



Audit Report



OIG-13-036

TERRORIST FINANCING/MONEY LAUNDERING: FinCEN's BSA IT Modernization Program Met Milestones with Schedule Extensions

March 28, 2013

Office of
Inspector General

Department of the Treasury

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Abbreviations

BCR	baseline change request
BSA	Bank Secrecy Act
BSA Direct	BSA Direct Retrieval and Sharing
BSA IT Mod	BSA Information Technology Modernization Program
CIO	Chief Information Officer
EVM	earned value management
FinCEN	Financial Crimes Enforcement Network
H. Rept.	House Report
IRS	Internal Revenue Service
IT	Information Technology
MITRE	MITRE Corporation
OCIO	Office of the Chief Information Officer
OIG	Office of Inspector General
PMO	Project Management Office
SOR	system of record
TEOAF	Treasury Executive Office of Asset Forfeiture
WebCBRS	Web-based Currency and Banking Retrieval System

*The Department of the Treasury
Office of Inspector General*

March 28, 2013

Jennifer Shasky Calvery, Director
Financial Crimes Enforcement Network

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The Financial Crimes Enforcement Network (FinCEN) administers the Bank Secrecy Act (BSA), which established the framework to combat criminal use of the financial system. BSA requires financial institutions to report certain financial transactions made by their customers. FinCEN oversees the management, processing, storage, and dissemination of BSA data.

In November 2006, FinCEN began a system development effort, the BSA Information Technology Modernization Program (BSA IT Mod), to improve the collection, analysis, and sharing of BSA data. The intent of the system was, among other things, to transition BSA data from the Internal Revenue Service (IRS) to FinCEN. BSA IT Mod is estimated to cost \$120 million and is to be completed in 2014.

Pursuant to a Congressional directive, we conducted the third in a series of audits of FinCEN's BSA IT Mod.¹ Consistent with the Congressional directive, the objectives of the audit were to determine if FinCEN is (1) meeting cost, schedule, and performance benchmarks for the program and

¹ House Report (H. Rept.) 112-331 directed our office to report on BSA IT Mod, including contractor oversight and progress regarding budget and schedule, semiannually. Our first report under this requirement was due March 31, 2012, and was issued on March 26, 2012.

(2) providing appropriate oversight of contractors. We also assessed Treasury's Office of the Chief Information Officer (Treasury OCIO) oversight of the program. The period covered by this audit was June 2012 through December 2012. We interviewed FinCEN program officials, Treasury OCIO officials, and representatives from IRS involved with the program. We interviewed representatives from Deloitte Consulting, LLP (Deloitte) and MITRE Corporation (MITRE), the contractors involved with the program.² We also reviewed applicable program documentation. We performed our fieldwork from October 2012 through February 2013. Appendix 1 provides a more detailed description of our audit objectives, scope, and methodology.

In September 2012, we reported on FinCEN's BSA IT Mod as of May 2012.³ We found that the program was on schedule and within budgeted cost. Development of the program met all major scheduled milestones, though the planned completion dates for certain projects were extended. During that time, FinCEN also became the authoritative

² FinCEN contracted with Deloitte to oversee the systems development and integration effort. Deloitte is the prime contractor in the BSA IT Mod effort. MITRE is a not-for-profit organization chartered to work in the public interest with expertise in systems engineering, information technology, operational concepts, and enterprise modernization. FinCEN engaged MITRE as a subject matter expert on program and project management and BSA IT Mod business capabilities.

³ Treasury Office of Inspector General (OIG), *FinCEN's BSA IT Modernization Program Is Meeting Milestones, But Oversight Remains Crucial* (OIG-12-077; Sep. 27, 2012). This September 2012 report was our second report on the BSA IT Mod program. Our first report was titled *Terrorist Financing/Money Laundering: FinCEN's BSA IT Modernization Program Is on Schedule and Within Cost, But Requires Continued Attention to Ensure Successful Completion* (OIG-12-047; Mar. 26, 2012). As discussed in that first report, we found that as of May 2011, BSA IT Mod was generally within scheduled milestones though certain projects had been delayed by more than the 10 percent of schedule. We also concluded that FinCEN prepared a credible business case before beginning development of BSA IT Mod but did not report \$11.2 million of planning costs. We did report on two matters of concern. As one concern, the successful and timely completion of BSA IT Mod was, in part, dependent on the successful completion of the system of record (SOR). The SOR was the information storage system for BSA data. FinCEN had at the time of our first audit extended the SOR's completion date because of complexities encountered during its development. As a second concern, we reported that certain IRS users had expressed concerns over the potential impact to their operations as they transitioned from being a supplier of BSA data to being a receiver of BSA data. As of our second audit, we found that these two concerns had been addressed as discussed further in Appendix 2.

source for BSA data when it transitioned the collection, processing, and storage of all BSA data from IRS in January 2012. Additionally, FinCEN had tested the performance of BSA IT Mod projects completed as of our review, and resolved a number of significant issues that had been identified. We also reported that Treasury OCIO's monitoring of the program continued, primarily through review of FinCEN-prepared documentation of program progress. We did note, however, that FinCEN's Project Management Office (PMO) discontinued its previous practice of providing assessments of the program, instead focusing on providing technical assistance for BSA IT Mod's configuration management. At the time, we concluded that there was no adverse impact from this change in focus. We did, however, caution in our report that risks remained to the BSA IT Mod, including the interdependency between the component projects. This risk, among others, continues.

Results in Brief

As of December 2012, we found that BSA IT Mod program was proceeding mostly on schedule and within budgeted cost. Program development met all major milestones including those for updating the SOR and the release of FinCEN Query, but the planned completion dates for certain projects were extended when project staffing resources were re-allocated to resolve data quality issues. Additionally, although the program as a whole was within budget, the costs for some discrete projects exceeded initial budgeted amounts.

FinCEN tested the performance of BSA IT Mod projects completed as of our review, and resolved significant issues identified during testing. However, during the audit, FinCEN users began experiencing performance issues with the FinCEN Query tool, including searches yielding incomplete data. FinCEN attributed this problem to the search engine software and was working to resolve it at the completion of

our fieldwork.⁴ We will follow-up on this issue during our next 6-month assessment.

While FinCEN met all major milestones, risks remain to the program. One risk is the interdependency between the component projects. Future enhancements and modifications made to one component could affect others. Another risk concerns differences among users' needs and how FinCEN must consider, prioritize, and accommodate those needs. Some users also reported that BSA IT Mod features are challenging (difficult to use). We will continue in our future audits to assess FinCEN's efforts in meeting these BSA IT Mod challenges.

With respect to FinCEN's oversight of BSA IT Mod, program management officials continued to provide technical assistance on BSA IT Mod configuration management as this was considered more important to the program's success than was conducting independent assessments. We found Treasury OCIO's monitoring of the program continued to be primarily focused on reviews of FinCEN-prepared program documentation. Given the overall positive track record by FinCEN to date in managing the BSA IT Mod development effort, we consider Treasury OCIO's monitoring appropriate.

This audit, our third in a series, did not identify the need to make any new recommendations to FinCEN.

For this report, we requested and received management response from FinCEN's Director and Treasury's Chief Information Officer. In her response, FinCEN's Director observed that the risks identified in our report are inherent in major IT investment efforts and that FinCEN would continue to employ rigorous program management, and engage and collaborate with stakeholders. Additionally, she noted that the performance issue experienced with FinCEN Query during our audit had been resolved. Treasury's Chief Information Officer provided a response of no comment on

⁴ FinCEN Query is the new search application that allows users to query BSA data broadly across many fields.

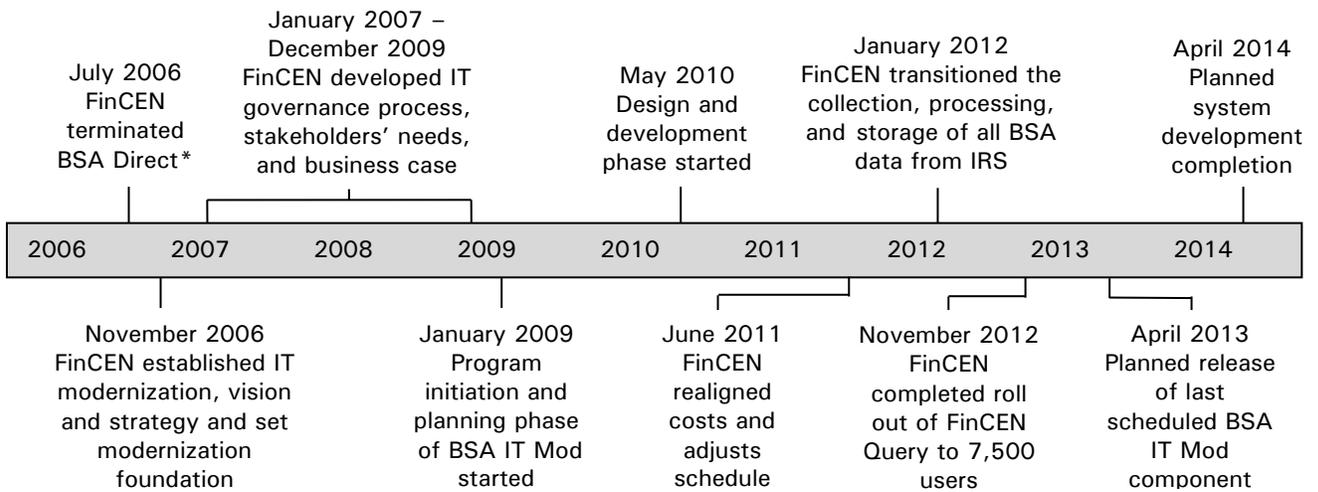
the report. Both management responses can be found in appendix 4.

Finding 1 Major Milestones for BSA IT Mod Continued to Be Met and the Program Was Within Budgeted Costs

As of December 2012, we found that BSA IT Mod program was proceeding mostly on schedule and within budgeted costs. Program development met all major milestones including those for updating the SOR and the release of FinCEN Query, but the planned completion dates for certain projects were extended when project staffing resources were re-allocated to resolve data quality issues. Additionally, although the program as a whole is within budget, the costs for some projects exceeded initial budgeted amounts.

Figure 1 provides a timeline of significant events in the BSA IT Mod program.

Figure 1. Timeline of Significant Events in FinCEN’s BSA System Modernization Efforts



Source: OIG review of FinCEN data.

*FinCEN terminated BSA Direct Retrieval and Sharing (BSA Direct) after concluding the project had no guarantee of success. We reviewed that failure and found that FinCEN poorly managed the predecessor project, insufficiently defined functional and user requirements, misjudged project complexity, and established an unrealistic completion date. We also found that the Treasury OCIO did not actively oversee the project, as required by the Clinger-Cohen Act of 1996. Treasury Office of Inspector General (OIG), *The Failed and Costly BSA Direct R&S System Development Effort Provides Important Lessons for FinCEN’s BSA Modernization Program* (OIG-11-057: Jan. 5, 2011).

Project Dates Were Extended to Address Data Quality Issues

As of December 31, 2012, FinCEN met all major milestones, but the planned completion dates for certain projects were extended. FinCEN program management officials told us that FinCEN and its contractor, Deloitte, reallocated project staffing resources to resolve data quality issues in the SOR to support the deployment of FinCEN Query. Table 1 displays the status of BSA IT Mod by project. Appendix 3 provides descriptions for the various projects.

Table 1: BSA IT Mod Project Schedule Status as of December 31, 2012

Project	Planned Completion Date at May 2010¹	Revised Planned Completion Date at June 2011²	Actual or Planned Completion Date at December 2012³	Project Status at December 2012
SOR				
Release 1	9/30/2011	12/1/2011	12/15/2011	Complete
Release 2	6/30/2012	7/1/2012	10/16/2012	Complete
Shared Filing Services				
Release 1	9/30/2011	12/1/2011	12/15/2011	Complete
Release 2	6/30/2012	7/1/2012	10/16/2012	Complete
Third Party Data				
Release 1	9/30/2011	12/1/2011	12/15/2011	Complete
Release 2	6/30/2012	7/1/2012	10/16/2012	Complete
Data Conversion	12/31/2011	1/1/2012	1/6/2012	Complete
E-Filing				
Release 1	6/30/2011	7/1/2011	7/1/2011	Complete
Release 2	10/31/2011	7/1/2012	7/31/2012	Complete
FinCEN Query ⁷				
Release 1	2/28/2012	6/1/2012	7/20/2012	Complete
Release 2	9/30/2012	10/1/2012	11/16/2012	Complete
Advanced Analytics				
Release 1	10/31/2010	10/31/2010	10/31/2010	Complete
Release 2	4/30/2011	4/30/2011	4/30/2011	Complete
Release 3	7/31/2012	9/1/2012	8/1/2012	Complete
SCIF ⁴	n/a	12/1/2012	11/9/2012	Complete
Register User Portal	3/31/2011	3/31/2011	3/31/2011	Complete
Identity/Access Control Management	3/31/2011	3/31/2011	3/31/2011	Complete
Broker Information Exchange				
314A,B Release 1	5/31/2011	5/31/2011	5/31/2011	Complete
314A,B Release 2	12/31/2012	4/1/2013	4/1/2013 ⁶	Ongoing
Alerts	9/30/2012	1/1/2013	1/1/2013 ⁶	Ongoing

Table 1: BSA IT Mod Project Schedule Status as of December 31, 2012

Project	Planned Completion Date at May 2010¹	Revised Planned Completion Date at June 2011²	Actual or Planned Completion Date at December 2012³	Project Status at December 2012
Bulk Data Dissemination				
Release 1	9/30/2011	3/1/2012	4/17/2012	Complete
Release 2	6/30/2012	7/1/2012	10/16/2012	Complete
Infrastructure & Portal				
Security Develop and Test	9/30/2010	9/30/2010	9/30/2010	Complete
Release 1	3/31/2011	3/31/2011	3/31/2011	Complete
Release 2	9/30/2011	9/30/2011	9/30/2011	Complete
Release 3	6/30/2012	n/a ⁵	n/a ⁵	n/a ⁵

Source: OIG analysis of FinCEN documentation.

¹The dates displayed were the initial planned completion dates when in May 2010, FinCEN began the design and development of projects after receiving Office of Management and Budget approval.

² FinCEN submitted a baseline change request (BCR) to the Treasury CIO to adjust selected project milestone schedule dates and realign costs to keep the overall program on track. The baseline change was implemented in June 2011. See appendix 3 for additional information regarding the BCR.

³ Dates represent the actual completion dates if the project was completed, or the planned completion date as of the cutoff date of our review (December 31, 2012).

⁴ A sensitive compartmented information facility (SCIF) has formal access controls and is used to hold information concerning or derived from intelligence sources, methods, or analytical processes. FinCEN plans to provide its SCIF with advanced analytics capability, which was not part of the May 2010 initial plan but was part of the June 2011 BCR.

⁵ Not applicable - The work planned for Infrastructure release 3 was removed from the project and will be done as part of BSA IT Mod's on-going operations and maintenance.

⁶ We plan to determine the status and report on the milestone in our next semiannual report pursuant to H. Rept. 112-331.

⁷ As discussed in Finding 2, FinCEN users began experiencing performance issues with release 2 of FinCEN Query, including searches yielding incomplete data. FinCEN attributed this problem to the search engine software.

Since becoming the authoritative source for BSA data in January 2012, FinCEN continued to identify and resolve data quality issues involving the SOR as additional features were added to BSA IT Mod, such as address validation, the release of new BSA forms, and FinCEN Query.⁵

⁵ As part of its BSA IT Mod effort, FinCEN consolidated each of the various financial institution currency transaction reports and suspicious activity reports into a single set of forms, and increased the data captured on the forms. These new forms along with forms for the registration of money services business and designation of exempted person were released in March 2012. Electronic filing of the new currency transaction report and suspicious activity report forms through FinCEN's BSA E-Filing web portal is mandated by April 1, 2013.

FinCEN Query releases 1 and 2 were completed 7 weeks beyond their planned completion dates. FinCEN's BSA IT Mod program management officials told us that the schedule delay for release 1 resulted from changes made to the SOR that, in turn, required programming changes to FinCEN Query. The delays to FinCEN Query release 1 resulted in an increase of approximately \$460,000, or 6 percent, over budgeted costs. The increase is primarily attributed to the need for additional performance testing. FinCEN Query release 2 was delayed because of the time needed to incorporate a law enforcement requested enhancement to simplify the search tool. This project enhancement was a change in scope from the original plan and may result in an increase to the final program cost.

The dates for release 2 of the SOR, Third-Party Data, Shared Filing Services, and Bulk Data Dissemination were also extended by 15 weeks beyond their planned completion dates and costs increased approximately \$350,000, or 17 percent, over that which were budgeted.

E-Filing release 2 was completed 4 weeks beyond its planned completion date because of the delay in awarding the contract and the need to relocate contractor staff to FinCEN.⁶

BSA IT Mod's next major and final milestone is the completion of the Broker Information Exchange project, which includes the Financial Intelligence Repository. Initially scheduled to be completed by April 2013, FinCEN program management officials told us in March 2013 that they had submitted a BCR to break Broker Information Exchange, Release 2, into two separate releases – the first planned for August 2013 and the second planned for April 2014.

⁶ The majority of the contract services work is being performed by Deloitte. Northrop Grumman was contracted for E-Filing.

BSA IT Mod Remained Within Budgeted Costs

As of December 31, 2012, FinCEN reported that it had spent approximately \$83 million developing BSA IT Mod from its overall \$120 million, 4-year plan. Not included in this amount was approximately \$11.2 million in program planning costs, which we addressed in our March 2012 report. In that regard, FinCEN's actual program costs incurred through December 2012 were approximately \$94.2 million. A breakdown by category of the actual costs incurred is provided in Table 2 below.

Table 2: BSA IT Mod Costs as of December 31, 2012 (in millions)

Category	Amount
Initial Planning	\$11.2
Development	
Hardware and Software	10.3
Contractor Services	40.6
Other ¹	13.2
Operations and Maintenance ²	13.7
FinCEN staffing costs ³	5.2
Total	\$94.2

Source: OIG analysis of FinCEN data.

¹ Other costs are comprised of (1) program management and program engineering performed by Deloitte and MITRE, (2) a contract office fee of 4 percent for the Department of the Interior's National Business Center Acquisition Services Directorate for support of the BSA IT Modernization Program, and (3) a management reserve for potential additional work to be performed within the authorized work scope of the contract or to accommodate rate changes for future work.

² Operations and Maintenance costs are comprised of hosting costs by the Treasury's Bureau of the Public Debt, hardware and software maintenance support, network support, application support, and the application help desk costs. Effective October 2012, the Bureau of Public Debt and Treasury's Financial Management Service were reorganized as the Bureau of Fiscal Service.

³ Staffing costs are estimated based on FinCEN's Exhibit 300 submissions to OMB. FinCEN does not track the staffing costs associated with BSA IT Mod.

FinCEN funded BSA IT Mod through \$119.9 million received from its annual congressional appropriations and supplemental funding from the Treasury Forfeiture Fund administered by the Treasury Executive Office of Asset Forfeiture (TEOAF). TEOAF provided funding for the BSA IT Mod Program consistent with its authority to provide funds

for law enforcement-related expenditures.⁷ Table 3 below identifies the program’s funding sources by year.

**Table 3: BSA IT Mod Funding Sources as of December 31, 2012
(in millions)**

Fiscal Year	Congressional Appropriation	Treasury Forfeiture Fund	Total
2009	\$2.5	\$3.7	\$6.2
2010	18.5	11.7	30.2
2011	18.5	11.5	30.0
2012	23.5	6.5	30.0
2013 ¹	23.5	0.0	23.5
Total	\$86.5	\$33.4	\$119.9

Source: OIG analysis of FinCEN and TEOAF documentation.

¹ The federal government is operating under a continuing appropriation resolution (Pub. L. No. 112-175) through March 2013 at a .6 percent increase over fiscal year 2012 levels.

⁷ The Treasury Forfeiture Fund, which is the receipt account for the deposit of non-tax forfeitures made as a result of law enforcement actions by participating Treasury and Department of Homeland Security agencies. The Treasury Forfeiture Fund is established under 31 U.S.C. § 9703. The Fund can provide money to other federal entities to accomplish specific objectives for which the recipient entities are authorized to spend money and toward other authorized expenses. Distributions from this Fund in excess of \$500,000 cannot be used until the Appropriations Committees from both houses of Congress are notified. TEOAF submits its planned release of funds to Congress annually. Those submissions through fiscal year 2012 included the funding provided for the BSA IT Mod program.

Finding 2 **BSA IT Mod Project Performance Testing Was Mostly Successful**

FinCEN tested the performance of BSA IT Mod projects completed during the current audit period using government acceptance testing (GAT)⁸ and resolved all significant issues that were identified through that testing. FinCEN has experienced some performance issues with FinCEN Query after its deployment.

Table 4 below identifies testing conducted during our audit period.

Table 4: BSA IT Mod Project Testing Status as of January 17, 2013

Project	Completion Date of Testing	Total Defects¹	Closed Defects	Open Defects
System of Record/ Shared Filing Services/ Third Party Data				
Release 1	12/14/2011	862	862	0
Release 2 ²	10/12/2012	220	219	1
Data Conversion	12/14/2011	544	544	0
E-Filing				
Release 1	6/7/2011	7	7	0
Release 2	7/27/2012	466	414	52
FinCEN Query				
Release 1	6/13/2012	922	870	52
Release 2	11/15/2012	36	28	8
Advanced Analytics				
Release 1	10/18/2010	70	70	0 ³
Release 2	4/14/2011	50	50	0 ³
Release 3	7/12/2012	42	34	8
SCIF	9/7/2012	18	12	6
Register User Portal, Identity/Access Control Management	3/22/2011	33	33	0 ⁴
Broker Information Exchange				
314A Release 1	5/26/2011	23	23	0
314A&B Release 2	Not Started	N/A	N/A	N/A

⁸ GAT is the government's opportunity to validate that the current release's requirements were met. This includes testing functionality, system usability, permissions and security, compatibility testing, and traceability to business requirements through test script execution, demonstrations and inspections. Performance and response time are also observed.

Table 4: BSA IT Mod Project Testing Status as of January 17, 2013

Project	Completion Date of Testing	Total Defects¹	Closed Defects	Open Defects
Alerts				
Release 1	11/20/2012	8	6	2
Bulk Data Dissemination				
Release 1	N/A ⁵	N/A	N/A	N/A
Release 2	9/28/2012	417	417	0

Source: OIG analysis of FinCEN data.

¹ A defect is defined as a test result that does not match the expected result. Defects are also referred to as issues, problems, or incidents.

² Third-Party Data release 2 GAT was completed on September 28, 2012.

³ According to FinCEN's Chief Technology Officer, open defects under Advanced Analytics releases 1 and release 2 were closed when the releases were replaced with the release 3.

⁴ FinCEN deployed the Register User Portal, Identity/Access Control Management without addressing the 9 remaining defects, which it closed. According to FinCEN officials, it plans to address the defects during the operations and maintenance phase.

⁵ Bulk Dissemination release 1 did not undergo GAT. FinCEN provided users with a sample of bulk data files to test and validate.

Since our September 2012 report, the number of defects increased for release 1 of the SOR, Shared Filing Services, and Third-Party Data. The increase in defects was due to FinCEN identifying data quality issues as additional features were added to BSA IT Mod, such as address validation, the release of new BSA forms, and FinCEN Query. The number of FinCEN Query release 1 defects increased in part because of a law enforcement requested enhancement to simplify the FinCEN Query search process.

Similar to what we were told in our prior audit, FinCEN program management officials stated that issues identified during testing considered severe enough to adversely impact BSA IT Mod were resolved prior to projects being deployed. FinCEN and MITRE considered all remaining open defects to be low severity, meaning that the defects would not significantly impair program performance or functionality. As BSA IT Mod is transitioned from the project development phase to the deployment phase, FinCEN plans to prioritize open defects and address them as program enhancements in the operations and maintenance phase. So far, FinCEN has used approximately \$4 million from its operations and maintenance budget to resolve defects and requests for changes in the support of deployed projects.

FinCEN Query Issues Remain

FinCEN program management officials and representatives from MITRE, IRS, and Deloitte told us that BSA IT Mod was performing well and meeting the needs of the users. In this regard, FinCEN and MITRE said there were some data quality issues, but that the types of issues experienced were issues normally encountered when developing a major IT program such as BSA IT Mod. FinCEN was working to resolve the issues with the users.

FinCEN Query was released to FinCEN internal users in July 2012 and to other federal and state users from September through November 2012. By the end of December 2012, approximately 7,500 users had access to FinCEN Query, and of those, approximately 4,500 users had actually accessed it. The average query response time was about 1 second.

During this audit, our third one of the series, FinCEN Query was experiencing continued service interruptions—in other words, it was periodically “crashing.” To resolve this, FinCEN program management officials told us that, among other things, they updated the software, added hardware capacity, and continued to work with the software vendor. To improve performance, FinCEN increased the number of FinCEN Query servers and made multiple software upgrades. While we found that FinCEN was actively working this issue, we will continue to monitor the performance of FinCEN Query in our future audits of BSA IT Mod.

Risks to BSA IT Mod’s Successful Completion Remain

Similar to what we reported in our September 2012 report, a continued risk was the program’s high-level of dependency between its component projects. Programming changes to one project, such as the SOR, required programming changes to other projects. This risk will continue as the remaining BSA IT Mod projects are released and enhancements are made during the program’s operations and maintenance phase.

Another risk concerns how users have different needs that FinCEN must consider, prioritize, and accommodate. For example, FinCEN addressed a law enforcement requested enhancement to simplify the FinCEN Query search process. In addition, FinCEN told us that some users found BSA IT Mod features challenging to use, such as the Advanced Analytics tool. To address this, FinCEN has provided users with support and training. FinCEN will need to continue this support going forward. We will continue to monitor this area.

We also note that FinCEN has proposed a reorganization. To that end, it has briefed its Congressional oversight committees as well as our office about its reorganization plan. As the reorganization plan evolves, we will assess its impact to the BSA IT Mod program in our future work.

Finding 3 Oversight of BSA IT Mod Continued

In our September 2012 report, we reported that FinCEN maintained oversight of BSA IT Mod, and that Treasury OCIO's oversight was primarily accomplished through a review of FinCEN-prepared program documentation. We also found that FinCEN's PMO reduced its independent oversight; however, we concluded this change had no adverse impact on the program. The level of oversight noted in our last report continued during the period covered by this audit.

FinCEN Oversight

Deloitte provided FinCEN, as it had done in the past, with monthly BSA IT Mod program management reviews focused on the program status using earned value management (EVM) and provided a forum for discussing the risks and risk mitigation plans.⁹ Our review of these reports and other

⁹ EVM measures the value of work accomplished in a given period. Differences in these values are measured in both cost and schedule variances. Explanations must be provided for variances of 10 percent and are subject to corrective action plans, baseline change requests, or termination. The use of EVM satisfies Office of Management and Budget requirements on

program-related documentation revealed that BSA IT Mod met milestones and was within budgeted costs. The documentation also showed and explained why certain projects had exceeded planned schedule and budget noting instances where project staffing resources were re-allocated to resolve data quality issues. MITRE officials also stated that to date FinCEN managed the program in an acceptable manner and that they had no significant concerns. Deloitte and MITRE officials agreed that overall the program met milestones and stayed within budgeted costs.

We reported in our September 2012 report that FinCEN's PMO changed its oversight by no longer conducting formal assessments of BSA IT Mod, but was instead providing technical assistance on BSA IT Mod configuration management because that assistance was considered to be a better use of PMO resources. During this audit, FinCEN program management officials told us that the PMO continued to support the configuration management process. We did not identify any negative impact as a result of the PMO's continued change of focus.

Treasury OCIO Oversight

In our September 2012 report, we reported that Treasury OCIO officials told us that the office reviewed program documentation, including performance plans, cost submissions, and schedule and performance reporting and that the officials characterized the reviews as being at the "macro-level." We also reported that the BSA IT Mod Modernization Executive Group and Executive Steering Committee meetings, of which the Treasury CIO is a member, were done through e-mails when a major decision or approval was sought. Looking forward, the Treasury OCIO was working to strengthen the analytical skills of its desk officers. The office also planned to increase the level of interaction with bureau CIOs by instituting quarterly

programs classified as major acquisitions as well IT projects. FinCEN contracted with MITRE to provide an independent validation to ensure the accuracy of EVM data.

investment status meetings rather than annual investment reviews.

During this audit, we found no change in the level of Treasury OCIO's oversight. Treasury OCIO officials told us that they instituted quarterly investment status meetings, but had not yet conducted one for BSA IT Mod. Treasury OCIO, however, continued to monitor FinCEN monthly data submissions to identify potential issues.

As we reported in our previous audits of BSA IT Mod, the Treasury CIO is a member of both the BSA IT Mod Modernization Executive Group and Executive Steering Committee, which meets on a quarterly basis or when a major decision or approval is sought. During this audit, the BSA IT Mod Modernization Executive Group and the Executive Steering Committee met in September 2012 to discuss the planned release of FinCEN Query to BSA data users and IRS's discontinuation of Web-based Currency and Banking Retrieval System (WebCBRS) access to non-IRS users by December 2012.¹⁰ Additional communication among Executive Steering Committee members took place through email correspondence in December 2012. The correspondence discussed how IRS would continue to provide the U.S. Customs and Border Protection with access to WebCBRS and bulk BSA data until April 2013—when a planned agency IT system upgrade was to be completed to allow bulk data to be received.

Similar to what we reported in September 2012, Treasury OCIO officials told us that the program was performing well and they were satisfied with the level and quality of BSA IT Mod program data provided by FinCEN. They also told us that FinCEN's communication with the Treasury OCIO was good and characterized FinCEN program management officials as competent.

¹⁰ WebCBRS is IRS's data warehouse and information retrieval system that had been used to collect and store BSA data until FinCEN assumed this role in January 2012.

In summary, we believe that the oversight by FinCEN management and Treasury OCIO during this audit period was appropriate given the overall positive track record by FinCEN to date in managing its BSA IT Mod development effort. That being said, we plan to continue to review program oversight exercised in our future audits of the program.

* * * * *

We appreciate the cooperation and courtesies extended to our staff during the audit. If you wish to discuss the report, you may contact me at (617) 223-8640 or Mark Ossinger, Audit Manager, at (617) 223-8643. Major contributors to this report are listed in appendix 5.

/s/
Sharon Torosian
Audit Director

This is the third in a series of audits of the Financial Crimes Enforcement Network's (FinCEN) Bank Secrecy Act (BSA) Information Technology Modernization Program (BSA IT Mod). Our objective was to determine if FinCEN is (1) meeting cost, schedule, and performance benchmarks for this program and (2) providing appropriate oversight of contractors. Additionally, we assessed Treasury OCIO (OCIO) oversight of the program. For the third audit, we determined the status of the program's cost, schedule, and performance through December 31, 2012.

To accomplish our objective, we interviewed a variety of officials, including FinCEN program officials, Department of the Treasury OCIO officials, an official from the Internal Revenue Service (IRS) involved with the program, and officials with FinCEN's contractors. We also reviewed applicable program documentation and testing procedures. We performed our fieldwork from October 2012 through February 2013.

At FinCEN, officials we interviewed included the following:

- The Chief Information Officer (CIO) and the BSA IT Mod program manager to obtain an update on BSA IT Mod, a perspective on each individual's knowledge and level of involvement, cost and schedule concerns, and overall progress of the program.
- The Chief Technology Officer to obtain his perspective, level of involvement, schedule and performance concerns, and overall progress of the program. Additionally, we obtained his perspective on the project testing conducted and defect resolution strategies employed.
- The Deputy Chief Financial Officer for an update of the cost and funding for BSA IT Mod.
- The Assistant Director and the lead assessor for FinCEN's Project Management Office to discuss their assessments of the program.
- The project managers, project leaders, and contracting officer technical representatives responsible for each BSA IT Mod

project to obtain an understanding of their perspective, level of involvement, schedule and performance concerns, and overall progress of their respective projects.

External to FinCEN, we interviewed the following officials:

- Deloitte LLP's managing director and Deloitte's program manager and Analyst for Earned Value Management (EVM) for BSA IT Mod to obtain an update on their perspective of BSA IT Mod and ascertain the program's status. These interviews were conducted at the contractor's office in Rosslyn, Virginia.
- MITRE representatives in McLean, Virginia, to obtain an update of MITRE's role as the federally funded research and development contractor, its level of involvement with the program, as well as issues, concerns, and other significant matters observed. These interviews were conducted at a MITRE office in McLean, Virginia.
- The Treasury CIO, the Treasury OCIO Associate Director of Information Technology Capital Planning, and the Treasury OCIO desk officer assigned to the BSA IT Mod program for an update on their roles in overseeing BSA IT Mod, as well as issues, any concerns, and other significant matters.
- IRS's Associate CIO, Applications Development Group, to obtain an update of her role with BSA IT Mod, coordination between IRS and FinCEN, and any concerns regarding the program or BSA IT Mod system functionality.

We reviewed FinCEN program-related information, including management reports, minutes from executive, management, and technical meetings; planning documentation; program and project level documentation; and FINCEN presentations to, for example, Congress, the Office of Management and Budget, Treasury OCIO, the BSA IT Mod Modernization Executive Group and the Executive Steering Committee, and FinCEN management.

We reviewed program management briefings and status reports, internal and external program performance assessment reports, and

related documentation to assess program performance status, risks, and issues.

We interviewed FinCEN and MITRE representatives involved with BSA IT Mod government acceptance testing and reviewed testing-related documentation, including testing plans and status reports. We reviewed certain testing defects and issues identified during testing, and their resolutions, that were recorded in FinCEN's project management and issues tracking system.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The status of the two audit recommendations in our prior report on the Bank Secrecy Act (BSA) Information Technology Modernization Program are presented in Table 5 below. Both recommendations are closed. We do not plan to report on the status of these recommendations in our future audits of the program.

Table 5: Corrective Actions on Prior Audit Recommendations

Recommendation	FinCEN Corrective Actions
<p>In conjunction with IRS, ensure in the short term that IRS's WebCBRS data needs are met and; in the long term, assist IRS to ensure data requirements are incorporated into IRS's modernization efforts.</p>	<p>The Financial Crimes Enforcement Network (FinCEN), in the short term, was to provide Bank Secrecy Act (BSA) data to the Internal Revenue Service's (IRS) Web-based Currency and Banking Retrieval System (WebCBRS) via the current E-Filing system and formats. In support of the longer-term goal, FinCEN was asked to participate on the IRS's Integrated Project Team to define the IRS BSA data end-state solution. FinCEN's involvement on the team included providing the technical specifications for bulk data distribution, answering questions related to new BSA data structures, and providing support as requested.</p> <p>FinCEN closed the short term action on March 28, 2012. In this regard, the BSA Information Technology (IT) Modernization Executive Group consisting of the FinCEN Director, Treasury Chief Information Officer, and IRS Deputy Commissioner for Operations and Maintenance, approved the mapping back of new Suspicious Activity Report (SAR) and Currency Transaction Report (CTR) data from FinCEN's E-Filing system to WebCBRS in the legacy format. Subsequently, on March 29, 2012, FinCEN released the new SAR and CTR reports to filing institutions for submission. We confirmed during our second audit that FinCEN was able to provide BSA data from its E-Filing system in the same format IRS used. The long term action is considered closed by FinCEN with its ongoing participation on IRS's Integrated Project Team.</p>
<p>Ensure that, for future major capital investments, required submissions to OMB include full life-cycle cost estimates in accordance with OMB Circular A-11, <i>Preparation, Submission and Execution of the Budget</i>, and that thorough documentation supporting estimates is maintained.</p>	<p>FinCEN responded to the audit recommendation that it did not have a future major capital investment planned. However, when such a time comes, FinCEN will ensure that required submissions to Office of Management and Budget (OMB) comply with OMB's Circular A-11 and that required documentation supporting costs estimates are maintained. FinCEN closed the action on April 10, 2012.</p> <p>FinCEN's commitment to ensure future compliance and maintain supporting documentation met the intent of the audit recommendation.</p>

Source: Treasury Office of Inspector General (OIG), *FinCEN's BSA IT Modernization Program Is on Schedule and Within Cost But Requires Continued Attention to Ensure Successful Completion* (OIG-12-047; Mar. 26, 2012). OIG obtained the status of the recommendations through Treasury's Joint Audit Management Enterprise System (JAMES), and selectively confirmed the actions taken by FinCEN as reported in JAMES.

Projects Included in the BSA IT Mod Program

The BSA IT Mod program is made up of multiple projects with specific components. The projects are summarized below. All projects were completed as of December 2012 unless otherwise indicated below.

- System of Record (SOR) provides data storage and architecture for BSA data for 11 years of BSA data.
- Shared Filing Services provides for validation of BSA data with external data sources, such as validation of addresses to U.S. Postal Service data.
- Third Party Data provides the SOR additional BSA data through external data sources such as the financial institution identification number assigned by the Federal Reserve.
- Bulk Data Dissemination is used for the distribution of large quantities of BSA data to external users.
- Data Conversion project converted 11 years of BSA data from the IRS's legacy system to the FinCEN's new SOR.
- BSA E-Filing is used by BSA filers to submit all required electronic filing of BSA forms to FinCEN.
- FinCEN Query is a tool designed to improve authorized users' ability to access and analyze BSA data. The tool will be used by FinCEN internal users and by registered external users and customers to retrieve and analyze BSA data. The tool is to support traditional structured BSA data queries, and provide narrative search capabilities and options to coordinate and collaborate with users on queries performed.
- Advanced Analytics provides complex search and retrieval functionality for FinCEN internal users to support their analytical, law enforcement, and regulatory activities. The tool is to provide advanced analytical capabilities such as geospatial, statistical analysis, social networking, semantic interchange, and visualization capabilities.

- Register User Portal/Identity Management/Access Control Management provides the means for common user interface and authentication process through which both internal and external authorized users will gain access to all future BSA IT Mod applications.
- Infrastructure provided the design, development, procurement, and implementation of the development and test environments, storage area network(s), and disaster recovery capabilities required to support the other BSA IT Mod projects.
- Broker Information Exchange provides content management and collaboration support for internal and external users. The 314A component allows law enforcement agencies to submit requests through FinCEN to financial institutions for information about financial accounts and transactions of persons or businesses that may be involved in terrorism or money laundering. The 314B component allows financial institutions to share information with one another through FinCEN to identify and report suspicious money laundering or terrorist activities to the federal government. 314A and 314B refer to Section 314 of the USA Patriot Act that requires FinCEN of establish these functionalities.¹¹ The project is ongoing as of December 2012.
- Alerts provides for an automatic alert to be sent to FinCEN analysts about suspicious activities reported by filers based on pre-defined criteria. The project is ongoing as of December 2012.

Baseline Change of the Bank Secrecy Act Information Technology Modernization Program (BSA IT Mod)

Our first audit found the Financial Crimes Enforcement Network (FinCEN) was reporting that as of May 2011, the 4-year, \$120 million, BSA IT Mod was on schedule and within an acceptable 10 percent cost threshold. At that time, we found the program to be generally within scheduled milestones, though certain projects had exceeded scheduled milestones by 10 percent.

¹¹ Section 314 of the USA Patriot Act is established under 31 U.S.C. § 5311.

In June 2011, FinCEN adjusted selected project milestone schedule dates and realigned costs to keep the overall program on track. The baseline change resulted in no increase to overall costs and no extension to the 4-year program schedule. However, a major adjustment was made to the Contractor Services budget, which was increased by approximately \$12.7 million dollars or 37 percent. This budget increase was offset by a reduction to the budgets for Other and Operations and Maintenance costs. Table 1 displays the impact the baseline change had on the major program elements.

Table 1: BSA IT Mod Program Baseline Change, May 2010 to June 2011 (in millions)

Element	May 2010	June 2011	
	Initial Plan	Baseline Change	Change
Hardware and Software	\$16.8	\$16.8	\$0
Contractor Services	34.2	46.9	12.7
Other	22.7	19.3	(3.4)
Operations and Maintenance	46.9	37.6	(9.3)
Total	\$120.6	\$120.6	\$0

Source: OIG review of FinCEN data. FinCEN staff costs are not included in the above cost estimates.

Contractor Services was increased to provide additional iterations to the building and testing of the system of record (SOR) and other projects that had to be changed because of the changes to the SOR. Increased data conversion testing was required because of the volume and complexity of the data and business rules, and to ensure that the integration, system performance, and data integrity was correct.

BSA IT Mod Budget Reallocation

Since BSA IT Mod baseline change in June 2011, the budget for the major program elements have been reallocated with no increase to BSA IT Mod’s total planned cost. Table 2 displays the budget changes.

**Table 2: BSA IT Mod Program Budget Change, June 2011 to October 2012
 (in millions)**

Element	June 2011	October 2012	
	Baseline Change	Current Budget	Change
Hardware and Software	\$16.8	\$16.8	\$0
Contractor Services	46.9	50.5	3.6
Other	19.3	17.0	(2.3)
Operations and Maintenance	37.6	36.3	(1.3)
Total	\$120.6	\$120.6	\$0

Source: OIG review of FinCEN data. FTEs are not included in the above cost estimates.

The allocation for contractor services was increased \$3.6 million to address additional costs for work related to the following projects: (1) FinCEN Query, (2) release 2 of the System of Record, (3) Shared Filing Services, and (3) Third-Party Data and Bulk Data Dissemination.

Contractors Engaged by FinCEN

In March 2008, FinCEN awarded a 5-year indefinite delivery, indefinite quantity (IDIQ) contract to BearingPoint, Inc., to support a full range of information technology services, custom applications, maintenance support, and infrastructure support necessary to implement the FinCEN IT operational objectives. Numerous task orders have been issued against the contract including those for the BSA IT Mod program.¹² The contract was subsequently transferred to Deloitte Consulting, LLP (Deloitte).¹³ The contract ceiling is a maximum of \$144 million and a minimum of \$1 million over the contract’s 5-year life. FinCEN also contracted with MITRE Corporation (MITRE) at a cost of approximately \$1.5 million to provide management guidance, coordination, and

¹² An IDIQ contract provides for an indefinite quantity of services during a fixed period of time. This type of contract is used when it cannot be predetermined, above a specified minimum, the precise quantities of supplies or services that the government will require during the contract period. IDIQ contracts are most often used for service contracts and architect-engineering services. An IDIQ contract is flexible, especially when not all the requirements are known at the start of a contract and is conducive to a modular approach, which would be one with phases or milestones.

¹³ The IDIQ contract was transferred from BearingPoint, Inc. to Deloitte on October 1, 2009 after Deloitte purchased substantially all of the assets of Bearing Point, Inc., Public Service Division.

evaluation support for BSA IT Mod.¹⁴ MITRE is a subject matter expert on program and project management, and BSA IT Mod business capabilities.

FinCEN is using the Acquisitions Services Directorate of the U.S. Department of the Interior as the contract office to administer the contract. FinCEN chose this office because of its prior experience handling large, complex procurements.

¹⁴ MITRE is a not-for-profit organization chartered to work in the public interest with expertise in systems engineering, information technology, operational concepts, and enterprise modernization. Among other things, it manages federally funded research and development centers, including one for IRS and U.S. Department of Veterans Affairs (the Center for Enterprise Modernization). Under Treasury's existing contract with MITRE, Treasury and its bureaus, with permission of the IRS sponsor, may contract for support in the following task areas: strategic management, technical management, program and project management, procurement, and evaluation and audit to facilitate the modernization of systems and their business and technical operation.



DEPARTMENT OF THE TREASURY
FINANCIAL CRIMES ENFORCEMENT NETWORK

March 20, 2013

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FREEDMAN

FROM: Jennifer Shasky Calvery /s/

SUBJECT: *Management Response to the Draft Report – FinCEN’s BSA IT Modernization Program Met Milestones with Schedule Extensions*

Thank you for the opportunity to review the Office of Inspector General (OIG) draft audit report on the bureau’s BSA IT Modernization Program. Although this is the third in a series of reports, it is the first since beginning my role as FinCEN’s Director. I am very proud that our IT Modernization Program is within budgeted cost, has met all major program development milestones, and that no recommendations are needed. The audit report is a testament to all of the FinCEN employees who have dedicated themselves to the program since it began in May 2010.

While the report does identify risks, I believe these risks are inherent in major IT investment efforts. I am confident the risks will be successfully mitigated by continuing to employ rigorous program management, and engage and collaborate with stakeholders. Finally, in relation to the FinCEN Query performance issue mentioned in the report, we worked closely with the vendor to uncover a software “bug” and subsequently received a patch from the vendor to resolve this particular performance issue.

If you have any questions or need additional information, please contact Becky Martin, Assistant Director, Office of Financial Management, on 703-905-3860.

www.fincen.gov



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

MEMORANDUM FOR SHARON TOROSIAN
DIRECTOR

FROM:

Robyn East 
Deputy Assistant Secretary for Information Systems
and Chief Information Officer

SUBJECT:

Management Response to Draft Report FinCEN's BSA IT
Modernization Program Met Milestones with Schedule Extensions

Thank you for the opportunity to review and provide comments on OIG's Draft Report, "*FinCEN's BSA IT Modernization Program Met Milestones with Schedule Extensions*." The Department of the Treasury has no comments on the Report and appreciates OIG's efforts in its development.

Please contact me at 202-622-1200 if you need anything further.

Boston Office

Mark Ossinger, Audit Manager
Kenneth O'Loughlin, Auditor-in-Charge
Richard Wood, Auditor

Washington, D.C.

Robert Kohn, Referencer

Department of the Treasury

Deputy Secretary
Under Secretary for Terrorism and Financial Intelligence
Chief Information Officer
Office of Strategic Planning and Performance Management
Office of the Deputy Chief Financial Officer, Risk and Control
Group

Financial Crimes Enforcement Network

Director

Office of Management and Budget

OIG Budget Examiner

U.S. Senate

Chairman and Ranking Member
Committee on Appropriations

Chairman and Ranking Member
Subcommittee on Financial Services and General Government
Committee on Appropriations

U.S. House of Representatives

Chairman and Ranking Member
Committee on Appropriations

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