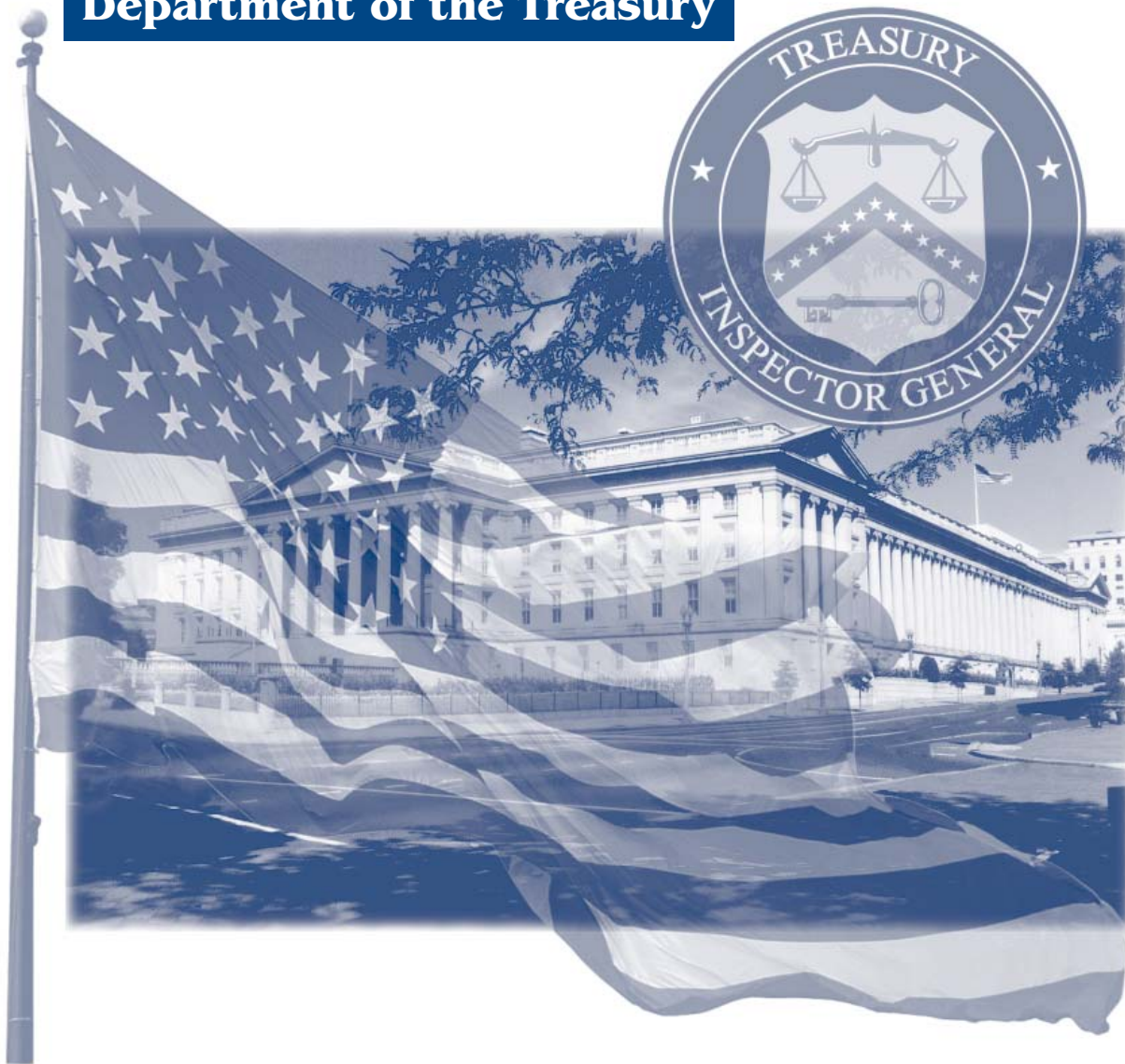


# Office of Inspector General

Department of the Treasury



**Annual Plan**

**Fiscal Year 2002**

Bureau of Alcohol, Tobacco and Firearms • Office of the Comptroller of the Currency • U.S. Customs Service • Departmental Offices • Bureau of Engraving and Printing • Financial Management Service • U.S. Mint • U.S. Secret Service • Office of Thrift Supervision • Bureau of Public Debt • FinCEN





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This planning document outlines the major initiatives, priorities, and challenges facing this organization in our role to assist the Department of the Treasury in fulfilling its mission, priorities, and plans. This planning document further attempts to provide senior officials of the Department and members of Congress with a greater understanding of who we are, what we do, and what our intended work will be for fiscal year 2002.

Each of the four components of the OIG (Audit, Investigations, Counsel, and Management Services) has made contributions to the development of this plan. In their respective sections, each component describes their function, role, organizational structure, and the expected challenges their respective workforce may encounter in fiscal year 2002. After the events of September 11, 2001, we re-evaluated this Annual Plan. We identified over a dozen new audits and evaluations and raised the priority of other existing work that directly impacts on the Department's new roles and responsibilities in the war on terrorism. Likewise, our Office of Investigations has been involved in contributing resources to the FBI's investigations at the Pentagon and New York City and to the Federal Aviation Administration for the Air Marshal program. As new initiatives and programs are developed in the war on terrorism, we will be prepared to adjust our plan to provide audit, evaluation and investigative resources as appropriate.

### **Background**

In 1989, the Secretary of Treasury as a result of the 1988 amendments to the 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 Inspector General:

- Conduct and supervise audits and investigations.
- Provide leadership and coordination of policies that:
  - ❖ Promote economy, efficiency, and effectiveness in programs and operations.
  - ❖ Prevent and detect fraud and abuse in programs and operations.
- Provide a means for keeping the Secretary and the Congress fully and currently informed about problems and deficiencies in programs and operations.
- Submit semiannual reports to the Congress, through the Secretary, summarizing the activities of the OIG during the preceding period that disclose problems, abuses, and deficiencies in the administration of programs and operations of the Department. The semiannual also addresses a discussion of the recommendations for corrective action that the IG has made.

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 of the Department of the Treasury is responsible for keeping both the Secretary of the Treasury and the Congress fully and currently informed about problems and deficiencies in the department's programs and operations. The Inspector General exercises his duties and responsibilities, for all Department of Treasury operations— with the exception of the Internal Revenue Service.<sup>1</sup>

# I. OVERVIEW



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Specifically, the Treasury OIG has jurisdiction over the following Departmental bureaus and offices:

- Bureau of Alcohol, Tobacco and Firearms (ATF)- a Federal law enforcement organization that serves as the nation’s expert on four highly regulated consumer products: alcohol, tobacco, firearms, and explosives.
- U.S. Customs Service (Customs)- responsible for being the guardian of our nation’s borders by enforcing the laws governing the flow of merchandise or commerce across our borders; and assessing and collecting duties, excise taxes, and fees on imported and exported goods and services.
- Office of the Comptroller of Currency (OCC)- charters, regulates, and supervises national banks to ensure a safe, sound, and competitive banking system.
- Bureau of Engraving and Printing (BEP)- responsible for securely and efficiently producing United States currency, postage stamps, and other government securities. The BEP also redeems damaged or mutilated currency for the public.
- Federal Law Enforcement Training Center (FLETC)- provides training to Federal law enforcement personnel, as well as state, local, and international agencies, and private security personnel.
- Financial Crimes Enforcement Network (FinCEN)-collects, analyses and shares information to support law enforcement investigative efforts and foster interagency and global cooperation against domestic and international financial crimes.
- 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 services, and manages the collection of delinquent debt.
- U.S. Mint – responsible for three functional areas (1) the production of circulating coinage for use by the general population, (2) the production and sale of commemorative, numismatic, and investment products, and (3) the protection of U.S. Treasury precious metals and other monetary assets held in the custody of the U.S. Mint.
- Bureau of Public Debt- (BPD) is responsible for borrowing the money needed to operate the Federal Government and to account for the resulting debt.

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<sup>1</sup> In 1998, Congress through the Internal Revenue Service Restructuring and Reform Act of 1998 established the Treasury Inspector General for Tax Administration (TIGTA), which exercises OIG authority for that bureau.



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- U.S. Secret Service – provides the highest level of protection for all persons authorized Secret Service protection including the President, Vice-President, and other dignitaries and designated individuals when the protectee is in residence or in travel status. The Secret Service is also responsible for fighting counterfeiting and other criminal threats to the nation’s financial system
  - Office of Thrift Supervision- (OTS) charters, regulates, and examines Federal thrift institutions to ensure their safety and soundness.
  - Departmental Offices that either provide basic support to the Secretary of the Treasury or perform specialized functions to carry out Treasury’s mission.

Established in one Department, these entities have broad responsibilities to promote a prosperous and stable America and world economy; enforce trade laws and agreements; manage the Government’s finances; produce money; protect the nation’s financial systems; monitor the sale of guns and explosives; protect the nation’s leaders; protect the nation’s borders against drug smuggling; and train law enforcement personnel from over 60 Federal organizations.

The Department’s broad mission and areas of responsibility provide our auditors and investigators with work of enormous variety and complexity on issues confronting our nation in the 21<sup>st</sup> century.

### **Organizational Structure and Fiscal Resources**

As previously stated, the OIG is headed by an Inspector General who is appointed by the President with the advice and consent of the Senate. Serving with the Inspector General in the immediate office is a Deputy Inspector General who is a career employee and a member of the Senior Executive Service. 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:

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

For fiscal year 2002, the Office of Inspector General received an appropriation of \$35,424,000 in budget authority and 282 full-time equivalent (FTE) positions. This funding level represents a net increase of \$2,597,000 and 10 FTEs over the fiscal year 2001 enacted levels of \$32,827,000 and 272 FTEs.

# II. OFFICE OF MANAGEMENT SERVICES

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## Organizational Structure

**T**he Assistant Inspector General and Deputy Assistant Inspector General for Management Services are responsible for providing the technical, financial, and administrative infrastructure to the Office of Inspector General. This multi-faceted organization of professionals offers an array of business services to the OIG user community. Management Services comprises 32 full-time equivalents (FTEs).

## Management Services Staffing for FY 2002

Immediate Office	5
Administrative Services Office	6
Budget Office	5
Human Resources Office	7
Information Technology Office	9
<b>Total</b>	<b>32</b>

The Director of Administrative Services provides and directs contracting and procurement services for the OIG, as well as directing all administrative support for the organization. This includes the travel program, issuance of credentials, records management, space and facilities management, procurement actions for all goods and services, and the management of nine OIG field offices nationwide. The Director of Information Technology is responsible for the development and maintenance of OIG systems. This includes ensuring the adequacy of the infrastructure and the installation, support, maintenance, and management of hardware, software and voice and data telecommunications.

The Budget Officer provides financial management services to the OIG including budget formulation and execution. The budget formulation function encompasses the development, justification and presentation of future year budget requests to the Department, Office of Management and Budget, and Congress. The budget execution function determines annual funding allocations, tracks and analyzes spending patterns, processes financial documents, and reports on the use of resources both internally and externally.

The Human Resources Officer directs a program which provides a full range of personnel and payroll services to employees throughout the OIG. HR is responsible for providing programs and services in recruitment and staffing; position classification and position management; employee relations and performance management; training, awards and recognition; employee development; benefits; personnel actions processing; and payroll processing.

Management Services ensures a quality working environment throughout the OIG community by providing effective and efficient administrative support.



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## **Initiatives for Fiscal Year 2002**

### **Information Technology**

The Information Technology Division will complete migration to the new network infrastructure in the first quarter of FY 2002. During FY 2002 the IT staff, coordinating with the Contract Officer, will begin implementation of a hardware replacement schedule for the network. The IT staff will also begin working with the components on development of a management information system for the Office of Audit and integration of this system with the Investigative Data Management System (IDMS).

### **Policies and Procedures**

The Administrative Services Division, in coordination with specific program, management and administrative experts will continue to coordinate the revision and review of the OIG manual. This includes development of new material based on new legislation and policy as well as revision of outdated chapters.

### **Procurement**

The Administrative Services staff will review the status of COTR training within OIG. They will ensure that all COTRs have current training and certification. In addition a training program will be developed to insure that all office cardholder and approving officials have current information on and understanding of their roles and responsibilities.

### **Space Analysis and Planning**

The Administrative Services Division (ASD) will continue to assess office space requirements for the OIG and will implement plans to acquire space or make changes to existing locations based on organizational requirements. During 2002 this will include obtaining additional headquarter space to meet the needs of additional staff in the Office of Audit, and ensuring optimum configuration and furnishing of the space.

### **Budget**

The Budget staff will guide the OIG in implementing cost accounting and performance based budgeting as directed by the OMB.

### **Training**

HR will expand its efforts in OIG wide training initiatives with programs directed at orientation for new employees, retirement, pre-retirement, and management training on changing supervisory and management responsibilities. The OIG-wide training initiative will continue in FY 2002 to ensure a workforce uniformly equipped with basic or higher level skills in all OIG-wide applications.



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### Staffing

HR will focus on automation including, streamlining recruitment and staffing processes, and planning for implementation of the Treasury enterprise wide HR Connect system.

### Employee Benefits

HR will develop a comprehensive plan of benefits education for employees. This will be a two-phased approach: to update our current employees on the numerous changes to Federal benefits and entitlements; and to focus on benefits as a recruitment tool for attracting new employees.



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**T**he 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 Office of the Inspector General. The Office of Counsel, which is located in Washington, D.C., is staffed with a Deputy Counsel, three Assistant Counsel, two paralegals and an office manager.

### **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 Investigations and Audit. 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 and the Equal Employment Opportunity Commission.

The office is also responsible for managing 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 through litigation, as well as responding to Giglio<sup>2</sup> requests from the Department of Justice for information on Treasury personnel.

### **Initiatives in Fiscal Year 2002**

The Office of Counsel will provide training on the Inspector General 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. The Office will complete the vetting and publication of updates to Treasury Order 114-01 and Treasury Directives 27-12 and 40-01. As statutorily mandated, legislative and regulatory proposals will be reviewed and, where appropriate, comments will be coordinated.

The Office of Counsel will support OIG investigative, oversight and audit activities by responding to requests for legal advice. In addition, investigative activities will be supported through the review and processing of requests for the issuance of Inspector General subpoenas.

In the area of disclosure, the Office of Counsel will complete the implementation of an independent FOIA and Privacy Act program for the OIG, including issuance of notices, completion of regulations, and generation of required reports. Based upon past experience, the Office of Counsel expects to process sixty initial

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<sup>2</sup> 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.



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FOIA/Privacy requests and twenty appeals from those initial responses. In the area of electronic FOIA, the Office of Counsel expects to review 150 audit, evaluation and oversight reports for posting on the OIG web site. The Office of Counsel will complete amended Privacy Act systems of records notices for both OIG's investigative and administrative records systems. 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.

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**T**he Assistant Inspector General for Investigations (AIGI) is responsible for the overall investigative and oversight activities of the Office of Inspector General relating to the programs and operations of the Department of the Treasury.

### **The Role of Investigations**

The Office of Investigations' (OI) role within the OIG is to conduct and supervise 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.

The OI provides direct oversight of the internal investigations performed by the Offices of Inspection of the Bureau of Alcohol, Tobacco and Firearms and the United States Secret Service, and the Office of Internal Affairs of the United States Customs Service.

Types of investigations conducted by OI include allegations of employee misconduct, corruption, procurement fraud and other criminal or illegal acts. OI receives and investigates complaints or information received from employees, contractors, members of the public and Congress alleging criminal or other misconduct constituting a violation of laws, rules, or regulations.

### **Organizational Structure and Staffing**

Reporting directly to the AIGI is the Deputy Assistant Inspector General for Investigations (DAIGI), who is responsible for the day-to-day operations of OI. The OI is organized into three operational components consisting of the Enforcement Operations Division, the Treasury Oversight Division and the Regional Field Offices.

### **Enforcement Operations Division**

A Special Agent in Charge heads the Enforcement Operations Division (EOD). EOD is responsible for the administration of the OI budget and records management. It is also responsible for developing OI policy and procedures, developing an ongoing training program and maintaining the Victim/Witness Protection and Special Agent deputation programs.

### **Treasury Oversight Division**

The Treasury Oversight Division (TOD) is supervised by a Special Agent in Charge. TOD is comprised of the Special Investigations Unit (SIU), the Treasury Inspection Unit (TIU) and the Operations Control Unit (OCU).

The SIU is responsible for investigating allegations against Department bureau heads and Treasury senior executives. Additionally, SIU investigates complaints received from members of Congress and other investigations deemed sensitive to the Department.



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TIU has the primary responsibility of providing liaison to and conducting oversight activities of all of the Department's bureaus, with the exception of the Internal Revenue Service, including the internal affairs functions of three of the Department's law enforcement bureaus. TIU is also responsible for the review and referral of all allegations to OI Field Offices or Treasury bureaus for investigation or management action, and conducting the internal inspection program of the OI field offices.

The OCU is responsible for the Treasury OIG Hotline. OCU also receives and processes all allegations and correspondence received by OI. OCU manages the Investigation Data Management System (IDMS) which tracks and monitors all activities relating to investigations and information data requests received within OI.

### **Field Offices**

There are five Field Offices and two sub-offices within OI. Each field office is supervised by a Special Agent in Charge. These offices are responsible for conducting investigations into allegations of criminal and administrative misconduct by Treasury employees and contractors. The field offices undertake the responsibility of developing proactive investigative initiatives and coordinating liaison activities with other law enforcement officials within their respective geographical regions.

### **STAFFING**

For fiscal year 2002, OI's investigative staff will consist of 72 full-time employee (FTE) positions. Of these, 63 are criminal investigators who conduct criminal and/or administrative investigations throughout the United States and its territories.

<b>Office</b>	<b>Number of FTEs Assigned</b>
Headquarters Component	20
Washington Field Office	16
Philadelphia Field Office	7
Houston Field Office with Sub-Office in Miami	14
Chicago Field Office	6
San Francisco Field Office with Sub-Office in Los Angeles	<u>9</u>
<b><u>Total</u></b>	<b>72</b>



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## **INVESTIGATIVE INITIATIVES FOR FY 2002**

- Lead the Department in conducting integrity and serious misconduct investigations by increasing its oversight role within the Department's law enforcement bureaus.
- Develop an oversight review program within the non-law enforcement bureaus of the Department. To meet this initiative, TOD will continue to conduct evaluations of the disciplinary processes and actions of the bureaus.
- Expand its oversight authority to conduct investigations into fraudulent banking activities by working with the Office of the Comptroller of the Currency, the Office of Thrift Supervision and the Financial Crimes Enforcement Network.
- Conduct oversight reviews of the Department's Community Development Financial Institutions Fund (CDFI) to determine its susceptibility to fraudulent activities.
- Enhance OI's exposure to Congressional staff by familiarizing them with OI's work initiatives and strategies.
- Further develop OI's computer forensic capabilities by training special agents on computer and data recovery techniques to ensure they are prepared to meet the challenges in conducting computer crime investigations.
- Expand OI's oversight of the Department's law enforcement bureaus (LE internal affairs components). During FY 2001 the Treasury Oversight Division (TOD) examined reports of investigation conducted by the internal affairs functions of the law enforcement bureaus. These reviews were conducted to determine if allegations of misconduct were conducted thoroughly, impartially and in a timely manner. Additionally, TOD reviewed discipline files to determine whether the bureaus administered discipline fairly and equitably.

OI will initiate and establish a close working relationship with procurement and contracting officials within the Department to develop a comprehensive fraud awareness program.

### **Preventive Initiatives**

OI will continue to enhance and promote the OIG Hotline program as a mechanism that employees can use to report instances of waste, fraud and abuse relating to Treasury's programs and operations.

The OIG website is being redesigned and will offer individuals the opportunity to forward complaints and allegations directly to the OIG.



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Senior OI management will meet with senior Department and bureau management to facilitate the free flow of information and ideas in an effort to combat waste, fraud and abuse.

### **Post-September 11, 2001 Terrorism Investigative Assistance**

As a result of the terrorist actions at the World Trade Center and the Pentagon, OI agents participated in the search and recovery efforts at the Pentagon and in the investigation in New York City.

Additionally, OI currently has two agents detailed to the Federal Aviation Administration as Air Marshals and this commitment is likely to continue through much of 2002.

One OI agent, to date, has been called up from the Army Reserve to active duty for one year to participate in the U.S. war on terrorism.

Continued assistance by OI is anticipated in FY 2002 on an "as needed" basis to support investigative efforts headed by the FBI and the Departments of Justice and Treasury.



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

### The Role of Audit

The Office of Audit conducts or oversees the conduct of program, financial, information technology, 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 operations. The work of the Office is conducted in compliance with the standards and guidelines established by the Comptroller General of the United States, the President’s Council on Integrity and Efficiency, and other professional organizations.

### Organizational Structure and Staffing

The AIG/A has two deputies—one for Program Audits and Evaluations and the other for Financial Management and Information Technology Audits. In addition, the AIG/A’s immediate office consists of the Directorate for Audit Policy, Planning, and Quality Assurance. These offices are located in Washington, D.C. The Office of Audit has four regional offices located in Boston, Chicago, Houston, and San Francisco. Office of Audit authorized staffing levels for FY 2002 are shown in the following table:

#### Office of Audit Staffing at May 31, 2001

Immediate Office of the AIG/A	<b>10</b>
Program Audit and Evaluations (Washington D.C.):	9
Enforcement	10
Banking and Fiscal Service	10
Departmental Offices/	10
Manufacturing/Procurement	<b>39</b>
Evaluations	
Subtotal	
Program Audit (Outside Washington, D.C.):	
Northeastern Region (Boston)	11
Marlton, NJ (sub-office)	7
Central Region (Chicago)	12
Indianapolis (sub-office)	6
Southern Region (Houston)	15
Miami (sub-office)	6
Western Region (San Francisco)	17
Los Angeles (sub-office)	2
Subtotal	<b>76</b>
Financial Management and Information	
Technology Audits (Washington D.C.)	
Consolidated Financial Audit	10
Enforcement Financial Audit	10
Contact Financial Audit	6
Information Technology Audit	14
Subtotal	<b>40</b>
Office of Audit Total	<b>165</b>





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In addition to its authorized FTE ceiling, the Office of Audit uses Independent Public Accounting (IPA) firms under contract to perform a substantial portion of the financial statement audits of Treasury bureaus and activities required pursuant to the Chief Financial Officer (CFO) Act, the Government Management Reform Act (GMRA), and other statutes.

### ***Program Audits and Evaluations***

Under the management and direction of the Deputy Assistant Inspector General for Program Audits and Evaluations are three National Directors of Audit, four Regional Inspectors General for Audit, and one Director of Evaluations. The National Directors of Audit are responsible for program audits performed by Washington, D.C., staff as well as coordinating audit planning for their assigned functional areas to ensure that audits of highest priority are included in the annual work plan. The functional areas the National Directors are responsible for are described below:

- National Director, Enforcement provides nationwide leadership for program audits of Customs, ATF, Secret Service, FinCEN, and other Treasury enforcement components.
- National Director, Banking and Fiscal Service provides nationwide leadership for program audits of OCC, OTS, CDFI Fund, other banking-related Treasury components, FMS, and BPD.
- National Director, Departmental Offices/Manufacturing/Procurement provides nationwide leadership for program audits of BEP, the Mint, and Treasury's Departmental Offices, as well as for program audits of procurement activities at all Treasury bureaus and offices.

The four Regional Inspectors General for Audit are directly responsible for all audit work of Treasury bureaus within their respective geographic locations. They are secondarily responsible for planning and leading national audits of certain Treasury bureaus and functions, as follows:

- Regional Inspector General for Audit (Northeastern) plans and leads national audits of the commercial operations of ATF and Customs.
- Regional Inspector General for Audit (Central) plans and leads national audits of enforcement operations of ATF and Secret Service.
- Regional Inspector General for Audit (Southern) plans and leads national audits for the enforcement operations of Customs.
- Regional Inspector General for Audit (Western) plans and leads national audits of the operations of OCC, OTS, and other banking-related Treasury components.





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Under the overall management and direction of the Deputy Assistant Inspector General for Program Audits and Evaluations, the Director of Evaluations is responsible for evaluations, studies, surveys, and analyses covering programs and operations of the Department and its components. The Director supervises a staff of program analysts, economists, and statisticians. The Director also provides overall coordination for evaluation planning to ensure that reviews of the highest priority are included in the annual plan.

### ***Financial Management and Information Technology Audits***

Under the management and direction of the Deputy Assistant Inspector General for Financial Management and Information Technology Audit are four 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. They are also 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 by Director are described below:

- Director, Consolidated Financial Audit is responsible for performing the annual audit of the Department's consolidated financial statements pursuant to the CFO Act and GMRA, and performing or providing contractor oversight for audits of other components or activities which are material to Treasury or are required to be audited by other statutes. The Director participates with the U.S. General Accounting Office (GAO) and reviews its work on the audits of IRS and BPD.
- Director, Enforcement Financial Audit is responsible for performing, or providing contractor oversight, for audits of enforcement bureaus designated for stand-alone audits pursuant to the CFO Act and GMRA, and audits of other components or activities which are material to Treasury or are required by other statutes.
- Director, Financial-Related Audit is responsible for: (1) performing, or providing contractor oversight, for pre-award, cost incurred, and other contract audits referred to OIG by Treasury bureaus; (2) performing the audit of the Mint gold and silver reserves; (3) overseeing Single Audit Act requirements pertaining to Treasury activities; and (4) managing the funding and reimbursement agreements with audited bureaus related to financial statement audits.
- Director, Information Technology Audit conducts reviews of the acquisition, use, and disposal of complex computer and other information technology systems, and 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 the data integrity and data processing; consistently support Treasury needs; and are developed and operated in accordance with all applicable policies, standards, and procedures.



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## **Issue Area Planning**

Because we cannot address every aspect of Treasury's Strategic Plan in a given year, we direct our audit resources toward high priority issues that benefit our customers and stakeholders. To identify the high priority issues, we have an ongoing issue area planning process. The AIG/A has identified 18 Issue Areas that are linked to Treasury's primary missions, roles, and responsibilities, as described in Treasury's Strategic Plan. These Issue Areas guide us in identifying the universe of long- and short-range topics or subjects significant to Treasury and its stakeholders that need to be addressed through audit or evaluation because they either expose vulnerabilities or are known to have problems. It should also be noted that in response to the events of September 11, we reprioritized our plan to give greater emphasis to continuity of operations, Treasury employee safety, border security, Treasury efforts to combat money laundering, and IT security.

Our Issue Areas for FY 2002 are listed below:

1. Treasury General Management and Infrastructure Support
2. Contributions to International Financial Institutions
3. Foreign Asset Control
4. Grant Award and Administration
5. Money Laundering, Bank Secrecy Act, and Criminal Enforcement
6. Government-wide Financial Management Services
7. Financing and Accounting for the Public Debt
8. Revenue Collection
9. Protecting the Public
10. Narcotics Interdiction
11. Trade and Passenger Processing
12. Manufacturing Operations
13. Marketing and Distribution
14. Financial Crimes Enforcement
15. Protective Operations
16. Safety and Soundness of Financial Institutions
17. Fair and Equal Access to Financial Services
18. Training Operations

## **FY 2002 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 it, we considered: (a) observations and suggestions by our managers, auditors, evaluators, and investigators; (b) Treasury's FY 2002 budget justification priorities; (c) legislation which requires us to conduct specific audits such as the Government Performance and Results Act, CFO Act, GMRA, the Government Information Systems Reform Act (GISRA), and the Federal Deposit Insurance Corporation Improvement Act; and (d) recent Congressional activity, testimony by Treasury officials, and remarks indicating significant areas of interest by Congressional, Office of Management and Budget (OMB), and Treasury officials and staff. We also considered the events of September 11.



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Key features of this plan include:

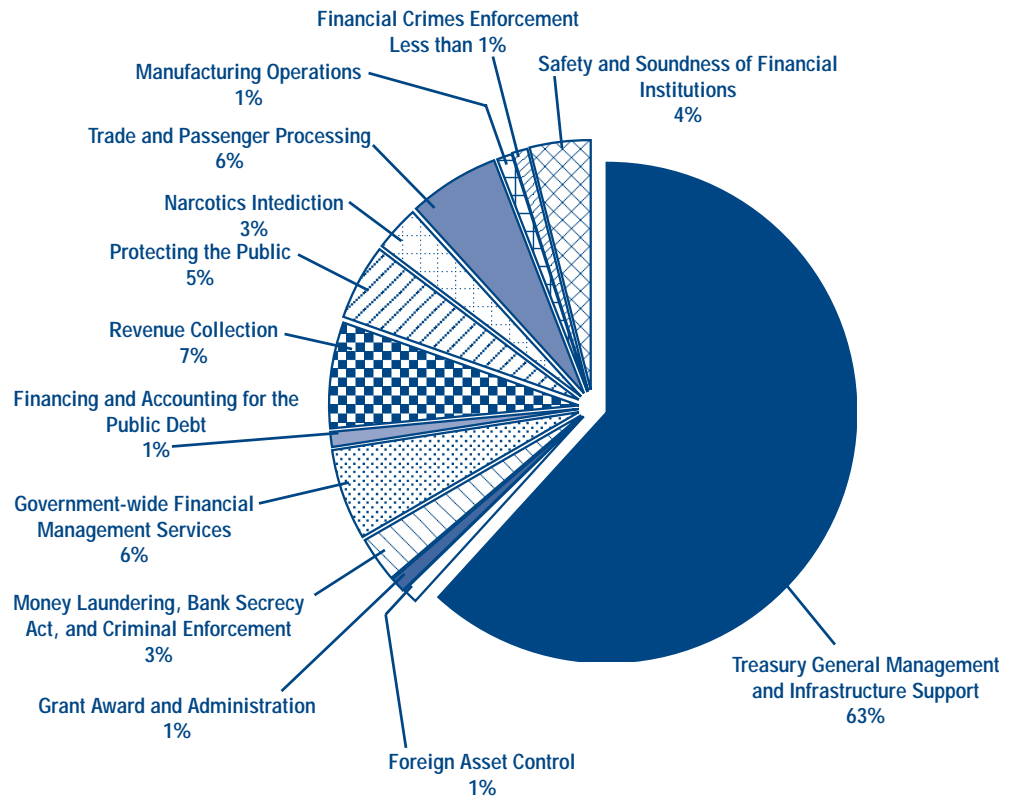
- *Perspective.* The plan's emphasis is on those issues of greatest significance to Treasury rather than to individual Treasury bureaus. In accordance with the Reports Consolidation Act of 2000, and in prior years to requests from the congressional leadership, we annually provide the Secretary our views on the most significant management challenges facing the Department. In February 2001, we identified the following significant management challenges: (1) Information Security, (2) Treasury's Information Technology Investment Management, (3) Money Laundering/Bank Secrecy, (4) Safety and Soundness of the Banking Industry, (5) Narcotics Interdiction and Trade Enforcement, (6) Revenue Protection, (7) Violent Crime, (8) Implementation of the Government Performance and Results Act, and (9) Financial Management at Treasury/ Compliance with the Federal Financial Management Improvement Act.
- *Customer and Stakeholder Participation.* Our draft plan was provided, through bureau liaisons, to Treasury officials for comment. The Directors and their staffs met with Department and bureau officials and staff throughout the year to solicit audit and evaluation suggestions. We also met with interested staff from various congressional committees and OMB to obtain their insights and suggestions.
- *Responsiveness.* The plan is revised throughout the year to accommodate new legislative requirements, changing bureau missions, and unforeseeable events.
- *Continuity.* The plan is a dynamic document that will be updated and continued beyond FY 2002. At present, there are many high priority audits that were not included in the plan due to resource constraints.

Through our planning process we have identified 114 new audit and evaluation projects for inclusion in the FY 2002 Annual Plan. These projects are described in Appendixes A and B of the Plan, respectively. Appendix C describes 23 audit projects that were started in FY 2001.



The following chart shows the percentage of available OIG staff and contractor resources allocated by OIG issue area for in-progress and planned new audit and evaluation projects during FY 2002:

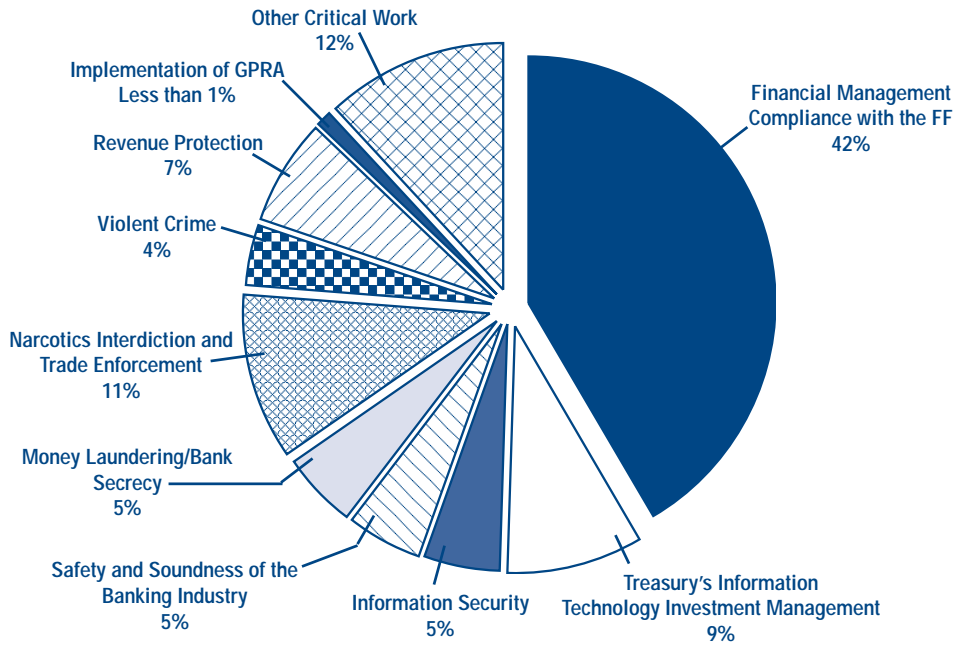
FY 2002 Resource Allocation by OIG Issue Area



In total, 88 percent of our planned resource utilization during FY 2002 addresses the nine significant management challenges we identified in February 2001 as depicted in the following chart:

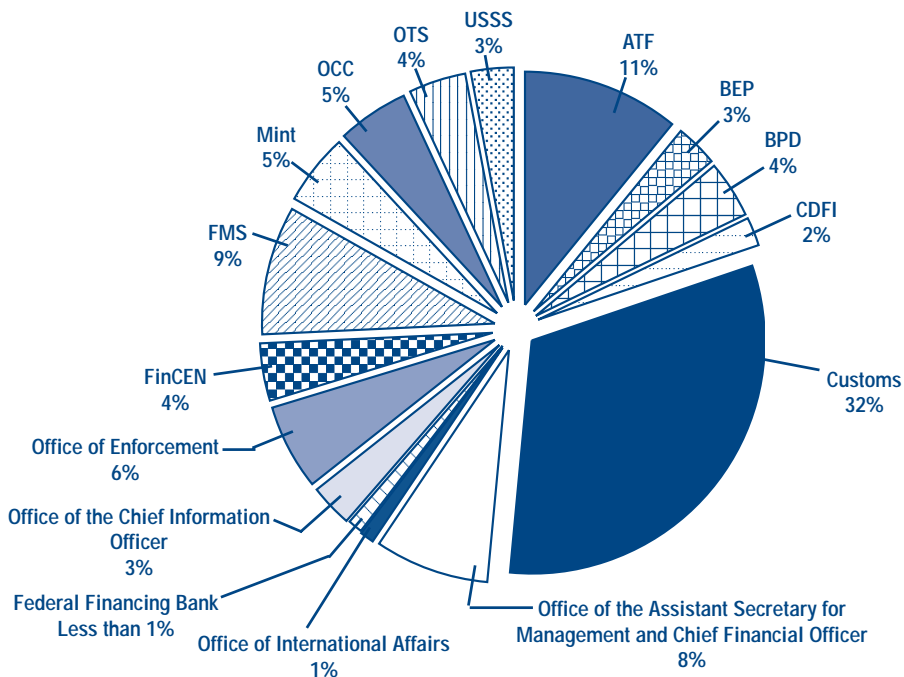


### FY 2002 Resource Allocation by Management Challenge



Our planned resource allocation by Treasury bureau and Headquarters operational component is depicted in the following chart:

### FY 2002 Resource Allocation by Treasury Bureau and Headquarters Operational Component



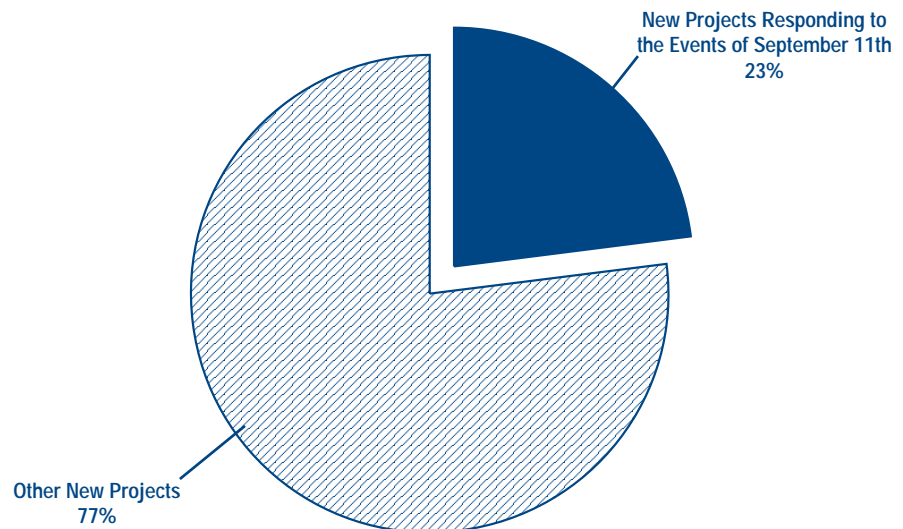


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Our planned new projects include 27 audits and 11 evaluations responding to the events of September 11. The following chart depicts our resource allocation to these projects compared to our other planned work:

### FY 2002 Resource Allocation by Treasury Bureau and Headquarters Operational Component



In addition to the projects responding to the events of September 11, we are increasing our audit emphasis during FY 2002 on the following programs and operations that we believe represent significant risk to the Department: the Customs Modernization Program, safety and soundness of financial institutions, and the Mint's Public Enterprise Fund. These areas of increased emphasis are briefly described below:

- **Customs Modernization Program.** Continuing an initiative started during FY 2001, we will be conducting a series of audits to provide ongoing oversight of the Customs Modernization Program. This multi-year effort will first focus on the Automated Commercial Environment (ACE) initiative, with other follow-on reviews of the Modernization Program as it evolves. We are undertaking this effort because of the importance of the Modernization Program to improve Customs trade, enforcement, and administrative operations. The ACE initiative, estimated to cost \$1.4 billion during its life cycle, also represents a significant IT investment by the Department. We are coordinating our work related to ACE closely with the efforts of GAO to avoid any duplication of audit work.
- **Safety and soundness of financial institutions.** Clearly, a safe and sound banking system is a pre-condition for stability within our financial system. Through OCC and OTS, Treasury regulates and supervises banks and thrifts with combined assets of over \$4.2 trillion that account for over



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58 percent of total industry assets. In addition, OCC-regulated national banks account for the vast majority of the off-balance-sheet assets, also known as financial derivatives, which are estimated to exceed \$35 trillion. For nearly a decade the banking industry has experienced record profits, and bank failures continue to be minimal with less than 10 per year since 1995. However, the events of September 11 have exacerbated a slowing economy that poses added risks to the banking industry. These emerging risks include declining consumer confidence, rising unemployment and hard-hit sectors such as insurance, lodging, and airline industries.

Aside from fundamental economic factors, added regulatory and supervisory challenges arise out of the recently enacted Gramm-Leach-Bliley Financial Services Modernization Act (GLBA) of 1999. This legislation lifted decade old restrictions on affiliations among banks, securities firms, and insurance companies. With it, additional supervisory challenges may also arise in other areas such as money laundering, the Community Reinvestment Act, financial privacy and the expanded sharing of regulatory responsibility under the new law's functional regulation provisions. For example, we recently reported that the business of banking is evolving to include selling insurance, and this activity is expected to expand with the passage of GLBA. While insurance activities have traditionally been under the functional regulation of the states, we believe that OCC needs to determine the reliance it can place on state supervision, and better define its supervisory role over national bank insurance activities.

Furthermore Section 38(k) of the Federal Deposit Insurance Act, as amended, requires us to conduct a post-failure review, known as a material loss review (MLR), of the supervision exercised over a failed institution regulated by Treasury if the institution's failure results in a loss to a deposit insurance fund exceeding either (1) \$25 million or (2) 2 percent of the institution's total assets when the Federal Deposit Insurance Corporation (FDIC) provided financial assistance. Our report on an MLR must generally be completed within 6 months after the FDIC has estimated a material loss. In August 2001, we started an MLR of Superior Bank FSB, located in Hinsdale, Illinois, which was taken over by Federal regulators in July 2001. Unofficial loss estimates to the deposit insurance fund have been put at about \$500 million. Our review of OTS' supervision over Superior Bank will be completed during FY2002.

- *Mint's Public Enterprise Fund.* Since 1995, the Mint has been operating under the authority of the Public Enterprise Fund (PEF) legislation. The Mint's operations have grown considerably, primarily because of the popularity of the 50 State Quarters and Golden Dollar programs.

Under the PEF, the Mint uses public funds to manufacture coins, and pay expenses. Excess amounts in the PEF are transferred to the Treasury as a miscellaneous receipt. The Mint also has a great deal of latitude in conducting its operations in that it does not have to follow the same procurement and



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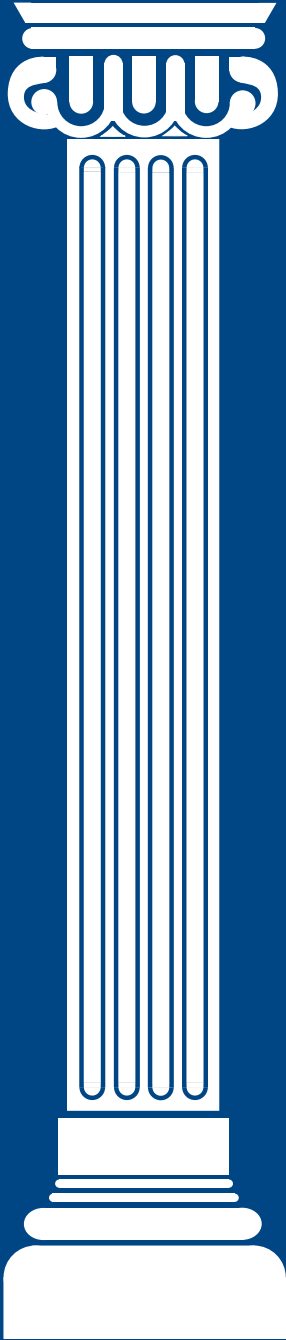
personnel regulations as other Federal agencies. However, it needs to follow sound business practice and effective management oversight to ensure that the return to the Government from its operations is maximized.

### **Collaboration with the Office of Investigations**

It is difficult to anticipate the level of audit and evaluation resources needed to support OIG investigations. Our practice has been, and will continue to be, to treat requests for assistance by the Office of Investigations and other investigative organizations as top priority. Accordingly, we are prepared to delay or defer other planned audit work, if necessary, to support the Office of Investigations.

The Office of Investigations participated in the process that led to the audits and evaluations included in this plan. Also, we intend to collaborate on several audits and integrity probes during the year. This plan, however, is not the appropriate place to discuss specific cases or projects.





**Fiscal Year 2002  
Annual Audit Plan  
Appendix**



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## **Appendix A**

### **Project Narratives Planned New Audits for FY 2002**

#### **High Priority Audits in Response to the September 11th Events**

##### ***Customs Counter Terrorism Efforts Related To The Processing Of International Mail***

Contact Person: Donald Benson (617) 223-8638

Background: An FY2001 OIG audit addressed issues associated with international mail. We did not visit six Customs International Mail Branches (IMB) during the audit. As a follow up to our FY 2001 audit, we plan to visit these IMBs to review controls that ensure mail is delivered for examination. The audit will assess whether all mail arriving into the U.S. from foreign countries, including mail arriving at land border ports from Canada and Mexico, are properly delivered to the IMBs for inspection. In addition, the audit will review techniques and equipment (e.g. X-ray machines) used to inspect the mail. Due to recent events in which mail has been used to transmit the biological agent anthrax, Customs inspection of international mail has become even more critical.

Audit Objective/Key Question(s): Does Customs have controls in place to ensure that all international mail is delivered to IMBs, and that Customs is detecting illegal substances and any other destructive materials in the mail? Has Customs established risk assessments to properly target suspect mail? Does Customs adequately inspect the mail for illegal and/or destructive materials? We estimate that 2,000 hours will be needed to complete this project.

##### ***Customs Targeting And Inspection Efforts For Vessel Containers***

Contact Person: George Tabb (713) 706-4613

Background: All seaports of entry are required to capture the number of cargo containers arriving in the United States as well as the number of narcotics enforcement examinations performed on these arrivals. This information is retained in the Customs Service Port Tracking System. Customs has acknowledged the high-risk of vessel containers being used as a means for smuggling narcotics. However, since the September 11<sup>th</sup> terrorist attacks, the Commissioner of Customs announced that terrorism has



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replaced drug smuggling as the agency's top priority and has redeployed inspectors that were dedicated to searching for illegal drugs to the Canadian border, a known entryway for terrorists to enter the United States. Vessel containers can also be used to smuggle weapons, munitions and other implements of terrorism that affect national security. Adequacy of storage facilities and ease of access to valuable sensitive items such as hazardous materials, arms, ammunition, and explosives is now of heightened concern.

Audit objective/key questions: How does Customs ensure security of marine containers from entry to release? How does Customs target and inspect marine containers and can its targeting and inspection methodology be improved? We estimate that 2,400 hours will be needed to complete this project.

### ***Customs Automated Passenger Information System Follow-Up***

Contact Person: Donald Benson (617) 223-8638

Background: The Advance Passenger Information System (APIS) is an automated system capable of performing database queries on air passengers prior to their arrival in the U.S. from foreign locations. The system was developed in 1988 to collect biographical information (name, date of birth, country of residence, etc.) from air passengers prior to departure for the U.S. from foreign countries. While participation in APIS is voluntary, 94 major air carriers flying into the U.S. from foreign locations do participate, along with two foreign governments. Prior to a plane's arrival, the APIS data is checked against a database known as the Interagency Border Inspection System (IBIS). IBIS is a combined database of Customs, Immigration and Naturalization Service (INS), State Department, and 21 other federal agencies. Names are also checked against the FBI's NCIC database. In FY 2000, over 57 million passengers who entered the U.S. on nearly 387,000 flights from foreign locations were processed through APIS. APIS field coordinators are assigned to most major airports where U.S. Customs is present.

In 1998, the OIG issued a report on APIS that found that Customs needed to (1) improve monitoring of airline passenger data; (2) monitor APIS Computer processing trends, and (3) ensure inspectors intercepted high risk passengers and recorded their inspection results. The audit recommended that Customs and INS formalize an agreement on how to monitor airline submissions of pre-arrival passenger data.

Audit Objective/Key Question(s): Did Customs take appropriate corrective action in response to the prior audit report's findings? Does Customs effectively use APIS to retrieve and process enforcement information on passengers arriving on international flights? Should all air carriers arriving from foreign destinations (including charters) be required to participate in APIS? We estimate that 1,200 hours will be needed for this project.



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### ***Customs Use Of Radiation Detection Devices***

Contact Person: Donald Benson (617) 223-8638

Background: Many Customs inspectors located at border ports have been issued Personal Radiation Detectors (PRD) that, when properly used, alert them to the presence of radioactive materials. Such materials could be used for terrorist attacks on the U.S. The PRD, about the size of a pager, hooks onto an inspector's belt and, when radiation is present, alerts the inspector. Since the September 11<sup>th</sup> terrorist attacks, the proper use of PRDs at the U.S. ports of entry may be critical to avoid illegal importation of radioactive materials and ensure the safety of Customs officers.

Also, in the Summer of 2000, Customs was evaluating a large-scale, prototype portal radiation detector for use at the ports. This equipment would be used for the purpose of detecting radioactive materials being transported on a large-scale basis, such as via truck.

Audit Objective/Key Question(s): Is Customs effectively using radiation detection devices? We estimated that 800 hours will be needed for this project.

### ***Customs Use Of Itemisers***

Contact Person: Donald Benson (617) 223-8638

Background: An itemiser is a device installed in many mobile x-ray vans that is used to detect trace quantities of narcotics and explosives. Itemisers are also manufactured as hand-held devices. A detector module within the itemiser processes samples and, based on analysis via the sophisticated software programming within the system, indicates detection or no detection of narcotics or explosive particles. According to Customs, it has acquired 38 itemisers, costing about \$40,000 each.

Since the events of September 11<sup>th</sup>, a detailed review of the use and effectiveness of the itemisers may identify ways to improve the use and effectiveness of this equipment.

Audit Objective/Key Question(s): Is Customs utilizing itemisers, which can be used for anti-terrorism purposes, in the most efficient and effective manner possible? We estimate that 800 hours will be needed for this project.

### ***Customs Threat Response Plan***

Contact Person: Donald Benson (617) 223-8638

Background: In February 2000, the Commissioner of Customs announced the implementation of a new plan of action to respond to security threats at the borders. The plan was established in direct response to Customs'



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apprehension at Port Angeles, WA, in December 1999 of three individuals with ties to terrorist activities, along with the seizure of powerful bomb-making materials. The plan contains four levels with level 4 pertaining to “normal operations” and level 1 pertaining to “sustained intensive anti-terrorism operations,” where specific and actionable threat information is known. Each level carries a specific set of instructions for Customs field managers to implement once the alert is activated.

Audit Objective/Key Question(s): Has the Threat Response Plan been updated for lessons learned when either invoked in an emergency situation or through testing? We estimate that 1,600 hours will be needed for this project.

### ***Customs Intelligence Program***

Contact Person: George Tabb (713) 706-4613

Background: Customs’ basic mission is to ensure that persons and goods entering and exiting the United States do so in compliance with all United States laws and regulations. Enforcement of trade laws and interdiction of contraband are two critical tasks associated with these responsibilities. Customs’ strategic objectives regarding its law enforcement responsibilities consist of intelligence, interdiction, and investigative efforts. Of these, intelligence is critical since it is integral to and drives the efforts and associated resources of interdiction and investigative activities.

Customs FY 2002 proposed budget is \$2.4 billion with 17,849 FTE’s. The Office of Investigations (OI) has 3,876 positions. OI is responsible for investigation and intelligence, and shares responsibility of anti-smuggling activities with the Office of Field Operations (OFO). Within OI, the Intelligence and Communications Division is responsible for intelligence gathering, analysis, operation, and liaison with the Intelligence Community. Such responsibility also includes functional oversight over Customs’ intelligence assets at Headquarters and in the field. The Division produces tactical, operational, and strategic intelligence.

Audit Objective/Key Question: Is Customs intelligence data being effectively used and shared? We estimate 2,200 hours will be needed to complete this project.

### ***Customs Attachés***

Contact Person: Benny Lee (415) 977-8810

Background: Customs maintains foreign field offices in 25 foreign countries. Customs Attachés provide information and assistance to the public on U.S. import and export policies, procedures, and regulations. However, Customs Attachés’ primary mission is investigative. The law enforcement jurisdiction of Customs covers any commodity, vessel, or person that crosses U.S.



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borders, including the mails, in violation of U.S. law. Customs Attachés work closely with host governments and other law enforcement to develop evidence of crimes committed in the U.S. and in foreign countries. In the wake of September 11<sup>th</sup>, Customs replaced the bureau's top priority of combating drug smuggling with combating terrorism. In line with this new focus, Customs Attachés may well be strategically placed to provide enhanced intelligence information in support of U.S. efforts against terrorism.

**Audit Objective/ Key Questions:** How have Customs Attachés responded to Customs' refocused mission against terrorism? Are existing investigative and commercial informational systems used by Attachés also shared with other federal agencies? For example, the State Department has the Consular Lookout and Support System (CLASS), which contains about 5.7 million records on foreigners, most of which originate with the visa application process at their consulates and embassies overseas. Along with other law enforcement agencies, Customs is expected to contribute lookout information to CLASS. We estimate that 2,400 hours will be needed to complete this project.

### ***Customs Targeting Of Rail Carriers For Inspection***

Contact Person: Roberta Rickey (312) 886-6300

**Background:** Recently, the Canadian border has been a preferred entryway for terrorists. Additionally, terrorism has replaced drug smuggling as Customs top priority. In that rail cars could be used to enter implements of terrorism into the United States, we believe that a follow-up review of Customs' actions taken both in response to our prior reviews (Reports Nos. OIG-99-006 and OIG-99-077) and to address terrorism threats is appropriate.

**Audit Objective/Key Question(s):** What measures has Customs taken to address risks associated with rail shipments? We estimate that 2,000 hours will be needed to complete this project.

### ***Customs Hazardous Materials Program***

Contact Person: George Tabb (713) 706-4613

**Background:** According to a recent GAO report, over 770,000 shipments of hazardous materials are transported across the United States each day. Accidents involving these materials, such as spills, fires, and explosions, cost the United States over \$459 million annually and can have serious consequences for surrounding communities.

Because of this serious threat that unsafe imported products pose to our citizens, public health and safety is a priority area under the Customs' Trade Enforcement Strategy. Customs uses its authority to combat illegal importation, exportation, and transshipment of imported items that pose a threat to U.S. consumers and/or to the environment. Some of these items



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include contaminated or prohibited foodstuffs, ozone depleting chloro-fluorocarbons (CFC), hazardous waste, and substandard automotive and aircraft parts.

Audit Objective/Key Question: Does Customs have effective processes in place to ensure the legal and safe transport of hazardous materials across U.S. borders? We estimate 2,000 hours will be needed to complete this project.

### ***Customs License Plate Reader Program***

Contact Person: Donald Benson (617) 223-8638

Background: The License Plate Reader (LPR) is a machine that can read and record front and rear license plates of vehicles crossing land borders. This data is sent to the Interagency Border Inspection System where checks are done against the Treasury Enforcement Communications System (TECS), the National Criminal Information Center, as well as various Immigration and Naturalization Service databases. If any matches are found, Customs officers are notified within 3 seconds after the LPR's initial plate reading. The system also makes a record in TECS of every vehicle it reads. In 1998, Customs awarded a multi-year contract in the amount of \$45 million to supply, install, and maintain LPRs on the northern and southern borders.

According to Customs FY 2000 Accountability Report, there were 234 LPRs operating in Arizona, California, Maine, Minnesota, New Mexico, Texas, and Washington. The report noted that current installation of LPRs at all major ports on the Southwest Border is scheduled for completion in September 2001.

Audit Objective/Key Question(s): Has the installation of LPR equipment increased Customs' effectiveness in preventing the entry of unauthorized personnel and illegal contraband? Has Customs exercised effective oversight of the LPR contractor? We estimate 2,000 hours will be needed to complete this project.

### ***Customs Automated Targeting System For Cargo Inspection***

Contact Person: George Tabb (713) 706-4613

Background: As the principal border agency that ensures all goods and persons entering the United States comply with laws, Customs has a fundamental role to play in the national narcotics strategy. Intelligence sources for this strategy indicate a large drug smuggling threat exists along the southern border of the United States. Seizure statistics show a lot of activity in this area. For example, during FY 2000 Customs seized approximately 1.1 million pounds of marijuana, 33,000 pounds of cocaine, and 250 pounds of heroin along the Southwest border. Also, with NAFTA and the ever-increasing trade and traffic creating additional workload,





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Customs must rely more and more on systems that selectively target shipments for examination. Two such systems are the Automate Commercial System's (ACS) Cargo Selectivity and the Automated Targeting System (ATS).

Audit Objective/Key Question: Does Customs have a staff of adequately trained and experienced analysts to maintain and update the ATS system? Is the ATS system effectively used to target shipments for examination? We estimate 2,000 hours will be needed to complete this project.

### ***Northern Border Security***

Contact Person: Donald Benson (617) 223-8638

Background: Canada and the United States share the world's longest undefended border. Each year, hundreds of billions of dollars in goods and more than 200 million individuals cross the border. Both countries benefit immensely from cross-border commerce, travel, and tourism, and are working closely to improve the way lawful travelers and goods are inspected at the border. Public Laws 106-346 and 106-554 provided funding for 48 additional special agents to increase Customs' ability to counter threats along the Northern Border and 17 additional special agents to participate in a Joint Terrorism Task Force. Resources were also obtained to fix and replace the aging Northern Border security infrastructure, including non-intrusive inspection technology, gates, signage, and video security systems. In addition, Customs has established a Northern Border Coordinator to focus on operations at Ports of Entry along this length of the country.

Audit Objective/Key Question(s): Is Customs successfully implementing its strategies to address Northern Border security threats? We estimate 2,000 hours will be needed to complete this project.

### ***Treasury Counter Terrorism Activities***

Contact Person: Roberta Rickey (312) 886-6300

Background: Under the coordination of the National Security Council, more than 40 Federal agencies, bureaus, and offices have a role in combating terrorism. Within Treasury, these include the Secret Service, Customs, and ATF. For FY 2001, Treasury funding for counter terrorism was \$440 million. Most of this amount is not a separate budget line item, but is inherent in the bureaus' mission.

In June 1995, the President issued Presidential Decision Directive (PDD) 39, the central blueprint for the counter terrorism strategy. It requires key Federal agencies to ensure that their counter terrorism capabilities are well exercised. In May 1998, the President issued PDD 62 that reaffirmed PDD 39 and further articulated responsibilities for specific agencies.



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Audit Objective/Key Question(s): Do Treasury bureaus effectively coordinate their command and control structure and contingency plans with each other and other Federal agencies in accordance with PDDs 39 and 62? We estimate 2,000 hours will be needed to complete this project.

### ***Identification Of Suspect Payment Transactions***

Contact Person: Clifford Jennings (202) 927-5771

Background: FMS disburses more than \$1.2 trillion for nearly 880 million non-Defense Federal payments such as Social Security and veterans' benefits and income tax refunds to more than 100 million people. For FY 2000, 70 percent of these transactions were issued by electronic funds transfer (EFT) through various systems. The remainder of FMS' payments are disbursed by check. Given the volume of disbursements, the potential exists for payments to be made to suspect terrorist groups, individuals, and affiliates. We will consult with the Departments of State and Commerce, the Agency for International Development, and others to help identify those entities and databases which, when matched, could show suspect transactions. We will also look for duplicate and other types of improper payments as well.

Audit Objective/Key Question(s): What processes does Treasury have to identify suspect transactions through its payment systems? As part of this audit, we will use IT analytical tools to perform data mining and file comparisons to identify highly suspect transactions. We estimate 3,200 hours will be needed to complete this project.

### ***Identification Of Suspicious Financial Transactions***

Contact Person: Donald Benson (617) 223-8638

Background: The September 11 terrorist attacks have heightened the need to identify large and suspicious financial transactions by agencies that are responsible for monitoring this activity. A member of the Senate Finance Committee recently criticized law enforcement for failing to notice some of the terrorists' large cash transactions. According to banking officials, detecting suspicious wire transfers is nearly impossible. A large bank can process between 10 and 125,000 wire transfers in a typical business day. About 70 percent of these transfers are usually for amounts under \$500,000, although transfers of \$1 to 4 million are not unusual.

In response to the terrorist attacks, the Department's Office of Foreign Assets Control (OFAC) recently announced the creation of an inter-agency group called the *Foreign Terrorist Asset Tracking Center* (the Center). Federal government agencies with counter-terrorism responsibilities have committed to participate in the Center. Customs, IRS, Secret Service, OFAC, ATF, and FinCEN are participating Treasury agencies.



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Audit Objective/Key Question(s): Can wire transfer data and large cash transaction data be better analyzed to identify suspicious financial transactions? Can BSA data be better used to help the Department's new Foreign Terrorist Asset Tracking Center follow the terrorist money trail? We estimate that 2,000 hours will be needed to complete this project.

### ***Government Information Security Reform Act***

Contact Person: Clifford Jennings (202) 927-5771

Background: Enacted as part of the FY 2001 Defense Authorization Act (P.L. 106-398), the Government Information Security Reform Act (GISRA) mandates that Federal agency OIGs, or independent evaluators, perform annual evaluations of their agencies' security program and practices. The OIGs are required to establish a cutoff date for their evaluation period that permits reporting the evaluation with the agency's annual budget submission. For this year, it is any review or evaluation that occurred after the enactment of GISRA (October 30, 2000) and August of 2001. For national security systems, agencies must submit to OMB copies of audits of the annual evaluations, which are also due with the agency's budget submission. This mandate includes approximately 950 systems within the Department of the Treasury.

Audit Objective/Key Question(s): Are Treasury's information security program and practices adequate to protect Federal information and information systems? We will identify and assess a representative sampling of systems that can be used to form the basis of a conclusion regarding the effectiveness of Treasury's overall security program. As provided in the legislation, we will use existing studies to the extent practicable and weighing their quality, applicability, and independence, security program reviews, vulnerability assessments, audits, or evaluations performed by other experts. Consistent with current practice, we may submit copies of audits or evaluations directly to OMB. We estimate 2,000 hours will be needed to complete this project.

### ***Penetration Testing And Vulnerability Assessment***

Contact Person: Clifford Jennings (202) 927-5771

Background: The Government Information Security Reform Act requires that we evaluate Treasury's information systems security program and practices. As part of this mandate, we plan to employ various technical tools such as virus scanners, vulnerability assessment products (which look for known security problems, configuration errors, and the installation of the latest patches), and penetration testing on an ongoing basis. The use of these technical tools is a well-founded audit approach. For example, GAO's Federal Information Systems Controls Audit Manual includes the use of penetration testing as an audit procedure for testing logical controls over data files and software programs.



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Treasury systems have already been subject to attack by unauthorized individuals. For example, one bureau's web page was defaced in March 2001. A different web page under the management of Treasury's Office of Chief Information Officer was defaced in May 2001. The latter intrusion is of significance as it appeared to have been done by foreign hackers in response to the recent disputes between the United States and China.

**Audit Objective/Key Question(s):** Are security controls over Treasury Local Area Networks (LAN), Wide Area Networks (WAN), and web servers effective? Are Treasury components able to detect, respond, and report computer security incidents in an effective manner? We estimate 1,000 hours will be needed to complete this project.

### ***Treasury Computer Security Incident Response Capability***

**Contact Person:** Clifford Jennings (202) 927-5771

**Background:** OMB Circular A-130, Appendix III, *Security of Federal Automated Information Resources*, requires each Federal agency to ensure there is a capability to provide help to users when a security incident occurs in the system and to share information concerning common vulnerabilities and threats. The recently enacted Government Information Security Reform Act requires that all agency programs include policies and procedures for detecting, reporting, and responding to security incidents, including mitigating risks associated with such incidents before substantial damage occurs and notifying and consulting with law enforcement officials and other offices as well as the General Services Administration's (GSA) Federal Computer Incident Response Capability. OMB Memorandum M-01-08, *Guidance On Implementing the Government Information Security Reform Act*, adds that Federal agency Inspectors General must be an integral part of the reporting process given their new role under GISRA.

To address these and other requirements, Treasury issued several policy document in draft during July 2000 for reporting and responding to computer security incidents occurring within the Department. The Treasury Computer Incident Response Capability (CSIRC) was established to provide a means to disseminate computer security incident information Department-wide and a consistent capability to respond to, and report on, computer security incidents.

**Audit Objective/Key Question(s):** Have Treasury and its bureaus established an effective capability to report and respond to computer security incidents? Are security incidents being reported as required to appropriate law enforcement agencies, GSA, and the OIG? We estimate 600 hours will be needed to complete this project.



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## ***Disaster Recovery Exercises***

Contact Person: Clifford Jennings (202) 927-5771

Background: OMB requires that controls for major applications and general support systems must provide for contingency planning and/or continuity of support. In order to satisfy these requirements, system owners must establish and periodically test the capability to perform the agency function supported by the application in the event of failure or to continue providing service based upon the needs and priorities of the user. In March 1996, we reported on the status of ADP disaster recovery capabilities within the Department.

Audit Objective/Key Question(s): Are appropriate disaster recovery exercises being performed? Are weaknesses identified by the exercises being corrected? Our review will be performed "on call." We will coordinate with Treasury components to be notified when an exercise is planned. We will observe recovery tests throughout the year and issue periodic reports on our observations. We estimate 400 hours will be needed to complete this project.

## ***Information Technology Physical And Environmental Security***

Contact Person: Clifford Jennings (202) 927-5771

Background: Physical and environmental security measures should be taken to protect systems, buildings, and related supporting infrastructures against threats associated with their physical environment. Physical and environmental security controls are necessary to protect the facility housing system resources, the system resources themselves, and the facilities used to support the operation.

Physical and environmental security controls can be separated into three components:

Physical - The building or other structure housing the system and network components. The physical characteristics of these structures determine the level of physical threats such as fire, roof leaks, or unauthorized access.

Facility- The facility's general geographic operating location determines the characteristics of natural threats (earthquakes, floods), man-made threats (burglary, civil disorders or interception of transmission), and damaging nearby activities (toxic chemical spills, explosions, fire, and radar).

Supporting facilities - Services (technical and human) that emphasize the operation of the system. The system operation usually depends on supporting facilities as electric power, heating and air conditioning, and telecommunication. Failure and substandard performance in this area may interrupt operation of the systems and may cause physical damage to system hardware or stored data.



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Audit Objective: Are the physical and environmental security controls over Treasury and bureau computer operations adequate? We estimate 2,000 hours will be needed to complete this project.

### ***FinCEN Gateway Program***

Contact Person: Barry Savill (202) 927-2968

Background: Under the Annunzio-Wylie Act, FinCEN was tasked with providing to Federal, state, and local law enforcement officials, data and information on activity that may lead to money laundering. FinCEN's Gateway Program is central to Treasury's overall efforts to assist state and local agencies with their anti-money laundering and financial crimes investigations. Through Gateway, state and local law enforcement agencies, working with designated state coordinators who are trained on FinCEN-designated software, have direct access to over 100 million reports filed under the Bank Secrecy Act. There are currently 677 active Gateway users, including about 260 Federal users. Gateway users researched about 6,000 cases in FY 2000.

Audit Objective/Key Question(s): How well is FinCEN managing and monitoring the Gateway Program to ensure that State and local law enforcement agencies are utilizing the information effectively to identify and investigate money laundering and other financial crimes? Are Gateway users satisfied with the program and with FinCEN? We estimate that 1,600 hours will be needed to complete this project.

### ***Contractor Access To Sensitive Data And Computer Operations***

Contact Person: Clifford Jennings (202) 927-5771

Background: Treasury and its component bureaus use contractors extensively in their computer operations. As part of their job tasks/ assignments, contractor personnel are given direct access to data files, application programs, and computer facilities. Therefore, it is important that contractor access to computer operations (both logical, including dial-up access, and physical) and sensitive data be reviewed to ensure that only authorized users have access and that these users are part of the current contract. For example, contractor employees who are no longer working on a specific contract should not have access to a computing facility, operating system, application system, or sensitive data. Contractor employees should also be subject to background investigation. While individual Treasury components may have contractor access standards that are more stringent, they must at least adhere to certain Department-wide requirements.

Audit Objective/Key Question(s): Are controls for granting access and reviewing the status of contractor employees accessing sensitive data and computer operations effective? We estimate 2,000 hours will be needed to complete this project.



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## ***Treasury Implementation Of Security Funding For Information Systems Investments***

Contact Person: Clifford Jennings (202) 927-5771

Background: OMB Memorandum M-00-07, *Incorporating and Funding Security in Information Systems Investments*, issued in February 2000, states: "The most effective way to protect information and systems is to incorporate security into the architecture of each. This approach ensures that security supports agency business operations, thus facilitating those operations, and that plans to fund and manage security are built into the life-cycle budgets for information systems." The Memorandum includes five criteria that must be included in budget proposals, beginning with FY 2002, for investments in the development of new or existing information systems, both general support systems and major applications. Specifically, budget proposals must: (1) be tied to the agency's information architecture, (2) be well planned, (3) manage risks, (4) protect privacy and confidentiality, and (5) account for departures from National Institute of Standards and Technology (NIST) Guidance. OMB will consider new or continued funding only for those system investments that satisfy the criteria and consider funding information technology investments only upon demonstration that existing agency systems meet these criteria.

The Government Information Security Reform Act (GISRA) requires agencies to incorporate security into the life cycle of agency information systems. In addition, GISRA requires each agency to examine the adequacy and effectiveness of information security policies, procedures, and practices in plans and reports relating to annual agency budgets, among other things.

Audit Objective/Key Question(s): Is the Department ensuring that funding for computer security is appropriately tied to its information systems investments? We estimate 800 hours will be needed to complete this project.

## ***Treasury Efforts As The Lead Agency For Banking And Finance Under Presidential Decision Directive 63***

Contact Person: Donald Kassel (202) 927-6512

Background: Certain national infrastructures are so vital that their incapacity or destruction would have a debilitating impact on the defense or economic security of the United States. These critical infrastructures include telecommunications, electrical power systems, gas and oil storage and transportation, banking and finance, transportation, water supply systems, emergency services, and continuity of government. To address threats to critical infrastructures, Presidential Decision Directive 63 (PDD 63) was issued during May 1998, with the goals of significantly increasing security to government systems by the year 2000 and of producing a workable and innovative framework for critical infrastructure by the year 2003.



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Under PDD 63, which calls for the protection of physical and cyber-based systems essential to the minimum operations of the economy and government, Treasury is the lead agency for liaison with the banking and finance sector. The related PDD 63 mission is to protect this sector from intentional acts that could significantly impact the sector's ability to provide for the orderly functioning of the financial system and the national economy, and to assure continued public confidence in the sector's ability to prevent, detect, and respond to infrastructure threats and incidents.

The sector, banking and finance, for which Treasury is the lead agency includes banks, financial service companies, payment systems, investment companies, and securities and commodities exchanges. Treasury has designated the Assistant Secretary for Financial Institutions as the Sector Liaison Official, who is responsible for coordinating with the banking and finance private sector entities to: (1) assess the vulnerabilities of the sector to physical or cyber attacks; (2) recommend a plan to eliminate significant vulnerabilities; (3) propose a system for identifying and preventing attempted major attacks; and (4) develop a plan to alert, contain, and rebuff an attack in progress and rapidly reconstitute minimum essential capabilities in the aftermath of an attack. In conclusion, the lead agency and private sector counterparts will develop and implement a Vulnerability Awareness and Education Program for the sector.

PDD 63 also strongly encourages each sector to establish a private sector Information Sharing and Analysis Center (ISAC) that could serve as the mechanism for gathering, analyzing, appropriately sanitizing, and disseminating private sector information to both industry and the National Infrastructure Protection Center (NIPC). The actual design and functions of the center and its relation to the NIPC will be determined by the private sector, in consultation with, and with assistance from, the Federal government. Of the eight sectors identified in PDD 63, the banking and finance sector is the only one that has an established ISAC.

Audit Objective/Key Question(s): To what extent has Treasury, as lead agency for the banking and finance sector, coordinated with private sector entities to meet the objectives of PDD 63? How successful have these efforts been? We estimate 2,000 hours will be needed to complete this project.

### ***Financial Institution Compliance With Foreign Sanction Program - Phase II***

Contact Person: Barry Savill (202) 927-2968

Background: The Office of Foreign Assets Control (OFAC) administers a series of laws that impose economic sanctions against hostile targets to further U.S. foreign policy and national security objectives. Economic sanctions are powerful foreign policy tools. However, their success requires the active participation and support of every financial institution. Sanctions may take the form of trade embargoes, blocked assets, prohibited





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commercial and financial transactions, or a combination of these measures. OFAC can impose both civil and/or criminal penalties for non-compliance with the established sanctions. Civil penalties range from \$11,000 to \$275,000 in fines. Criminal penalties range from 2 to 10 years imprisonment and \$10,000 to \$1 million in fines.

OFAC is not a financial institution regulator. Accordingly, it does not have regulatory oversight of the financial institutions that are required to implement the various sanctions. OFAC relies on the financial institution regulators compliance examinations to provide assurance that financial institutions activities comply with foreign sanction requirements.

Audit Objective/Key Question(s): This project represents the testing phase of our review of OFAC's foreign sanction program. We will test financial transactions to determine whether financial institutions are implementing the necessary measures to ensure that foreign sanction requirements are met. We estimate 2,800 hours will be needed to complete this project.

### ***Efforts To Identify Money Laundering Schemes Through Correspondent Banking***

Contact Person: Benny Lee (415) 977-8810, ext. 222

Background: The Senate Permanent Subcommittee on Investigations issued a report in February 2001, entitled *Correspondent Banking: A Gateway to Money Laundering*, that put a spotlight on a gaping hole in global money laundering controls called correspondent banking. "Correspondent banking" refers to services provided by one bank to another bank for purposes such as moving funds, exchanging currencies, or carrying out a variety of other transactions. According to a panel led by Senator Levin: "U.S. banks, through the correspondent accounts they provide to foreign banks, have become conduits for dirty money flowing into the American financial system and have, as a result, facilitated illicit enterprises, including drug trafficking and financial frauds."

Large correspondent banks in the U.S. manage thousands of correspondent relationships with banks in the U.S. and around the world. According to the Subcommittee report: "As of mid-1999, the top five correspondent bank holding companies in the United States held correspondent account balances exceeding \$17 billion; the total correspondent account balances of the 75 largest U.S. correspondent banks was \$34.9 billion."

Audit Objective/Key Question(s): Is the Department, through OCC, OTS, and FinCEN: (1) proactively identifying potential money-laundering schemes involving correspondent banking, (2) providing guidance to help U.S. banks identify and evaluate high-risk banks, (3) receiving and reviewing Suspicious Activity Reports that may involve correspondent banking, and (4) †providing guidance to State and local law enforcement officials to help identify potential



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money laundering schemes involving correspondent banking? We estimate 2,000 hours will be needed to complete this project.

***Assertions Included In the FY 2001 Annual Reports Of Drug Control Funds To The Office Of National Drug Control Policy***

Contact Person: Thomas Moschetto (202) 927-5074

Background: Office of National Drug Control Policy (ONDCP) Circular: *Annual Accounting of Drug Control Funds*, requires National Drug Control Program agencies to prepare a detailed accounting of obligations for National Drug Control Program activities. The Circular also requires us to conduct attestation reviews expressing a conclusion about the reliability of each assertion made in the agencies' reports.

Audit Objective/Key Question(s): Are the assertions made in Treasury and bureau reports to ONDCP about obligations for National Drug Control Program activities reliable? We estimate 840 hours will be needed to complete this project.

***Treasury Payments For Water And Sewer Services Provided By The District Of Columbia***

Contact Person: Mike Fitzgerald (202) 927-5789

Background: The Consolidated Appropriations Act of 2001 requires us to report to the Senate and House Appropriations Committees quarterly on the promptness of payments for water and sewer services received by the Department from the District of Columbia. These reports are due no later than the 15<sup>th</sup> day of the month following each quarter.

Audit Objective/Key Question(s): Have Treasury components made required payments for District of Columbia water and sewer services in a timely manner? We estimate 48 hours will be needed to complete this project.

***Treasury Progress In Achieving Compliance With The Federal Financial Management Improvement Act***

Contact Persons: Mike Fitzgerald (202) 927-5789

Background: The Federal Financial Management Improvement Act of 1996 (FFMIA), Section 803(a), states that: "In general each agency shall implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level."



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FFMIA requires us to report whether Treasury's financial management systems are in substantial compliance with these general requirements as part of the annual audit of the Department's financial statements pursuant to the Chief Financial Officers (CFO) Act and the Government Management Reform Act (GMRA). As a result of our audit of the Department's FY 2000 financial statements, we reported that Treasury's financial management systems were not in substantial compliance with FFMIA. That determination was primarily based on the audit results at Customs, IRS, and FMS.

Under FFMIA, the Department must prepare a remediation plan that will bring its financial management systems into substantial compliance. There is a requirement, separate from the FFMIA reporting requirement on the financial statement audit, that we assess the Department's progress under its remediation plan, and report on any missed milestones in the OIG Semiannual Reports to the Congress. This mandated reporting is to include the facts pertaining to the failure to comply with the requirements, including the nature and extent of the non-compliance, the primary reason or cause for the failure to comply, and any extenuating circumstances, as well as a statement of the remedial actions needed to comply.

**Audit Objectives/Key Questions:** Has the Department developed an appropriate FFMIA remediation plan? Has the Department met the milestones prescribed in its remediation plan? This work will be conducted at DO, Customs, FMS, OCC, Secret Service, and EOAF. The Treasury Inspector General for Tax Administration is responsible for reviewing and reporting on IRS' remediation plan. We estimate 300 hours will be needed to complete this project.

### ***Mint Procurement Operations***

**Contact Person:** Thomas Byrnes (202) 927-5904

**Background:** The Mint purchases almost \$730 million of goods and services annually. This amount includes approximately: (1) \$564 million (78 percent) related to coin production and (2) \$166 million (22 percent) for other goods and services that range from ADP hardware and software to furniture and custodial services. Public Law 104-52, enacted in 1995, established a Public Enterprise Fund for operating the Mint.

**Audit Objectives/Key Questions:** Is the Mint conducting its procurement operations in a manner that ensures integrity and maximizes return to the Public Enterprise Fund? We estimate 1,600 hours will be needed to complete this project.



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## ***Advances To The Working Capital Fund***

Contact Person: Danny Athanasaw (202) 927-5791

Background: The Treasury's Working Capital Fund (WCF) has maintained significant advance balances from various Treasury bureaus and other government agencies for several years. Also, the balance due to some bureaus has increased during that same period. As of September 30, 2000, these advances totaled approximately \$165 million. The WCF is considered a revolving fund. It should be charging the bureaus the costs it incurs for projects it performs on their behalf. The WCF should not collect amounts in excess of its costs. At the end of each year, the amounts billed should be reconciled to the actual costs incurred. Any excess or shortfall should be settled at that time.

Audit Objective/Key Question(s): Are consistent and timely reconciliation's between the actual costs incurred by the WCF and costs billed to bureaus being performed? Are the costs charged by the WCF to specific bureaus backed by appropriate supporting documentation? What assumptions, data, processes or models are used by WCF to estimate its annual costs, and are they appropriate? We estimate 2,000 hours will be needed to complete this project.

## ***FMS Electronic Transfer Accounts***

Contact Person: Donald Kassel (202) 927-6512

Background: The Debt Collection Improvement Act of 1996 requires Treasury to ensure that any individual required to have an account at a financial institution in order to receive electronic Federal payments has access to an account at a reasonable cost and with the same consumer protection provided to other account holders at the same financial institution. The Department designed Electronic Transfer Accounts (ETA) as low-cost accounts offered at federally insured financial institutions to allow Federal payment recipients to take advantage of Direct Deposit. Financial institutions choosing to offer ETA, which became available in September 1999, are required to enter into a contractual agreement with Treasury.

The dollar volume of ETA activity is unknown at this time. However, as of May 2001, more than 600 financial institutions with more than 14,000 branch locations nationwide had been certified for the ETA program. There are a total of 11,000 individual accounts.

Audit Objective/Key Question(s): Have ETAs been successful in allowing Federal payment recipients to take advantage of Direct Deposit? We estimate 1,600 hours will be needed to complete this project.



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### ***FMS Processing Of Limited Payability Monies Follow-Up***

Contact Person: Donald Kassel (202) 927-6512

Background: The Competitive Equality Banking Act (CEBA) of 1987 limited liability (and therefore payability) for a Federal government check to 12 months, after which time Treasury cancels the check and returns the funds to the agency that authorized the payment. This return of funds is to occur during the 14th month after issuance. In May 2000, we reported that FMS should ensure that the new system used to return funds to the agencies is processing transactions in a timely manner.

Audit Objective/Key Question(s): Are amounts due to Federal program agencies from cancelled checks properly and timely distributed in accordance with CEBA requirements? We estimate 400 hours will be needed to complete this project.

### ***Internet Bids And Sales For Treasury Securities***

Contact Person: Donald Kassel (202) 927-6512

Background: The Government's fiscal position has resulted in its borrowing needs changing significantly, and the Department has been adjusting the Government's borrowing program accordingly. Along with these adjustments, the Department has also tried to streamline its securities auction process to better serve its customers. One recent development in the auction process is the use of the Internet for submitting offers. Savings bonds can now be purchased over the Internet using Discover, MasterCard, and Visa debit or credit cards. Currently, noncompetitive bids by individual investors can be made over the Internet. In a noncompetitive bid, the investor agrees to accept a rate determined by the auction, and in return is guaranteed a security. Internet bids can only be tendered by existing Treasury Direct account holders. BPD has also been developing Internet access for small commercial bidders to tender competitive bids for Treasury securities.

Audit Objective/Key Question(s): Does BPD have adequate internal controls over Internet securities transactions related to its debt instruments? Is security and integrity over customer information and privacy maintained? Do BPD Web sites comply with OMB policies for privacy and data collection? We estimate 2,000 hours will be needed to complete this project.

### ***BPD Special Purpose Securities Program***

Contact Person: Donald Kassel (202) 927-6512

Background: BPD's Division of Special Investments (DSI) is responsible for issuing State and Local Government Series (SLGS) Securities (time deposit and demand deposit). Subscriptions for SLGS Securities were received and processed at 12 Federal Reserve Bank sites until early in 1995, when the



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function of processing SLGS Securities was centralized in DSI. The Special Purpose Securities System (SPSS) was implemented during October 1999. SPSS is a client server system designed to establish, maintain, pay, and report on SLGS and other special purpose securities. SPSS was intended to improve transaction-processing efficiency, customer service to investors, management information, and controls over personnel and system resources. It was also intended to provide greater operational flexibility.

Audit Objective/Key Question(s): Has the automated system for SLGS achieved its objectives? We estimate 2,000 hours will be needed to complete this project.

### ***Contracting By Negotiation***

Contact Person: Thomas Byrnes (202) 927-5904

Background: The Department awards over \$200 million in negotiated contracts. In October 1997, Federal Acquisition Regulation rules for contracting by negotiation were changed. Specifically, pre-award audits are no longer required if the contracting officer believes that adequate competition exists. Since this change, the Department's requests for pre-award audits have declined significantly.

Pre-award audit information provides contracting officers with information about the allowability and the support for costs proposed. Such information places the contracting officer in a better position to negotiate with potential contractors.

Audit Objectives/Key Question: For negotiated contracts that have been awarded without a pre-award audit, has the Department documented that competition exists? Has the Department obtained goods and services through such contracts at the most advantageous terms to the Government, price and other factors considered? We estimate 1,600 hours will be needed to complete this project.

### ***Federal Agency Referral Of Delinquent Non-Tax Debt Under The Debt Collection Improvement Act Of 1996***

Contact Person: Donald Kassel (202) 927-6512

Background: 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. FMS, which is responsible for the collection of delinquent debt, applies a variety of debt collection tools and issues related regulations.

Since the passage of the DCIA, Treasury has collected more than \$9billion in delinquent debt owed to States and to the Federal government. During



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FY 2000, FMS collected \$2.6 billion in non-tax debt, including \$1.4 billion in delinquent child support.

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 works 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. Agency cooperation is crucial to the continued effectiveness of Federal debt collection efforts.

Audit Objective/Key Question(s): Are creditor agencies referring all debt that is eligible for referral under the DCIA in a timely manner? We estimate 1,600 hours will be needed to complete this project.

### ***Duplicate And Redundant Systems***

Contact Person: Clifford Jennings (202) 927-5771

Background: The National Performance Review (NPR) report, *Reengineering Through Information Technology*, included a recommendation to develop a Government-wide data processing consolidation and modernization plan. This was based on industry experience suggesting operational savings of between 30 percent and 50 percent from consolidation when compared with unconsolidated operations. With the assistance of the NPR and the Council of Federal Data Center Directors, a committee was formed to assist in collecting and analyzing information on today's agency data center environment. The committee's report, *Consolidation of Federal Data Centers*, recommends a data center consolidation strategy and provides a plan for implementing the recommended strategy. It is assumed that similar savings would result if information systems (e.g., human resources, correspondence tracking, etc.) were also consolidated. In total, Treasury has approximately 950 systems that could be evaluated for possible consolidation or elimination.

This concept has been instituted in the Treasury in projects such as the HR Connect, a Treasury human resource system that will replace the 90 pre-existing legacy systems located in the Treasury bureaus. A study on the HR Connect system estimated that over a 10-year period maintaining the existing systems for human resources would cost approximately \$530 million, whereas the consolidation to the HR Connect system would cost approximately \$480 million, a saving of \$50 million. Other examples of Treasury efforts to consolidate systems include: (1) the Treasury Communication Enterprise (TCE), which is expected to replace several Treasury legacy communication systems; and (2) the Pay.gov system, which will replace various collections systems.

In addition to consolidating systems, opportunities for cost savings may exist by consolidating off-site storage capabilities, which are used for the retention, restoration, and disposition of computing resources.



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Audit Objective/Key Question(s): Has Treasury identified a Department-wide inventory of information systems and off-site storage locations that could be consolidated? Does Treasury have an effective strategy for consolidating duplicative and redundant systems and off-site storage facilities? We estimate 2,400 hours will be needed to complete this project.

### ***Implementation Of Information Technology Audit Recommendations***

Contact Person: Clifford Jennings (202) 927-5771

Background: Over the past 2 years, our office has issued a number of audit reports with significant recommendations for improving controls over the Department's IT systems and ensuring the soundness of the Department's investments in IT. These recommendations involve areas such as system access, disaster recovery, security planning, change management, and IT capital investments. As the first reports were issued in 1999 and action plans were to have been submitted within 60 days of issuance, sufficient time has now passed to determine if the Department and the audited bureaus have taken appropriate corrective actions.

Audit Objective/Key Question(s): Have the Department and bureaus implemented recommendations from our prior IT audit reports? We estimate 600 hours will be needed to complete this project.

### ***Management Of HR Connect***

Contact Person: Thomas Byrnes (202) 927-5904

Background: The Department is currently engaged in implementing a multi-year, \$480 million Department-wide automated, integrated Human Resources (HR) system called "HR Connect." HR Connect is intended to bring about significant changes to Treasury HR practices.

Specifically, it is expected to provide Treasury and bureau executives with more accessible, accurate, timely, and integrated data. HR Connect will eliminate the need to create new HR systems within each bureau. It will be less costly to maintain than the approximately 90 "stand alone" HR systems bureaus currently use. Furthermore, it should greatly enhance HR and HR-related services bureaus currently provide to their employees and managers. Appropriated funding to support this initiative is retained at the Department and managed by the HR System Program Office (HRSP0). In 1999, ATF and OCC prototyped HR Connect. DO, FMS and the Secret Service implemented HR Connect in FY 2000, and the remaining bureaus will implement the system during FY 2001-2003.

Audit Objectives/Key Questions: Is the Department providing sufficient central control and oversight to ensure HR Connect will achieve its intended purposes? We estimate 2,400 hours will be needed to complete this project.





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## ***Smart Card And Public Key Infrastructure Implementation Within Treasury***

Contact Person: Clifford Jennings (202) 927-5771

**Background:** The potential benefit of cost effectiveness and enhanced security derived from the use of smart card with Public Key Infrastructure (PKI) technology has been a topic of much discussion within the public and private sectors. Two years ago the Department of Defense issued some 2.4 million SmartCards with PKI certificates as a key enabler in their move to E-commerce and E-business.

Smart cards are plastic cards with an embedded computer chip and, in some cases, a radio frequency antenna. PKI takes the form of a software certificate, which will enable authentication, authorization, and non-repudiation. PKI certificates permit the authentication of digital signatures and allow for enhanced security such as e-mail encryption. Smart cards with PKI can be used for physical access, logical access, secure remote access, inventory and property management, and internal efficiencies. By adding PKI certificates to smart cards, usefulness is greatly enhanced and a higher level of security and greater functionality is achieved.

The Secret Service is the Executive Agent for smart cards and PKI for Treasury. The goal of Treasury is to place a smart card with PKI in the hands of every Treasury employee. Several pilot programs to test the effectiveness and interoperability are planned. The proposed pilots will take place at Secret Service, ATF, and FLETC.

**Audit Objectives/Key Questions:** Are smart cards with PKI technology being developed in a manner to achieve its intended benefits? We estimate that 2,000 hours will be needed to complete this project.

## ***Office Of D.C. Pensions Replacement Of The Automated Pensions Benefit System Project***

Contact Person: Mike Fitzgerald (202) 927-5789

**Background:** The Department's Office of District of Columbia (D.C.) Pensions is responsible for administering and holding fund assets and distributing pension benefits for three D.C. retirement plans. The Office of D.C. Pensions currently relies on D.C.'s pension benefit payment system to calculate and disburse retirement benefit payments. D.C.'s system is obsolete and beyond its reasonable service life. Consequently, the Office of D.C. Pensions decided to acquire a new system utilizing a commercial off the shelf product, PeopleSoft, which requires significant modification to meet the joint processing needs of the District and Treasury. A functional requirements document for the replacement system was completed in early FY 2000 with all Treasury and D.C. users contributing to its development. In January 2000, the Office of D.C. Pensions issued a task order to a consultant totaling



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\$4 million for equipment and support services related to the replacement of D.C.'s pension benefit payment system. An amendment was issued in June 2000 for \$1.5 million to "fully fund the contract." In February 2001, an additional amendment was issued for \$5.4 million to fund development through December 31, 2001, bringing the total contract amount to \$10.9 million.

**Audit Objective/Key Question(s):** Is the Office of D.C. Pensions following sound system development life cycle (SDLC) principles for pension benefit payment replacement system? Is there proper oversight/monitoring to ensure that the system will be successfully implemented in a reasonable time without significant additional costs? We estimate 960 hours will be needed to complete this project.

### ***Audit Trails***

**Contact Person:** Clifford Jennings (202) 927-5771

**Background:** The Computer Security Act of 1987 requires Federal agencies to identify and protect systems containing sensitive information. Access control problems can place sensitive information at risk of disclosure, critical financial operations at risk of disruption, and assets at risk of loss. Logical system software and physical access controls are designed to protect computer data from unauthorized access or modification. Audit trails are used to detect and deter penetration of a computer system and to reveal usage that identifies misuse. The audit trails keep track of all security-relevant events such as the use of identification and authentication mechanism actions, introduction of objects into a user's address space, deletion of objects from the system, system administrator actions, and any other events that attempt to violate the security policy of the system.

**Audit Objective/Key Question(s):** Are Treasury components using audit trails to detect and prevent unauthorized access to systems and data? We estimate 1,800 hours will be needed to complete this project.

### ***FMS Implementation Of Pay.gov***

**Contact Person:** Donald Kassel (202) 927-6512

**Background:** Pay.gov is a secure Government-wide payment and collection portal with the potential to process 80 million transactions totaling \$125 billion each year. As part of an effort to help Federal agencies modernize cash management activities, Pay.gov is intended to benefit the Government by reducing Treasury's collections costs and eliminating paper processing at both Treasury and Federal agencies. The new Internet portal will also allow Treasury to provide more timely and extensive accounting information to agencies, and will help agencies automate forms processing. Furthermore, Pay.gov will provide a Government-wide central infrastructure for processing financial transactions over the Internet, avoiding a duplication of effort across



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multiple banks, contractors, and agencies. Pay.gov can perform services for: (1) Automated Clearing House (ACH) collections, (2) forms processing and bill presentment, (3) authentication services, and (4) agency reporting.

Pay.gov is structured to provide citizens, businesses, and Federal agencies with the option of processing, via the Internet, transactions such as Government collection of fees, fines, sales, leases, donations, and certain taxes, as well as related forms and documents. These transactions are currently processed through paper lockbox collections, the ACH system, and over the counter.

As of October 2001, the General Services Administration (GSA), the Department of Veterans Affairs, and ATF were using Pay.gov. The first production release also took place in October 2001, with the GSA's Premier Lodging Program.

Audit Objective/Key Question(s): Has FMS incorporated adequate security controls into Pay.gov to ensure that transactions are protected against loss, misuse, or unauthorized access or modification? We estimate 2,400 hours will be needed to complete this project.

### ***OCC Oversight Of Data Security At Small Financial Institutions***

Contact Person: Benny Lee (415) 977-8810 ext.222

Background: Although it is in a bank or thrift's best financial interest to provide adequate security for both corporate and customer records, some institutions may not have the foresight or expertise to establish and maintain adequate electronic data security. More recently, National Infrastructure Protection Center (NIPC) advisories report an increase in unauthorized activities targeting e-commerce Web sites and identify some common and frequently utilized vulnerabilities in commercially available hardware and software. These vulnerabilities may allow unauthorized access to bank and service provider systems. Successful breaches of bank systems may result in the fraudulent withdraw of funds, identify theft, and related crimes.

Audit Objective/Key Question(s): Are OCC's information system examinations effective in identifying and addressing data security risks at small financial institutions? We estimate 4,000 hours will be needed to complete this project.



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### ***OTS Employee Conflict Of Interest Follow-Up***

Contact Person: Benny Lee (415) 977-8810, ext. 222

Background: In 1997, the OIG reported several control weaknesses that could impact OTS' ability to ensure examiner compliance with Federal conflict of interest laws relative to examiner post employment. Although largely procedural, problems were noted with supervisory reviews, the lack of a systematic program or procedure covering examiners that left OTS for employment with thrifts, and advanced notification to ethics officials.

Audit Objective/Key Question(s): Has OTS implemented effective corrective actions to address the reported control weaknesses? The scope of this project will include (1) other critical OTS positions, such as OTS attorneys and analysts, who substantively represent equivalent sensitive positions in supervising or regulating thrifts and (2) controls over the filing and review of annual financial disclosure statements. We also plan to determine if background investigations of employees and contractors are performed and updated in a timely manner. We estimate 1,200 hours will be needed to complete this project.

### ***Material Loss Review Of First National Bank Of Keystone Follow-up***

Contact Person: Benny Lee (415) 977-8810, ext. 222

Background: In September 1999, OCC closed Keystone after examiners were unable to verify \$515 million, or nearly 50 percent, of the bank's reported assets. Subsequently, Federal law enforcement prosecuted Keystone bank officials for obstructing Federal bank examiners and was pursuing bank fraud. Keystone's failure is expected to cost the Bank Insurance Fund (BIF) over \$700 million, making it one of the largest dollar losses in Federal Deposit Insurance Corporation (FDIC) history.

Our material loss review of Keystone conducted in accordance with Section 38(k) of the Federal Deposit Insurance Act resulted in seven recommendations to OCC for improving its examination procedures and enforcement practices when banks are not fully compliant in addressing unsafe and unsound practices. We also recommended that OCC evaluate whether a different supervisory approach is needed to address bank growth in high-risk activities, accompanied by high profitability and adequate capitalization, but without sufficient management systems and controls.

Audit Objective/Key Question(s): Has OCC implemented its planned corrective actions in response to our MLR of Keystone? We estimate 1,600 hours will be needed to complete this project.



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## ***OCC Examinations Of Banks Selling Insurance Follow-Up***

Contact Person: Benny Lee (415) 977-8810, ext. 222

**Background:** In June 2000, we reported that OCC needed to take various supervisory initiatives to better prepare for the expected increase in national chartered banks selling insurance. Although OCC initially did not concur with five of our audit recommendations, it later committed to take various corrective actions. Developments subsequent to our report pointed to the possibility of even greater risks to bank customers and banks than that originally reported, e.g., several widely publicized fraud cases where state insurance agencies failed to detect and protect consumers, and increased money laundering risks.

**Audit Objective/Key Question(s):** Have OCC's planned corrective actions adequately addressed the risks associated with national banks that sell insurance? Are there new developments and discernible risks that OCC needs to address when examining national banks selling insurance? We estimate 1,400 hours will be needed to complete this project.

## ***OCC/OTS Background Checks Of Directors/Senior Officers***

Contact Person: Benny Lee (415) 977-8810, ext. 222

**Background:** OCC and OTS have the authority and responsibility to disapprove new directors and senior executive officers of certain regulated institutions. This regulatory authority serves as a control to ensure key positions such as directors and senior executives are filled by competent individuals with unquestioned integrity. The need for such regulatory controls grew out of the thrift debacle of the late 1980s, and the legislative provisions are under section 914 of the Financial Institutions Reform Recovery and Enforcement Act of 1989 (FIRREA). Background checks of directors and senior officers are conducted for newly chartered institutions, troubled institutions, or when there has been a change of control as defined by regulation.

Subsequent to FIRREA, the regulatory and industry landscape has changed dramatically. The Gramm-Leach Bliley Act of 1999 (GLBA) enables depositories, securities firms and insurance companies to fall under common ownership, in effect expanding the effective field of potential directors and senior executive officers of a federally insured institution.

**Audit Objective/Key Question(s):** How effective are OCC and OTS background investigations of directors and senior executive officers of troubled institutions and newly created institutions under GLBA? Separate audits will be conducted at OCC and OTS. We estimate 2,000 hours will be needed to complete this project.



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## ***Efforts To Identify And Investigate Potential Money Laundering Through The Black Market Peso Exchange***

Contact Person: Barry Savill (202) 927-2968

Background: Underground financial markets provide criminals an opportunity to conceal their proceeds, and ultimately to mingle them into the legitimate economy or to move them out of the country. The *1999 National Money Laundering Strategy* identified the Black Market Peso Exchange (BMPE) as one such important underground financial market and called for extensive action against it.

The BMPE is the primary system used by the Colombian narcotics traffickers to launder billions of dollars of drug money each year. The BMPE is an underground financial system used to evade reporting and record keeping requirements mandated by the Bank Secrecy Act, as well as Colombian foreign exchange and import tax laws and tariffs.

The BMPE system is a subject of major concern to Federal law enforcement agencies. To combat the BMPE, Treasury established an interagency BMPE Working Group that has developed and implemented an aggressive strategic plan to combat money laundering. The BMPE Working Group, overseen by the Treasury Under Secretary for Enforcement, brings together Federal enforcement, banking, and other agencies in an effort to dismantle the BMPE system.

During 1997, Customs created the Money Laundering Coordination Center (MLCC) with assistance from FinCEN. The MLCC is designed to synthesize intelligence from investigations targeting the BMPE.

Audit Objective/Key Question(s): Have strategies developed by the BMPE Working Group and the MLCC to combat money laundering resulted in better coordination, integrated anti-BMPE investigations, and an increase in successful prosecutions? We estimate 2,000 hours will be needed to complete this project.

## ***FinCEN Efforts To Estimate The Magnitude Of Money Laundering***

Contact Person(s): Barry Savill (202) 927-2968

Background: Money laundering - the process of introducing the proceeds of crime into the legitimate stream of financial commerce by masking their origin - is a global phenomenon of enormous reach. Money can be laundered through a wide variety of enterprises, from banks and money transmitters to stock brokerage houses and casinos.

Because money laundering by its nature defies detection, it is extremely difficult to measure progress in this area without being able to quantify with some degree of precision the amount of money laundered. Existing estimates



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lack a strong scientific basis. In order to meet the long-standing concerns of the Congress and OMB, FinCEN has taken a leading role in the related efforts to measure both the domestic and international magnitude of money laundering. Internationally, FinCEN has chaired the Financial Action Task Force (FATF) Ad Hoc Working Group on Estimating the Magnitude of Money Laundering since 1998. Domestically, in fiscal years (FY) 1999 and 2000, a total of \$1 million was allocated for FinCEN to develop a methodology for estimating the magnitude of U.S. domestic money laundering. An additional \$500,000 was included in FinCEN's FY 2001 budget.

During FY 1999, FinCEN organized and chaired two interagency committees—Economic Policy and Law Enforcement—to identify available data and recommend a strategy for estimating the magnitude of money laundering. Because of the lack of useful data on the proceeds of crimes other than drug trafficking, the committees recommended that a private contractor be engaged to propose a methodology to address the data issues as well as to produce a magnitude estimate. The process of identifying a private firm capable of delivering a useful estimate began in August 1999. In September 2000, FinCEN awarded a time and materials contract to a private firm to develop a methodology. The current multi-year effort could approach \$1.5 - \$2 million.

Audit Objective/Key Question(s): We will perform two audits. The first will address the question: Is the methodology developed by the contractor to estimate the magnitude of money laundering appropriate? The second will address the following questions: Are sound contract administration procedures being followed to ensure contract deliverables are provided at a reasonable cost? Are there adequate protections over the contractor's use of sensitive law enforcement information? We estimate 2,000 hours will be needed to complete these projects.

### ***FinCEN Efforts To Ensure Compliance By Money Service Businesses With Suspicious Activity Reporting Requirements***

Contact Person: Barry Savill (202) 927-2968

Background: FinCEN issued a final rule requiring suspicious activity reporting by Money Service Businesses (MSB) — entities which transfer funds, or issue, sell or redeem money orders or travelers checks. The new rule is effective January 1, 2002, and is intended to improve law enforcement's ability to focus its anti-money laundering efforts on illicit financial activity occurring through non-bank financial institutions. One vital aspect to ensuring compliance with the regulation is that MSBs are required to register with FinCEN by the end of 2001. Those failing to comply could be fined up to \$5,000 per day and subject to criminal penalties. FinCEN has requested a budgetary supplement of \$5.5 million for the MSB Regulatory Program for FY 2002.



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Audit Objective/Key Question(s): Has FinCEN taken appropriate measures to ensure the full and complete registration of MSBs, including their many agents? Specifically: Is there effective coordination and data sharing with state licensing agencies that functionally regulate MSBs? Are there avoidable regulatory burdens given that some states have similar registration requirements? Does FinCEN have the capacity to enforce the registration requirement? We estimate 2,000 hours will be needed to complete this project.

### ***OCC Bank Secrecy Act Examinations Of Cyberbanking***

Contact Person: Benny Lee (415) 977-8810 ext. 222

Background: A recent study estimated that within 3 years nearly all of the nation's roughly 8,000 community banks will have Web sites providing full-fledged online banking. Internet banking experts say that cyberbanking is increasingly vulnerable to cyberlaundering. Specific online vulnerable transactions include direct payments, electronic funds transfers, and issuance of checks, securities transactions, opening and closing of accounts. The very convenience that attracts cyberbanking customers is what attracts money launders, i.e., the anonymity of a computer screen. Cyberbanking also provides ease of access to accounts, the absence of face-to-face transactions with bank personnel, and the immediacy of electronic transactions.

Audit Objective/Key Question(s): Do OCC examinations provide sufficient coverage of Internet banking services to ensure compliance with the Bank Secrecy Act? We estimate 2,000 hours will be needed to complete this project.

### ***Customs Undercover Operations***

Contact Person: Thomas Moschetto (202) 927-5074

Background: Authorities concerning undercover investigative operations are set forth in Section 3131 of P.L. 99-570. This statute provides for the acquisition or establishment and operation of proprietary corporations or business entities with appropriated funds. The statute also allows the deposit of proceeds in bank accounts and the use of such proceeds to offset reasonable and necessary expenses.

Audit Objective/Key Question: Does Customs have adequate accountability over the funds, expenditures, and proceeds for undercover operations? We estimate 2,000 hours will be needed to complete this project.





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## ***Customs Supervision Of Customs Brokers***

Contact Person: Donald Benson (617) 223-8638

**Background:** Customs brokers are private individuals or companies, regulated by Customs, who aid importers and exporters in moving their merchandise through Customs and providing the proper paper work and payments. Customs brokers must pass a Customs examination and undergo a background investigation before Customs will issue a license. Because of the broker's integral role in the conduct of Customs business, a high standard of performance is critical to the efficiency of the Customs and accomplishment of the Customs mission.

Accordingly, the fundamental goal of the oversight of broker performance by Customs is to promote compliance and a high degree of professional integrity. In order to achieve these goals Customs' Office of Regulatory Audit conducts broker audits while Customs port personnel perform broker compliance reviews designed to identify non-compliance as well as questionable or illegal broker activities. Non-compliance and violations can be addressed through a number of techniques including counseling, warning letters, letters of reprimand, penalties, and the suspension or revocation of the broker's license.

In May 2000, Customs implemented the Port Activity Tracking System (PATS), which allows ports to track the performance of all filers, importers, and brokers. The prototype ports include Buffalo, New York, Chicago, Houston, Seattle, and San Francisco.

**Audit Objective/Key Question(s):** How successful is Customs in ensuring a high Customs broker compliance rate? We estimate 2,000 hours will be needed to complete this project.

## ***Customs Investigative Case Management***

Contact Person: George Tabb (713) 706-4613

**Background:** Customs' Office of Investigations is responsible for investigating violations of United States laws and trade regulations enforced by Customs, including violations of drug smuggling, currency, neutrality, fraud, general smuggling, exports of arms and critical technology, cargo theft, and child pornography laws. These investigations support Customs priority efforts against narcotics smuggling, economic crime, and other domestic violations. By emphasizing the development of significant impact investigations, Customs actively pursues the identification and prosecution of sophisticated criminal enterprises in all major program areas.

Customs employs approximately 2,200 Special Agents and 900 Air Interdiction personnel in locations throughout the United States and in



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selected foreign locations. The cost of Customs enforcement program is about \$1 billion per year.

**Audit Objective/Key Question:** Do Customs' investigative case management systems provide information that is accurate and timely for performance reporting under the Government Performance and Results Act? We estimate 2,000 hours will be needed to complete this project.

### ***Customs Designation Of Importers As Low Risk***

**Contact Person:** Donald Benson (617) 223-8638

**Background:** Customs' "customer" base is comprised of about 450,000 importers. In February 2001, Customs announced that 150 importers had been designated as low-risk for trade compliance purposes and would be receiving benefits such as fewer cargo examinations, document reviews, and fewer information requests. Additional importers are expected to be added to this list. The Low-Risk Importer Initiative ties into the Modernization Act (Mod Act), which allows Customs to be selective in its review of imports. This initiative enables Customs to focus their resources on importers that are more likely to be non-compliant.

Completion of a Customs' Compliance Assessment (CA) is one of the prerequisites for an importer to be designated low-risk for trade compliance purposes. A CA is a type of importer audit that uses traditional audit techniques, including statistical testing, and generally covers an importer's most recently completed fiscal year. A CA tests import and financial transactions to determine whether (1) the entries of the importer met an acceptable level of compliance with Customs laws and regulations during the period under review, and (2) whether the importer had documented its internal controls to ensure such compliance. The results of the assessments are used to assign a compliance risk category for the company.

The criterion for determining the low risk category is based upon using "point estimate" sampling. Companies that are 95 percent compliant (5 errors out of a sample size of 100) in all trade areas tested or companies that pass a materiality test (when 6 or more errors exist), and have documented internal controls, are designated low risk.

**Audit Objective/Key Question(s):** Is the process for designating importers as "low-risk" appropriate? We estimate 2,000 hours will be needed to complete this project.



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## ***Customs Land Border Carrier Initiative Program And Border Release Advanced Screening and Selectivity***

Contact Person: George Tabb (713) 706-4613

Background: As prescribed by Customs regulations, the Land Border Carrier Initiative Program (LBCIP) is a program by which commercial carriers voluntarily enter into agreements with Customs to increase security measures and cooperate with the agency to identify and report suspected incidents of drug smuggling. If drugs are found in the shipments of these participating carriers, Customs agrees that special administrative provisions for penalties will be made and violations will be appropriately processed. The commercial carriers agree that their employees will undergo background checks, and will provide an affidavit of business character to ensure the reliability of the parties participating in the program. Customs agrees to provide training to carrier personnel in areas of cargo and security, document review techniques, drug awareness, and conveyance searches.

At ports that are designated as high-risk, the use of expedited release of imports such as the Border Release Advanced Screening and Selectivity (BRASS) are contingent on the carriers' participation in LBCIP. BRASS provides for bar-coded imports to be pre-screened by Customs for importers with highly compliant and high volume cargo in order to release the merchandise more quickly. The program is open to all carriers along the southern and northern borders.

Audit Objective/Key Question(s): What controls exist to ensure that only qualified carriers are allowed to participate in the LBCIP? How does Customs ensure carrier compliance with the terms of their agreements? How does Customs measure the success and cost/benefit of LBCIP and BRASS? We estimate 2,000 hours will be needed to complete this project.

## ***Customs Compliance Measurement Program***

Contact Person: Donald Benson (617) 223-8638

Background: In response to a 1992 GAO report and the North American Free Trade Agreement Implementation Act (Public Law 103-182), Customs implemented the first nationwide Compliance Measurement Program (CMP) of imports in FY 1995. Compliance measurement provides Customs with an objective "picture" of import compliance by collecting a statistically valid pool of data for overall imports and specifically targeted industry sectors known as Primary Focus Industries (PFI). Data is derived and compiled from disciplined, information-driven cargo examinations and entry document reviews.

With total imports expected to reach \$1.7 trillion in FY2002, Customs faces many challenges. Customs relies heavily on the CMP to direct its trade enforcement activities and to achieve its compliance rate goals.



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The measure of the duties actually collected by Customs compared to the projected duties had all goods been entered in full compliance is known as the "Revenue Gap." The Revenue Gap is used by Customs, along with the trade compliance data, to assess areas that can be targeted for improved compliance and to support informed and enforced compliance efforts. For FY 2000, Customs projected a net revenue gap of \$282 million. The gap consisted of (1) estimated underpayments of \$414 million and (2) estimated overpayments of \$132 million.

Audit Objective/Key Question(s): How is Customs using CMP data to manage its operations? We estimate 2,000 hours will be needed to complete this project.

### ***Online LEAD***

Contact Person: Roberta Rickey (312) 886-6300

Background: Online LEAD is investigative software used by ATF special agents, inspectors, and ATF Firearms Trafficking Task Force police officers throughout the country. It is the result of a developmental process that began with Project LEAD, which became E-LEAD and ultimately Online LEAD. The software can be used to access, sort, and analyze firearms trace information in a way that identifies trends and patterns that may indicate the illegal trafficking of firearms. Through ATF's National Tracing Center, Online LEAD can access information on over 1 million traced firearms and more than 430,000 multiple gun sales.

The system was initially released in February 1999, and is now available to all ATF personnel and State and local Task Force officers nationwide via ATF online computer technology. Investigative leads can be generated through Online LEAD in a fraction of the time that was previously possible using manual record searches. Online LEAD can identify trends and patterns that were impossible to detect using previous methods.

Audit Objective/Key Question(s): Is Online LEAD data accurate, complete, and timely? Do ATF field offices effectively and consistently use Online LEAD data to develop significant firearms trafficking investigations? Are ATF Inspectors using Online LEAD to enhance their Federal Firearms Licensee (FFL) inspection program? Are State and local law enforcement agencies using Online LEAD's capabilities? We estimate 2,000 hours will be needed to complete this project.

### ***Comprehensive Firearms Tracing***

Contact Person: Roberta Rickey (312) 886-6300

Background: Firearm tracing is the systematic tracking of the history of recovered crime guns from the manufacturer or importer through the chain of distribution to the first individual purchaser. It helps law enforcement



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solve violent crimes by linking the suspect with the crime gun, supports investigations of illegal traffickers, and provides essential information about crime gun trends. As technology advances and its work becomes more and more information driven, ATF views firearm tracing as an important means to focus regulatory and investigative efforts in more productive ways.

ATF's National Tracing Center (NTC) is the only operation of its kind in the world. The facility conducts traces of firearms recovered at crime scenes and from youth for any Federal, State, local, or international law enforcement agency. The NTC processed more than 209,000 trace requests during each of the last two fiscal years. During this same period, the average trace response time decreased from 11.5 days to 10.2 days. ATF's goal is to increase the number of trace requests by providing increased electronic access to NTC information while continuing to decrease the average response time.

ATF requested and received \$9.9 million and 10 full time equivalent positions for its Comprehensive Crime Gun Tracing efforts in the FY 2001 appropriations. The funds were to provide: (1) comprehensive tracing capability for 250 State and local law enforcement agencies, (2) faster trace results, and (3) preliminary funding to begin indexing gun identification information from out of business records. It also received additional funding through individual programs (e.g., the Youth Crime Gun Interdiction Initiative and the Integrated Violence Reduction Strategy) that is used to support gun-tracing activities.

Audit Objective/Key Question(s): How successful are ATF's initiatives to implement comprehensive crime gun tracing? We estimate 2,000 hours will be needed to complete this project.

### ***Theft Of Firearms From Federal Firearms Licensee And Common Carriers***

Contact Person: Roberta Rickey (312) 886-6300

Background: Programs designed to deny criminals access to firearms are an integral part of ATF's strategic goal of reducing violent crime. Since criminals often steal firearms for the purpose of trafficking them, reducing the number of stolen firearms is an important part of ATF's firearms trafficking strategy.

Firearms regularly move in interstate commerce. Existing laws and regulations prescribe the manner in which firearms can be shipped, the records required for these shipments, and the method and timing for reporting firearms lost or stolen in-transit. Federal firearms licensees (FFL) are required to maintain records of the acquisition and disposition of firearms and to report lost or stolen firearms to ATF. However, common carriers are not required to report firearms that are stolen while being transported. Based on ATF's analysis of cases from July 1996 through December 1999, about 16 percent of trafficking



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cases involved firearms stolen from FFLs or common carriers. These cases accounted for about 8,100 (9.7 percent) of the firearms diverted in trafficking cases during this period. During 2000, ATF's Stolen Firearms Program received over 3,400 reports covering approximately 18,000 firearms, an increase of 165 percent from the previous year.

Audit Objective/Key Question(s): How does ATF use firearms theft and loss information reported by FFLs and common carriers in its enforcement and regulatory activities? Does the lack of a legal requirement for common carriers to report thefts and losses of firearms in transit pose a significant risk? We estimate 2,000 hours will be needed to complete this project.

### ***Youth Crime Gun Interdiction Initiative Follow Up***

Contact Person: Roberta Rickey (312) 886-6300

Background: In 1996, at the direction of the President, ATF initiated the Youth Crime Gun Interdiction Initiative (YCGII) to strengthen enforcement efforts against firearms traffickers who supply firearms to youths. Seventeen cities were initially included in the program and were to use ATF's Firearms Tracing System to trace every firearm recovered in a crime. This trace information provides ATF and other law enforcement agencies with crucial investigative leads. ATF and these law enforcement agencies work jointly using these leads to develop investigative and prosecutive strategies that target gun traffickers supplying firearms to youths. YCGII was expanded to 50 cities in FY 2001 with funding of \$70 million and is expected to be expanded to 75 cities within 4 years. ATF's FY 2002 budget request for YCGII was \$85 million.

During FY 2000, we issued three audit reports related to YCGII. The reports included a number of recommendations aimed at improving ATF's implementation of YCGII and strengthening its controls over YCGII resources.

Audit Objective/Key Question(s): Has ATF taken appropriate actions in response to our previous audits? Has ATF's implementation of YCGII activities and controls over YCGII resources improved? We estimate 1,600 hours will be needed to complete this project

### ***ATF Revenue Inspection Targeting And Quality***

Contact Person: Donald Benson (617) 223-8638

Background: During FY 2000, ATF collected approximately \$14 billion, principally for alcohol and tobacco excise taxes. ATF conducts revenue inspections of Distilled Spirits Producers (DSP), wineries, breweries, tobacco product factories, and manufacturers and importers of firearms and ammunition. For manufacturers, the focus of the revenue inspections is to determine if the plant's internal controls provide assurance against material



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misstatements of excise tax liability, and if the plants comply with applicable Federal excise tax laws and regulations.

Between FYs 1990 and 1999, ATF reduced the number of full time equivalent (FTE) positions devoted to revenue inspections by almost 60 percent. In FY 2000, ATF implemented a new inspection-targeting program. Under this program, industry members may be selected for inspection in one of two ways: Determined at Risk Taxpayers (DART) or from a random sample of taxpayers. As part of the DART program, ATF Headquarters made an effort to develop and distribute to the field, meaningful and effective risk-based strategies to target taxpayers for inspection during FY 2000. The intent of randomly selecting and inspecting other taxpayers is to refine the targeting indicators used in DART.

Audit Objective/Key Question(s): How successful is ATF's revenue inspection targeting strategy to ensure that all of the revenue due to the Federal government is collected? We estimate 2,000 hours will be needed to complete this project.

### ***ATF Controls Over Tax-Free Exports Of Spirits And Tobacco Follow Up***

Contact Person: Donald Benson (617) 223-8638

Background: Spirits and tobacco products may be exported tax-free directly from a manufacturer or export warehouse. The tax liability is relieved once the manufacturer or export warehouse proprietor provides ATF with acceptable proof of exportation. Products may also be removed from a factory or export warehouse without payment of tax for several other reasons, such as (1) delivery to a Customs bonded warehouse or foreign trade zone or (2) sales to U.S. military personnel stationed overseas.

Previous OIG audits found that the tax-free status of exports was not always timely and properly validated.

Audit Objective/Key Question(s): Has ATF implemented adequate controls to validate the tax-free status of tobacco and spirits products claimed by manufacturers and export warehouses? The planned audit will review the resolution of prior audit recommendations and verify corrective actions taken. We estimate 800 hours will be needed to complete this project.

### ***ATF Controls Over The Domestic Sale Of Tobacco Products Labeled For Export***

Contact Person: Donald Benson (617) 223-8638

Background: Effective February 7, 2001, businesses may incur civil or criminal penalties if they sell or hold for sale any U.S. manufactured tobacco products for domestic consumption when they are labeled for exportation.



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The new law, the Imported Cigarette Compliance Act of 2000, provides for a civil penalty of at least \$1,000 and the tobacco products being subject to forfeiture. Larger civil penalties may be imposed if the amount of the Federal excise tax on the tobacco products exceeds \$200 million. To comply with the law, ATF suggested that businesses examine the packages of tobacco products, cigarette papers and tubes in their inventory for any products that may be marked for exportation.

Audit Objective/Key Question(s): Has ATF established controls over tobacco products manufactured in the United States to ensure that tobacco products marked for exportation are not held or sold by United States businesses? We estimate 2,000 hours will be needed to complete this project.

### ***ATF Controls Over Specially Denatured Alcohol***

Contact Person: Donald Benson (617) 223-8638

Background: No excise tax is assessed on Specially Denatured Alcohol (SDA) when used by permitted companies in processes or articles from which potable alcohol cannot be recovered. These permitted companies must obtain approval for their particular use of SDA prior to manufacturing. Examples of products with SDA include cosmetics, industrial chemicals and fuels such as "gasohol". The manufacturers of these products are required to send formulas and samples to ATF's National Laboratory Center (NLC) for analyses.

ATF laboratory personnel examine formulas and analyze product samples to ensure products are properly denatured and that taxable, potable alcohol cannot be recovered. In FY 1999, the NLC received 1,925 formulas and 599 samples. The NLC tested 239 samples and rejected 41 formulas. As of April 1, 2000, ATF estimated they had over 3,100 active dealers and users of specially denatured spirits.

Audit Objective/Key Question(s): Is ATF adequately protecting the Federal excise tax revenue on ethyl alcohol by regulating the use of SDA in chemical processes and articles? We estimate 2,000 hours will be needed to complete this project.

### ***ATF Controls Over Users Of Tax-Free Alcohol***

Contact Person: Donald Benson (617) 223-8638

Background: Alcohol products may be used for scientific, medicinal, and mechanical purposes, and in the treatment of patients, tax-free. Some specific uses, which fall under these general categories, are sterilizing solutions, antiseptics, and compounding prescriptions.

Tax-free alcohol may be procured and used for authorized purposes only by: (1) the United States government, (2) State and local government





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agencies, (3) the District of Columbia, (4) certain educational institutions exempt from Federal income tax, and (5) certain medical facilities. As of April 1, 2000, the universe of tax-free alcohol users consisted of approximately 4,400 entities.

Audit Objective/Key Question(s): Does ATF have controls to ensure that users have procured and used tax-free alcohol for authorized purposes? We estimate 2,000 hours will be needed to complete this project.

### ***ATF And Customs Controls Over Bulk Alcohol Imports***

Contact Person: Donald Benson (617) 223-8638

Background: Members of the alcohol beverage industry use both domestic and imported bulk alcohol at distilled spirit plants. Importers are liable for duty on imported bulk alcohol. They are also liable for excise taxes on imported bulk alcohol when it is shipped from bonded facilities in bottles to retailers and wholesalers after processing. Customs is responsible for collecting the related duty, while ATF is responsible for collecting the related excise tax. The ATF collected \$1.34 billion and \$1.2 billion in excise taxes on imported alcoholic beverages during FY 1999 and FY 2000, respectively.

Audit Objective/Key Question(s): Do ATF and Customs work jointly to assess, collect and account for duties and excise taxes due the Government on imports of bulk alcohol? Do ATF and Customs have effective procedures in place to ensure duties and excise taxes on imports of bulk alcohol are properly assessed, calculated, and accounted for? We estimate 2,000 hours will be needed to complete this project.

### ***Bonds And Other Obligations To Cover Excise Tax Liability***

Contact Person: Donald Benson (617) 223 -8638

Background: To ensure adequate protection of the revenue, ATF requires producers to obtain bonds, notes of the United States, or other obligations that will be pledged as collateral security for failure to pay excise tax. The bonds may be obtained from any surety company authorized by the Secretary of the Treasury. In lieu of a corporate surety, the manufacturer may pledge and deposit securities which are guaranteed as to both interest and principal by the United States.

ATF regulations set maximums and minimums for the amounts of the bonds. Each commodity has different maximum amounts of bond coverage. The maximum amount of bond coverage for wineries is \$250,000; breweries, \$500,000; distilled spirits plants, \$ 1.3 million; and tobacco manufacturers, \$250,000.

Audit Objective/Key Question(s): Is ATF's method for determining collateral amounts reasonable to protect against loss of revenue? Are surety bonds



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purchased from companies authorized by the Secretary of the Treasury? When other obligations are used as collateral, are they unconditionally guaranteed as to both interest and principal by the United States? We estimate 2,000 hours will be needed to complete this project.

### ***ATF Administration Of Cover-Over Payments To Puerto Rico And The Virgin Islands***

Contact Person: Donald Benson (617) 223-8638

Background: The Internal Revenue Code (IRC) imposes an excise tax of \$13.50 per proof gallon on distilled spirits, including rum produced in or imported into the United States. The IRC of 1986, as amended, requires that the Federal government: (1) tax similar products that are produced in Puerto Rico and the U.S. Virgin Islands and exported to the U.S., and (2) "cover over" (pay) the collected taxes, less amounts estimated for later refunds, to the governments of Puerto Rico and the U.S. Virgin Islands. In addition, the IRC requires the Federal government to pay Puerto Rico and the U.S. Virgin Islands any excise taxes collected on rum imported into the U.S. from other countries.

Audit Objective/Key Question(s): Is ATF timely and accurately processing cover over payments to Puerto Rico and the Virgin Islands? Do ATF's inspection revenue strategies include inspections of companies that reported products qualifying for cover over? We estimate 2,000 hours will be needed to complete this project.

### ***ATF Excise Tax Penalty Collections***

Contact Person: Donald Benson (617) 223-8638

Background: In FY 2000, ATF collected \$14.1 billion in excise tax. As provided by law, penalties may be assessed for failure to make timely deposit of taxes. The penalties shall be imposed unless it is shown that the failure to make a timely deposit or payment of tax is due to reasonable cause and not due to willful neglect. There is no such provision for forgiving interest when a tax payment is not paid timely.

According to ATF procedures, taxpayers who are liable during any calendar year for \$5 million or more in excise taxes imposed on distilled spirits, wine, beer or tobacco products are required to pay such taxes during the following year by Electronic Funds Transfer (EFT). Failure to pay the tax by EFT can result in penalties ranging from 2 to 15 percent of the underpayment for deposits.

Audit Objective/Key Question(s): Does ATF ensure all taxpayers whose excise tax liability reaches \$5 million or more in any calendar year pay such taxes during the following year by EFT? Does ATF assess and collect penalties and/or interest when taxpayers fail to pay their excise taxes on or before the



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date prescribed for payment of such tax? We estimate 2,000 hours will be needed to complete this project.

### ***Customs Refunds Of Duties Resulting From Protests***

Contact Person: Donald Benson (617) 223-8638

Background: An importer is permitted to file a protest with Customs if it disagrees with Customs' determinations on an import entry. For example, the importer may disagree with such things as Customs' appraised value and classification of the imported merchandise, and the duty rate. By filing a protest, an importer requests Customs to reexamine its determinations.

The Customs Modernization Act required the implementation of an electronic protest system as part of the National Customs Automation Program (NCAP). Participants electronically transmit protests and petitions from any location, which are then processed by Customs through the Automated Commercial System. It was expected that the new automated system would eliminate all manual tasks in logging and channeling information. The savings in time, expense, and personnel were expected to free resources for Customs to use in higher priority areas.

In January 1996, Customs announced a test of the electronic protest system. The test was subsequently expanded to include additional ports and extended through December 1997. Data from the test period showed that of about 3,900 protests, 2,900 involved claims for refunds of Customs duties when duty-free treatment was not claimed at the time of entry under NAFTA. The filing of electronic protests is now implemented nationwide.

Audit Objective/Key Question(s): Has Customs' Electronic Protest Processing System achieved its goals of processing protests in a paperless environment, reducing time and handling of protests, and reducing protest processing? Are controls over the handling of electronically filed protests adequate? We estimate 2,000 hours will be needed to complete this project.

### ***Customs Controls Over Trade Fair Operators, Admission Temporaire-Temporary Admission Carnets, And Temporary Importation Under Bond***

Contact Person: Donald Benson (617) 223-8638

Background: Trade fair operators can temporarily import articles for trade fairs without the payment of duties, using either an Admission Temporaire-Temporary Admission (ATA) Carnet or a Temporary Importation under Bond (TIB).

The ATA Carnet is an international customs document used worldwide to facilitate temporary importations into member countries. ATA Carnets are a



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security that participating countries accept as a guarantee against the payment of Customs duties that may become due on goods temporarily imported under a carnet and not exported as required. ATA Carnets are valid for one year and may be used for unlimited exits and entries into the U.S. and participating foreign countries. They eliminate the payment of value-added taxes (VAT), duties and the need for a TIB.

A TIB may also be used to import certain goods into the United States without the payment of duty, under bond, for their exportation within 1 year from the date of importation.

Regardless of which method of temporary importation is used, the trade fair operators are required to reimburse Customs the actual and necessary charges for labor, services, and other expenses incurred in processing these trade fair articles. Also, charges for salaries of Customs officers and employees in connection with the accounting for, custody of, and supervision over these articles are to be reimbursed to Customs.

**Audit Objective/Key Question(s):** Is Customs appropriately reimbursed by trade fair operators for its costs associated with ATA Carnets and TIBs? Does Customs have adequate controls to monitor and collect duties for all goods imported under an ATA Carnet or TIB which were not exported as required? We estimate 2,000 hours will be needed to complete this project.

### ***Customs Reconciliation Program***

Contact Person: Donald Benson (617) 223-8638

**Background:** Reconciliation is a program developed in response to the Customs Modernization and Informed Compliance Act. Reconciliation allows the importer, using reasonable care, to file entry summaries with Customs with the best available information. This is done with the mutual understanding that certain elements, such as declared value, remain outstanding. When an importer files an entry summary while certain elements remain undeterminable, the entry is flagged, thereby providing Customs a notice of intent to file a reconciliation at a later date. When the information becomes available the importer files a reconciliation entry no later than 12 months of the earliest import date for NAFTA entries and within 15 months of the earliest entry summary date for all other issues. When the reconciliation entries are filed, the payment of additional duties, taxes, fees and interest (or claim for refund) is made. The reconciliation entry is then liquidated, with a single bill or refund.

Customs implemented the Reconciliation Prototype in October 1998 as the exclusive means for making post-entry adjustments to value, NAFTA eligibility, U.S. component value and classification.

Thirteen Customs ports process reconciliations. As of 2001, over 3.6 million entries have been identified for reconciliation with over 1,600 importers



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participating in the program. Over 40,000 reconciliations have been received, closing out over 1.8 million entries.

**Audit Objective/Key Question(s):** Does Customs have adequate controls to ensure that entry summaries are properly flagged and monitored for reconciliation as appropriate? Does Customs ensure that all reconciliation information is accurate, reliable, and timely? Are appropriate and timely actions taken to collect additional duties or refund overpayments identified by the reconciliations? We estimate 2,000 hours will be needed to complete this project.

### ***Customs Inspections Of Manufacturing Foreign Trade Zones (FTZ)***

Contact Person: Donald Benson (617) 223-8638

**Background:** Foreign trade zones (FTZs) are secure areas under Customs supervision that are considered outside the customs territory of the United States. FTZs are geographic areas to which merchants may bring domestic or foreign merchandise for storage, exhibition, manipulation, manufacturing, assembly, or other processing, without subjecting them to formal Customs entry procedures and payment of duties, taxes and fees. Companies may bring zone products into Custom's territory upon payment of applicable duties, taxes and fees, and compliance with other laws and regulations, such as quotas, or they may export these products without paying duties. During FY 1998, the value of shipments into FTZs totaled \$177.8 billion.

There are two types of FTZs: (1) general-purpose zones and (2) manufacturing. An example of a manufacturing zone is an automotive assembly plant operated by a foreign company. Regulations governing FTZs require Customs ports to perform annual risk assessments for each FTZ under their cognizance. Based on these risk assessments, the ports are required to establish a schedule for conducting spot checks on FTZs. The purpose of the spot checks are to (1) determine whether the proprietor and users comply with applicable laws, regulations, and Customs procedures, and (2) provide Customs regulatory auditors with information for use in planning and conducting FTZ audits.

**Audit Objective/Key Question(s):** How successful are efforts by Customs ports to target and assess compliance by FTZ manufacturing zones? We estimate 2,000 hours will be needed to complete this project.



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## ***Contract Audits***

Contact Person: Danny Athanasaw (202) 927-5791

Background: In accordance with Treasury Directive 76-06, OIG is the Department's focal point for obtaining pre-award, costs incurred, and other contract audits requested by Treasury's Departmental Offices and the bureaus (except for the Internal Revenue Service). These audits are performed by either OIG staff or the Defense Contract Audit Agency under our oversight. During FY 2000, approximately \$97 million of pre-award/proposed contract costs and \$94 million of incurred contract costs were audited.

Audit Objective/Key Question(s): The purpose of contract auditing is to assist in achieving prudent contracting by providing those responsible for government procurement with financial information and advice relating to contractual matters and the effectiveness, efficiency, and economy of contractors' operations. Contract audit activities include providing professional advice on accounting and financial matters to assist in the negotiation, award, and administration, re-pricing, and settlement of contracts. We estimate 2,400 hours will be needed to complete this project.

## ***Customs Technology Contracts And General Procurement***

Contact Person: Danny Athanasaw (202) 927-5791

Background: Customs has developed a 5-year Technology Acquisition Plan for the Southern Tier. A major portion of the plan calls for investment in non-intrusive inspection equipment. Customs personnel—primarily from its Applied Technology Division and Office of Field Operations—decide what type of non-intrusive inspection equipment to buy. For FY 1999, Congress approved \$134 million for such equipment. According to Customs' acquisition plan, it intended to buy: (1) higher energy container x-ray systems, (2) automated targeting systems, (3) mobile truck x-ray systems, (4) rail inspection systems, (5) vehicle gamma-ray systems, and (6) higher energy pallet x-ray systems.

Audit Objectives/Key Questions: Is Customs procuring non-intrusive inspection equipment in accordance with the Federal Acquisition Regulation provisions concerning award, delivery, and receipt? We estimate 2,000 hours will be needed to complete this project.

## ***Section 508 Compliance - Contracting***

Contact Person: Thomas Byrnes (202) 927-5904

Background: Section 504 of the Rehabilitation Act of 1973, as amended, prohibits excluding people because they have disabilities from any program or activity that receives Federal funding. On June 21, 2001, Section 508 of the Act became effective. From that date, all electronic and information



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technology products and services that the Government buys must meet standards for being usable by people with a wide range of disabilities. To ensure that the standards are met, the law permits government employees and members of the public to sue Federal agencies that remain inaccessible. All new procurements for electronic and information technology must include provisions to be usable by all persons. That law is generally interpreted to mean that Federal Web sites must also be accessible.

**Audit Objective:** Have Treasury and its bureaus implemented Section 508 requirements in their procurement operations? We estimate 1,200 hours will be needed to complete this project.

### ***Secret Service Response To Counterfeiting Overseas***

**Contact Person:** Roberta Rickey (312) 886-6300

**Background:** Title 18 of the United States Code Section 470 gives the United States international jurisdiction to pursue indictments and arrests for counterfeit acts committed outside the United States. This includes manufacturing, possession, and distribution of counterfeit items. The Secret Service strives to complement State and local law enforcement. One area that these agencies cannot effectively address is international crime. Therefore, the Secret Service is increasing its focus in the international arena.

The Secret Service tracks certain statistics on foreign counterfeiting activities. For instance, they reported that there were 27 foreign counterfeiting plant suppressions in FY 2000, down from the 38 reported in FY 1999. Foreign arrests were also down to 440 in FY 2000, from a high of 593 in FY 1999. Also, while the amount of counterfeit currency passed into the financial system has decreased (from approximately \$3.1 million in FY 1998 to \$1.4 million annually during FY 1999 and FY 2000), the amount seized before it entered the system has dramatically increased (from approximately \$80 million in FY 1998 to \$127 million and \$189 million during FY 1999 and FY 2000, respectively).

The recent increase in 'dollarization' – when residents of a country extensively use foreign currency alongside or instead of the domestic currency – may also have an impact on overseas counterfeiting. Dollarization can occur unofficially, without formal legal approval, or it can be official, as when a country ceases to issue a domestic currency and uses only U.S. currency. Official and unofficial dollarization has occurred in over 30 countries worldwide. The number of dollarized countries and related counterfeiting activities are expected to continue increasing over the next decade. House Report 107-152 requires the Treasury and State Departments to develop a strategy to mitigate counterfeiting of US dollars in dollarized regions and report its findings to the House Committee on Appropriations by September 30, 2002.



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Audit Question: What efforts has the Secret Service made to prevent and detect counterfeit activities overseas? Have these efforts resulted in successful investigations and arrests? Do Secret Service investigative counterfeit strategies effectively consider the risks posed by increasing dollarization by foreign countries? We estimate 2,000 hours will be needed to complete this project.

### ***Treasury Asset Forfeiture Activities***

Contact Person: Roberta Rickey (312) 886-6300

Background: The Treasury asset forfeiture program exists to disrupt and dismantle criminal enterprises. Law enforcement bureaus punish and deter criminal activity by depriving criminals of assets used in or acquired through illegal activities. The Treasury Forfeiture Fund produces revenues to fund forfeiture-related expenses and to strengthen law enforcement. The majority of the revenue is from forfeited cash, with lesser amounts coming from the proceeds of forfeited property sales and interest earned. In FY 2000, the Treasury Forfeiture Fund had revenues of \$226.1 million.

In April 2000, Congress enacted the Civil Asset Forfeiture Reform Act of 2000 (Public Law 106-185) that established general rules relating to civil forfeiture proceedings. It made some changes to how seizures and forfeitures are carried out. There is concern that these changes may result in a diminished use of asset forfeiture as a penalty in the fight against crime.

Audit Objective/Key Question(s): How have the recent changes in the forfeiture laws impacted Treasury enforcement programs? We estimate 2,000 hours will be needed to complete this project.

### ***Customs Employee Background Investigations***

Contact Person: George Tabb (713) 706-4613

Background: Federal regulations require that initial and periodically updated background investigations (BI) be performed on Federal employees occupying certain positions. In 1995, we reported that many Customs employees lacked both initial and updated background investigations. In May 1999, we reported that Customs had not adequately addressed this issue and that the number of outdated background investigations had increased.

Audit Objective/Key Question(s): Has Customs implemented corrective actions to ensure employee background investigations are current? Are there other job series classifications of Customs employees that need to be subject to periodic BIs as well as contractors that have access to sensitive or confidential information? We estimate 1,400 hours will be needed to complete this project.





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## ***FinCEN Background Investigations***

Contact Person: Barry Savill (202) 927-2968

**Background:** FinCEN is one of Treasury's primary agencies to establish, oversee and implement policies to prevent and detect money laundering. FinCEN serves as the primary Federal Government source for systematic identification, collation, and analysis of financial information to assist in the investigation of money laundering and other financial crimes.

Last year Congress provided funding of \$37.4 million to help FinCEN meet the growing demands for its services. For FY 2002, FinCEN requested a budget of \$45.1 million, an increase of \$7.7 million. The funding requirements for these fiscal years include 212 and 229 full-time equivalent employees, respectively.

Executive Order 10450 (Security Requirements for Government Employment) provides basic authority for the Federal civilian personnel security program. The program was established so that all persons entering Federal civilian service are appropriately investigated to ensure their employment is consistent with the interests of national security. Overall program and oversight responsibility is assigned to OPM, which establishes basic program policies and guidelines, and is ultimately accountable to the National Security Council for the program's effectiveness.

Agency heads are charged with the responsibility of establishing an effective personnel security program consistent with the above Executive Order which is intended to assure that: (1) position sensitivities are designated in accordance with established criteria and supplemental OPM instructions, (2) required entry investigations and periodic reinvestigations are performed, (3) security determinations are consistent with established criteria and procedures, (4) the program's administrative requirements are complied with, and (5) appropriate position sensitivity designation and adjudicative security training is provided.

**Audit Objective/Key Question(s):** Does FinCEN ensure that all employees and contractor personnel are subjected to the appropriate background investigation process? We estimate 2,000 hours will be needed to complete this project.

## ***ATF Field Operations***

Contact Person: Donald Benson (617) 223-8638

**Background:** Historically, ATF had been organized under separate regulatory and criminal enforcement functions that operated under separate planning and implementing structures. However, on October 1, 1998, ATF merged 5 regulatory district offices with 23 criminal enforcement division offices.



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The merging of these offices created unified structures in 23 locations.

A Division Director/Special Agent in Charge (DD/SAC), who reports directly to ATF Headquarters and has overall responsibility for the combined operations in each geographic area, heads each field division. Reporting to each DD/SAC will be one or more Assistant Special Agents in Charge (ASAC), who have oversight of the criminal enforcement function; and a Director of Industry Operations (DIO), who oversees industry and taxation operations. The ASAC provides secondary supervision to field agents, and the DIO provides secondary supervision to field inspectors.

ATF's Office of Inspections performs periodic assessments of individual field offices. Its assessments include such tests as reviews of case files, examinations of equipment controls, and discussions with U.S. Attorneys who handle ATF cases. It may also include reviews of funds for such programs as the Youth Crime Gun Interdiction Initiative and the High Intensity Drug Trafficking Act.

Audit Objective/Key Question(s): Are ATF field offices carrying out their responsibilities in an effective manner? During FY 2002, we will conduct a pilot audit at one ATF field office to develop a standard approach to conducting similar reviews in the future. Among other things, the pilot audit will address: (1) procurement operations, (2) the use of purchase and travel cards, (3) accountability over property and evidence, (4) human resource management, and (5) IT support. We estimate 1,200 hours will be needed to complete this project.

### ***Customs Port Operations***

Contact Person: George Tabb (713) 706-4613

Background: The mission of Customs is to ensure that all goods and persons entering and exiting the United States do so in compliance with all United States laws and regulations. This mission includes: (1) interdicting narcotics and other contraband; (2) enforcing United States laws intended to prevent illegal trade practices; (3) protecting the American public and environment from the introduction of prohibited hazardous and noxious products; (4) assessing and collecting revenue in the form of duties, taxes, and fees on imported merchandise; (5) regulating the movement of persons, carriers, merchandise, and commodities between the United States and other nations, while facilitating the movement of all legitimate cargo, carriers, travelers, and mail; and (6) enforcing certain provisions of the export control laws of the United States. During FY 2002, Customs expects to process 512 million people and 149 million conveyances at 300 Customs ports throughout the United States. Also, the trade will file 27 million entry summaries involving \$1.3 trillion in international trade, on which Customs will collect approximately \$22 billion in duties, taxes, and fees.



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**Audit Objective/Key Question:** Are Customs ports carrying out their responsibilities in an effective manner? During FY 2002, we will conduct a pilot audit at one Customs port to develop a standard approach to conducting similar reviews in the future. Among other things, the pilot audit will address: (1) procurement operations, (2) the use of purchase and travel cards, (3) accountability over property and evidence, (4) human resource management, and (5) IT support. We estimate 1,200 hours will be needed to complete this project.

### ***OCC District Operations***

**Contact Person:** Benny Lee (415) 977-8810, ext. 222

**Background:** OCC has 6 district offices located throughout the country, and a Deputy Comptroller of the Currency heads each district. District offices are primarily responsible for the supervision of the smaller community national banks, which account for about 90 percent of all national bank charters. Districts also provide some staffing for large bank examinations even though these banks are organizationally managed out of Washington, D.C. Effective and efficient district operations are vital given that the majority of OCC's examinations staff are located in these offices. Of particular importance are the many administrative support functions such as procurement, travel, recruitment, training, and IT maintenance.

**Audit Objective/Key Question(s):** Are OCC Districts carrying out their responsibilities in an effective manner? During FY 2002, we will conduct a pilot audit at one OCC District to develop a standard approach to conducting similar reviews in the future. Among other things, the pilot audit will address: (1) delegated purchases, including the use of purchase cards, (2) use of travel cards, (3) human resource management, and (4) IT support. We estimate 1,200 hours will be needed to complete this project.

### ***BEP Security Over Currency And Other Documents***

**Contact Person:** Thomas Byrnes (202) 927-5904

**Background:** BEP is the largest producer of security documents in the United States. Accordingly, BEP designs, prints, and furnishes a large variety of security documents, including Federal reserve notes, Treasury securities, identification cards, naturalization certificates, other special security documents, and postage stamps. BEP produces over 9 billion Federal Reserve notes each year at its facilities in Washington, D.C. and Fort Worth, Texas. In addition, BEP produces over 20 billion stamps for the U. S. Postal Service. The Bureau employs over 2,500 workers and has a budget of about \$641 million.

All products are to be designed and manufactured with advanced counterfeit deterrence features to ensure product integrity. BEP also processes claims for the redemption of mutilated currency.



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Audit Objectives/ Key Question(s): Does BEP have adequate controls to prevent and/or deter the theft of currency and other documents? Does BEP conduct initial and updates of background investigations of employees and contractor personnel as appropriate in a timely fashion? We estimate 1,200 hours will be needed to complete this project.

### ***Mint Acquisition Of Select Manufacturing Equipment***

Contact Person: Thomas Byrnes (202) 927-5904

Background: From February 1995 through September 2000 the Mint procured equipment for the production of circulating coins, including equipment for production of the new golden dollar. Many of the equipment items purchased and deployed during this period cost in excess of \$150,000. Some of the items purchased cost in excess of \$900,000. According to the Mint, these equipment purchases were necessary to preserve its ability to produce and maintain high quality coins and to meet the growing public demand for coins.

Audit Objective/Key Question(s): Were the purchases necessary? Did the Mint follow its standard operating procedures in obtaining the equipment? Did the Mint properly utilize and maintain the equipment? We estimate 1,000 hours will be needed to complete this project.

### ***Secret Service Electronic Crimes Investigations***

Contact Person: Roberta Rickey (312) 886-6300

Background: Because computers are a tremendous source of both investigative leads and evidentiary material, the Secret Service has established the Electronic Crimes Special Agent Program (ECSAP). This program trains agents to conduct forensic examinations of computers that were used in criminal endeavors. ECSAP, consisting of a number of highly-trained special agents qualified as experts in the forensic examination of electronic evidence, is the key component of the Secret Service's effort to address high-tech crime in all areas of its jurisdiction.

Agents assigned to this program are placed throughout the country to provide technical assistance to investigators and prosecutors when needed to retrieve evidence or provide additional technical services. The Secret Service Electronic Crimes Laboratory also possesses state of the art equipment that is used for the forensic examination of computers and related investigations.

Because of the Secret Service's technical expertise, it has also been asked to assist State and local law enforcement agencies in numerous tracking operations ranging from a police killing in Chicago to the kidnapping of two young children in southern Florida.



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**Audit Objective/Key Question(s):** Has management set objectives and goals for the ECSAP and are they being met? We estimate 2,000 hours will be needed to complete this project.



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## **Appendix B**

### **Project Narratives Planned New Evaluations for FY 2002**

#### **High Priority Evaluations in Response to the September 11th Events**

##### ***Vulnerability Risk Assessment: Safety, Security, And Emergency Preparedness At Bureau Office Space Worldwide And Employee Housing Overseas***

Contact Person: Adam Silverman (202) 927-5766

Background: In April 2001, the OIG contributed to an initial study on Treasury's infrastructure in support of House Resolution (HR) 106-231 and HR 106-756. In these Resolutions, members of the Treasury, Postal Service, and General Government Subcommittee of the House Committee on Appropriations expressed their continued support for the critical role Treasury plays in protecting the integrity of our Nation's borders, its financial institutions, and the physical protection of its leaders. As previously planned, and especially in light of the events of September 11<sup>th</sup>, the OIG intends to continue to encourage economical, effective, efficient, safe and secure work environments through proactive and constructive assessments of Treasury Office Space Worldwide and Employee Housing Overseas.

Evaluation Objective/Key Question(s): At selected locations and bureaus, are office spaces and employees' overseas housing safe and secure? Have the bureaus developed, implemented, and tested emergency preparedness plans, including evacuation plans and continuity of operations plans?

##### ***Policy Effectiveness Study: Illegal Profiling By Treasury Law Enforcement Officers***

Contact Person: Adam Silverman (202) 927-5766

Background: Illegal profiling is the targeting of people based solely on their race or ethnic background without cause (with one limited exception that allows the Immigration and Naturalization Service to consider ethnicity as one of several factors when conducting stops). However, the law allows profiling in some cases, for example, when evidence supports allegations of criminals belonging to a particular race or having a certain ethnic background.

Evaluation Objective/Key Question(s): Has the Treasury Office of Enforcement, ATF, and Customs: (1) published appropriate written directives



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that clearly set out the agency's position on illegal profiling, (2) distributed and discussed the policy with officers, and (3) periodically reviewed the agency's practices and any citizen complaints to ensure policy compliance.

### ***Customs Staffing At Land Border Ports Of Entry***

Contact Person: Adam Silverman (202) 927-5766

Background: Customs has replaced "drug smuggling" with "terrorism" as the agency's top priority and redeployed hundreds of agents to provide round-the-clock inspections at the Canadian border to prevent terrorists from entering the country. Few agencies have so prominent a front-line role to play as the Customs Service, which is responsible for guarding the borders and blocking the entry of terrorists and their tools. Since the attacks, it is reported that Customs Inspectors have been working 12 – 16 hour days on average. Customs is reportedly spending \$5.5 million a week on overtime for inspectors; almost three times its usual outlay. Small Customs posts along the northern border, which have gone unstaffed at night and on some holidays, are now staffed every day around the clock by at least two inspectors.

Evaluation Objective/Key Question(s): What measures has Customs taken since September 11<sup>th</sup> to strengthen northern border security? Are there innovative staffing approaches that can be identified as best practices for possible adaptation Customs-wide? Does independent analysis of port staffing needs exist?

### ***Policy Effectiveness Study: Customs Targeting Of Individuals At Land Border Ports Of Entry***

Contact Person: Adam Silverman (202) 927-5766

Background: In FY 2000, Customs processed more than 375 million people arriving at U.S. land border ports of entry: 328 million passengers arrived in vehicles and 47 million arrived as pedestrians. Before September 11<sup>th</sup>, Customs officials had developed sophisticated profiles of likely drug smugglers and searched luggage for hidden narcotics. Now inspectors are much more interested in documents—such as blueprints, drawings, photographs, flight manuals, chemical data—that might be carried by terrorists. The need to set new profiles for terrorists could be controversial for Customs. In recent years, travelers sued the agency over allegedly improper interrogation and searches. The agency has previously committed not to engage in racial profiling. However, Customs has said inspectors are scrambling to develop profiles of travelers from the Middle East who might have links to terrorist groups and to develop new targeting criteria.

Evaluation Objective/Key Question(s): Do Customs policies, procedures, and management controls for conducting personal searches at land border



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crossings allow for effective targeting while protecting travelers from inappropriate searches? Does current law allow for the effective targeting of individuals likely to be involved in supporting terrorist activities?

### ***Treasury Intelligence Coordination***

Contact Person: Adam Silverman (202) 927-5766

Background: The terrorist acts against the United States on September 11, 2001, impacted U.S. intelligence requirements. Now, instead of drug smuggling, terrorism is seen as the most significant threat to the U.S. Intelligence needs in this area differ somewhat from those for drug activities. Along with Treasury, the Departments of Justice and State and other Federal, state, local law enforcement organizations gather intelligence, and in many cases, share this information in the war against terrorist activities throughout the world.

Evaluation Objective/Key Question(s): Are there opportunities for improved intelligence collection and sharing within the Department and between the Department and other agencies?

### ***Customs Examination Of Outbound Mail***

Contact Person: Adam Silverman (202) 927-5766

Background: Currently, Customs is seeking authority to examine exported mail or mail in transit through the U.S. Customs officials believe no current domestic or international laws specifically prevent it from inspecting such mail. Customs, however, would like its examination authority clearly defined.

Evaluation Objective/Key Question(s): Do current laws provide Customs the authority to examine exported mail or mail in transit through the U.S.?

### ***Vulnerability Risk Assessment: Impact Of Current Or Possible Events On Bureau Operations***

Contact Person: Adam Silverman (202) 927-5766

Background: As evidenced on September 11th, world events can have a wide-reaching impact. It is possible that both short and longer-term disruptions will impact Treasury both directly and indirectly, and subsequently impact the U.S. economy.

Evaluation Objective/Key Question(s): As requested or identified, assess the impact of current or possible disruptions on Treasury programs and activities, and subsequently on the U.S. economy?





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### ***Policy Effectiveness Study: Department-wide Tactical Communications***

Contact Person: Adam Silverman (202) 927-5766

Background: Customs operates a national proprietary wireless 2-way communications system for its law enforcement operations. To save money and leverage the investment made by Customs, some Treasury agencies purchase wireless 2-way communications services from Customs.

Evaluation Objective/Key Question(s): Are there opportunities for consolidation of services and streamlined wireless 2-way communications operations by Treasury's law enforcement bureaus?

### ***Document Management Systems***

Contact Person: Adam Silverman (202) 927-5766

Background: Each of Treasury's bureaus and Departmental Offices manage a wide variety of incoming and outgoing paper and electronic documents, including constituent correspondence, executive guidance, legislative responses, case files, and informational reports. Events of September 11, 2001, demonstrated the vulnerability of paper and electronic documents to destruction and the importance of shared and/or redundant systems for backing-up documents.

Evaluation Objective/Key Question(s): What manual and automated systems do Treasury bureaus and Departmental Offices use to track, prepare, and/or store documents? Have systems owners ensured that documents, tracking data, and systems can be readily replaced if destroyed or operations are otherwise disrupted on a short-term or long-term basis?

### ***Security Clearance Process***

Contact Person: Adam Silverman (202) 927-5766

Background: The Treasury Security Manual provides guidance for assigning personnel security clearances. The Director, Office of Security, has overarching responsibility for the security clearance program. The Departmental Offices and Bureaus personnel and security offices implement the program locally. As a Treasury-wide program, the personnel security clearance process affects all Treasury employees and contractors.

Evaluation Objective/Key Question(s): Are there opportunities for simplifying and streamlining clearance processes? Are security clearances appropriately terminated for departing employees and contractors?



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## ***Follow-up Policy Effectiveness Study: Treasury Enforcement Communications System User Satisfaction Survey***

Contact Person: Adam Silverman (202) 927-5766

Background: The Treasury Enforcement Communications System (TECS) is an automated law enforcement communications system managed by Customs. The system contains enforcement, inspection, and intelligence records on people, aircraft, vehicles, vessels, businesses, and firearms. TECS is used by Treasury's law enforcement bureaus as well as other Federal law enforcement agencies for a variety of work, intelligence, and investigative purposes.

Our previous work on TECS has noted that users had some concerns over the adequacy of training. We made several recommendations that Customs ensure users were made aware of and have an opportunity to provide feedback on TECS training tools as well as feedback on the adequacy of TECS generally to support their operations.

Evaluation Objective/Key Question(s): Is TECS meeting the needs of its users as a law enforcement support system? From the users' perspectives, is TECS training adequate?

## ***Best Practices Research: Employee Recruitment Systems And Methods***

Contact Person: Adam Silverman (202) 927-5766

Background: The non-postal Federal civilian workforce has decreased from about 2.3 million employees in FY 1990 to fewer than 1.9 million employees by FY 1999. At the same time, the number of new hires has decreased from 118,000 in FY 1990 to about 74,000 in FY 1999. Many predict an impending shortage of qualified and experienced employees as increasing numbers become eligible to retire in the next 4 years. Also, agencies have temporarily lost employees as a result of their activation for military service since September 11, 2001.

To fill job openings (temporarily or permanently), and retain current employees, Treasury bureaus and offices have implemented new recruitment approaches and systems. The ability to efficiently attract and effectively recruit new employees remains essential to Treasury operations. Opportunities for sharing the benefits of different approaches and systems may likely exist.

Evaluation Objective/Key Question(s): How do Treasury offices and bureaus recruit employees and do best practices exist that can be shared amongst the bureaus?



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### ***Program Efficiency Rating: Verification/Validation Of Top 9 Program Performance Measures***

Contact Person: Adam Silverman (202) 927-5766

Background: In its FY 2000 Program Performance Report, Treasury identified 340 total measures – 196 with targets met, 98 with targets not met, and 46 others. The Secretary of the Treasury has expressed an interest in establishing a smaller, more focused, and more easily managed set of measures. In response to a request by the Chairman of the House Committee on Government Reform, we provided our views on the most significant performance measures contained in the FY 2000 report. We identified 9 such measures.

Evaluation Objective/Key Question(s): Does Treasury collect accurate data, store that data in workable systems, and produce information to support the nine performance measures identified by the OIG as the most significant? How has Treasury verified the accuracy of the data and information contained in the systems of records used to support the nine performance measures? Are these 9 measures still the most significant in light of the events of September 11<sup>th</sup>?

### ***Survey Of Treasury Compliance With The National Energy Conservation Policy Act***

Contact Person: Adam Silverman (202) 927-5766

Background: The National Energy Conservation Policy Act (NECPA) and three implementing Executive Orders (12759, April 17, 1991; 12902, March 8, 1994; 13123, June 2, 1999) require agencies to reduce, and improve the efficiency of, energy use. According to the recently released *Annual Report to Congress on Federal Government Energy Management and Conservation Programs – FY 1999*, Federal agencies used almost \$8 billion worth of energy in that fiscal year. The report estimates the Department of the Treasury portion of that amount to be approximately \$26.3 million. NECPA also contains a provision encouraging OIGs to periodically assess their agencies' compliance with the Act. Our last assessment was completed in 1993. This is an area of interest recently expressed by the Senate Committee on Governmental Affairs.

Evaluation Objective/Key Question(s): What are Treasury's current energy management activities overall, and at each individual bureau? What opportunities for improved energy management exist across Treasury?



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## ***Policy Effectiveness Study: Employee Drug Use Screening***

Contact Person: Adam Silverman (202) 927-5766

Background: Some Treasury bureaus and offices have established employee assistance programs and health promotion programs to prevent and intervene in drug abuse in the workplace. As part of these programs, offices may use urinalysis to screen for employee drug use. The evaluation of employees to determine fitness for duty has long been performed in government. Physical examinations have been initially performed to ensure the selection of personnel free of medical conditions, which would be likely to interfere with their ability to work safely and efficiently. In recent years, within the context of health promotion and wellness programs, an additional purpose of the medical evaluation has evolved—that is, to address risk factors that may impair employee health (e.g., poor nutrition, substance abuse, and hypertension). As the incidence and prevalence of drug abuse in the U.S. have risen, many organizations have developed pre-employment and in-service drug screening programs. The primary purpose of these programs is to protect the health and safety of all employees through the early identification of employees or potential employees with drug-abuse problems.

Evaluation Objective/Key Question(s): What are the current policies of Treasury components for pre- and post employment screening of employees for drug abuse? Are appropriate controls in place to ensure compliance with the policies? Do the policies appear reasonable based on components' missions and employee job classifications? Is Treasury using reliable screening methods, cost and other factors considered? In what respect do individual rights, privacy, and confidentiality impact screening programs?

## ***Best Practices Research: Employee Use Of Travel Credit Cards***

Contact Person: Adam Silverman (202) 927-5766

Background: The General Services Administration established the Government Travel Charge Card Program as a travel payment and expense control system to help make Federal travel more efficient and less costly. Employees use their individually assigned travel credit card for specific and defined reimbursable expenses occurring while on official travel. Employees incurring expenses submit claims for reimbursement to their agencies and are paid directly. The employee is responsible for making a payment in full to the credit card company. Recent reports have indicated that employees government-wide have accrued significant unpaid travel charge card debts. Payment delinquencies increase the contractors' costs of providing card services and reflect poorly on the Federal government.

Evaluation Objective/Key Question(s): Have the bureaus established effective travel card management controls? Are these controls adequate to detect and take appropriate action for instances where employees obtain cash



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advances when not on authorized travel or other wise use the cards for unauthorized purposes?

### ***Best Practices Research: Automated Financial Management Systems***

Contact Person: Adam Silverman (202) 927-5766

Background: The Chief Financial Officers Act of 1990 requires Treasury bureaus and the Department as a whole to improve: (1) accounting, reporting, and auditing practices; (2) financial systems; and (3) asset management policies. Federal agencies seek to have integrated financial management systems that support the partnership between program and financial managers. Treasury has made and plans a significant investment in automated financial systems that support Department and Government-wide financial management. Opportunities for sharing the benefits of these investments may exist.

Evaluation Objective/Key Question(s): What automated financial systems do Treasury bureaus and Departmental Offices use or plan to use to improve: accounting, reporting, and auditing practices; financial systems; and asset management policies? How well do these systems support the Department's "3-day closing" goal?

### ***Policy Effectiveness Study: Pledge Of Approved Collateral In Lieu Of A Required Surety Bond***

Contact Person: Adam Silverman (202) 927-5766

Background: Firms doing business with the Federal government are often required to provide a surety bond, or as alternative, pledge certain collateral to guarantee performance. As an example, importers provide Customs surety bonds or pledge collateral to guarantee payment of additional duties that might be assessed when import entries are liquidated. Legislation has been proposed that would allow firms doing business with the Federal government to pledge a broader range of collateral in lieu of a required surety bond. At the same time, taxpayers might benefit through an updated collateral valuation application and the market-to-market requirements protecting the Federal government's interests.

The substantive terms of collateral requirements have not changed since 1935. The proposed legislation would modernize the law by eliminating rigid requirements and giving the Secretary of the Treasury the authority to determine the types of acceptable obligations that can be used in lieu of surety bonds. It would also require that pledged collateral used in lieu of a surety bond, as determined by the Secretary, have a current market value that is equal to or greater than the amount of the required surety bond. This change would be consistent with a recommendation made by GAO with



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respect to other programs involving a pledge of collateral to the Federal government.

Evaluation Objective/Key Question(s): What are the risks associated with the proposed legislation allowing firms doing business with the Federal government to pledge a broader range of collateral in lieu of a surety bonds?

### ***Monitoring The Use Of Funds Distributed From The Treasury Forfeiture Fund***

Contact Person: Adam Silverman (202) 927-5766

Background: The Executive Office of Asset Forfeiture (EOAF) is responsible for managing the Treasury Forfeiture Fund program. As part of this responsibility, it pays or reimburses certain costs and expenses related to seizures and forfeitures that occur pursuant to the Department's law enforcement activities, including certain costs of local police agencies incurred in joint law enforcement operations. The Fund supports Treasury's Law Enforcement Mission and associated goals by providing funds to participating law enforcement bureaus. Following seizure, "equitable shares" are paid to state and local law enforcement agencies that contributed to the seizure activity at a level proportionate to their involvement.

The remaining unobligated balance of the Fund after an amount is reserved for Fund operations in the next fiscal year, referred to as the "Super Surplus," can be used for any Federal law enforcement purpose. In FY 2000, Congress approved \$142 million in Super Surplus funding for a variety of programs such as Customs' Southwest Border Initiative (\$25 million), ATF's National Integrated Ballistics Information Network (\$3 million), Secret Service's protection activities during the 2000 Presidential campaign (\$25 million).

Evaluation Objective/Key Question(s): How are agencies or programs selected to receive this funding? Are funds distributed from the Treasury Forfeiture Fund being used for their intended purpose? We anticipate performing several reviews on this subject during the year.

### ***Best Practices Research: Telecommuting And Flexible Workplace Arrangements***

Contact Person: Adam Silverman (202) 927-5766

Background: Telecommuting and flexible workplace arrangements have seen increased use in the Federal government as managers seek greater flexibility to recruit and retain workers. Some studies have found that telecommuting programs may lead to decreases in the number of people crowding the roadways and transit systems, and may improve employee productivity if managed properly. Since OPM completed a pilot program in these areas in 1992, their use and acceptance in the Federal government workplace has grown. In addition, U.S. law requires that (1) agencies establish policies to



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allow eligible employees to telecommute and (2) OPM ensure that 25 percent of the Federal workforce participates in telecommuting.

Evaluation Objective/Key Question(s): What are the current and planned telecommuting and flexible workplace policies across Treasury? How successful are the programs, in what ways, and why?

### ***Best Practices Research: Employee Job Satisfaction***

Contact Person: Adam Silverman (202) 927-5766

Background: Some have said “satisfied employees make satisfied customers, which equals better business results.” With this concept in mind, OPM has co-sponsored yearly employee satisfaction surveys in the past. At Treasury, some Departmental offices and bureaus have also used surveys to gauge the contentment of their employees. This effort supports the Department’s strategic goal to improve employee satisfaction. However, at Treasury, no consistent and regularly administered gauge of employee satisfaction exists.

Evaluation Objective/Key Question(s): What is the level of employee satisfaction with their jobs? We plan to use a commercial Internet site to briefly (fewer than 20 questions) survey employees at selected bureaus and with the concurrence of the bureau head. We will consult with OPM in developing the survey approach.

### ***Program Efficiency Rating: Implementing Contractor Recommendations***

Contact Person: Adam Silverman (202) 927-5766

Background: Each year, Treasury awards contracts for consulting advice in many areas including, but not limited to, management, leadership, automated systems, process analysis, training, law enforcement, customer service, telecommunications, health screening, and manufacturing. These procurements result in many recommendations for changes and improvements.

Evaluation Objective/Key Question(s): How many and what types of consulting services contracts are awarded each year and at what cost? How many contractor recommendations are made each year and are they implemented? If not, are there common or recurring reasons why (e.g., funding, regulations, staff constraints, etc.)?



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### ***Best Practices Research: Customer Service***

Contact Person: Adam Silverman (202) 927-5766

Background: In 1999, the first survey of its kind showed that the Federal government, long criticized for not providing good service, was nearly as well regarded as private business. In a 2000 survey, a larger group of Federal services edged even closer to the performance of the private sector, whose score had slipped a bit. The Federal government maintained a score of 68.6 for the level of services it provides, while the rating of private companies dipped from 72 to 71. The 2000 survey measured satisfaction with about 100 government services, ranging from Social Security and Medicare to defense contracting and meat inspection. Within Treasury, Customs was rated at 70, an increase of four points from 1999.

Evaluation Objective/key Question(s): What are Treasury's top 10 services and related customer groups? What is the numerical level of customer's satisfaction with Treasury's services? The OIG will work in partnership with Departmental Offices and/or bureaus to issue an Internet-based survey to one of Treasury's top customer groups in FY 2002.

### ***Best Practices Research: Customer Service--Internet Site Communication***

Contact Person: Adam Silverman (202) 927-5766

Background: It can be confusing to get information from or contact a Federal government office from inside and outside the Federal Government using the Internet. Effective use of the Internet to provide information and administer services can lead to more effective Government operations and customers that are more satisfied with Government services. In addition, Section 508 of the Rehabilitation Act of 1973, as amended in 1998, requires the accessibility of Federal agencies' electronic and information technology to people with disabilities, including employees and members of the public.

Evaluation Objective/Key Question(s): At selected bureaus, what are the types of services offered via the Internet? What services are most effective? What is Treasury's strategy to ensure its websites are Section 508 compliant?





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## **Appendix C**

### **Project Narratives In Progress Audits for FY 2002**

#### **Management Challenge: Financial Management/ Compliance with the Federal Financial Management Improvement Act**

##### ***Department-wide Consolidated Financial Statements And Selected Treasury Bureaus Financial Statements***

Contact Persons: Mike Fitzgerald (202) 927-5789  
Thomas Moschetto (202) 927-5074

Background: We will continue to support the Department in its efforts to produce Treasury-wide financial statements in accordance with the Chief Financial Officers (CFO) Act and the Government Management Reform Act (GMRA) by (1) auditing major entities and bureau activities whose audits are statutorily mandated and (2) providing advice on the consolidation process and reporting format. Planned FY 2001 financial statement and financially related audits should continue to provide Department and bureau management officials with critical information and recommendations to help prepare reliable Treasury-wide financial statements, develop more effective and reliable financial accounting systems, correct internal control weaknesses, and improve mission-related operations. As in prior years, a combination of OIG, GAO, and contractor resources will be used to meet the FY 2001 financial statements audit requirements for the Department and its component bureaus and entities. For FY 2001, Treasury received a waiver from OMB requirements for “stand alone” financial statement audits of Customs and ATF. Contracted Independent Public Accountants will perform reviews of the Customs’ and ATF’s financial statements under OIG oversight.

Audit Objective/Key Question(s): Do the financial statements prepared by the Department and Treasury bureaus present fairly their financial position and results of operations? Are Department and bureau managers taking action to correct identified financial management weaknesses so as to better manage their operations and comply with applicable laws and regulations having a direct and material effect on the financial statements? We estimate 30,440 hours will be needed to complete this project.



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## ***ATF Procurement Of Systems Improvements For The National Tracing Center***

Contact Person: Roberta Rickey (313) 886-6300

Background: ATF's National Tracing Center traces firearms recovered in crimes and from juveniles for any Federal, State, local, or international law enforcement agency. A firearms trace is frequently the crucial piece of evidence that can link a criminal to a firearms-related crime and allow law enforcement officials to make an arrest.

In FY 2000 and 2001, Congress appropriated several million dollars for ATF to improve the efficiency of the firearms tracing process. As part of this effort, ATF has initiated different information technology system projects including development of (1) an Internet-based firearm tracing system and (2) a digital imaging project to archive out-of-business records.

Audit Objectives/Key Questions: Has ATF followed appropriate procurement requirements for the National Tracing Center systems improvements? We estimate 800 hours will be needed to complete this project.

## ***Abandoned Assets Held By State Unclaimed Property Agencies***

Contact Person: Benny Lee (415) 977-8810 ext. 222

Background: Abandoned or unclaimed assets are tangible assets that have remained unclaimed by the owner for a certain period of time prescribed by State law and may include checking and savings accounts, money orders, travelers checks, and certified checks returned and held by banks or other issuing companies. In addition, there may be proceeds from bankruptcy cases, bequests to the Government, dividends from stock certificates seized by Federal agencies, misdirected refunds, credits, rebates, and demurrage that have not been claimed by Federal agencies.

The Treasury Financial Manual provides guidance to Federal agencies on unclaimed assets. Federal agencies are required to establish procedures to recover these assets, based on the guidelines provided by Treasury. If an agency does not make timely recovery of unclaimed assets, the Department will serve as the collector of last resort. Upon the request of an agency, Treasury will locate and recover unclaimed assets on a reimbursable basis under the provisions of the Economy Act.

The total dollar amount of potential unclaimed assets belonging to the Department is not known at this time.

Audit Objectives/Key Questions: Does the Department have adequate procedures for recovering unclaimed assets? Has the Department properly



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discharged its responsibilities with reference to the unclaimed assets of other Federal agencies? We estimate 480 hours will be needed to complete this project.

### ***Treasury Use Of Government Purchase Cards***

Contact Person: George Tabb (713) 706-4613

Background: Transactions processed through purchase orders, blanket purchase agreements, and imprest funds cost the Government approximately \$54 each. As a cost-cutting measure, in December 1993, the Department directed all bureaus to begin using purchase cards for small purchases. For example, at Customs, over 99,000 transactions were made using credit cards for about \$33.5 million in purchases, while the Mint used cards over 17,000 times for purchases totaling over \$13.5 million. Purchase cards are similar to personal credit cards, and are used to buy products and services with less paperwork involved than processing individual requisitions through the traditional procurement process. The bureaus were to provide their employees necessary training and written procedures.

Audit Objectives/Key Questions: Do adequate controls exist to ensure government purchase cards are being used for their intended purposes? We have initiated this audit at Customs, and plan to perform work at Departmental Offices, ATF, Mint, OCC, and Secret Service. We may include additional bureaus as the work progresses. We estimate 4,000 hours will be needed to complete this project.

### ***FMS Plastic Card Network***

Contact Person: Donald Kassel (202) 927-6512

Background: The Plastic Card Network (PCN) is one of the collection mechanisms that FMS manages for Federal agencies. The purpose of the PCN is to accept payment via a plastic card, either credit or debit, in exchange for the sale of goods and services from Federal agencies or the settlement of financial obligations such as fines or fees due to Federal agencies. The objective of the network is to increase collections received electronically by the Federal government in a timelier manner. FMS estimates that the total dollar value of credit card transactions through the PCN during FY 2000 was approximately \$1.6 billion.

There are currently two acquiring banks for the PCN, Bank of America and Mellon Bank, which serve as the Treasury's financial agents, and acquire and deposit the funds for the government. Once the funds are collected, an agency account is credited through FMS' CASHLINK system on the third day after a transaction takes place. The PCN financial agents also provide intergovernmental collection services by issuing the USA card to participating Federal agencies, and authorizing and processing USA card transactions between Federal agencies.



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Audit Objective/Key Question(s): How effectively are Plastic Card Network program costs being monitored? Regarding credit card and Internet-based credit card transactions, are the financial agent banks, as well as the contractors and subcontractors who are engaged to develop web hosting and other Internet-enabled technologies, receiving proper oversight? We estimate 1,800 hours will be needed to complete this project.

### ***CDFI Fund Post-Award Grant Administration Process***

Contact Person: Donald Kassel (202) 927-6512

Background: The Community Development Banking and Financial Institution Act of 1994 established the Community Development Financial Institutions (CDFI) Fund as a wholly owned government corporation. The Fund's vision is an America in which all people have access to capital and financial services. Its mission is to promote economic access to capital and local economic growth by directly investing in and supporting CDFIs, and by expanding financial service organizations' lending, investment, and services within underserved markets. CDFIs include both private, for-profit and not-for-profit financial institutions that have community development as their primary mission and that have received certification by the Fund. They include community development banks, community development credit unions, not-for-profit loan funds, micro enterprise loan funds, and community development venture capital funds.

The CDFI Fund made 576 awards totaling in excess of \$245 million during FYs 1999 and 2000, and received \$123.6 million for its FY 2001 budget.

Audit Objective/Key Question(s): Is the Fund's post-award grant administration process effective to ensure that financial institutions are carrying out their activities in accordance with the grant agreements? We estimate 2,000 hours will be needed to complete this project.

### ***Mint Leasing Practices***

Contact Person: Thomas Byrnes (202) 927-5904

Background: In December 1997, the Mint signed a long-term lease for 232,000 square feet of building space for its headquarters operations. In November 1999, the Mint signed a second long-term lease for an additional 199,160 square feet of building space. The Mint is not required to follow the Federal Acquisition Regulation because it is a Public Enterprise Fund.

Audit Objective/Key Question(s): Has the Mint leased space for headquarters operations in accordance with its mission and prudent business practices? We estimate that 800 hours will be needed to complete this project.



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## ***Multi-year Audit Oversight Of The Customs Automated Commercial Environment (ACE) Systems Initiative***

Contact Person: Clifford Jennings (202) 927-5771  
George Tabb (713) 706-4613  
Thomas Byrnes (202) 927-5904

**Background:** The Automated Commercial Environment (ACE) system initiative is an integral part of the Customs Modernization Program to improve its trade, enforcement, and administrative operations. ACE is the replacement for the technologically and operationally obsolete Automated Commercial System (ACS). At a currently estimated life-cycle cost of \$1.3 billion, ACE is the largest information technology system being developed by a Treasury entity over which Treasury OIG has oversight.

For FY 2001, Customs was appropriated \$130 million in no-year funds for ACE development. However, GAO must review, and the House and Senate Appropriations Committees must approve Customs' expenditure plans before any funds can be expended under this appropriation. The President's Budget for FY 2002 is requesting another \$130 million in no-year funds for ACE.

**Audit Objective/Key Question(s):** We will be undertaking a series of audits to provide ongoing oversight of ACE that will be designed to address the following questions: Will Customs meet its goals and objectives within stated timeframes and budgets for ACE? Will the material weaknesses that exist with ACS and related financial management systems be corrected in ACE? Is Customs following sound system development life cycle (SDLC) principles for the ACE project?

At the beginning of FY 2002, we have two audits in progress. The overall objective of the first audit is to determine whether ACE project management has been appropriately planned and is in compliance with relevant laws, Treasury directives, and sound business practice. The overall objective of the second audit is to determine whether an appropriate procurement infrastructure is in place to ensure that, among other things, performance-based procurement practices are being followed in the award and monitoring of the prime contract and other related contracts for the development of ACE.

Our work will be closely coordinated with planned work by GAO. We estimate 16,000 hours will be needed during FY 2001 on this project.

## ***Treasury Bureau Controls And Security Over Law Enforcement Data***

Contact Person: Clifford Jennings (202) 927-5771

**Background:** Treasury bureaus collect and disseminate various types of law enforcement information, which is maintained in automated database



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systems. For example, ATF collects information on gangs (the Consolidated Gang Database) and tracks firearms (Firearms Tracing System), which assist agents and other local law enforcement agencies in criminal investigations. FinCEN collects financial data required by the Bank Secrecy Act, such as Currency Transaction Reports (CTR) and Suspicious Activity Reports (SAR) that are used in criminal, tax, and regulatory investigations or proceedings.

The use of databases to store law enforcement information provides several benefits due to centralized control over the data, reduction in redundancy, avoidance of inconsistency, sharing of data, enforcement of standards, application of security restrictions, and maintenance of the integrity of the data. However, Treasury bureaus should ensure that appropriate controls, such as adequate access controls should be established to prevent unintentional or unauthorized access. In addition, the database internal security features should interface with the operating systems of specialized security software.

**Audit Objectives/Key Questions:** Has Treasury and its bureaus provided for adequate security, integrity, and control over sensitive computerized law enforcement data? This audit is being conducted at ATF, Customs, FinCEN, and Secret Service. We estimate 1,000 hours will be needed to complete this project.

### ***Material Loss Review Of Superior Bank FSB“***

**Contact Persons:** Benny Lee (415) 977-8810, ext. 222  
Donald Kassel (202) 927-6512

**Background:** Section 38(k) of the Federal Deposit Insurance Act, as amended, requires us to conduct a post-failure review, known as a material loss review (MLR), of the supervision exercised over a failed institution regulated by Treasury if the institution's failure results in a loss to a deposit insurance fund exceeding either (1) \$25†million or (2) 2 percent of the institution's total assets when the Federal Deposit Insurance Corporation (FDIC) provided financial assistance. Our report on the MLR must generally be completed within 6 months after the FDIC has estimated a material loss, and addressed to the applicable bank regulator, with copies to the Comptroller General of the United States, the FDIC, and any Member of Congress who requests a copy.

Superior Bank FSB, located in Hinsdale, Illinois, was taken over by Federal regulators in July 2001. Unofficial loss estimates to the deposit insurance fund have been put at about \$500 million. We initiated an MLR of the Superior Bank failure in August 2001.

**Audit Objective/Key Question(s):** The specific audit objectives are set in the law and essentially entail determining why Superior Bank failed, opining on the adequacy of OTS' supervision over Superior Bank, and recommending



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any warranted corrective action(s) to avert future failures. We estimate 2,880 hours will be needed to complete this project.

### ***OCC And OTS Examination Coverage For Bank Fraud***

Contact person: Benny Lee (415) 977-8810, ext. 222

**Background:** The recent bank failures of the First National Bank of Keystone and Best Bank follows the widely publicized money laundering scandals involving several major banks. Although each bank's situation was different, some aspect of bank fraud was commonly present and resulted in major financial losses and/or diminished reputation, which is key to a bank's stability. Although bank/thrift profitability and capitalization are at record high levels, the recent bank failures and scandal may portend the industry's vulnerability to fraud, particularly as insured depositories increasingly engage in new products and services brought on by increased competition and technology. In response to this heightened risk, OCC has fraud experts located in each district office, in their large bank division, and in the Washington office.

**Audit Objectives/Key Questions:** This audit is the first in a series of planned audits that are collectively designed to assess the adequacy and effectiveness of OCC's and OTS' examinations to determine whether bank fraud may be affecting the safety and soundness of insured depositories, and/or compliance with banking laws. The first in this planned series is an audit designed to profile Suspicious Activity Reports (SAR) filed by national banks, insured thrifts, and/or OCC/OTS. SAR data will be obtained from FinCEN, and the audit will be coordinated with the OIGs for FDIC and the FRB, as well as our Office of Investigations. This initial profiling will then be used as the basis for future audits and investigations. We estimate 1,200 hours will be needed to complete this project.

### ***OTS Bank Secrecy Act Examinations***

Contact Person: Benny Lee (415) 977-8810, ext. 222

**Background:** This is the fourth in a series of planned OIG audits covering bank regulatory exams for compliance with the Bank Secrecy Act (BSA). In FY 1999, the first OIG audit covered OCC BSA domestic commercial banking exams, the second covered OCC's foreign branches, and during FY 2001 the third covered OCC's national trust charters and those with private banking. This is the first OIG audit covering BSA at OTS.

The risk of money laundering at insured depositories is underscored in Treasury's 2000 revised money laundering strategy that requires, in part, that the Federal banking agencies review existing bank examination procedures related to the prevention and detection of money laundering at financial organizations.



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Many believe that Savings Associations (thrifts) are not as vulnerable to money laundering given their low level of retail activity compared to commercial banks. Over the last 5 years, however, thrifts have become more like banks in response to competition and consumers tendency for one-stop shopping for financial services. Indeed, thrifts today not only offer limited small business commercial lending, but also expanded services such as checking, credit cards, trusts services, and Internet banking. Recent financial modernization legislation (the Gramm-Leach-Bliley Act) may also unintentionally result in a BSA regulatory gap given the law's functional regulation provisions. For example, GAO's May 2001 report over Suspicious Activity Reporting by Security Brokers illustrates how one type of regulatory gap occurred between SEC and bank regulators.

Audit Objective/Key Question(s): Are OTS examinations effective in determining whether thrifts are complying with the BSA? Are thrifts properly applying the new currency transaction reporting exemption procedures and reporting of suspicious transactions (Suspicious Activity Reports, or SAR)? Is OTS using available information from other regulators (e.g., FRB) and law enforcement agencies (e.g., FinCEN)? Do examiners effectively use available information such as Currency Transaction Reports, SARs and Reports of International Transportation of Currency or Monetary Instruments? Does OTS use enforcement actions such as Civil Monetary Penalty referrals when warranted? We estimate 2,400 hours will be needed to complete this project.

### ***FinCEN Efforts To Deter And Detect Money Laundering In Casinos***

Contact Person: Donald Benson (617) 223-8638

Background: Today, close to \$500 billion a year is wagered at casinos in the United States. An estimated 125 million visitors each year gamble at government-licensed casinos. In particular, there has been a rapid growth in riverboat and tribal casino gaming, as well as card room gaming, during the 1990s. Therefore, there are more opportunities for individuals to launder illegal profits in the fast-paced environment of casino gambling. In addition, the experience of law enforcement and regulatory officials suggests that the gambling environment can attract criminal elements involved in a variety of illicit activities, including fraud, narcotics trafficking, and money laundering. With large volumes of currency being brought in and played by legitimate customers from throughout the United States and other countries, gaming can create a good "cover" for money launderers who are in possession of large amounts of currency.

Audit Objectives/Key Questions: What action is FinCEN taking to deter money laundering in casinos, including offshore gambling cruise ships? Is FinCEN effectively reviewing and analyzing currency transaction reports provided by casinos? We estimate 1,200 hours will be needed to complete this project.





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## ***Customs Enforcement Of Intellectual Property Rights***

Contact Person: Donald Benson (617) 223-8638

Background: Intellectual property allows for exclusive ownership of an original product created from the work from individual artistic, inventive, and novel ideas. The Federal government registers these properties under copyrights, trademarks, trade names, patents, and mask works. These are issued to protect a particular product or identification method for the products. Those who own copyrights, trademarks, and trade names can record these rights with Customs, and it monitors imports for goods, which violate these rights. These records along with other intellectual property information related to imports reside in Customs' Automated Commercial System Intellectual Property Rights (IPR) Module used by Customs import specialists, inspectors, and other personnel involved with enforcement of these rights.

Customs enforces the owners' rights through authority in the Tariff Act of 1930, as amended. In 1996, Congress enacted the Anticounterfeiting Consumer Protection Act to provide more protection from counterfeiters. The Act increased criminal penalties, increased involvement of all levels of law enforcement against counterfeiters, and gave businesses harmed by the counterfeiters the power to issue civil penalties and remedies. The Act also provided for civil fines on persons involved in the importation of counterfeit U.S. trademarks.

Audit Objectives/Key Questions: Does Customs ensure that its Automated Commercial System IPR Module is continually updated with copyright and trademark information to prevent the importation of illegal articles? Does Customs use the information in the IPR Module to protect the rights of intellectual property owners? We estimate 2,000 hours will be needed to complete this project.

## ***Customs Regulatory Audit Division Quality Assurance Review***

Contact Person: Donald Benson (617) 223-8638

Background: During FY 1999, almost \$1 trillion in trade goods were imported into the United States. Customs has the authority to examine records of importers to ascertain the correctness and determine the importers' liability for duty, fees, and taxes due the United States. The Regulatory Audit Division within Customs' Office of Strategic Trade is tasked with ensuring importers meet their responsibilities for trade compliance through audits and reviews of importer records. The Regulatory Audit Division is staffed with approximately 400 auditors and support personnel.



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Audit Objective/Key Questions: Does the Regulatory Audit Division plan and conduct its audit work, including the resolution of audit findings, in conformance with applicable professional standards? We estimate 2,000 hours will be needed to complete this project.

### ***Interagency Review Of The U.S. Export Systems Automation Initiative***

Contact Person: Barry Savill (202) 927-2968

Background: The development concept of the U.S. Export Systems Automation Initiative is to incrementally (1) establish a common electronic interface between Industry and Government, (2) improve the quality of the reviews that protect military capabilities, (3) improve and standardize data and systems architecture among government agencies, (4) accelerate the licensing process workflow to meet global marketplace demands, and (5) ensure the process is secure. The National Defense Authorization Act (NDAA) for fiscal year 2000 requires that the President submit an annual report to Congress on transfers of militarily sensitive technology to countries and entities of concern. This report contains the results of audits performed by the Inspectors General of the Departments of Commerce, Defense, Energy, State, Treasury and the Inspector General of the Central Intelligence Agency. The Inspectors General of the Departments of Commerce, Defense, Energy and State developed a Memorandum of Understanding (MOU) and implementation agreement to facilitate implementation of the NDAA report requirement. The MOU provides for the formulation of an Interagency Working Group to coordinate interagency reports performed in accordance with the NDAA and contains a list of subjects to be reviewed each year through FY 2007. The Export Systems Automation Initiative was designated for review in FY 2002.

Audit Objective/Key Question(s): What is Treasury's role in the approval and issuance of export licenses? What systems are used to facilitate this process? How old are these various systems? What is the cost involved with operating the systems? Are plans in place to upgrade the systems? We estimate 2,000 hours will be needed to complete this project.

### ***Customs Drug Interdiction For Vessel Containers***

Contact Person: George Tabb (713) 706-4613

Background: All seaports of entry are required to capture data on the number of cargo containers arriving in the United States as well as the number of narcotics enforcement examinations performed on these arrivals. This information is retained in the Customs Service Port Tracking System. Customs has acknowledged the high-risk of vessel containers being used as a means for smuggling narcotics.



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**Audit Objectives/Key Questions:** How does Customs target marine containers for narcotics inspections and can its targeting methodology be improved? The audit is being performed at Port Everglades, Florida, and we estimate that 1,440 hours will be needed to complete the project. Our initial intent was to perform the audit at additional seaports. However, in response to the events of September 11<sup>th</sup> and the priority recently assigned to combating terrorism by the Commissioner of Customs, we are restructuring the audit work at these additional seaports to focus on security over vessel containers while under Customs' control and its targeting of vessel containers for inspection based on terrorism threats. The specific objectives of this future work is included in Appendix A as a planned new audit entitled *Customs' Targeting and Inspection Efforts for Vessel Containers*.

### ***ATF Non-Beverage Drawback***

Contact Person: Donald Benson (617) 223-8638

**Background:** ATF annually refunds over \$200 million in Federal excise taxes to manufacturers who used tax-paid alcohol to make medicines, foods, and flavorings. To qualify for a refund (drawback of the tax), these products must be unfit for beverage use. Manufacturers are required to submit formulas to the ATF laboratory indicating the percentage of alcohol in their product. The laboratory will examine formulas and analyze product samples to determine if the product is, in fact, unfit for beverage use.

To obtain the refund, manufacturers are required to submit a claim to ATF's National Revenue Center. Only manufacturers with ATF-approved formulas are eligible to receive a refund. In FY 1999, 473 companies submitted approximately 2,600 drawback claims requesting \$292 million in refunds. ATF refunded \$290 of the \$292 million requested.

**Audit Objectives/Key Questions:** Are adequate controls in place to ensure that drawback payments for the non-beverage use of tax-paid alcohol are proper? We estimate 800 hours will be needed to complete this project.

### ***Customs Drawback Integrity Project***

Contact Person: Donald Benson (617) 223-8638

**Background:** Drawback is a refund of the duties, taxes, or fees for specific dispositions (such as export or destruction) of merchandise that had been imported into the United States. According to Customs' FY 2000 Accountability Report, it paid about \$420 million in drawback during the fiscal year—approximately 1.75 percent of duties, taxes, and fees collected.

**Audit Objectives/Key Questions:** Are Customs' controls adequate to prevent or detect integrity issues that may be identified by this project? We estimate 2,000 hours will be needed to complete this project.



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## ***Effectiveness Of Customs NAFTA Enforcement Actions***

Contact Person: Donald Benson (617) 223-8638

Background: The North American Free Trade Agreement (NAFTA) eliminates tariffs on most goods originating in Canada, Mexico, and the United States over a transition period of 15 years. NAFTA authorizes the importing country's customs administration to conduct verifications of the exporter or producer to determine whether merchandise qualify as originating as certified by the Certificate of Origin. The Federal government is deprived of revenue whenever merchandise is allowed to be imported duty-free without valid and reliable proof as to its NAFTA eligibility. All three countries impose criminal, civil or administrative penalties for violations of NAFTA.

Customs' laboratories have worked on projects that involve trace element profiling, a process whereby laboratory personnel can determine the country of origin for a particular product. This technology can be extremely helpful in identifying companies who fraudulently transship items from one country to another in order to hide the true country of origin.

Audit Objectives/Key Questions: Has Customs taken appropriate enforcement actions, including penalty assessments, to ensure that revenue is collected when violations involving NAFTA point of origin are found during verifications? Is Customs using available technology effectively to identify companies that engage in illegal transshipping? Do the customs administrations of Canada, Mexico, and the United States share information about companies engaging in illegal transshipments and other NAFTA violations, and is Customs effectively using this intelligence? We estimate 1,800 hours will be needed to complete this project.

## ***Customs Bonded Warehouses***

Contact Person: George Tabb (713) 706-4613

Background: A Customs bonded warehouse is a building or other secured area in which dutiable goods may be stored, manipulated, or undergo manufacturing operations without payment of duty. Authority for establishing bonded storage warehouses is set forth in Title 19 of the United States Code. Upon entry of goods into the bonded warehouse, the importer and warehouse proprietor incur liability under a bond. This liability is canceled when the goods are exported or withdrawn for consumption and proper entry filed. The goods may remain in the bonded warehouse up to 5 years from the date of importation.

New Customs bonded warehouse regulations changed the procedures warehouse proprietors use to file warehouse inventory reports. Specifically, warehouse proprietors no longer are required to file these documents with Customs' Regulatory Audit Division. This change is intended to simplify inventory record keeping procedures for warehouse proprietors and is



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consistent with Customs' movement toward a post-audit environment in the spirit of the Customs Modernization Act.

**Audit Objective/Key Question:** Are Customs new bonded warehouse processes providing adequate controls to protect the revenue and prevent the diversion of contraband? We estimate 1,400 hours will be needed to complete this project.

### ***Treasury Inventory Practices***

**Contact Person:** Roberta Rickey (312) 886-6300

**Background:** After recent media stories concerning the loss of firearms and computers containing classified information at the Federal Bureau of Investigation, the Ranking Member of the Senate Finance Committee asked us for an assessment of Treasury's inventory practices for its stock of sensitive items that might compromise the public's safety, national security, or ongoing investigations. Because of the number of Treasury bureaus and offices with different missions, Treasury's sensitive inventory would include, in addition to firearms and computers, such items as explosives, seized narcotics and other evidence, and produced coins and currency, as well as raw materials for coin and currency production (collectively referred to as "inventory").

**Audit Objective/Key Question(s):** Are Treasury's inventory regulations sufficient to prevent loss or theft of its inventory? Which Treasury bureaus are most susceptible to inventory loss or theft and why? Have any Treasury inventory items been identified as lost or stolen within the last 3 fiscal years? Does Treasury have a sufficient plan to recoup inventory that cannot be located? Could Treasury's inventory regulations and accounting methods be improved to prevent future losses? We estimate 4,000 hours will be needed to complete this project.

### ***Treasury Inventory, Tracking And Closure Audit Subsystem***

**Contact Person:** Thomas Byrnes (202) 927-5904

**Background:** OMB Circular No. A-50, *Audit Follow-up*, dated September 29, 1982, requires Federal agencies to establish systems to assure the prompt and proper resolution of audit recommendations. This Circular also requires that these systems provide for a complete record of action taken on both monetary and non-monetary findings and recommendations. Treasury Directive 40-03, *Treasury Audit Resolution, Follow-up, and Closure*, dated February 2, 2001 assigned these responsibilities to the Deputy Chief Financial Officer.

**Audit Objective/Key Question(s):** Were adequate management controls established in the Treasury's Inventory, Tracking and Closure Audit Subsystem to ensure that accurate, reliable data and effective management accountability for unresolved or disputed recommendations was maintained



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and reported? We estimate that 400 hours will be needed to complete this project.



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## **Appendix D**

### **Project Narratives Office of Audit Projects Under Construction for Future OIG Annual Plans**

#### **Management Challenge: Financial Management/ Compliance with the Federal Financial Management Improvement Act**

##### ***FMS Check Claims Processing Follow-up***

Contact Person: Donald Kassel (202) 927-6512

Background: FMS is responsible for disbursing Federal Government payments such as IRS tax refunds, Department of Veteran Affairs disability payments, and Social Security benefits. Checks are printed and mailed, and Electronic Funds Transfer (EFT) payments are sent to Federal Reserve Banks by FMS' six Regional Financial Centers (RFC) located around the country. Occasionally, a replacement check is requested because a payee claims a check was lost, stolen, or destroyed. The payee reports such a claim to the issuing agency, and the issuing agency advises the RFC that processed the check of the claim. The RFC then verifies the check's existence and forwards the claim to FMS' Financial Processing Division for further processing.

Audit Objective/Key Question(s): Is FMS timely processing check claims? Does FMS have adequate records of significant activity on check claims? Are there adequate internal controls over check claims processing?

##### ***Treasury Offset Program (TOP)***

Contact Person: Donald Kassel (202) 927-6512

Background: The Debt Collection Improvement Act of 1996 (DCIA) requires that agencies notify the Treasury of all non-tax debts over 180 days delinquent for the purpose of offsetting Federal payments, including tax refunds, and provides authority for disbursing officials to conduct payment offsets. TOP is a centralized debt collection program developed by the FMS and operated through its Regional Financial Centers. As of March 31, 2001, the TOP database contains \$28.1 billion in Federal non-tax debt, \$63.5 billion in child support debt eligible for offset, and \$76.7 billion in Federal tax debt.

FMS currently offsets OPM retirement, Federal income tax refunds, vendor payments, and some federal salary payments, and is in the process of adding the remaining Federal salary and non-treasury-disbursed payments to the TOP system. In March 2001, FMS began implementing the offset process



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for Social Security payments by sending notices to Social Security EFT cycle payment recipients, with actual offsets to begin in May 2001. Notification to all other Social Security recipients will be phased in over the next several months after May 2001.

A major tool for debt collection is offsetting tax refund payments to satisfy delinquent debts. As a result, tax refund offset collections for calendar year 2000 totaled \$2.6 billion. Federal non-tax debt collections increased almost \$400 million to \$1.3 billion and child support collections increased more than \$180 million to \$1.3 billion.

TOP matches Federal payments against debts owed to the Government. When a match occurs and a payment recipient who also owes a Federal debt is identified, the payment is reduced, or offset, by the amount of the debt or payment. The delinquent debt information remains in the debtor data base for continuous offset until debt collection activities for that debt is terminated because of full payment, compromise, write-off or other reasons justifying termination.

**Audit Objective/Key Question(s):** Have all DCIA offset provisions been incorporated in TOP such as offsetting tax refunds, Federal salaries, and other Federal payments? Does TOP generate useful management information reports to measure performance? Does FMS effectively communicate with program agencies to ensure that debt balances are current and remain active until the debt has been satisfied?

### ***FMS Financial Electronic Data Interchange System***

Contact Person: Donald Kassel (202) 927-6512

**Background:** The Debt Collection Improvement Act of 1996 mandated the use of EFT for Federal payments. Anyone doing business with the Government is to be paid electronically rather than with a paper check. Each year FMS disburses in excess of \$1 trillion as it issues more than 860 million non-defense payments, such as Social Security benefits, IRS tax refunds, and Veterans Affairs benefits to a wide variety of recipients. Approximately 3 out of 4 of these transactions, mostly through the Direct Deposit program, are made electronically while the rest are disbursed by check.

FMS has implemented the Financial Electronic Data Interchange System (EDI) to replace the Vendor Express Program. The number of payments made by check has decreased and, as of the end of FY 2000, 70 percent of vendor payments were made electronically.

**Audit Objective/Key Question(s):** Has the Financial Electronic Data Interchange System been effective in reducing the number of manual checks issued to vendors? Has FMS incorporated adequate internal and management controls in the system?





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### ***One Dollar Coin Production***

Contact Person: Thomas Byrnes (202) 927-5904

**Background:** On December 1, 1997, the President signed legislation to produce a new \$1 coin. The new coin is golden in color, has a distinctive edge discernable from other coins by touch, and is the same general diameter as the Susan B. Anthony coin. Production of the coins started in the first quarter of Fiscal year 2000, and the Mint started to release the coins in early calendar year 2000. The new \$1 coin is a high profile product that requires a significant effort on the part of the Mint to produce and maintain cost efficiency.

**Audit Objective/Key Question(s):** Were demands for the \$1 coin adequately determined? What measures has the Mint taken to minimize the costs of production?

### ***Management Of The Treasury Communication System Inventory***

Contact Person: Thomas Byrnes (202) 927-5904

**Background:** The Treasury Communication System (TCS) is the largest secure, private wide-area network in the Federal civilian government. It integrates the capabilities offered through the Federal Telecommunications linking law enforcement agencies for public safety, and developing an international trade database. It provides a centralized network and management system to support users' missions by integrating their respective information systems, and it supports a wide range of services, including video conferencing, multimedia applications, and Internet/Intranet access. Users supported by TCS include the Department's bureaus and the Department of Justice. In January 1998, TCS served over 6,000 nationwide user locations accommodating over 150,000 individuals and employing in excess of 10,000 communication circuits. In FY 98, TCS customers paid \$162 million into the Treasury Working Capital Fund for TCS costs.

The Department's Office of Corporate Systems Management (CSM) has the overall management responsibility for TCS, including TCS equipment items in inventory.

**Audit Objective/Key Question(s):** Does CSM have effective controls over the TCS inventory? Specifically, are these controls adequate to ensure the inventory is complete and accurate, and properly recorded in the Department's financial statements?



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## ***Treasury Office Of The Chief Information Officer***

Contact Person: Clifford Jennings (202) 927-5771

Background: The Information Technology Management Reform Act of 1995, also known as the Clinger-Cohen Act, established the role of the Chief Information Officer (CIO). The CIO provides an executive-level focus and accountability for IT issues and delivery of effective systems and emphasis on senior executive involvement in and accountability for information technology management decision-making. The mission of the Department's Office of the CIO is to: (1) foster communication and exchange among bureaus; (2) ensure effective coordination, management, and deployment of information technology architecture, investments, and resources; (3) promote effective agency operations through performance-based management; (4) enforce accountability for the use of corporate assets to build information technology infrastructure; (5) assist bureaus in aligning information technology with their business needs and investment decisions; and (6) develop and promulgate information technology and information resource management policies required by the Clinger-Cohen Act and other statutory mandates.

The Office of the CIO has management and oversight responsibility for Treasury's Departmental Offices and bureaus. In addition, each bureau has a designated CIO that manages and oversees its respective information technology requirements.

Audit Objective/Key Question(s): Is the Office of the CIO carrying out its roles and functions as prescribed by the Clinger-Cohen Act and other statutory mandates? This audit will primarily be conducted at the departmental level and will assess the management structure and authority of the Office of the CIO.

## ***Security Over DB2 Data***

Contact Person: Clifford Jennings (202) 927-5771

Background: Database systems are essentially computerized record-keeping systems. The database approach provides several benefits due to centralized control over the data, such as reduction in redundancy, avoidance of inconsistency, sharing of data, enforcement of standards, application of security restrictions, and maintenance of the integrity of the data.

Security over relational databases (DB2) includes a variety of levels of access controls established to prevent unintentional or unauthorized access. Internal security features contained in DB2 should exist that interface with operating systems or specialized security system software access control features. This dual approach of database security features and specialized system security features often are relied upon to cover all required security functions.



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However, reliance on this dual security approach provides the opportunity for security lapses.

Audit Objectives: Are security controls over DB2 databases throughout the Department adequate?

### ***Bureaus Off-Site Storage Process***

Contact Person: Clifford Jennings (202) 927-5771

Background: The lack of a capability to process and retrieve information maintained electronically can significantly affect the Department's ability to accomplish its mission. Effective computer operations ensure that computing environments are backed up, maintained at an off-site storage location, and have provisions for the retention and disposition of computing resources. Without the assurance that programs and data are maintained and restorable from an off-site location, the Department runs the risk that computer operations will cease to function in the event of a disaster. Areas that should be addressed include (1) complete backup of computer operations, particularly critical systems, at the designated off-site facility; (2) physical access controls and environmental controls to the site; and (3) contingency planning.

Audit Objective/Key Question(s): Have adequate data management controls been implemented to ensure that operating systems, application systems, and data are being backed up, stored off-site, and restorable?

### ***Computer Security Awareness Training***

Contact Person Clifford Jennings (202) 927-5771

Background: The Computer Security Act of 1987 requires the mandatory periodic training of all persons involved in management, use, or operation of Federal computer systems that contain sensitive information. The Treasury Security Manual requires bureaus to develop, maintain, and update annual security awareness training plans.

Audit Objectives/Key Question(s): Do Treasury bureaus have meaningful and effective computer security awareness training programs?

### ***Computer Security Risk Management***

Contact Person: Clifford Jennings (202) 927-5771

Background: Computer security risk management addresses risks, which arise from an organization's use of information technology. Risk Management is the process of assessing risk, taking steps to reduce risk to an acceptable level, and maintaining that level of risk. Risk management is made up of



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two primary activities: (1) risk assessment and (2) risk mitigation. Risk assessment is comprised of determining the assessment's scope and methodology, collecting and analyzing data and interpreting the risk analysis results. Risk mitigation involves the selection and implementation of security controls to reduce risk to a level acceptable to management.

Audit Objective: Are bureaus performing computer security risk management of their IT systems and are there procedures to assess and mitigate the identified risks?

### ***Oversight Of Compliance And Evaluation Programs***

Contact Person: Clifford Jennings (202) 927-5771

Background: The Treasury Security Manual established a compliance review and evaluation program at the departmental level. The program's objective is to provide Treasury management a means of determining the extent to which applicable Federal and Treasury security policies have been properly implemented within the Department, as well as their effectiveness. Similar programs, however, are not required at the bureau level.

In many bureaus, the computer security program supports geographically separated sites within the organization. Generally the computer security program is developed at headquarters and distributed to the regions. These large programs require a separate oversight role that ensures that the program, as mandated by the headquarters, has been implemented as intended in the regions.

Audit Objective/Key Question(s): Does a need exist to establish compliance review and evaluation programs at the bureaus? If a bureau does have a program, the review will evaluate the program's effectiveness.

### ***Treasury Information System Change Management Controls***

Contact Person: Clifford Jennings (202) 927-5771

Background: An effective change control process is accomplished by instituting policies, procedures, and techniques that help ensure that all program modifications and hardware additions are properly approved and tested. In addition, access to, and distribution of application source code should be carefully controlled. Without proper controls, security features can be circumvented that may allow application source code that has not been authorized, tested, or approved to be implemented. In FYs 2000 and 2001, we performed a review of change management controls at selected Treasury bureaus, as well as the CIO's oversight role for change management at the bureau level. During the review, weaknesses were found that were consistent for most of the selected bureaus. For example, system changes were not being documented and approved, testing documentation was not



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being retained, and access application source code was not being protected. Further, we identified findings at two of the bureaus as repeat conditions.

**Audit Objective/Key Question(s):** Have Treasury bureaus implemented adequate controls over hardware, operating system software, and application changes to address the weaknesses noted in prior OIG audits?

### ***Electronic Commerce Systems Controls And Security***

**Contact Person:** Clifford Jennings (202) 927-5771

**Background:** Electronic commerce systems are becoming more prevalent at Treasury and will continue to play a significant role in expanding business opportunities in the future. Currently, Treasury has made available online, via the Internet, the purchase of coins from the Mint, currency collectibles from BEP, and savings bonds from BPD. For example, during FY 1999, the Mint processed over 244,000 Internet orders and generated \$15.6 million in Internet-based sales revenue. For FY 2000, BEP had about 11,000 Internet sales totaling approximately \$1.4 million.

Treasury bureaus should ensure that the appropriate level of security controls for the confidentiality and privacy of consumer information are incorporated into its electronic commerce applications. In addition, controls should be implemented to ensure that online transactions are properly authorized and authenticated, and to ensure against the non-repudiation of transactions.

**Audit Objective/ Key Questions:** Have Treasury bureaus incorporated adequate security controls into its electronic commerce applications to ensure customer information and transactions are protected against loss, misuse, or unauthorized access or modification? This is a continuation of audits performed during FY 2001 at two bureaus and will include additional bureaus.

### ***OCC Security Over Sensitive Bank Information Available Online***

**Contact Person:** Benny Lee (415) 977-8810 ext.222

**Background:** Striving to eliminate red tape, the Comptroller of the Currency announced last September 2000 plans for OCC's latest high-tech examination tool—an online system that would let examiners remotely view bank documents and analyze data to reduce time spent in the institutions. Examiners could then devote onsite visits more to discussions with management.

**Audit Objective/Key Question(s):** Are adequate controls in place over bank-sensitive information available online to OCC employees? We estimate 2,000 hours will be needed to complete this project.



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## ***Problem Banks And Predatory Lending***

Contact Person: Donald Kassel (202) 927-6512  
Benny Lee (415) 977-8810, ext. 222

Background: One benefit of the economic boom over the last decade has been the ample availability of consumer credit through commercial banks. From 1994 to 1999, bank loans to individuals increased 15 percent, from \$487 billion to over \$558 billion, and mortgages increased 47 percent, from \$570 billion to over \$839 billion. Unfortunately, predatory lending has been one unwelcome aspect to this growth in consumer credit.

Some abusive lending practices have surfaced in areas such as frequent loan refinancing (also referred to as “loan flipping”), large prepayment penalties, balloon payment requirements, and lump sum credit life insurance financed from loan proceeds. Predatory lending continues to invoke public outcries by consumer groups, the Congress, and the Administration. Yet, banking regulators have been slow to demonstrate effective supervisory oversight over predatory lending. In fact, federal regulators last year were unable to even provide to the public a precise definition of the problem or estimate its size.

Aside from the lack of a common definition, regulators have focused primarily on the opposite problem for the last decade, that is, banks wrongly denying credit through redlining practices and violations of fair lending laws. Similarly, the focus of safety soundness examiners has been credit risk and interest rate risk associated with these loans. Ironically, the very measures that mitigated these types of risk, to the satisfaction of examiners, such as increased lending rates commensurate with the risk, prepayment penalties, and secured lending also provided the very avenue for predatory lending. Consequently, the line between safe and abusive lending has been blurred and regulators haven’t really focused on predatory lending per se.

One observation from the last several material loss reviews by the bank regulatory OIGs has been the presence of possibly abusive sub prime lending that was either a primary or contributing cause to a bank’s failure. At Best Bank (an FDIC bank), the loans were credit cards, whereas at the National Bank of Keystone, it was sub prime mortgages and home improvement loans. Aside from the credit risk problems, auditors also saw indications of predatory lending, at least in terms of loans to highly questionable borrowers. Rather than predatory lending, regulators were understandably preoccupied with the banks’ continued viability to avert failure.

Audit Objective/Key Question(s): How effectively does OCC and OTS identify predatory lending by problem and weakened financial institutions and thrifts? Specifically, do compliance exams cover potentially abusive lending practices? Are there inherent supervisory conflicts between safety and soundness and abusive lending when dealing with failing and weakened institutions? Has OCC and OTS reported egregious abusive lending practices



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identified during an exam? How does OCC and OTS supervise subsidiaries and/or affiliates that may be engaged in predatory lending but are supervised by a functional regulator such as state agencies? Separate audits will be conducted at OCC and OTS.

### ***OTS Supervision Of Unitary Thrift Charters***

Contact Persons: Benny Lee (415) 977-8810, ext. 222

Background: The Gramm-Leach-Bliley Act (GLBA) essentially eliminated the Unitary Thrift charter (i.e., commercial concerns that own a single thrift) except for about 173 diversified firms that were grand fathered as of May 4, 1999. These non-banking organizations represent diverse industries such as insurance, security brokers, telecommunications companies, whose thrifts collectively hold over \$10 billion in assets as of late 2000.

OTS acknowledges that these non-banking commercial entities present unique risks and supervisory challenges and it has been reassessing how these entities should be supervised. GLBA's functional regulation provisions may also further complicate OTS' supervisory responsibilities.

Audit Objective/Key Question(s): Does OTS effectively supervise unitary thrifts in light of the non-banking commercial activities associated with these entities?

### ***Implementation Of The New National Money Laundering Strategy***

Contact Person: Barry Savill (202) 927-2968

Background: The Money Laundering and Financial Crimes Strategy Act of 1998 called for the development of a 5-year anti-money laundering strategy. In September 1999, Treasury and the Justice Department released the first comprehensive National Money Laundering Strategy (Strategy). Treasury issued its second Strategy in March 2000 and in September 2001, Treasury issued the National Money Laundering Strategy for 2001. The 2001 Strategy is a comprehensive plan designed to disrupt and dismantle complex, large-scale money laundering organizations and prosecute professional money launderers through aggressive enforcement, measured accountability, preventative efforts, and enhanced intra-agency, inter-agency, and international coordination.

The September 11<sup>th</sup> terrorist attacks underscore the need for aggressive and vigilant anti-money laundering efforts that target the movement of funds into this country for the purpose of criminal activity. Treasury's 2001 Strategy will focus on pursuing terrorist funds and these kinds of high-impact and high profile investigations.



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Audit Objective/Key Question(s): Is Treasury meeting its performance goals as outlined in the National Money Laundering Strategy for 2001? Is Treasury achieving measurable progress in combating money laundering as a result of the National Money Laundering Strategy for 2001?

### ***Money Laundering Through Commercial Trade Financing***

Contact Person: Benny Lee (415) 977-8810, ext. 222

Background: Two Florida University Professors concluded that money laundering through false invoicing in international trade will continue to be a growing problem. Using sophisticated software analyzing more than 50 million transactions from U.S. Commerce Department data, they estimated that in year 2000 more than \$131 billion was laundered out of the U.S. due to artificial overpricing and under pricing of exports and imports. The researchers noted: "Criminals and tax evaders have discovered that laundering money through the banking system is dangerous, but it is virtually undetectable in international trade."

Examples of mispricing identified by the researchers include bulldozers priced for \$387 apiece, diamonds from Russia at 78 cents per carat, and pencils costing \$100 apiece. Other abnormal trade prices included spark plugs priced at \$313 apiece, 6-volt batteries exported to Haiti at \$5,236 each, and rocket/grenade launchers exported to Venezuela at \$59.50 each. Based on their year 2000 calculations, the researchers estimated that money laundered through phony pricing totaled \$105 billion in 1998 and \$126 billion in 1999.

Customs is the primary Federal agency to identify mispriced exports and imports. But OCC, through its Bank Secrecy Act (BSA) examinations might be a secondary avenue. Most international trade transactions involve commercial bank financing through letters of credit (LOC). Abnormal trade pricing may well be detectable from the documentation associated with the letter of credit. LOCs transactions typically involve a draft, an invoice, an insurance certificate, and a bill of lading, and governments regulating the passage of goods across their borders may require inspection certificates, consular invoices, or certificates of origin; transactions can entail notes and advances collateralized by trust receipts or warehouse receipts; and transactions can culminate in sight drafts or acceptances.

National bank "Call Reports" for September 2000 show a total of \$142 billion in letters of credit. How much of that total is associated with trade financing is not readily determinable since LOCs are also used in support of other financial transactions such as credit enhancements.

Audit Objective/Key Question(s): To what extent is commercial trade financing covered as a high-risk area during OCC BSA examinations?





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## ***FinCEN Efforts To Monitor Internet Gaming***

Contact Person: Barry Savill (202) 927-2968

Background: Since 1995, FinCEN has been examining the potential regulatory and law enforcement implications of emerging technology-driven payment mechanisms, such as smart cards, Internet-based electronic cash, and Internet gaming. This initiative was undertaken within the context of FinCEN's mission to support and strengthen domestic and international anti-money laundering efforts. Through the innovative use of technology, FinCEN helps law enforcement build its investigations and plan new strategies to combat money laundering.

The incredible growth in the use of personal computers (PC) has created new industries and activities in electronic commerce. An emerging type of technology-based financial activity is Internet gaming (casino gambling, sports betting, and lottery via the Internet). The rate of growth of Internet gaming is unknown, as is the total amount of money spent per year. Although the actual amount of current or future gaming cannot be measured or predicted easily, experts are confident that upcoming technology improvements and the ease of establishing such sites will continue the trend of expansion.

Discussions regarding the legal status of Internet gaming in the United States are taking place both at the state and the Federal level. Most state governments consider virtual gaming sites to be within their domain and, in advance of any new Federal legislation, many of them have taken the position that Internet gaming is illegal under their existing laws. As a result, a number of states have instituted criminal and civil legal proceedings against individual Internet gaming operators.

During the last 3 years, legislation has been introduced in the Congress that would have, in effect, banned Internet gaming. New legislation has been introduced in the 107<sup>th</sup> Congress, H.R. 556 - Unlawful Internet Gambling Funding Prohibition Act.

Audit Objective/Key Question(s): Is FinCEN identifying vulnerabilities for money laundering and other financial crimes created by Internet gaming? Is FinCEN formulating strategies and programs that minimize the risk of money laundering and other crimes as a result of Internet gaming?

## ***Treasury Law Enforcement Bureau Participation In The Interagency Crime And Drug Enforcement Task Force***

Contact Person: Barry Savill (202) 927-2968

Background: In a 1982 counter-drug effort, the Department of Justice developed the Interagency Crime and Drug Enforcement (ICDE) Task Force program to bring together and integrate the efforts of all levels of law enforcement in the fight against drugs. The ICDE program designated nine



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domestic regions that deploy the investigative expertise from 10 Federal, State and local law enforcement agencies to dismantle and disrupt major drug trafficking and money laundering organizations and place offenders in jail. Treasury law enforcement agencies provide specific value-added investigative expertise to these major cases. Specifically, Customs provides specific expertise in international smuggling and interdiction, ATF provides specific expertise on firearms and explosives violence; and IRS' Criminal Investigative Division provides expertise on money laundering and tax evasion.

Since 1998, Treasury's portion of the ICDE program has been administered by Treasury's Departmental Offices. The 2001 Treasury Budget provides over \$103 million for Treasury bureau participation in the ICDE. These monies are made available to Customs, ATF, and the IRS to assist in identifying, investigating and prosecuting drug smuggling, money laundering activities, and the associated violent crime. Treasury's participating bureaus are reimbursed from this appropriation.

Audit Objective/Key Question(s): Has the assistance provided by Customs and ATF been beneficial to the ICDE in its efforts to reduce the supply of illicit drugs and associated criminal activity?

### ***Canine Enforcement Program***

Contact Person: George Tabb (713) 706-4613

Background: Customs Canine Enforcement Program (CEP) is a major part of Customs narcotic interdiction effort. The Customs' Canine Enforcement Training Center (CETC) located in Virginia provides training for all Customs Canine Enforcement Officers (CEO) teams and other Federal, state, local, and foreign law enforcement agencies.

The mission of the CEP is to develop, execute, and oversee customer-driven policy needs for the allocation, training, and support of canine resources. Currently, the program has 533 teams stationed at 73 ports of entry across the continental U.S. and in Hawaii and Puerto Rico. Of the 533 canine teams on duty now, 350 are assigned to interdiction efforts along the Southwest border from Brownsville, Texas to San Diego, California.

Audit Objective/Key Question: Have the resources provided the Canine Enforcement Program enhanced interdiction of drugs along the Southwest border?

### ***Customs Strategic Trade Centers***

Contact Person: George Tabb (713) 706-4613

Background: All indications point to a period of unprecedented growth in world trade in the next 5 years. The increased volume, new trade agreements,



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and increased trade complexity in general translate into an enormous workload increase for Customs. From the period 1995 to the year 2001, it is projected that duty collections will increase from the \$18 billion to \$22 billion annually, and the volume of import trade between the United States and other countries will increase from \$761 billion to \$1.1 trillion a year. This increase in trade will result in an estimated increase of 7.5 million commercial entries processed by Customs, from 13.1 million to 20.6 million annually, over the same period. Resources dedicated to this process are expected to remain static at around 4,500 employees.

As a result of the Customs reorganization at the beginning of FY 1996, the Office of Strategic Trade was created to identify and confront major trade issues facing the United States by innovative research and analysis and by creating an array of intervention activities. The mission of the Office of Strategic Trade is in direct response to Customs new strategic intent statement, which directs the organization to (1) protect the public against violations that threaten the national economy and health and safety through targeted enforcement and informed compliance and (2) function as a national source for information on goods and people crossing our borders. The Office of Strategic Trade is comprised of (1) the Targeting and Analysis Division; (2) the International Trade Management Division; (3) the Regulatory Audit Division; and (4) Strategic Trade Centers located in Miami, Chicago, Dallas, New York, and Los Angeles. The Strategic Trade Centers are staffed by analysts, international trade specialists, and international trade managers to devise interventions or problem solving approaches to maximize compliance.

Audit Objective/Key Question: Does the analytical work produced by the Strategic Trade Centers provide Customs inspectors, agents, and auditors with actionable intelligence to successfully target noncompliance and attempts to evade duty?

### ***Customs Administration Of The Foreign Entities Penalty Claim List***

Contact Person: Donald Benson (617) 223-8638

Background: A list of foreign entities names who were issued a penalty claim under section 592 of the Tariff Act for certain violations of Customs laws is published in the Federal Register semiannually. The intent of this list is to notify the public of foreign entities that have been issued a penalty claim. Any importers dealing with imported products from a person (company) on this list are required by Customs to exercise "reasonable care" (e.g., ensuring that the documentation covering the imported merchandise, as well as its packaging and labeling, is accurate as to the country of origin). This degree of "reasonable care" must rely on more than the information supplied to the importer by the person on the penalty list.



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As provided by the law, a person on the list may petition the Secretary of the Treasury to be removed from the list. If the Secretary finds that the petitioner has not committed any violations (e.g., concerning counterfeit visas, falsely labeled textile articles, etc.) for at least 3 years, the Secretary shall remove the petitioner from the list.

Audit Objective/Key Question(s): Is Customs adhering to the regulations concerning the listing of foreign entities on a penalty claims list, including the removal of names on the list?

### ***Customs Maintenance Of Non-Intrusive Inspection Equipment***

Contact Person: Donald Benson (617) 223-8638

Background: In FY 1999, Customs received \$134 million from Congress to acquire non-intrusive inspection (NII) equipment to enhance its counter-drug operations. Of the \$342 million that has been proposed in the budget for FY 2002 for narcotics detection and inspection equipment for the borders; \$151.2 million would go to the southwest border. In 1994, Customs established the National Enforcement Equipment Maintenance Program (NEEMR). NEEMR technicians, contract field service technicians located around the country, or by vendor representatives typically perform repairs. NEEMR is responsible for tracking maintenance cost information. When a repair is required for the large NII systems, as well as for most of the smaller NII equipment, the payment for the repair (excluding a repair covered under warranty) is made by NEEMR. NEEMR's equipment repair budget for the last 3 years totaled approximately \$20 million.

Audit Objective/Key Question(s): Does Customs ensure that NII equipment is properly maintained at a reasonable cost?

### ***Treasury Counter Terrorism Fund Reimbursements To Bureaus***

Contact Person: Roberta Rickey (312) 886-6300

Background: Treasury's 2001 budget included \$55 million in no-year funds to reimburse Treasury law enforcement bureaus for unanticipated costs incurred in providing support to counter, investigate, or prosecute domestic or international terrorism, including payment of rewards in connection with these activities. Treasury's proposed 2002 budget is requesting an additional \$45 million to reimburse its law enforcement bureaus for unbudgeted costs incurred in response to acts of terrorism. Also, unanticipated costs associated with re-establishing the operational capability of an office, facility or other property damaged or destroyed as a result of any domestic or international terrorist incident are reimbursable. Funds would be reimbursed to Treasury bureaus to compensate for costs incurred in areas such as travel, transportation, rentals, communications, and other equipment and services.



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Audit Objective/Key Question(s): Are there effective controls to ensure that reimbursements to the law enforcement bureaus from the Treasury Counter Terrorism Fund are appropriate?

### ***ATF National Integrated Ballistic Information Network Program***

Contact Person: Roberta Rickey (312) 886-6300

Background: ATF's mission for the National Integrated Ballistic Information Network (NIBIN) is to forge partnerships within the law enforcement community to more effectively produce investigative leads on firearms cases. Under the NIBIN program, ATF utilizes the Integrated Ballistics Identification System (IBIS) equipment to digitize, correlate, and compare bullets and shell casings automatically. IBIS is state-of-the-art equipment that is designed to greatly reduce the time and manpower needed for ballistic analysis. This technology provides investigators with leads to solve a greater number of crimes in a shorter period of time. ATF's budget for NIBIN grew from \$8 million in FY 2000 to \$25 million in FY 2001, with another \$25 million requested in the FY 2002 budget.

While ATF owns most IBIS equipment, State and local law enforcement agencies operate it. To implement the program, ATF establishes memoranda of understanding (MOU) with the State and local agencies, called partner agencies. ATF is working on networking all of its users together to link firearms and ballistics evidence from throughout the nation into the same database. ATF has completed networking for 5 states and ATF officials predict that the entire system will be operational by 2003.

Audit Objective/Key Question(s): Is NIBIN effectively linking bullets and shell casings to gun crimes and criminals? Specifically, we will determine whether (1) ATF has provided adequate support to its partner agencies in accordance with the MOUs and ATF guidance, (2) partner agencies are fulfilling their responsibilities under the MOUs, including providing sufficient personnel to operate the equipment and entering information into the NIBIN database, and (3) ATF has implemented valid and reliable performance measures for NIBIN.

### ***ATF Retained Weapons Inventory***

Contact Person: Roberta Rickey (312) 886-6300

Background: During our inventory observations of seized and/or forfeited property for annual financial statement audits of ATF, we noted that retained weapons are not accounted for as part of ATF's computerized inventory tracking for seized and forfeited property. Instead, this inventory is kept in a manual log at each ATF field office. Indicators exist that the number of retained weapons in ATF vaults is substantial.



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Audit Objective/Key Question(s): How effectively is ATF controlling the inventory of retained weapons?

### ***Customs Cybersmuggling***

Contact Person: George Tabb (713) 706-4613

Background: In August 1997, the Customs Cybersmuggling Center was established to centralize and enhance investigations of international criminal activity conducted on, or facilitated by, the Internet. One of the principal priorities of the Cybersmuggling Center is the identification and disruption of international trafficking in child pornography and child sexual exploitation via the Internet. In FY 2000, Congress increased funding to prevent child pornography/cybersmuggling by \$3.4 million.

Audit Objective/Key Question: Are Customs' Cybersmuggling strategies producing successful results? We estimate 2,000 hours will be needed to complete this project.

### ***ATF N-Spect System***

Contact Person: Roberta Rickey (312) 886-6300

Background: The National Field Office Case Information Systems (N-FOCIS) provides significant benefits to ATF by supporting the collection, dissemination, management, and analysis of investigative and inspection data. N-FOCIS is currently comprised of two systems, N-Force and N-Spect. N-Force and N-Spect are part of ATF's overall integrated strategy to automate the capture and use of field-developed data in support of various bureau-wide programs. N-Force, is designed to support and enhance the efforts of ATF's criminal enforcement function by providing an automated case management and tracking system for the special agents. N-Spect is the "sister" database that is designed to provide automated reporting and tracking abilities for ATF's regulatory function and inspectors. N-Spect allows inspectors to link investigations that span geographical, industry, and directorate boundaries to increase the effectiveness and efficiency of ATF's regulatory functions and in support of investigative cases. N-Spect was implemented in Los Angeles in April 1999. Full deployment was completed in September 1999. Since then, at least three upgrades have been released based on improvements requested by the field users.

The N-FOCIS strategy is a multi-phased approach. ATF's N-Spect Development Strategy calls for N-Spect to be implemented in four phases. According to ATF, the normal cycle of development and funding for a phase in N-Force/N-Spect costs approximately \$2 million each and will last approximately 9 to 12 months from requirements analysis to deployment.



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Audit Objective/Key Question(s): Has N-Spect been successfully implemented to capture data to properly evaluate ATF's mission objectives and performance goals? Is the information contained in N-Spect accurate, reliable, and timely?

### ***Customs Enforcement Performance Data***

Contact Person: George Tabb (713) 706-4613

Background: Congress passed the Government Performance and Results Act of 1993 with the intent of improving Government service and Congressional oversight through the greater use of performance measures. The purpose of the act is to improve Federal program effectiveness and public accountability by promoting a new focus on results, service quality, and customer satisfaction. The Results Act aims for a closer and clearer link between resources and results.

Customs has reported performance measures in its budget submission since FY 1997. The measures have been updated and improved over time to better measure outputs and outcomes.

Audit Objective/Key Question: Are the Customs information systems, sources, and data supporting reported enforcement performance measures reliable?

### ***FinCEN Performance Measures***

Contact Person: Barry Savill (202) 927-2968

Background: Under the Government Performance and Results Act (GPRA) of 1993, every major Federal agency must determine its basic mission and goals, how to achieve the goals, and how to measure success in achieving those goals. GPRA forces a shift in how agencies have traditionally measured their results, from output oriented measures to outcome-oriented measures.

FinCEN's *Strategic Plan For fiscal years 2000 - 2005* outlines objectives and strategies in five areas: (1) providing investigative case support, (2) identifying financial crime trends and patterns, (3) administering the Bank Secrecy Act, (4) fostering international cooperation, and (5) strengthening management support. The Strategic Plan includes an explanation on how progress will be measured in each of its five strategic objectives.

Audit Objective/Key Question(s): Has FinCEN developed useful and relevant performance measures to evaluate whether it is successfully achieving its mission? How does FinCEN ensure that it is collecting complete, accurate, and consistent data to adequately track performance? Has FinCEN adequately ensured that performance information reported under GPRA is valid and reliable?



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## ***ATF Integrated Violence Reduction Strategy***

Contact Person: Roberta Rickey (312) 886-6300

Background: In FY 2000, ATF established the Integrated Violence Reduction Strategy (IVRS), which combines under one strategy the various firearms enforcement programs ATF implements. IVRS seeks to reduce violent crime through removing from our communities violent firearms offenders and other prohibited individuals who illegally use, possess, or attempt to acquire firearms; denying access of firearms to criminals and others who cannot legally possess them through regulation of the firearms industry and investigation of illegal firearms traffickers; and preventing violence and firearms crimes through community outreach to at-risk youths. IVRS calls for ATF to continue to coordinate with the Department of Justice and state and local authorities to investigate, prosecute, and prevent gun crime.

In FY 2000 and 2001, ATF received funding to expand certain components of IVRS, building upon the Bureau's base resources of 2,650 FTE and \$400 million already devoted to this effort. For these two years, ATF received an increase in funding of \$62.2 million and 305 FTE to supplement IVRS. In FY 2002, ATF requested an additional \$73.5 million for IVRS. The additional resources have been used to fund the Armed Violent Criminal Apprehension Program, National Instant Criminal Background Check System investigations, illegal firearms trafficking enforcement, and regulating the firearms industry.

Audit Objective/Key Question(s): Have ATF and its field divisions met the objectives of the IVRS strategy through their firearms enforcement programs?

## ***Use Of Administratively Uncontrollable Overtime Follow-up***

Contact Person: Roberta Rickey (312) 886-6300

Background: ATF, Customs, and Secret Service use Administratively Uncontrollable Overtime (AUO) to compensate employees who are required to work frequent and substantial amounts of irregular overtime hours to effectively perform their duties. Previous audits have found insufficient documentation to support AUO hours worked, recurring patterns of AUO usage, and internal control weaknesses that collectively increased the risk of AUO abuse, such as the failure to perform periodic rate determinations and required annual position reviews.

Audit Objective/Key Question(s): Do Treasury bureaus have effective controls over AUO?.





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### ***BEP And Mint Efforts To Achieve The Federal Worker 2000 Presidential Initiative***

Contact Person: Thomas Byrnes (202) 927-5904

Background: Each year about 160,000 new injury and illness claims are reported to the Office of Workers Compensation Programs (OWCP). The OWCP pays out about \$1.9 billion to cover medical expenses and lost wage compensation. On July 22, 1999, the Federal Worker 2000 Presidential Initiative established improved timeliness of injury reporting as a major goal for Federal agencies. The initiative expects agencies to improve the timeliness of reporting for injuries and illnesses by 5 percent each year over a 5 year period. In addition, it calls on agencies to reduce the occurrence of injuries by 3 percent per year, and reduce the rate of lost production days by 2 percent. For FY 2000, BEP and the Mint experienced injury rates of 12.28 and 13.47, respectively. The lost time and rate cost was over \$50 million.

Audit Objectives/Key Question(s): What steps have BEP and the Mint taken to implement the Federal Worker 2000 Presidential Initiative?

### ***OCC And OTS Consumer Protection Compliance Exams***

Contact Person: Benny Lee (415) 977-8810, ext. 222

Background: Eighteen months since the passing of the Gramm-Leach-Bliley Act (GLBA) of 1999, bank regulators continue to assess the supervisory implications of banks expanding into insurance and securities activities. Aside from the privacy and Community Reinvestment Act (CRA) provisions of GLBA, much of the regulatory focus has understandably been on safety and soundness concerns. For example, OTS recognized the need for a different and heightened supervisory approach for unitary thrifts given the different risks possibly posed by the non-bank owners. With respect to compliance issues, a recent GAO report on suspicious activity reporting at bank-affiliated broker dealers surfaces the regulatory gap arising out of GLBA's functional regulation provisions. The gap being that neither the Securities and Exchange Commission nor the banking regulators have been examining these entities for compliance with applicable suspicious activity reporting rules. These latter conditions suggest that similar regulatory and supervisory gaps may also exist relative to the many consumer protection laws covered during a compliance examination. These consumer laws include for example Truth-in-Lending, Real Estate Settlement Procedures Act, and Equal Credit Opportunity Act and Fair Credit Reporting to name just a few.

Audit Objective/Key Question(s): Are current consumer compliance examinations effective given the different structural options available under GLBA? Specifically: Have the risks of non-compliance changed thus leaving consumers more vulnerable to abusive practices? How much reliance can be placed on functional regulators given the differences in regulatory priorities and resources? Are existing exam policies and procedures sufficient when



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traditional banking activities are highly integrated with the commercial activities covered under GLBA? Is there sufficient organizational support in terms of budget, staffing, and structure? Separate audits will be performed at OCC and OTS.

### ***New Commemorative Quarters***

Contact Person: Thomas Byrnes (202) 927-5904

Background: On December 1, 1997, the President signed into law the legislation to produce commemorative quarters. The program will run for 10 years and commemorate all the states. Five new quarters will be issued each year in the order that the states entered into the Union.

Each new coin requires that the Mint select a design, purchase adequate production materials, retool its production equipment, perform prototype testing, project demand, and ultimately go into full-scale production to develop an adequate inventory. At the same time, the Mint is producing a new dollar coin. Any delays or problems in producing either the dollar or the quarters could have a ripple effect on all facets of the Mint's production activity.

Audit Objectives/Key Questions: Has the Mint effectively identified commercial and Federal Reserve Bank requirements for the new commemorative quarters? Is it meeting these requirements in a cost-effective manner?

### ***Mint Advertising And Store Promotion Campaign For The Sacagawea Dollar Coin***

Contact Person: Thomas Byrnes (202) 927-5904

Background: The Mint launched a \$40 million advertising campaign to encourage the use of the new \$1 "golden" coin, the Sacagawea dollar. To promote the coin, the Mint used television, radio and the Internet, as well as other promotions such as stashing the coins in cereal boxes and retail store registers. The Mint entered into a specific agreement with Wal-Mart to distribute a large volume of the initial coin production.

Audit Objective/Key Question(s): Has the promotion campaign been successful in encouraging the public to use the new \$1 coin?



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