation have delayed and increased the cost of this project. Another major capital investment that we plan to focus on in the coming years is the Department's transition from the Treasury Communication System to the Treasury Communications Enterprise.

Challenge 3 - Information Security

The Department continues to face serious challenges in bringing its systems into compliance with information technology security policies, procedures, standards, and guidelines. As reported in our fiscal year 2004 Federal Information Security Act (FISMA) independent evaluation, Treasury's system inventory was not accurate, complete, or consistently reported. There have been major variances in the number of systems reported year-to-year, without adequate reconciliation. The number of systems reported by Treasury decreased from 708 in fiscal year 2003 to 237 in fiscal year 2004. This was primarily due to changes in the methodology for reporting systems at certain bureaus, notably the IRS. Although Treasury reported significant increases in the percentage of systems certified and accredited, from 24 percent to 85 percent, the major swings in inventory and inconsistent methodologies used by bureaus raise doubts as to the extent of real improvement. Effective management of Treasury's information security program also requires clear lines of authority and reporting requirements between the Treasury bureaus and offices and Treasury's Chief Information Officer (CIO). Treasury has taken a positive step in strengthening the role of the CIO by having him report directly to the Deputy Secretary.

Challenge 4 - Linking Resources to Results

The Department has not developed and incorporated managerial cost accounting into its business activities. Thus, financial resources cannot be linked to operating results. This undermines the accuracy, reliability, and usefulness of program performance reporting. Financial management systems need to be integrated with performance measurement and budgetary reporting systems to enable meaningful cost benefit analyses of the Department's programs and operations. Very little progress has been made in this area since the Government Performance and Results Act was passed in 1993.

Challenge 5 - Management of Classified and Other Sensitive Information

Work by our office during the past year disclosed several weaknesses in Treasury's handling and safeguarding of national security and other sensitive information. Taken together, these

weaknesses constitute a serious deficiency in the operations of the Department that have resulted in unauthorized disclosure of classified information. The Department has developed a plan to address these weaknesses. Among other things, it has completed a risk-based review of certain questioned documents; revised a Treasury Order requiring that designated officials undergo annual mandatory training on processing, marking, and safeguarding classified information; and is in the process of updating another Treasury Order dealing with requests by former and departing employees for documents. Continued attention is needed to address the fragmented authority and accountability for management of such information, including updating security policies, training employees, and re-instituting security compliance programs.

Challenge 6 - Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement

The Financial Crimes Enforcement Network (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 surfaced regulatory gaps in either the detection of BSA violations or its timely enforcement. Recognizing this, the Department has recently taken several measures to strengthen BSA administration, as well as confront terrorist financing. For example, the Department created the Office of Terrorism and Financial Intelligence (TFI). Additionally, FinCEN, which now reports to TFI, created an Office of Compliance to improve BSA oversight and coordination with financial institution regulators. FinCEN also entered into a memorandum of understanding with the five federal banking regulators to enhance communication and coordination. Given that these measures are just being implemented, it is too soon to assess their effectiveness. Accordingly, this will be a major focus of our audit program during fiscal years 2005 and 2006, which will include follow-up audits of previously identified BSA

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supervisory weaknesses at the Office of the Comptroller of the Currency and the Office of Thrift Supervision, and FinCEN's administration of various BSA reporting requirements.

We would be pleased to discuss our views on these management and performance challenges in more detail.

Attachment

cc: Jesus Delgado-Jenkins
Acting Assistant Secretary for Management

Barry K. Hudson
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