



## Annual Plan Fiscal Year 2004

### Office of Inspector General

DEPARTMENT OF THE TREASURY



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# Foreword

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We are pleased to provide our Fiscal Year 2004 Annual Plan. This document outlines the major initiatives, priorities, and challenges of our office in assisting the Department of the Treasury with fulfilling its mission.

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

October 2003

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## Abbreviations

AIG/A	Assistant Inspector General for Audit
AIG/I	Assistant Inspector General for Investigations
ATF	Bureau of Alcohol, Tobacco and Firearms
ATSB	Air Transportation Stabilization Board

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BEP	Bureau of Engraving and Printing
BIE	Bureau of Intelligence and Enforcement
BPD	Bureau of the Public Debt
BPD ARC	Bureau of the Public Debt Administrative Resource Center
BSA	Bank Secrecy Act
C&A	Certification and accreditation
CD	Certificates of Deposit
CDE	Community Development Entities
CDFI	Community Development Financial Institutions Fund
CFO	Chief Financial Officer
CIP	Critical Infrastructure Protection
COINS	Consolidated Information System
COLA	Certificates of Label Approval
CRA	Community Reinvestment Act
D.C.	District of Columbia
DCAA	Defense Contract Audit Agency
DCIA	Debt Collection Improvement Act of 1996
DC Pensions	Office of the District of Columbia Pensions
Department	Department of the Treasury
DHS	Department of Homeland Security
DIG	Deputy Inspector General
DO	Departmental Offices
EEOC	Equal Employment Opportunity Commission
EOTF/FC	Executive Office for Terrorist Financing and Financial Crimes
ESF	Exchange Stabilization Fund
ETA	Electronic Transfer Accounts
FAIR	Federal Activities Inventory Reform
FDIC	Federal Deposit Insurance Corporation
FFMIA	Federal Financial Management Improvement Act of 1996
FinCEN	Financial Crimes Enforcement Network
FMS	Financial Management Service
FOIA	Freedom of Information Act
FTE	Full-time equivalents
FY	Fiscal Year
GAO	U.S. General Accounting Office
GLBA	Gramm-Leach-Bliley Financial Services Modernization Act
GMRA	Government Management Reform Act
GPEA	Government Paperwork Elimination Act
GPRA	Government Performance Results Act of 1993
HR	Human Resources
HSA	Homeland Security Act
ICDE	Interagency Crime and Drug Enforcement
IG	Inspector General
IMF	International Monetary Fund

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IPA	Independent Public Accountant
IRS	Internal Revenue Service
IS	Information systems
IT	Information technology
MDB	Multilateral Development Bank
Mint	U.S. Mint
MLR	Material loss review
MSPB	Merit Systems Protection Board
OASIA	Office of the Assistant Secretary for International Affairs
OCC	Office of the Comptroller of Currency
OFAC	Office of Foreign Assets Control
OFE	Office of Financial Education
OI	Office of Investigations
OIG	Office of Inspector General
OMB	Office of Management and Budget
ONDCP	Office of National Drug Control Policy
OTS	Office of Thrift Supervision
PART	Program Assessment Rating Tool
PCA	Private collection agencies
PCIE	President's Council on Integrity and Efficiency
PDD	Presidential Decision Directive
PEF	Public Enterprise Fund
P.L.	Public Law
PMA	President's Management Agenda
SAR	Suspicious Activity Report
TIGTA	Treasury Inspector General for Tax Administration
TOP	Treasury Offset Program
Treasury	Department of the Treasury
TTB	Alcohol and Tobacco Tax and Trade Bureau
USA PATRIOT Act	Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act
U.S.	United States
U.S.C.	United States Code

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# Overview

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## Introduction

This planning document outlines the major initiatives, priorities, and challenges of our office to assist the Department of the Treasury (Department or Treasury) in fulfilling its mission, priorities, and plans. This planning document further provides senior officials of the Department, members of Congress, and other stakeholders with a greater understanding of who we are, what we do, and what our intended work will be for fiscal year (FY) 2004.

Each of the four Office of Inspector General (OIG) components (Management, Counsel, Investigations, and Audit) contributed 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 2004.

## Background

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

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

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

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Department of the Treasury operations – with the exception of the Internal Revenue Service (IRS).<sup>1</sup>

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

- **Alcohol and Tobacco Tax and Trade Bureau (TTB)** – enforces and administers laws covering the production, use, and distribution of alcohol and tobacco products. TTB also collects excise taxes for firearms and ammunition. This amounts to approximately \$15 billion in excise taxes, including \$100 million in occupational taxes on the manufacture of firearms and ammunition.
- **Bureau of Engraving and Printing (BEP)** – manufactures paper currency, postage stamps, and other government documents. The BEP also processes claims for the redemption of mutilated currency. For fiscal year 2004, BEP estimates 8.5 billion in currency deliveries and 7.5 billion in postal and revenue stamp requirements.
- **Bureau of the Public Debt (BPD)** – manages the U.S. borrowing, monitors the national debt, and processes bonds, notes, and T-Bill transactions. Last year, BPD issued approximately \$3.7 trillion of debt by auctioning marketable Treasury securities and selling savings bonds, and paid off \$3.5 trillion in securities. The estimated interest on Treasury securities for fiscal year 2004 is approximately \$353 billion.
- **Financial Crimes Enforcement Network (FinCEN)** – supports law enforcement investigative efforts against money laundering, terrorist financing, and other financial crimes. During fiscal year 2002, FinCEN received more than 261,000 individual reports of suspected illegal acts, referred to as Suspicious Activity Reports, and 12.4 million Currency Transaction Reports from financial institutions when they receive \$10,000 in cash or a monetary equivalent.
- **Financial Management Service (FMS)** – manages the Federal Government’s financial accounts. Each year FMS issues 950 million non-Defense payments, with a dollar value of more than \$1.2 trillion, to a wide variety of recipients. FMS estimates that for fiscal year 2004, it will make 238 million check payments and 696 million electronic payments, and receive 1.4 million claims. FMS estimates that during fiscal year 2004 FMS will collect \$2.9 billion in delinquent debt.
- **U.S. Mint (Mint)** – manufactures coins, and sells numismatic and investment products. The Mint also secures approximately \$79.4 billion of the Nation’s gold and silver reserves. The Mint operates a Public Enterprise Fund, and is exempt from provisions of law governing the procurement or public contracts. In 2004, it is anticipated that this

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

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activity will manufacture 13.8 million coins. In 2002, the Mint transferred \$1.03 billion to the general fund from its operation.

- **Office of the Comptroller of the Currency (OCC)** – oversees and regulates all national banks and supervises the U.S. branches and agencies of foreign banks to ensure a safe, sound, and competitive banking system. There are approximately 2,150 nationally chartered banks and 53 federal branches or agencies of foreign banks. Although the national banks account for only 26 percent of the number of commercial banks nationwide, they hold 56 percent (\$4 trillion) of the total commercial banking assets in the U.S.
- **Office of Thrift Supervision (OTS)** – oversees and regulates all federal and many state-chartered thrift institutions, charters, regulates, and examines federal thrift institutions. As of March 2003, there were approximately 950 thrifts with total assets exceeding \$1 trillion.

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

- **Departmental Offices (DO)** –formulates policy and manages Treasury operations. These operations and activities manage and/or disburse hundreds of millions and in some cases, billions of dollars.
- **Executive Office for Terrorist Financing and Financial Crimes (EOTF/FC)** –coordinates and leads the Department’s multi-faceted efforts to combat terrorist financing and other financial crimes, both within the U.S. as well as abroad. This office focuses on reducing the risk that domestic and international financial systems are being misused by criminals and terrorists.
- **Office of Foreign Assets Control (OFAC)** - manages and enforces economic sanctions and embargo programs against targeted foreign governments and groups that pose threats to the national security, foreign policy, or economy of the United States. OFAC is also authorized to block the domestic financial transactions of prohibited governments, organizations and individuals.
- **Executive Office for Asset Forfeiture** – manages the Treasury Forfeiture Fund, which supports Treasury’s national asset forfeiture program in a manner that results in federal law enforcement’s continued effective use of asset forfeiture as a law enforcement sanction to punish and deter criminal activity. The net position of the Fund was approximately \$173 million as of September 30, 2002.
- **Exchange Stabilization Fund (ESF)** – through the Secretary of the Treasury, deals in gold and foreign exchange and other instruments of credit and securities as deemed necessary. The principal source of the fund’s income is earnings on investments held

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by the fund, including interest earned on fund holdings on U.S. Government securities. The fiscal year 2004 estimated net position of the fund is \$30.8 billion.

- **Community Development Financial Institutions Fund (CDFI Fund)** - provides equity investments, grants, loans, and technical assistance to new and existing community development financial institutions; provides grants to insured depository institutions to facilitate investment in CDFIs and increase community lending activities; and administers the New Markets Tax Credit Program by providing allocations of tax credits to Community Development Entities (CDEs), which in turn provide the tax credits to entities that invest in the CDEs. For fiscal years 2000 through 2002, the various types of financial and technical assistance provided by the CDFI Fund totaled approximately \$298.5 million. The fiscal year 2004 estimated net budget authority for the CDFI Fund is \$51 million.
- **Federal Financing Bank (FFB)** - provides federal and federally-assisted borrowing, primarily to finance direct agency activities such as the construction of federal buildings by the General Services Administration and meeting the financing requirements of the U.S. Postal Service. In certain cases, the FFB finances federal direct loans to the public that would otherwise be made by private lenders and fully guaranteed by a federal agency. The estimated FFR loans outstanding balance at the end of fiscal year 2004 is \$30.4 billion.
- **Office of D.C. Pensions** - makes federal benefit payments associated with the District of Columbia Retirement Programs for police officers, firefighters, teachers, and judges. As of September 30, 2002, assets for funding the retirement programs were \$4 billion and liabilities were \$8.4 billion, resulting in an unfunded pension liability of \$4.4 billion.
- **Air Transportation Stabilization Board (ATSB)** - issues federal credit instruments (loan guarantees) to assist air carriers that suffered losses as a result of the terrorist attacks on the United States that occurred on September 11, 2001. As of September 30, 2003, ATSB had five loan guarantees outstanding to guarantee \$1.5 billion of \$1.7 billion in gross loans.

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

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.

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## Organizational Structure and Fiscal Resources

As previously stated, the OIG is headed by an Inspector General. Serving with the Inspector General in the immediate office is a Deputy Inspector General (DIG). The DIG shares responsibility for the leadership of the OIG workforce and management of the OIG's resources.

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

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

For fiscal year 2004, the President's budget proposed to consolidate the Treasury OIG and TIGTA into a new office to be called the Inspector General for Treasury with total budgetary resources of \$138 million and 1,002 full-time equivalent (FTE) positions. At this time, this proposal has not been enacted. For fiscal year 2003, the OIG's budgetary resources are \$11 million and 87 FTE.<sup>2</sup>

## OIG Performance Measures

OIG established performance measures for two programs, as discussed below.

### Audit Program

Audit Performance Measure 1: *During fiscal year 2004, 100 percent of audits and evaluations sampled will meet applicable standards.*

The IG Act requires that our audits be conducted in accordance with *Government Auditing Standards* issued by the Comptroller General. OIG evaluations are conducted in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency (PCIE). The purpose of these standards is to ensure that users of our audits and evaluations have confidence that the work is objective and credible. We will continue to undertake a quality assurance program where we will sample audits and evaluations completed during fiscal year 2004. The purpose of this program is to review the sample audits and evaluations for adherence to applicable standards. The results of the review and the reviewer's overall conclusion about whether the reviewed audit or evaluation met standards will be reported. It should also be noted that, pursuant to *Government Audit Standards*, our system of quality control for audits is subject to a "peer"

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<sup>2</sup> The budgetary resource amounts are post-divestiture of OIG resources in March 2003 to the Department of Homeland Security (DHS) OIG pursuant to the Homeland Security Act of 2002.

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review by another federal agency OIG every 3 years. As part of a peer review, the reviewing OIG will select a sample of completed audits to review for adherence to standards. We will continue to report the results of external peer reviews.

*Audit Performance Measure 2: Using a baseline performance measure established in fiscal year 2003 (adjusting for divested work) we intend to complete 48 audits and evaluations in fiscal year 2004.*

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

*Audit Performance Measure 3: During fiscal year 2004, 100 percent of audits required by statute will be completed by the required date.*

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

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

*Audit Workload Measure: Monetary benefits identified.*

Our audits and evaluations may identify *questioned costs*, *recommendations that funds be put to better use*, or *revenue enhancements*. The term *questioned cost* means a cost that is questioned by our office because of: (1) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable. The term *recommendation that funds be put to better use* means a recommendation by our office that funds could be used more efficiently if management of an establishment took actions to implement and

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complete the recommendation, including: (1) reductions in outlays; (2) deobligation of funds from programs or operations; (3) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (4) costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor, or grantee; (5) avoidance of unnecessary expenditures noted in pre-award reviews of contract or grant agreements; or (6) any other savings which are specifically identified. The term *revenue enhancements* means an action recommended by our office that would, if implemented, increase the General Fund receipts of the Federal Government. Our audit and evaluation reports include, where appropriate, a schedule of monetary benefits identified, which provides the basis for reporting the workload measure.

## Investigative Program

Investigations Performance Measure 1: *During fiscal year 2004, 100 percent of investigations sampled will meet PCIE standards.*

Based on a sample of closed investigations, the number of investigations meeting PCIE standards is divided by the total number of investigations sampled during the fiscal year. The PCIE standards are the general and qualitative guidelines applicable to investigative efforts conducted by criminal investigators working for the Offices of the Inspector General affiliated with the PCIE.

Investigations Performance Measure 2: *Using data collected in fiscal year 2004 as a baseline, the percentage of investigations referred for prosecution within 1 year of initiation will be increased by 10 percent by fiscal year 2008.*

The percentage is computed by dividing the number of criminal investigations referred during the fiscal year within 1 year of initiation by the total number of criminal investigations referred during the fiscal year. Criminal investigations are referred to the Assistant U.S. Attorney or to State or Local Authorities.

Investigations Performance Measure 3: *Using data collected in fiscal year 2004 as a baseline, the percentage of routine misconduct investigations referred to management for administrative adjudication within 4 months of initiation will be increased by 10 percent by fiscal year 2008.*

The percentage is computed by dividing the number of misconduct cases referred to management during the fiscal years within 4 months of initiation by the total number of misconduct cases referred during the fiscal year. Misconduct investigations involve a Treasury Department employee. At the conclusion of the investigation, cases are referred to management for administrative adjudication that could include an adverse action (removal, suspension, admonishment, etc.) or a clearance letter if the allegations are determined to be unsubstantiated.

# Component Organizations and Fiscal Year 2004 Initiatives

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## Office of Management

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

### Organizational Structure

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

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

The Human Resources function manages a complete range of internal and external personnel and payroll services to OIG employees. This includes recruitment and staffing; position classification and management; employee relations and performance management; training, awards, and recognition; employee development; benefits; personnel actions processing; and payroll processing.

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

Management ensures a quality-working environment throughout the OIG by providing and overseeing integrated administrative support.

### Management Initiatives for Fiscal Year 2004

As a smaller support organization since divestiture, the Office of Management has restructured its operations to leverage identified efficiencies. It has transferred the provision of some services to external service providers, while maintaining effective



# Component Organizations and Fiscal Year 2004 Initiatives

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controls over all administrative services. These transfers have enabled the OIG to continue to maintain its independence from Treasury programs and policies, while continuing to provide operational OIG offices with required administrative support.

Specifically, for the Asset Management function, OIG established a working agreement with the BPD Administrative Resources Center (ARC) for procurement, travel, permanent change of station, leasing, and space management services on an annual and individual service basis. Additionally, the Asset Management function continues: (1) coordinating efforts for the published policy directives issuance using plain language, to-the-point style, photos, and graphics; and (2) conducting an annual physical inventory of certain property.

For the Budget and Finance function, OIG established a working agreement with ARC for budget execution and accounting services. The function oversees the use of a new Oracle-based financial system for the OIG, which increases the timeliness of financial information, reconciles obligations with invoices more efficiently and effectively, and reduces the need for redundant cuff record systems.

For the Human Resources function, OIG established a working agreement with ARC for time and attendance coordination, which will improve the processing of payroll and routine personnel actions. In addition, OIG maintains the Quick Hire Automated Staffing System, which facilitates the hiring of employees within 60 days of announcements.

For the Information Technology function, OIG streamlined operations by consolidating network hardware and contracting on a case-by-case basis for selected information technology services. Efforts continue to: support the implementation of a new agency-wide management information system; improve the implementation and quality of mobile communications; and ensure automated systems are fully maintained, up-to-date, and operational at all times.

## Office of Counsel

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

### The Role of the Office of Counsel

The Office of Counsel provides legal advice on issues arising during the statutorily mandated investigative, oversight, and audit activities conducted by the Offices of 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,

# Component Organizations and Fiscal Year 2004 Initiatives

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and personnel law. The office represents the OIG in administrative proceedings before the Merit Systems Protection Board (MSPB) and the Equal Employment Opportunity Commission (EEOC).

The office manages the OIG ethics program, which includes financial disclosure, training, and advice on the governing law and regulations. In the area of disclosure law, the Office of Counsel manages the OIG's Freedom of Information Act (FOIA) and Privacy Act programs. The Office of Counsel also coordinates document requests from Congress and from litigation, as well as responding to Giglio<sup>3</sup> requests from the Department of Justice for information on Treasury personnel.

## Counsel Initiatives for Fiscal Year 2004

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

In the area of disclosure, the Office of Counsel will focus resources to provide timely responses to FOIA and Privacy Act requests, and to carry out its litigation responsibilities in MSPB and EEOC cases. Based upon past experience, the Office of Counsel expects to process 40 initial FOIA/Privacy Act requests and 10 appeals from those initial responses. In the area of electronic FOIA, the Office of Counsel expects to review approximately 50 audit, evaluation, and oversight reports for posting on the OIG web site. To reflect changes to the OIG's structure and jurisdiction as a result of the divestiture of programs and personnel pursuant to the Homeland Security Act, the Office of Counsel will amend the Privacy Act systems of records notices for both OIG's investigative and administrative records systems, and will continue to coordinate with the Department in updating the Treasury Orders and Directives that establish and define the OIG's authority, responsibility, and organization. Finally, the Office of Counsel will respond to Giglio requests, coordinate responses to document requests from Congress, and respond to discovery requests arising from litigation involving the Department and its bureaus.

The Office of Counsel will provide training on the IG Act and other subjects in connection with new employee orientation and in-service training. The Office will obtain necessary training in order to provide advice in emerging areas of OIG responsibility. As statutorily mandated, the Office will review legislative and regulatory proposals and, where appropriate, will coordinate comments.

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<sup>3</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.

# Component Organizations and Fiscal Year 2004 Initiatives

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## Office of Investigations

The Assistant Inspector General for Investigations (AIG/I) is responsible for the overall investigative and oversight activities of the OIG relating to Treasury programs and operations.

### The Role of Investigations

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

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

### Organizational Structure

Reporting directly to the AIG/I is the Deputy Assistant Inspector General for Investigations, who is responsible for the day-to-day operations of OI. OI is based in Washington, D.C.

### Investigative Priorities for Fiscal Year 2004

OI conducts and supervises a wide variety of investigations relating to the programs and operations of the Department. OI has several sources for case intake. OI operates a "hotline" to review and analyze complaints and other information from employees of the Department, contractors doing business with the Department, and the public. The complaints and other information often involve the possible existence of activity constituting violations of rules, regulations, and laws; mismanagement; gross waste of funds; abuse of authority; and matters involving a substantial and specific danger to the public health and safety. OI, on behalf of the Secretary of the Treasury, reviews and investigates complaints made to the Special Counsel alleging prohibited personnel practices by officials of the Department. OI also receives complaints and allegations from the Department of Justice, the Office of Government Ethics, the U.S. General Accounting Office, the Defense Contract Audit Agency, and other OIGs.

#### ***Priority 1 - Allegations of Serious Employee Misconduct***

Investigating complaints involving the alleged misconduct by employees of the Department is our highest investigative priority. OI investigates violations of the Ethics in Government

# Component Organizations and Fiscal Year 2004 Initiatives

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Act, the general crimes found in Title 18 of the United States Code, other federal criminal violations, and any other serious misconduct prohibited by the Standards of Ethical Conduct for Employees of the Executive Branch. In addition, several bureaus and offices of the Department have additional rules and regulations relating to ethical standards for employees of those bureaus and offices. OI produces reports of investigations that are referred to the Department of Justice and/or the General Counsel and Personnel Officials in the Department for appropriate action.

## ***Priority 2 - Allegations of Fraud Involving Treasury Contracts, Grants, or Agreements***

OI conducts investigations into allegations of fraud involving Treasury contracts or grants. Such allegations often involve contractors who are providing or seeking to provide goods or services to the Department. Complaints are received from employees, contractors, members of the public and the Congress alleging criminal or other misconduct constituting a violation of laws, rules or regulations. A proactive initiative begun in fiscal year 2002 will be expanded in fiscal year 2004 with the goal of seeking out and investigating more contract or grant fraud allegations.

## ***Priority 3 - Allegations of Fraud Involving Failed Financial Institutions***

OI conducts investigations of bank fraud involving financial institutions regulated by OCC and OTS. Such investigations are usually conducted jointly with the Federal Deposit Insurance Corporation (FDIC) OIG and the Department of Justice, and in most cases, involved failed financial institutions. A proactive initiative started in fiscal year 2002 will be expanded in fiscal year 2004 with the goal of seeking out and investigating more bank fraud investigations.

## **Investigative Initiatives for Fiscal Year 2004**

- Increase the number of serious misconduct investigations conducted by OI.
- Develop a proactive program for seeking out and investigating allegations of fraud involving Treasury grants or contracts.
- Accelerate the oversight review program within the bureaus of the Department. To meet this initiative, OI will conduct additional evaluations of the disciplinary processes and actions of the bureaus.
- Expand OI's opportunities to exercise its oversight authority to conduct investigations into fraudulent banking activities by working with OCC, OTS, and FinCEN.

# Component Organizations and Fiscal Year 2004 Initiatives

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## 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 will offer individuals the opportunity to forward complaints and allegations directly to the OIG.

OI will compare and review like functions between bureaus; for instance, the police functions within Mint and BEP.

## Office of Audit

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

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 programs and operations. The work of the Office is performed in compliance with the standards and guidelines established by the Comptroller General of the United States, the PCIE, and other professional organizations.

## Organizational Structure

The AIG/A has two deputies—one for Program Audit and the other for Financial Management and Information Technology Audit. In addition, the AIG/A's immediate office includes staff responsible for policy, planning, and quality assurance. These offices are located in Washington, D.C. The Office of Audit has two field offices, located in Boston and San Francisco.

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 Audit

Under the management and direction of the Deputy Assistant Inspector General for Program Audit are four Directors of Audit. The Directors of Audit are responsible for program audits performed by Washington, D.C., and field office staff as well as

# Component Organizations and Fiscal Year 2004 Initiatives

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coordinating audit planning for their assigned functional areas to ensure that audits of highest priority are included in the annual plan. The functional areas of the Directors are described below:

- Director, Banking and Fiscal Service provides nationwide leadership for program audits of OCC, OTS, CDFI Fund, FinCEN, OFAC, EOTF/FC, other banking-related Treasury components, FMS, and BPD. The Director is also responsible for managing OIG's responsibilities under the Single Audit Act.
- Director, Revenue/Departmental Offices/Manufacturing/Procurement provides nationwide leadership for program audits of TTB, BEP, the Mint, and Treasury's Departmental Offices, as well as for program audits of procurement activities at all Treasury bureaus and offices. The Director is also responsible for managing OIG's contract audit function.
- Director, Western Field Audit Office plans and leads national audits of the operations in all Treasury bureaus with a concentration of work in OCC, OTS, and FinCEN.
- Director, Eastern Field Audit Office plans and leads national audits of the operations in all Treasury bureaus with a concentration of work in TTB, FinCEN, and OFAC.

## Financial Management and Information Technology Audit

Under the management and direction of the Deputy Assistant Inspector General for Financial Management and Information Technology are two Directors of Audit. The Directors are responsible for audits performed by Washington, D.C., staff and for oversight of work performed by contracted IPA firms. Also, they are responsible for planning the audits in their assigned functional areas to ensure that audits of highest priority are included in the annual plan. The functional areas 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 that are material to Treasury or are required to be audited by other statutes. The Director coordinates with the U.S. General Accounting Office (GAO) with respect to its audits of IRS and the Public Debt, as the IRS and Public Debt accounts are included in the Department's consolidated financial statements.
- 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

# Component Organizations and Fiscal Year 2004 Initiatives

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integrity and data processing; consistently support Treasury needs; and are developed and operated in accordance with all applicable policies, standards, and procedures.

## Fiscal Year 2004 Planning Approach

This plan reflects our effort to provide appropriate audit and evaluation coverage to Treasury and its bureaus given our available resources. In formulating the plan, we also considered: (a) observations and suggestions by our managers, auditors, evaluators, and investigators; (b) Treasury's fiscal year 2004 budget justification priorities; and (c) recent Congressional activity, testimony by Treasury officials, and remarks indicating significant areas of interest by Treasury, OMB, and Congressional officials and staff. As a general note, we will coordinate our work with related work by TIGTA or GAO where appropriate to ensure that there is no overlap in our respective audit objectives.

Key features of this plan include:

- *Perspective.* The plan's emphasizes the issues of greatest significance to the Department rather than to individual bureaus.
- *Customer and Stakeholder Participation.* Our draft plan was provided to Treasury officials for comment. The Directors and their staffs met with Department and bureau officials and staff throughout the year to solicit audit suggestions. In addition to Treasury officials, we provided the draft plan for comment to other interested staff with OMB, various congressional committees, and GAO.
- *Responsiveness.* The plan will be revised throughout the year to accommodate new legislative requirements, changing bureau missions, and unforeseeable events or high priority requests for our audit services.
- *Continuity.* The plan is a dynamic document that will be updated and continued beyond fiscal year 2004.

## Audit Priorities for Fiscal Year 2004

### ***Priority 1 – Audit Products Mandated by Law***

Our office must allocate significant resources to meet legislative requirements related to (1) audited financial statements and financial-related review work, (2) information security, and (3) failed financial institutions.

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

We recognize that the President's Management Agenda (PMA) parallels our mission of improving the economy, effectiveness, and efficiency of the Department's programs and

# Component Organizations and Fiscal Year 2004 Initiatives

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operations. Accordingly, for fiscal year 2004 we have included audits to assess the Department's progress in addressing the PMA's five government-wide initiatives (strategic management of human capital, competitive sourcing, improved financial performance, expanded electronic government, and budget and performance integration).

***Priority 3 – Audit Products that Address Material Weaknesses and Other Known Serious Deficiencies in the Department’s Programs and Operations.***

We will undertake audits during fiscal year 2004 to assess the Department's progress in addressing material weaknesses and known significant vulnerabilities. Principal areas that will be a continued focus of our office are IT security and Terrorist Financing/Money Laundering, and a significant body of work is planned in these areas.

## Relationship of Audit Plan to Treasury Strategic Plan

The mission of the Department of the Treasury, as stated in its strategic plan for fiscal years 2003-2008, is to create the conditions for prosperity in the United States and to promote prosperity in the World. To accomplish this mission, the Department identified 5 strategic goals. As part of our audit planning process, we identified 7 core “issue areas,” which addresses one or several Treasury strategic goals. The linkage of OIG issue areas to the Department’s goals that they principally address follows:

Treasury Strategic Goal	OIG Issue Area
Promote Prosperous U.S. and World Economies	Domestic and International Assistance Programs
Promote Stable U.S. and World Economies	Bill and Coin Manufacturing, Marketing, and Distribution Operations
Preserve the Integrity of Financial Systems	Foreign Asset Control/Terrorist Financing/Money Laundering  Safety, Soundness, and Accessibility of Financial Services
Manage the Government's Finances Effectively	Government-wide Financial Services and Debt Management  Revenue Collection and Industry Regulation
Manage Treasury Resources	Treasury General Management and



# Component Organizations and Fiscal Year 2004 Initiatives

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## Treasury Strategic Goal

Effectively, to Accomplish the Mission and Provide Quality Customer Service

## OIG Issue Area

Infrastructure Support

It should be noted that the Treasury General Management and Infrastructure Support issue area crosscuts all of the Department's strategic goals. It encompasses such activities as financial management, information technology security and investments, performance management, procurement, and human capital.

## Audit Initiatives for Fiscal Year 2004

Through our planning process, we identified 36 new projects, some of which will involve a series of audits that we plan to undertake during fiscal year 2004. We will also complete work on 4 projects started during fiscal year 2003, some of which will also involve a series of audits. We also identified 58 high-priority projects that due to our limited resources must be deferred to a future year. Our in-process and planned work and projects for future consideration are identified in more detail in the "OIG Issue Areas and Planned Audit Projects" section of this Annual Plan.

In addition to the planned audit projects for fiscal year 2004, we will complete a "peer review" of the Department of Energy OIG under the auspices of the PCIE. Likewise, our organization is undergoing a peer review by the National Aeronautics and Space Administration OIG. The objective of a peer review is to determine whether the audit agency under review has an effective quality control system in providing reasonable assurance that applicable auditing standards and requirements are followed. Under generally accepted government auditing standards, an OIG must undergo a peer review triennially.

As another major initiative, the Office of Audit will begin implementing a commercial-off-the-shelf electronic working papers system during fiscal year 2004. We anticipate full implementation of the system will take about 2 years. While the initial system set-up and training of staff will be resource-intensive in the short term, we believe the efficiencies to be gained through greater standardization of our audit processes will result in significant productivity gains in the future.

# OIG Issue Areas and Planned Audit Projects

## *Introduction, Management Challenges, and Administration Initiatives*

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### Introduction

This section provides general background information on our overall assessment of significant management challenges facing the Department and a summary of progress in meeting certain Administration initiatives. Following the background are brief descriptions of each OIG issue area, including a description of: (1) significant risks to Treasury programs and operations, (2) audit projects started in fiscal year 2003 and new audit projects to be started during fiscal year 2004, and (3) audit projects that have been identified through our planning process but will not be undertaken until future years because of our limited resources. Our discussion of risks is based principally on (1) prior audit work, (2) the initiation of a new program or operation, and/or (3) increased funding initiatives in mature programs or operations.

### Management Challenges

We are required by the Reports Consolidation Act of 2000 to annually provide the Secretary of the Treasury with our perspective on the most serious management and performance challenges facing the Department. In this regard, we identified six challenges in November 2002 that we believed seriously impeded the Department's ability to conduct its program responsibilities and ensure the integrity of its operations. Five of the challenges were identified in the past. We reported at that time that although some progress on these challenges had been made, more was needed to meet the goals and objectives of the President's Management Agenda. These six challenges along with our assessment of Treasury's progress are described below.

- Prompt Corrective Action (Repeat Challenge). Treasury has not taken sufficient action to address long-standing material weaknesses and other serious deficiencies in programs and operations.
- Linking Resources to Results (Repeat Challenge). Treasury has not integrated managerial cost accounting into its business activities, and therefore resources cannot be linked to results.
- Financial Management Systems (Repeat Challenge). Treasury continues to operate financial management systems that are not capable of producing timely, accurate, and reliable information.
- Information Security (Repeat Challenge). Treasury has not corrected long-standing information security problems. Most of the Department's systems have operated without a reasonable assurance of secure operations or adequate safeguards.
- Duplicate, Wasteful Practices (Repeat Challenge). Treasury has not adapted enterprise solutions to its core business activities.

# OIG Issue Areas and Planned Audit Projects

## *Introduction, Management Challenges, and Administration Initiatives*

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- Homeland Security Divestiture (New Challenge). Prospectively, Treasury will need to plan for a smooth transition of its law enforcement functions slated for divestiture pursuant to the Homeland Security Act of 2002.

With respect to the last challenge, most of Treasury's law enforcement functions were divested in early 2003, but challenges remain, including the reassignment of functions once performed by divested personnel.

## **Administration Initiatives**

### **President's Management Agenda (PMA)**

The President's Management Agenda consists of five government-wide management initiatives for which each department and major agency is to be measured annually. These initiatives are: (1) Strategic Management of Human Capital, (2) Competitive Sourcing, (3) Improved Financial Performance, (3) Expanded Electronic Government, and (5) Budget and Performance Integration. The Executive Branch Management Scorecard tracks how well these five initiatives are being executed, using a stoplight scoring system. An agency's status is given a green light for success, yellow for mixed results, and red for unsatisfactory. Similarly, progress ratings are given using a color-coded system, with green indicating implementation is proceeding as planned, yellow indicating that there is slippage in the implementation schedule, and red indicating that the initiative is in serious jeopardy. Generally, Treasury has not fared well on its Scorecard, having received "red" status marks for all five initiatives in both fiscal years 2001 and 2002. However, for 2002, Treasury received "green" marks for its progress in addressing four initiatives and a "yellow" mark for the fifth (Expanding E-Government).

### **Program Assessment Rating Tool (PART)**

In conjunction with the Budget and Performance Integration PMA initiative, OMB developed the Program Assessment Rating Tool in 2002 to assess agency programs. OMB uses PART assessments for informing budgeting decisions, supporting management, identifying design problems, and promoting performance measurement and accountability. The PART consists of six questionnaires designed for different government activities -- competitive grant programs, block/formula grant programs, regulatory-based programs, capital assets and service acquisition programs, credit programs, research and development programs, and direct federal programs. Programs are evaluated as "effective", "moderately effective", "minimally effective", or "ineffective" for different sections of the PART, with assignment of an overall score of effective or ineffective. In conjunction with the President's Budget for fiscal year 2004, approximately 20 percent of programs government-wide were assessed using the PART. For the fiscal year 2005 budget, an additional 20 percent of programs will be assessed.

# OIG Issue Areas and Planned Audit Projects

## *Introduction, Management Challenges, and Administration Initiatives*

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The following table summarizes PART activities for Treasury programs subject to our oversight.

<b>Fiscal Year 2004 Budget PART Assessments</b>	
<u>Program</u>	<u>Overall Rating</u>
OFAC	Results Not Demonstrated
Consumer Product Safety Activities (TTB)	Adequate
Coin Production (Mint)	Effective
International Development Association – World Bank (International Affairs)	Adequate
Treasury Technical Assistance (International Affairs)	Results Not Demonstrated
Bank Enterprise Program (CDFI Fund)	Results Not Demonstrated
Bank Supervision (OCC)	Effective
Thrift Supervision (OTS)	Effective
<b>Fiscal Year 2005 Budget Planned PART Assessments</b>	
<u>Program</u>	
Administering the Public Debt	
Currency Program	
Debt Collection	
Global Environment Facility	
Submissions Processing	

# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Treasury General Management and Infrastructure Support*

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### **Issue Area - Treasury General Management and Infrastructure Support**

This cross-cutting issue area examines how well the Department manages its resources to achieve its varied missions. We view the issue area as having three components which will be discussed in more detail below: (1) Financial Management, (2) Information Systems (IS) Security and Investments, and (3) General Management. The last component includes such activities as performance and budget integration, human capital, improper payments, and procurement. While much of the planned work discussed under this issue area is mandated, collectively, the projects are designed to support the President's Management Agenda, which is our second audit priority.

#### **Financial Management**

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

Financial management audits are required for the Department and certain component entities pursuant to various statutes and other reporting requirements. The annual audit of Department of the Treasury financial statements is performed pursuant to the requirements of GMRA of 1994. OMB also designated the IRS as a Treasury component entity required to issue stand-alone audited financial statements under GMRA. Other Treasury component entities required to have stand-alone audited financial statements are BEP, ESF, FFB, OCC, Mint, Treasury Forfeiture Fund, Office of the District of Columbia Pensions (DC Pensions), CDFI Fund, and OTS. In addition, certain programs and activities of BPD and FMS that are material to the Department's financial statements are audited separately.

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

The financial statements audits are performed by the OIG, GAO, or IPAs. We perform the audits of the Department's consolidated financial statements and ESF's financial statements while GAO performs the audits of IRS' financial statements and BPD's schedule of federal debt. The financial statements of the remaining component entities mentioned above are performed by contracted IPAs under our oversight.

# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Treasury General Management and Infrastructure Support*

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We are also required by two laws to perform certain financial related reviews. The Office of National Drug Control Policy Circular, *Drug Control Accounting* and 21 United States Code (U.S.C.) §1704 requires us to perform an attestation review of certain Treasury entities' Report on Annual Accounting of Drug Control Funds. The Consolidated Appropriation Act of 2001, Public Law (P.L.) 106-554, requires that the OIGs of each federal department receiving water and sewer services from the District of Columbia submit a quarterly report to the Congress analyzing the promptness of payments with respect to the services furnished to such department.

The Department received an unqualified audit opinion on its 2002 financial statements. However, this was achieved in some cases by utilizing costly labor-intensive procedures. Only limited progress has been made in addressing the long-standing material weaknesses that continue to exist at key bureaus. Our audit report on the Department's fiscal year 2002 consolidated financial statements disclosed four material weaknesses (three of these are repeat conditions from prior years) and five instances of noncompliance with laws and regulations exclusive of FFMIA. We also reported that the Department's financial management systems did not substantially comply with the requirements of FFMIA. The following four material weaknesses in internal control at the Department-wide level were identified in our audit report:

- Financial Management and Reporting at Internal Revenue Service (IRS) Needs Improvement.
- Electronic Data Processing (EDP) Controls Over Financial Systems Should be Strengthened.
- Management of Trade Activities and Related Systems at Customs Needs Improvement (Note: Customs was divested to DHS on March 1, 2003).
- FMS' Controls Over Outstanding Checks Need Improvement.

These 4 material weaknesses at the Department-wide level are included in the total of 12 material weaknesses and 13 other reportable conditions identified during our component level audits.

The Department has responsibility for certain new government programs. These new programs may create complex accounting and auditing issues that must be closely monitored and ultimately resolved as part of the audit of the Department-wide financial statements. New programs the OIG will need to review as part of the audit of the fiscal year 2003 Department-wide financial statements include:

- Terrorism Risk Insurance Act of 2002 (Public Law 107-297). The purpose of this program is to stabilize market disruptions due to terrorism. This program provides mandatory funding for a temporary federal program that will pay 90 percent of the

# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Treasury General Management and Infrastructure Support*

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insured losses arising from acts of terrorism above an insured's deductible. This program has a \$100 billion cap.

- Financial Assistance to Turkey. The U.S. government has had discussions with the Republic of Turkey related to providing economic assistance to support ongoing economic reform and to mitigate the economic impact on Turkey resulting from the military conflict in Iraq. The financial assistance program is expected to provide up to approximately \$8 billion in loans and/or grants. The program is being administered through Treasury via the United States Economic Support Fund.
- Seized Iraqi Property. Under the Executive Order *Confiscating and Vesting Certain Iraqi Property*, the United States is authorized to confiscate certain property of the government of Iraq and its agencies, instrumentalities, or controlled entities, and that all rights, title, and interest in any confiscated property be vested in the Department of the Treasury. The intention of the vested property is to assist the Iraqi people and reconstruction of Iraq. As of June 2003, approximately \$1.7 billion in seized Iraqi property had been confiscated and vested in the Department.
- Air Transportation Stabilization Program. The Air Transportation Safety and System Stabilization Act of 2001 established this program to compensate air carriers for losses incurred as a result of the terrorist attacks on the United States on September 11, 2001. ATSB may issue loan guarantees up to \$10 billion. As of June 2003, the ATSB approved and closed on five loan applications representing approximately \$1.7 billion in gross loans and \$1.5 billion in loan guarantees.

The Homeland Security Act of 2002 resulted in the transfer of operations, personnel, assets, liabilities, and obligations from four Treasury component entities to the Departments of Homeland Security and Justice. For fiscal year 2003, the Department-wide financial statements will include the activity of those divested entities and their supporting functions as of their divestiture dates. This activity includes 4 months at the former Treasury Bureau of Alcohol, Tobacco and Firearms (ATF) and 5 months at Customs, the Federal Law Enforcement Training Center, and the United States Secret Service. In addition, the activity of the supporting functions for these component entities will be reported on the fiscal year 2003 Department-wide financial statements.

### *In Progress and Planned Fiscal Year 2004 Audit Projects*

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

Objective: To determine whether the financial statements and schedules are fairly presented in all material respects. The audits will also report on internal control, compliance with laws and regulations, and compliance with FFMIA. During fiscal year 2004, we will complete audit work for the fiscal year 2003 financial statements and

# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Treasury General Management and Infrastructure Support*

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schedules. We will also begin audit work for the fiscal year 2004 financial statements and schedules. We anticipate that these projects will require 14,400 hours during the fiscal year. *(PMA Initiative Supported: Improved Financial Performance)*

- **Assertions Included in the Interagency Crime and Drug Enforcement's (ICDE) Fiscal Year 2003 Annual Accounting of Drug Control Funds to the Office of National Drug Control Policy (ONDCP)**

Objective: To assess the reliability of the assertions made in ICDE's report to ONDCP about obligations for National Drug Control Program activities. We anticipate that this project will require 100 hours.

- **Treasury Payments for Water and Sewer Services Provided by the District of Columbia**

Objective: To perform agreed-upon procedures to assist the Congress in evaluating Treasury's compliance with the District of Columbia Public Works Act of 1954, as amended. We anticipate that this project will require 200 hours.

## IS Security and Investments

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

The acquisition, security, and maintenance of information systems are necessary to support Treasury's mission to manage resources effectively and support the achievement of business results. Computer security and information technology (IT) issues crosscut all of the Department's strategic objectives and activities, including the management of financial systems and operations.

As computer technology has advanced, federal agencies have become increasingly dependent on computerized information systems to carry out their operations and to process, maintain, and report essential information. As a result, the reliability of information systems and data is a major concern. All information processed, transmitted, stored, or disseminated by or on behalf of the Department on automated information systems requires some level of protection. The loss or compromise of information entrusted to the Department, its bureaus, or its contractors may affect the Nation's economic competitive position, national security, departmental missions, and the citizens of the U.S.

In response to the increasing threat to information systems and the highly networked nature of the federal-computing environment, the Congress requires an annual review and reporting of agencies' compliance with the requirements of the Federal Information Security Management Act (FISMA) of 2002. FISMA includes provisions aimed at further



# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Treasury General Management and Infrastructure Support*

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strengthening the security of the Federal Government's information and computer systems, such as the development of minimum standards for agency systems.

IT investments decisions also have a substantial impact on an organization's performance. A well-managed investment process can assist in providing high quality IT services to agencies and their customers. A weakened or poor investment process results in a lack of management information and the inability to make informed decisions about the organization's technological assets.

Recent OIG reviews noted some improvements in Treasury's information security program; however, management of current information systems continues to be a concern. Specifically, deficiencies were noted with Treasury and its bureaus' performance measurement approach, computer security incident reporting, critical infrastructure protection (CIP), certification and accreditation (C&A) process, training programs, and capital planning and investment process. For example, Treasury defined specific performance measures in areas such as C&A and offered specialized training to employees with significant information systems security responsibilities. However, Treasury is not attaining its goals. In addition, Treasury lacks formally approved computer security incident response capability policies and procedures.

Limited funding has hindered Treasury's ability to perform required physical site CIP reviews. The majority of Treasury's information systems are not certified and accredited and do not meet the minimum security requirements to be granted full accreditation. Treasury is not verifying that capital asset plans are prepared for all major investments and the methodology needed to validate the reported costs is not included in the capital asset plans.

### *In Progress and Planned Fiscal Year 2004 Audit Projects*

- **Independent Evaluation of Treasury's Information Security Program and Practices Pursuant to the Federal Information Security Management Act (FISMA) (In Progress)**

Objective: To determine the effectiveness of Treasury's information security program and practices. We will also determine what progress Treasury has made in resolving weaknesses cited in the prior year's review. During fiscal year 2004, we will complete work on the independent evaluation covering fiscal year 2003. We will also perform the independent evaluation covering fiscal year 2004. We anticipate that these projects will require 3,500 hours. *(PMA Initiative Supported: Expanded Electronic Government)*

- **Assessment of Treasury Network and System Security Vulnerabilities**

Objective: To identify security vulnerabilities that may compromise Treasury's network and systems leaving them open to misuse and attacks. For fiscal year 2004, we plan

# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Treasury General Management and Infrastructure Support*

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to perform tests at FMS and BPD using the Information Security Systems' Internet Scanner and System Scanner. We anticipate that this project will require 1,600 hours. *(PMA Initiative Supported: Expanded Electronic Government)*

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

Objective: To review the status of disaster recovery capabilities within selected bureaus and Departmental offices. We plan to perform reviews at BPD, FMS, Mint, and DO as they schedule their disaster recovery exercises. We anticipate that this project will require 2,000 hours. *(PMA Initiative Supported: Expanded Electronic Government)*

- **UNIX Operating System Controls**

Objective: To determine whether UNIX operating system configurations and controls are adequate to provide a secure environment for Treasury and bureau applications. We plan to review the controls at BEP, BPD, Mint, OCC, and OTS. We anticipate that this project will require 2,000 hours. *(PMA Initiative Supported: Expanded Electronic Government)*

- **Security of Treasury's Wireless Network**

Objective: To determine whether Treasury has established adequate security policies and oversight procedures to protect its wireless network. For fiscal year 2004, we plan to review the policies and procedures at FinCEN, OCC, and OTS. We anticipate that this project will require 800 hours. *(PMA Initiative Supported: Expanded Electronic Government)*

- **Treasury's Integration of Information Technology (IT) Life-Cycle Security Costs Into Its Capital Planning and Investment Control Process**

Objective: To determine whether the Department is appropriately budgeting for IT life-cycle security costs in its capital planning and investment process. In addressing this objective, we will determine whether the Department is effectively focusing on system life-cycle security needs, can support the requested funding to address IT security weaknesses, and has integrated performance measures with resource allocations to strengthen its agency-wide information security program. We anticipate that this project will require 1,600 hours. *(PMA Initiative Supported: Expanded Electronic Government)*

# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Treasury General Management and Infrastructure Support*

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### *Audit Projects Under Consideration for Future OIG Annual Plans*

- **Controls and Security Over Treasury and Bureau Web Servers**

Objective: To determine whether Treasury and its bureaus have adequate security controls in place to protect against unauthorized access and/or other security breaches from outside users. We plan to conduct our audit at BEP and Mint. We anticipate that this project will require 2,000 hours. *(PMA Initiative Supported: Expanded Electronic Government)*

- **Treasury's Enterprise Environment**

Objective: To determine if Treasury's Office of the Chief Information Officer has aligned the Treasury Enterprise Architecture Framework with the Department's mission, strategic plans, and business priorities. We anticipate that this project will require 1,600 hours. *(PMA Initiative Supported: Expanded Electronic Government)*

- **Implementation of Treasury's Communications Enterprise (TCE)**

Objective: To evaluate the transition from the Treasury Communications System to TCE and determine whether security controls are in place to ensure that sensitive information is protected. We anticipate that this project will require 1,200 hours. *(PMA Initiative Supported: Expanded Electronic Government)*

- **Treasury's Firewall Policy and Other Network Intrusion Detection Techniques**

Objective: To determine whether policies and controls over the Treasury's firewall and other network intrusion detection techniques are effective in protecting sensitive information and systems from security threats. We will conduct reviews at BEP, BPD, DO, and Mint, coordinating our work with that of GAO as appropriate. We anticipate that this project will require 4,000 hours. *(PMA Initiative Supported: Expanded Electronic Government)*

- **Assessing Risk for the Department's Computer Operations**

Objective: To determine whether appropriate risk measures are being taken to identify potential vulnerabilities in the Department's computer operations. This audit objective will be accomplished by ensuring that risk assessments are performed at all stages of system development and implementation. We anticipate that this project will require 2,000 hours. *(PMA Initiative Supported: Expanded Electronic Government)*

# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Treasury General Management and Infrastructure Support*

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- **Classified Information Systems Security Program**

Objective: To determine whether Treasury's classified information systems programs adhere to federal requirements and guidelines and provide the desired level of security/protection. We anticipate that this project will require 2,000 hours. *(PMA Initiative Supported: Expanded Electronic Government)*

- **Remote Access Dial-up Security**

Objective: To determine if an adequate security authentication system has been implemented for dial-up access to bureau computer systems. We anticipate that this project will require 1,600 hours. *(PMA Initiative Supported: Expanded Electronic Government)*

- **Treasury's Countermeasures for Computer Viruses**

Objective: To determine whether present countermeasures are adequate to protect bureau's computing resources from the exposure of contamination and the impact of computer viral attacks. We anticipate that this project will require 1,200 hours. *(PMA Initiative Supported: Expanded Electronic Government)*

- **Data Back-up Controls**

Objective: To determine if the Department is providing adequate controls for data back-ups. We plan to conduct our audit at BEP, BPD, DO, and Mint, coordinating our work with that of GAO as appropriate. We anticipate that this project will require 1,200 hours. *(PMA Initiative Supported: Expanded Electronic Government)*

- **Security Reviews of the Bureaus' Data Centers**

Objective: To determine if physical and logical controls are implemented to protect bureau data centers. Specifically, we will review: (1) organization and management, (2) computer operations, (3) physical security, (4) environmental controls, (5) hardware and software inventory management, and (6) continuity of operations. We plan to conduct our audit work at FinCEN, OCC, and OTS. We anticipate that this project will require 1,600 hours. *(PMA Initiative Supported: Expanded Electronic Government)*

- **Office of D.C. Pensions Replacement of the Automated Pensions Benefit System**

Objective: To determine whether the Office of D.C. Pensions is providing proper oversight of the System to Administer Retirement, which replaces the Automated Pensions Benefit System, to ensure the system will be successfully implemented within reasonable timeframes and costs. We anticipate that this project will require 1,000 hours.

# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Treasury General Management and Infrastructure Support*

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### General Management

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

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

Performance and Budget Integration. The Government Performance and Results Act (GPRA) of 1993 focused government decision-making and accountability on the results of federal activities. The objectives of the GPRA are to: (1) improve Congressional decision making through the provision of objective information about the effectiveness and efficiency of federal programs and spending; (2) improve the confidence of the American people in the capability of the Federal Government, (3) improve federal program effectiveness and public accountability, (4) help federal managers improve service delivery, and (5) improve the internal management of the Federal Government. Under the Act, agencies are to develop multi-year strategic plans, annual performance plans, and annual performance reports. Integral to GPRA is the ability to link costs to outputs and ultimately, outcomes. This is an area that has been highly problematic at Treasury, and has been cited as a repeat management challenge by the Inspector General that needs to be addressed.

Human Capital. In the area of human capital management, the Federal Activities Inventory Reform (FAIR) Act of 1998 has major implications for Treasury. This legislation requires federal agencies, including Treasury, to prepare annual lists of government activities that are not inherently governmental in nature. Agencies submit their lists to OMB each June; OMB reviews the lists and then releases them to Congress and the public. In 2000, federal agencies reported that there were 850,000 federal jobs that could be performed by contractors equal to about half of the federal workforce. In a March 2001 memorandum, OMB directed agencies to compete or outsource at least 5 percent, or 40,000 positions, by October 2002. By October 2003, the percentage increases another 10 percent. OMB has created scorecards to measure agency progress using a traffic-light (i.e., "red-yellow-green") grading system. Under the scorecard approach, an agency would move from a "red" score to a "yellow" score if it completed competitions for 15 percent of the total commercial positions listed on their inventories. An agency would move from "yellow" to "green" status when it completed competition for 50 percent of the total commercial positions listed on their inventories. The management scorecard criteria set no time frame for reaching either the 15 percent or 50 percent goal. Great care must be taken in both

# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Treasury General Management and Infrastructure Support*

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correctly identifying positions and functions subject to competitive sourcing, and in properly determining whether to outsource or continue to perform these functions with federal employees.

Through fiscal year 2007, the Department is engaged in implementing a multi-year \$327 million automated, integrated Human Resources (HR) system called "HR Connect." This Department-wide system is intended to bring about significant changes in HR practices. Specifically, HR Connect is expected to: (1) provide the Department and bureau executives with more accessible, accurate, timely, and integrated data; (2) eliminate the need to create new HR systems within each bureau; and (3) reduce costs compared to the many "stand-alone" HR systems currently used by the bureaus. Furthermore, HR Connect is intended to greatly enhance the HR services the bureaus currently provide to their employees and managers. Appropriated funding to support this initiative is maintained at the Department and managed by the HR System Program Office.

As a general observation concerning risk, it should be noted that the Department has undergone tremendous change in fiscal year 2003. As mentioned before, significant law enforcement responsibilities were transferred out of Treasury to the Departments of Justice and Homeland Security, and remaining law enforcement functions related to terrorist financing and financial crimes were reorganized into a new Treasury office. Treasury also divested a large number of DO support positions to DHS. Additionally, significant events throughout the fiscal year included a change in Secretaries of the Treasury, and long-term vacancies in key top management positions, including that of the Deputy Secretary of Treasury.

Improper Payments. As a new requirement, the Improper Payments Information Act of 2002 requires agencies to review all programs vulnerable to improper payments, which can result from payments to ineligible program beneficiaries, over- or underpayments to beneficiaries, or duplicative payments. Agencies must also estimate the extent of improper payments. The law requires agencies estimating more than \$10 million in erroneous payments to send a report to Congress and to develop a plan for reducing those payments. In this regard, GAO and OMB estimated that improper payments cost the Federal Government at least \$30 billion a year, and there is strong evidence that the costs actually exceed this level. The President made the reduction of improper and erroneous payments a focus of his Management Agenda. Failure to implement an effective control environment to prevent erroneous and improper payments jeopardizes continued confidence in the Federal Government's ability to meet its many missions and responsibilities.

Procurement. Major procurement contract activity by the Department and its bureaus is significant, approximating \$1.3 billion annually. Use of government credit cards for micro-purchases (generally for goods and services under \$2,500) is also extensive, and a strong control environment over this activity is essential to prevent abuse. In accordance with Treasury Directive 76-06, *Request for Contract Audit Services*, our office is the Department's focal point for obtaining pre-award, costs incurred, and other contract audits

# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Treasury General Management and Infrastructure Support*

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requested by Departmental Offices and the bureaus. These audits are typically performed by the Defense Contract Audit Agency (DCAA) under our oversight. 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. During fiscal year 2002, approximately \$660 million of pre-award/proposed contract costs and \$249 million of incurred contract costs for non-divested Treasury bureaus were audited. These audited amounts included costs covering several years for certain contracts.

Non-Appropriated Activities. Four Treasury bureaus do not receive appropriated funds; they operate with revolving funds. As such, they assess charges for their goods (Mint and BEP) or fees for their regulatory activities (OCC and OTS). Accordingly, these bureaus have greater latitude in the manner in which they conduct their operations. One bureau, the Mint, operates under special Public Enterprise Fund authority.

Paperwork Elimination. In 1998, Congress passed the Government Paperwork Elimination Act (GPEA) as part of P.L. 105-277. Under this legislation, Executive agencies are to provide, by October 21, 2003: (1) the option of the electronic maintenance, submission, or disclosure of information, when practicable as a substitute for paper; and (2) the use and acceptance of electronic signatures, when practicable.

### *In Progress and Planned Fiscal Year 2004 Audit Projects*

We plan to perform a series of audits looking at performance measures over Treasury's anti-terrorist financing and money laundering activities, which are listed in the next Issue Area. We also plan to audit the Mint's procurement activities, which is discussed in the Bill and Coin Manufacturing, Marketing, and Distribution Operations Issue Area. Other planned and future audit projects covering General Management issues are listed below.

- **Contract Audit Oversight Activities (On-going)**

Objective: To oversee and coordinate DCAA contract audit services requested by procurement officers. We anticipate that 600 hours will be necessary for this activity. *(PMA Initiative Supported: Improved Financial Performance)*

- **Treasury's Implementation of the FAIR Act**

Objective: To determine if Treasury has identified government activities that are "commercial in nature" in accordance with the FAIR Act and taken action to meet OMB requirements to compete or outsource the commercial activities in an appropriate

# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Treasury General Management and Infrastructure Support*

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manner. We anticipate that this project will require 2,400 hours. *(PMA Initiative Supported: Competitive Sourcing)*

- **OCC/OTS Use of Government Travel Cards**

Objective: To assess the adequacy of the bureaus' controls over government travel cards. We anticipate that this project will require 2,600 hours for both bureaus. *(PMA Initiative Supported: Improved Financial Performance)*

- **Management of HR Connect**

Objective: To determine whether the Department is providing sufficient control and oversight to ensure HR Connect will achieve its intended purposes. We anticipate that this project will require 2,000 hours. *(PMA Initiative Supported: Expanded Electronic Government)*

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

Objective: To review policies for employee bonuses at the non-appropriated bureaus, and to determine whether those policies are in accordance with law. We anticipate that this project will require 2,000 hours. *(PMA Initiative Supported: Strategic Management of Human Capital)*

- **Use of Contractor Personnel for Treasury Operations**

Objective: To determine the number of contractor personnel working on Treasury contracts during fiscal year 2003 and the estimated number of such personnel for fiscal year 2004. We will be providing the bureaus and DO a survey instrument to gather the information. We anticipate that this project will require 800 hours. *(PMA Initiative Supported: Competitive Sourcing)*

### *Audit Projects Under Consideration for Future OIG Annual Plans*

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

Objective: To determine if the Department's process to assess the risks of improper payments by its offices and bureaus has been implemented and is effective. We anticipate that this project will require 1,200 hours. *(PMA Initiative Supported: Improved Financial Performance)*



# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Treasury General Management and Infrastructure Support*

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- **Treasury's Implementation of the Government Paperwork Elimination Act**

Objective: To review the progress made by the Department and the bureaus to implement the requirements of GPEA providing, when practicable, for electronic submission of information, including the use and acceptance of electronic signatures. We anticipate that this project will require 1,600 hours. *(PMA Initiative Supported: Expanded Electronic Government)*

- **Continuity of Treasury Operations During the Blackout of August 14, 2003**

Objective: To determine whether Department offices and bureaus impacted by this major blackout performed a "lessons-learned" assessment of their continuity of operations plans, and adjusted the plans as appropriate. We anticipate that this project will require 800 hours.

# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Foreign Asset Control/Terrorist Financing/Money Laundering*

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### **Issue Area - Foreign Asset Control/Terrorist Financing/Money Laundering**

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

Treasury's Strategic Goal to preserve the integrity of financial systems is multi-faceted, and includes several key objectives covered under this audit issue area. First, Treasury aims to ensure that the U.S. financial systems continue to operate without disruption from natural disasters or human attacks. Second, Treasury seeks to keep the financial systems free and open, and safe from illegal uses. Third, Treasury strives to ensure that access to the U.S. financial systems is closed to the individuals, groups, and nations that threaten U.S. vital interests. The September 11<sup>th</sup> terrorist attacks reinforced the need to block the money flow purported to finance terrorist activities and in that vain, Treasury takes the lead in global combat against terrorism financing and other financial crimes.

Treasury has charged several bureaus and offices to meet the issues related to this multi-faceted goal. The Task Force for Terrorist Financing and the newly established EOTF/FC develop anti-terrorist financing strategies in an effort to identify and freeze terrorist assets, block terrorist financing channels, and expose terrorist financing networks, while seeking international cooperation. Treasury, through EOTF/FC, OFAC, and FinCEN, implements the National Money Laundering Strategy, designating suspicious entities as money laundering concerns and ensuring domestic compliance with anti-money laundering laws and regulations such as the Bank Secrecy Act (BSA) and the USA PATRIOT Act. Title III of the USA PATRIOT Act has placed with Treasury the responsibility for issuing and implementing regulations. Among other things, the USA PATRIOT Act significantly expands financial institutions required to file Suspicious Activity Reports (SAR), and places additional responsibilities on financial institutions to implement effective anti-money laundering programs.

FinCEN is responsible for expanding the U.S. regulatory framework to cover all vulnerable industries. FinCEN works with the nation's regulatory agencies to monitor BSA compliance, and is primarily responsible for collecting, maintaining, and retrieving BSA information. OCC evaluates compliance with the BSA and USA PATRIOT Act as part of its examination of national banks, and enforces other anti-money laundering and anti-terrorism statutory and regulatory requirements. Similarly, OTS reviews thrift institutions for compliance with the same BSA and USA PATRIOT Act requirements.

OFAC manages and enforces economic sanctions and embargo programs against targeted foreign governments and groups that pose threats to the national security, foreign policy, or economy of the United States. These include sanction programs administered under the International Emergency Economic Powers Act, the Trading with the Enemy Act, the

# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Foreign Asset Control/Terrorist Financing/Money Laundering*

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United Nations Participation Act, the Anti-Terrorism and Effective Death Penalty Act, the Foreign Narcotics Kingpin Designation Act, and other related Executive Orders and statutes. Since September 2001, OFAC and our allies have blocked terrorist-related assets totaling \$136 million worldwide. OFAC currently administers 23 economic sanctions programs involving blocked targets, trade embargoes, or other restrictions. These sanction programs include terrorists, terrorist governments and organizations, international narcotics traffickers, hostile governments and others. OFAC is also authorized to block the domestic financial transactions of prohibited governments, organizations, and individuals. During 2002, OFAC had frozen as much as \$36 million in domestic accounts associated with terrorist financing.

With so many offices and bureaus involved in the tasks, coordinated efforts are necessary to successfully carry out the Department's responsibilities related to terrorist financing and other financial crimes. The establishment of EOTF/FC was intended to ensure that the coordination is made within Treasury and with other law enforcement agencies and foreign governments. EOTF/FC must be structured and funded properly to effectively carry out its intended mission.

Prior OIG audits identified program gaps and deficiencies in these areas. For example, in our audit of OCC's BSA examination of branches of foreign banks operating in the U.S., we reported that OCC could improve these BSA examinations by enhancing its use of information and services available through FinCEN. In addition, closer coordination and better sharing of BSA information with other state and federal financial institution regulators could allow OCC to more effectively use BSA information in its examinations. In another audit we found that OFAC was limited in its ability to monitor financial institutions' compliance with foreign sanction requirements due to legislative impairments. In a December 2002 report of FinCEN, we found that operating and internal control weaknesses lessened assurance that SARs filed by financial institutions were accurate and complete. Moreover, we opined that this condition warranted designation by management as a material weakness under the Federal Managers Financial Integrity Act due to the fact that the processing of accurate SAR data was key to FinCEN's core mission of combating money laundering, and that these weaknesses had not been corrected since first reported by our office January 1999. We have initiated a follow-up audit that should be completed in fiscal year 2004 to determine the progress made by FinCEN to address the weaknesses cited in our two prior reports.

As an emerging event with major implications to Treasury's role in the fight against terrorist financing and financial crime, the Congress is considering, as part of the fiscal year 2004 appropriations legislation for intelligence and intelligence-related activities, establishing within Treasury a Bureau of Intelligence and Enforcement (BIE). As proposed in H.R. 2417, BIE will be headed by a Presidentially appointed, Senate-confirmed Assistant Secretary reporting directly to the Secretary of the Treasury. BIE will also consist of the Office of Intelligence Support, OFAC, FinCEN, and other offices the Assistant Secretary establishes.

# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Foreign Asset Control/Terrorist Financing/Money Laundering*

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### *In Progress and Planned Fiscal Year 2004 Audit Projects*

- **FinCEN Reliability of Suspicious Activity Reports Follow-up (In Progress)**

Objective: To determine whether sufficient progress has been made in addressing data reliability weaknesses in the SAR database noted in prior OIG Audits. We anticipate 200 hours will be needed to complete this project. *(PMA Initiative Supported: Expanded Electronic Government)*

- **FinCEN Registration of Money Service Businesses (In Progress)**

Objective: To determine if FinCEN has effectively enforced the legislatively mandated registration requirements for money service businesses. We anticipate that this project will require 1,600 hours.

- **Treasury's Performance Measures for Anti-Terrorist Financing and Financial Crimes Programs**

Objective: To determine if adequate and useful performance indicators and reliable data have been developed for Treasury's anti-terrorist financing and financial crimes programs. Separate audits of EOTF/FC, OFAC, and FinCEN are planned to address this objective. We anticipate that these projects will require a total of 4,000 hours. *(PMA Initiative Supported: Budget and Performance Integration)*

- **General Management Reviews of EOTF/FC, FinCEN, and OFAC**

Objective: To determine whether EOTF/FC, FinCEN, and OFAC have the resource capacity and organizational structure to effectively coordinate and carryout Treasury's multi-faceted, anti-terrorist financing and financial crimes programs. Separate audits of these offices are planned that we anticipate will require a total of 5,200 hours. *(PMA Initiative Supported: Budget and Performance Integration)*

- **OTS BSA Examinations**

Objective: To assess the adequacy of OTS BSA examinations, including the new requirements under the USA PATRIOT Act. We anticipate that this project will require 1,800 hours.

- **FinCEN Background Checks Over Individuals Handling Sensitive Bank Secrecy Forms**

Objective: To determine if Treasury employees and contractors processing sensitive BSA reports have current background checks. We anticipate that this project will require 1,200 hours.

# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Foreign Asset Control/Terrorist Financing/Money Laundering*

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- **Electronic Filing of Bank Secrecy Act Reports**

Objective: To assess the operational effectiveness of the Internet-based BSA report filing system mandated under the US Patriot Act. We anticipate that this project will require 2,400 hours. *(PMA Initiative Supported: Expanded Electronic Government)*

- **Financial Institutions' Compliance with Foreign Sanction Program**

Objective: To determine if financial institutions are complying with OFAC foreign sanction requirements. Specifically, we will determine if the practices and procedures implemented by the financial institutions are adequate to ensure that prohibited transactions are identified and blocked. We anticipate that this project will require 2,400 hours.

- **OCC Examination Coverage of Bank's Compliance with OFAC Programs**

Objective: To assess the adequacy of OCC examinations to ensure compliance with OFAC programs. We anticipate that this project will require 2,000 hours.

### *Audit Projects Under Consideration for Future OIG Annual Plans*

- **OFAC Trade Sanctions Program**

Objective: To assess the adequacy OFAC's compliance program with an emphasis on commercial trade rather than financial transactions with financial institutions. We anticipate that this project will require 2,000 hours.

- **Information Sharing**

Objective: To determine how Treasury ensures that information is readily shared across the many different bureaus and offices involved in similar aspects of Treasury's overall anti-money laundering and anti-terrorist financing goals. We anticipate that this project will require 1,600 hours.

- **Timeliness of OFAC Sanctions and Asset Seizures**

Objective: To assess the timeliness of information and coordination with other agencies used to implement these programs. We anticipate that this project will require 1,800 hours.

# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Foreign Asset Control/Terrorist Financing/Money Laundering*

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- **Oversight of Money Service Businesses' Adherence to Prohibitions Over the Specially Designated Nationals and Blocked Persons**

Objective: To determine whether an effective mechanism is in place to ensure state-regulated money service businesses comply with OFAC sanctions and prohibitions. We anticipate that this project will require 1,800 hours.

- **FinCEN's Identification of Suspicious Wire Transfers**

Objective: To determine whether FinCEN is effectively identifying suspicious transactions transmitted through electronic wire services. We anticipate that this project will require 2,000 hours.

- **FinCEN Gateway Program**

Objective: To determine if FinCEN is 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. We anticipate that this project will require 2,000 hours. *(PMA Initiative Supported: Expanded Electronic Government)*

- **Treasury Oversight Over Non-federally Regulated Financial Institutions**

Objective: To assess the effectiveness of Treasury oversight to ensure implementation and enforcement of selected USA PATRIOT Act Title III provisions. We anticipate that this project will require 2,000 hours.

- **Security and Safeguards by Users of Sensitive BSA Information**

Objective: To assess the risks and vulnerabilities of sensitive BSA information provided by FinCEN to the over 2,000 non-federal users of FinCEN's Currency and Banking Retrieval System. Users include state and local law enforcement agencies across the nation. We anticipate that this project will require 1,600 hours.

# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Foreign Asset Control/Terrorist Financing/Money Laundering*

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- **OCC BSA Examinations (Follow-up)**

Objective: The OIG has issued a series of reports addressing various aspects of OCC BSA examinations. These have ranged from general coverage to specialty areas such as private banking, trusts, and foreign branches. With the added risk associated with terrorist financing through commercial banks, this review revisits not just the money laundering aspects but also the added requirements provided under the USA PATRIOT Act such as customer identification, minimum anti-money laundering programs, and prohibitions against shell bank correspondent banking relationships. We anticipate that this project will require 1,800 hours.

- **OCC Enforcement Actions for Substantive BSA Violations**

Objective: To determine whether OCC enforcement actions and sanctions taken against banks with substantive BSA violations are timely, forceful, and effective. We anticipate that this project will require 1,600 hours.

# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Government-wide Financial Services and Debt Management*

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### **Issue Area - Government-wide Financial Services and Debt Management**

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

#### **Management of Revenues and Disbursements**

FMS plays the central role in payment services for federal program agencies, operates the Federal Government's collections and deposit systems, provides government-wide accounting and reporting services, and manages the collection of delinquent debt.

Disbursements. Federal Government payments such as IRS tax refunds, Department of Veterans Affairs disability payments, and Social Security benefits are an important responsibility of FMS. Checks are printed and mailed from FMS's four Regional Financial Centers, located in Austin, Kansas City, Philadelphia, and San Francisco. During fiscal year 2002, FMS issued more than 922 million non-Defense payments with a dollar value of more than \$1.64 trillion, to more than 100 million people. During fiscal year 2002, about 73 percent of these transactions were made through Electronic Funds Transfer method, which was an increase of about one percent from fiscal year 2001. The other 27 percent was by paper check. The need for adequate internal controls over its disbursement process is critical in order to ensure the integrity of payments.

The Competitive Equality Banking Act of 1987 limited liability (and therefore payability) for an issued Federal Government check to 12 months, after which time Treasury is to automatically cancel the check and return the funds to the agency that authorized the payment. This return of funds is to occur during the 14th month after issuance. FMS, therefore, must have appropriate procedures and oversight controls to properly and timely account for and return limited payability funds to federal program agencies. For fiscal year 2002, approximately \$596 million was cancelled and transferred back to the agencies.

Collections. FMS pays the transaction fees associated with credit card payments made by citizens for government agencies' services and products. FMS pays these fees on behalf of the government agencies that accept payments by credit card. From 1998 to 2001, for instance, FMS incurred over \$124 million in transaction fees for one program alone (Plastic Card Network). In the private sector, such fees are often negotiable based upon dollar or transaction volume. Even a slight savings per transaction could result in substantial annual savings to the Federal Government. A recent OIG audit of the Plastic Card Network program revealed a significant opportunity for savings—\$800 million over 5 years—if transaction fees were passed along to the benefiting collection agency and ultimately the



# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Government-wide Financial Services and Debt Management*

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consumer. Taking necessary steps to ensure that credit card transaction fees are at the lowest possible cost is an issue that needs to be addressed.

As a decades-old practice, Treasury, through FMS, used compensating balances to compensate banks for collecting tax and non-tax receipts as well as for other banking services (such as operating the Plastic Card Network) under financial agency agreements. Under these agreements, FMS deposits a non-interest bearing compensating balance with a bank. The imputed earnings value of the compensating balances, typically calculated at the 91-day Treasury bill rate, is the source of the bank's compensation for performing the required services. FMS determines the size of the compensating balance on deposit by balancing the value of the services provided with the imputed earnings value of the compensating balance. Any decrease in the interest rate applied to compensating balances requires Treasury to increase the size of compensating balances on deposit. Because interest rates decreased so much during 2002, Treasury had to increase its compensating balances by \$14 billion to pay for the services. Treasury finances an increase in compensating balances by borrowing from the public or other means of financing. The President's fiscal year 2004 budget proposes legislation to replace compensating balances with a permanent, indefinite appropriation for FMS to pay banks directly for their services as depositories and financial agents. This is expected to simplify Treasury's cash and debt management, making it more efficient, especially when interest rates change sharply. This is also expected to reduce the deficit, with the interest saved on lower borrowing being more than the outlays to pay for the services. Incumbent with financing banking services through a permanent, indefinite appropriation is the need for appropriate controls to ensure banking services are obtained at the lowest possible cost.

Electronic transaction means is increasingly called for various FMS' operations. *Pay.gov* is a government-wide payment and collection portal developed by FMS. It is capable of processing 80 million transactions totaling \$125 billion each year. This Internet portal can perform services for: (1) Automated Clearing House collections, (2) forms processing and bill presentment, (3) authentication services, and (4) agency reporting. *Pay.gov* allows Treasury to provide more timely and extensive accounting information to agencies and helps them automate processing various forms. Although the operation of the system is a timely and cost-efficient alternative, adequate security controls over the systems remains a serious concern.

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

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## *Issue Area - Government-wide Financial Services and Debt Management*

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TOP is a centralized debt collection program developed by FMS and operated through its Regional Financial Centers. FMS disburses over 850 million payments a year on behalf of over 400 federal agencies. TOP matches these federal payments against debts owed to the Federal Government. When a match occurs, the payment is reduced, or offset, by the amount of the debt or payment. The delinquent debt information remains in the debtor database for continuous offset until debt collection is terminated due to full payment, compromise, write-off, or other reasons justifying termination. At the close of fiscal year 2002, \$31.0 billion of the eligible federal non-tax debts had been referred to TOP for collection, of which \$2.7 billion was collected during the fiscal year. Effectiveness of the program in implementing all the DCIA offset provisions remains an issue.

The Cross-Servicing Program is a process whereby federal agencies refer delinquent debts to Treasury for collection. To effectively collect the debts that agencies refer, FMS issues demand letters, conducts telephone follow-up, initiates skip tracing, refers debts for administrative offset, performs administrative wage garnishment, and refers debts to private collection agencies (PCAs). FMS collects fees that are a percentage of referred debt and intended to cover operating costs. Fees paid to PCAs are computed as a percentage of actual collections. In fiscal year 2002, \$7.9 billion was referred for the Cross-Servicing program, up from 43 percent from fiscal year 1999, of which \$86 million was collected, which was an 85 percent increase from fiscal year 2001. Adequate oversight over its cross-servicing operations and over PCAs is important to ensure that they are operating efficiently and effectively, and in compliance with the DCIA.

The DCIA also requires Treasury, through FMS, to ensure that individuals who receive electronic federal payments have access to an account at a reasonable cost and with the same consumer protection provided to other account holders at the financial institutions. In this regard, 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. After 2 years in operation, there were approximately 600 financial institutions certified for the ETA program with 18,000 branch locations.

## **Management of the Debt**

The United States' public debt has two major components: (1) Debt Held by the Public and (2) Intra-governmental Holdings. Debt Held by the Public is the federal debt held by individuals, corporations, state or local governments, foreign governments, and other entities outside of the U.S. government. Types of securities held by the public include Treasury Bills, Treasury Notes, Treasury Bonds, U.S. Savings Bonds, State and Local Government Series, Foreign Series, and Domestic Series. Intra-governmental Holdings are Government Account Series securities held by government trust funds, revolving funds, and special funds. As of July 31, 2003, the total public debt outstanding was \$6.75

# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Government-wide Financial Services and Debt Management*

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trillion, of which \$3.9 trillion was Debt Held by the Public and \$2.85 trillion was Intra-governmental Holdings.

BPD borrows the money needed to operate the Federal Government and accounts for the resulting debt. From the beginning of fiscal year 2003 through July 31, 2003, BPD issued a total \$20.56 trillion of Treasury securities consisting principally of: (1) \$16.96 trillion of Government Account Series, (2) \$2.92 trillion of Treasury Bills, and (3) \$0.52 trillion of Treasury Notes. During the same period, BPD redeemed a total of \$20.04 trillion of Treasury securities, consisting principally of (1) \$16.77 trillion of Government Account Series, (2) \$2.85 trillion of Treasury Bills, and (3) \$0.29 trillion of Treasury Notes. The net increase to the public debt outstanding during this period is \$522 billion. This net increase consists principally of a \$193 billion net increase in the Government Account Series (Intra-governmental Holdings) and a \$299 billion net increase in Treasury Bills and Notes (Debt Held by the Public).

Like FMS, BPD's operations demand modernized electronic and information system technology. BPD recently implemented its new TreasuryDirect system, and with it an electronic version of the inflation-indexed Series I savings bond. In May 2003, BPD made available a paperless version of the EE savings bond. During 2004, BPD expects to have in place the systems and operational capacity to offer holders of more than 700 million paper savings bonds the opportunity to convert their bonds to electronic form.

BPD also plans to make TreasuryDirect available to its customers who purchase and hold direct-access marketable securities. In the coming years, BPD will offer bills and notes in the system, serving customers more efficiently and managing resources more effectively by offering investors the opportunity to use the Internet to buy, sell, and manage their Treasury securities with virtually all-electronic processing. Despite the merits of the new system, adequate computer security controls over transactions via TreasuryDirect remains a serious challenge for BPD.

Series I bonds (I-Bonds) are inflation-indexed savings bonds introduced in September 1998 to protect Americans' savings against future inflation. I-Bonds are sold at face value and earn interest for as long as 30 years. Individuals can purchase up to \$30,000 worth of I-Bonds each calendar year. I-Bond earnings are added every month and interest is compounded semi-annually. I-Bonds are state and local income tax exempt, and federal income tax on I-Bond earnings can be deferred until the bonds are cashed or they stop earning interest after 30 years. Investors cashing I-Bonds before 5 years are subject to a 3-month earnings penalty. Investors can now open an on-line account to purchase I-Bonds in electronic form through the website [www.treasurydirect.gov](http://www.treasurydirect.gov). Account holders can purchase, manage, and redeem the bonds over the Internet 24 hours a day, seven days a week.

The earnings rate of these bonds is the combination of two rates: (1) a fixed rate of return announced by the Treasury Department that remains the same for the life of the bond and

# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Government-wide Financial Services and Debt Management*

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(2) a rate of inflation that is adjusted every six months by the Bureau of Labor Statistics to reflect changes in the Consumer Price Index for all Urban Consumers. The current earnings rate of I-Bonds through October 2003 is 4.66 percent, which is more than the going rates of most certificates of deposit (CDs) that commercial banks currently offer. Currently, 5-year CDs in amounts of \$30,000 can earn less than 3.0 percent.

As the federal budget deficits increase, more debt needs to be issued by the Treasury. Office of Market Finance assumes the role of making debt-issuing decisions, and is primarily responsible for the Treasury's debt management. The debt-issuing process takes multiple stages of economic and budgetary forecasting, short-term cash projection, analysis of market expectation on the Treasury's debt to be issued, and consultation with an advisory board, the Federal Reserve Bank in New York, and private security market participants. The debt-issuing processes and debt management strategies are challenging areas of review.

BPD programs have not been subjected to OIG program audits in recent years. Our last audit, in 1999, found that BPD's fees for transferring Treasury Securities were insufficient to recover BPD's costs. Among the 12 Federal Reserve Banks involved in transferring Treasury securities, approximately 74 percent of the transfer volume is generated by participants in the New York District. Nine of them recovered less than 50 percent of the reimbursable transfer costs. The audit recommended a reduction in the number of the banks processing Treasury securities and to develop a break-even analysis.

### *In Progress and Planned Fiscal Year 2004 Audit Projects*

- **FMS Controls Over Disbursements**

Objective: To determine whether FMS has adequate internal controls over its disbursement process to ensure the integrity of payments is appropriate. This objective will be addressed through a series of audits involving both electronic funds transfers and check payments. We plan to perform work at one or more FMS Regional Finance Centers. We anticipate that this project will require 2,000 hours. *(PMA Initiative Supported: Improved Financial Performance)*

- **Treasury's Debt Issuing Process**

Objective: To determine whether processes for issuing short-term bills and long-term notes have been documented. We anticipate that this project will require 800 hours. *(PMA Initiative Supported: Improved Financial Performance)*

- **FMS Acquisition of Banking Services (Follow-up)**

Objective: To assess whether FMS' controls are adequate to ensure the financing of banking services through compensating or, if enacted, a permanent, indefinite

# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Government-wide Financial Services and Debt Management*

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appropriation, is cost effective. We anticipate that this project will require 1,200 hours. *(PMA Initiative Supported: Improved Financial Performance)*

- **BPD's TreasuryDirect System**

Objective: To determine if BPD has adequate computer security controls over transactions involving purchases conducted over the Internet. In accomplishing this objective, we will: (1) assess whether there is a proper accounting mechanism in place to ensure TreasuryDirect accounts accurately reflect these transactions, (2) determine if the implementation of the new TreasuryDirect system has been a success, and (3) evaluate what the trends are for electronic versus paper purchases of savings bonds. We anticipate that this project will require 2,000 hours. *(PMA Initiative Supported: Improved Financial Performance)*

### *Audit Projects Under Consideration for Future OIG Annual Plans*

- **FMS Credit Card Transaction Fees**

Objective: To determine what steps FMS has taken to ensure that credit card transaction fees are the lowest possible. We anticipate that this project will require 1,600 hours. *(PMA Initiative Supported: Improved Financial Performance)*

- **Treasury Debt Management**

Objectives: To determine what debt management strategies Treasury has pursued and to assess whether they have been effective. We anticipate that this project will require 2,000 hours. *(PMA Initiative Supported: Improved Financial Performance)*

- **FMS Implementation of Pay.gov (Follow-up)**

Objective: To determine if FMS has implemented corrective actions taken on a recent GAO report citing weaknesses in Pay.gov security. We anticipate that this project will require 2,000 hours. *(PMA Initiative Supported: Improved Financial Performance)*

- **Federal Agency Referral of Delinquent Non-Tax Debt under the Debt Collection Improvement Act (DCIA) of 1996**

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

# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Government-wide Financial Services and Debt Management*

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- **FMS Electronic Transfer Accounts**

Objective: To determine if ETAs have been effective in allowing federal payment recipients to take advantage of Direct Deposit. We anticipate that this project will require 2,000 hours. *(PMA Initiative Supported: Improved Financial Performance)*

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

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

- **Treasury Offset Program (TOP)**

Objective: To assess whether TOP is effective in implementing all DCIA offset provisions, including tax refunds, federal salaries, and other federal payments streams to recover delinquent debt and preventing the release of payments to delinquent debtors. We anticipate that this project will require 2,000 hours. *(PMA Initiative Supported: Improved Financial Performance)*

- **Earnings Rate of Series I Bonds**

Objective: To determine why there is a large difference between the earnings rate of I-Bonds and the interest rates on CDs or savings accounts, and the future implications for Treasury debt. We anticipate that this project will require 1,600 hours. *(PMA Initiative Supported: Improved Financial Performance)*

- **BPD Transfer Fees for Trading Treasury Securities (Follow-Up)**

Objective: To determine if BPD has developed a break-even analysis that estimates when the difference between the revenue and the costs for transferring securities will be recovered, and the steps BPD has taken to reduce program costs. We anticipate that this project will require 600 hours. *(PMA Initiative Supported: Improved Financial Performance)*

- **FMS Processing of Limited Payability Funds (Follow-up)**

Objective: To determine if FMS has appropriate procedures and oversight controls to properly and timely account for and return limited payability funds to federal program agencies. We anticipate that this project will require 600 hours. *(PMA Initiative Supported: Improved Financial Performance)*

# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Safety, Soundness, and Accessibility of Financial Services*

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### **Issue Area - Safety, Soundness, and Accessibility of Financial Services**

OIG Contacts: Benny Lee, Director of Audit  
(415) 977-8810  
Donald Kassel, Director of Audit  
(202) 927-6512

One of Treasury's primary goals is to ensure the sustained strength and resilience of U.S. financial markets and institutions. Two important components of these markets and institutions have been the nation's banking and thrift industries, which collectively account for over \$5.1 trillion in assets. Treasury's key regulator and supervisory offices over these industries are OCC and OTS.

OCC is responsible for licensing, regulating, and supervising approximately 2,150 nationally chartered banks and 53 federal branches or agencies of foreign banks. Although national banks account for only 26 percent of the number of commercial banks nationwide, they hold 56 percent (\$4 trillion) of the total commercial banking assets in the United States. OCC has approximately 2,800 employees in locations throughout the U.S., and funds its operations primarily through assessments levied on national banks and from various licensing fees.

Similarly, OTS charters, regulates, and supervises the nation's federally insured savings associations, commonly referred to as "thrifts". As of March 2003, there were approximately 950 thrifts with total assets exceeding \$1 trillion. In addition, OTS also supervises over 1,000 savings and loan holding companies in 520 corporate structures, collectively controlling over \$6 trillion in assets. These holding companies vary widely and are engaged in business lines other than banking such as insurance, retailing, and manufacturing. OTS has about 900 employees located in Washington, D.C., and across four regional offices. OTS supervises an industry that is viewed as a key part to fulfilling the American dream of home ownership. Indeed, housing finance accounts for more than 20 percent of annual gross domestic product. In addition, thrifts now serve other market niches and have started offering a full range of lending products, including small business and other commercial, farm, construction, land development, credit card, education, and auto loans.

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

# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Safety, Soundness, and Accessibility of Financial Services*

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Despite the 2001 economic pullback and the subsequent period of modest economic growth, the bank and thrift industries have sustained strong growth marked by record earnings, profits, and capitalization. However, some analysts point to early warnings and challenges facing the industries in order to sustain earnings growth. Still others note that over the last 2 decades banking crises and financial instability have arisen with marked frequency and at considerable cost to FDIC, government, and the public at large. Recent scandals affecting the accounting profession, large loan write-offs to big companies, and management governance problems surrounding a housing based government sponsored enterprises have added further challenges for the industries. Even the prospect of economic recovery, if accompanied by rising interest rates, could increase the risks associated with the current high levels of consumer and corporate debt. With consumer and small-business lending accounting for half of all banks' business, stress in these two areas would hurt banks and thrifts, irrespective of their size.

Regulatory and supervisory challenges also continue to arise from the Gramm-Leach-Bliley Financial Services Modernization Act (GLBA) of 1999. Although GLBA accorded the banking and thrift industries greater organizational flexibility to respond more efficiently to market forces and competition, GLBA presented regulators with increased supervisory responsibilities in several areas such as money laundering, financial privacy, and coordinating supervisory efforts with functional regulators. GLBA increases and likely changes the nature of the supervisory challenges in meeting those strategic goals dealing with safety and soundness and ensuring consumers fair access to financial services.

Finally, another key OIG concern deals with Treasury's role in ensuring that our nation's financial infrastructure is able to maintain continuity of operations and avoid disruptions due to national disasters, threats and incidents. The events of September 11<sup>th</sup> and more recently the regional power blackouts of August 14, 2003, underscored both the resilience and vulnerabilities of our financial markets and infrastructure. The OIG will continue to audit and review critical infrastructure protection issues as provided under Presidential Decision Directive (PDD) 63.

Although economic factors are beyond the control of bank and thrift regulators, their respective supervisory responsibilities have been the focus of a number of OIG reviews and audits. The Federal Deposit Insurance Corporation Improvement Act of 1991 requires us to review failed federally insured depository institutions that had been supervised by either OCC or OTS. These legislatively mandated reviews arise when the institution's failure results in a loss to FDIC's deposit insurance fund exceeding either \$25 million or 2 percent of the institution's total assets. Known as an MLR, we are required to determine why the institution failed and assess the adequacy of OCC's or OTS' supervision of the failed institution.

In this regard, our legislatively mandated reviews of failed thrifts and national banks have surfaced supervisory weaknesses in their ability to detect early-on developing risks, particularly those associated with new and emerging products such as sub-prime lending



# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Safety, Soundness, and Accessibility of Financial Services*

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and asset securitization. Other OIG audits have also surfaced supervisory weaknesses in the areas of money laundering compliance and enforcement, consumer lending as provided for under the Community Reinvestment Act (CRA). As the industry's risks continue to change in response to increased competition, technology, and organizational restructuring, the OIG's fundamental focus on regulators strategic goals and ability to respond will similarly change, as reflected by the following reviews and audits.

### *In Progress and Planned Fiscal Year 2004 Audit Projects*

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

Objective: In the event an OCC- or OTS-regulated institution fails during fiscal year 2004 that results in a material loss to a bank deposit fund, we will conduct a review to: (1) determine the cause(s) of the failure; (2) assess the supervision of the institution; and (3) as applicable, make recommendations to prevent similar losses in the future. An MLR typically requires 5,000 hours.

- **OTS Examination Coverage of Financial Institution Third Party Service Providers**

Objective: To determine if OTS examinations provide adequate coverage of third party service providers and assess the associated risks. We anticipate that this project will require 2,000 hours.

- **Functional Regulator Reliance**

Objective: To assess the effectiveness of OCC and OTS examinations under the functional regulator provisions of GLBA. This multi-faceted audit will address: (1) risk identification, (2) nature and extent of information-sharing agreements with functional regulators, (3) how information from functional regulators is used, (4) extent on-site examinations have been needed, and (5) extent and nature of enforcement actions taken against functionally regulated affiliates and subsidiaries. We anticipate that this project will require 2,000 hours and will be coordinated with work by the GAO in this subject area.

- **OCC/OTS Safety and Soundness Examinations and Fraud**

Objective: Department of Justice statistics have shown the increasing incidents of bank fraud and crimes such as credit card theft, robbery, and embezzlement coinciding with the slowing economy since the 2001 recession. Prior OIG MLRs of failed banks have also identified fraud as a contributing factor leading to bank failures. This review will determine whether bank examinations provide sufficient coverage of banks' controls and risk mitigation programs over these areas. We anticipate that this project will require 3,200 hours.

# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Safety, Soundness, and Accessibility of Financial Services*

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- **Treasury's Efforts as the Lead Agency for Banking and Finance Under Presidential Decision Directive (PDD) 63**

Objective: We will continue to monitor Treasury's role as the lead agency for the financial services sector governing the physical and cyber security of the industry. We anticipate that this project will require 200 hours.

### *Audit Projects Under Consideration for Future Annual Plans*

- **OCC Safeguarding of Bank Sensitive Information**

Objectives: To determine the safeguards and handling practices of sensitive financial information by supervisory staff such as examiners and analysts. We anticipate that this project will require 1,200 hours.

- **OCC Large Bank Examinations**

Objective: The largest 40 plus national banks account for less than 3 percent of all national banks, yet these large banks hold over \$3 trillion in assets, accounting for over 80 percent of total national bank assets. Given the high asset risk concentration of these large banks, OCC has a special group devoted to the examination and supervision of the largest banks including tailor-designed examination policies, procedures and practices. This audit looks to assess this program with respect to OCC's four-pronged strategic goals. We anticipate that this project will require 2,400 hours.

- **OCC/OTS Organizational Capacity to Effectively Meet Their Supervisory Mission During Times of Restricted Staffing but Changing Industry Risks**

Objective: To conduct a general management review assessing OCC's and OTS' organizational capacity to ensure their respective supervised institutions operate in a safe and sound manner. We anticipate that this project will require 2,000 hours.

- **OCC/OTS Change of Control Application Processing**

Objectives: In a recent mandated MLR, we reported that OCC had approved a change of control application that had enabled the bank to initially operate under a national bank charter. However, the approved application lacked sufficient operating conditions that could have minimized the bank's risk-taking and operations that contributed to its eventual failure. Both OCC and OTS have similar applications processes that impact on the safety and soundness of their respective industries. This audit aims to determine that such applications are effectively acted upon, and in so doing, contributes to the strategic goal of safe and sound bank and thrift systems. We anticipate that this project will require 1,800 hours.

# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Safety, Soundness, and Accessibility of Financial Services*

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- **OCC Examinations of Banks Selling Insurance (Follow-up)**

Objective: In a prior audit, we reported that OCC could enhance examination procedures for banks selling insurance by assessing the degree of reliance that could be placed on state regulators; systematically identifying national banks selling insurance to better assess the potential risks; and then addressing those risks in its organizational structure, supervisory strategy, and examination processes. This follow-up audit will determine if OCC has taken corrective action to address areas cited in an OIG June 2002 report. We anticipate that this project will require 1,600 hours.

- **OCC's Oversight of National Bank Non-banking Subsidiaries**

Objective: To assess OCC's oversight of bank operating subsidiaries engaged in non-banking activities such as securities, insurance, and similar financial activities authorized under GLBA. We anticipate that this project will require 1,800 hours.

- **OCC CRA Examinations**

Objective: To assess the adequacy of OCC CRA examinations. We anticipate that this project will require 2,000 hours.

- **Adequacy of OCC and OTS Oversight of Data Security at Small Financial Institutions**

Objective: To assess information system examinations coverage to ensure banks and thrifts adequately safeguard customers' sensitive financial privacy information at small institutions. We anticipate that this project will require 1,600 hours.

- **OTS Examinations of Thrift Holding Companies**

Objective: Besides thrifts, OTS also supervises over 1,000 thrift holding companies with consolidated assets exceeding \$6 trillion. Many of these holding companies also engage in non-traditional banking activities such as insurance, brokerage, and even retail commercial companies. The diversity of organizational structures and product lines pose added supervisory challenges as to whether these non-traditional banking activities present unsafe and unsound conditions or risks to the federally insured thrift subsidiary. The objective of this audit is to assess the effectiveness of OTS holding company examinations policies, procedures, and practices. We anticipate that this project will require 1,600 hours.

- **OCC and OTS Fee Assessment Practices**

Objective: To determine whether OCC and OTS have the methodology for determining fee assessment amounts for the various categories of financial institutions (e.g., asset

# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Safety, Soundness, and Accessibility of Financial Services*

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size, condition) to ensure that the fees charged recover the full cost of the supervision provided. We anticipate that this project will require 800 hours.

- **OTS Applications and Licensing Program**

Objective: To assess OTS' process in support of decisions on thrift applications including new charters, branches, conversions, business combinations, corporate reorganizations, capital, and debt issues. We anticipate that this project will require 1,600 hours.

- **OCC Examination Coverage of Bank's Fee Income and Retail Operations**

Objective: To determine the adequacy of safety and soundness examination procedures, policies, and practices over fee-based services and retail operations. We anticipate that this project will require 2,000 hours.

- **OCC/OTS Use of Prompt Corrective Action**

Objective: To determine if OCC's and OTS' use of the Prompt Corrective Action provision has been an effective tool for troubled financial institutions. Prompt Corrective Action under Section 38 of the Federal Deposit Insurance Act requires among other things, for OCC and OTS to classify the capital levels of financial institutions and to obtain and monitor capital restoration plans for institutions classified as "undercapitalized." We anticipate that this project will require 2,000 hours.

# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Revenue Collection and Industry Regulation*

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### **Issue Area - Revenue Collection and Industry Regulation**

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

Revenue Collection. Treasury is responsible for collecting approximately 95 percent of all federal receipts, such as: individual and corporate income taxes, export duties, fees, debts, and other monies owed. In order to accomplish this mission, the Department relies on its various bureaus and offices. Among its chief revenue collection agencies are the IRS, FMS, and TTB.

The IRS is the largest entity responsible for determining, assessing, and collecting internal revenue in the United States. This revenue consists of personal and corporate income taxes, excise, estate, and gift taxes, as well as employment taxes for the nation's Social Security system. TIGTA is responsible for providing audit oversight of IRS programs and operations. As discussed in the Government-wide Financial Services and Debt Management Issue Area, FMS provides government-wide debt collection and operation services to both federal and program agencies, which also generates significant revenue.

The Homeland Security Act of 2002 divided the former Treasury ATF into two new agencies--the Bureau of Alcohol, Tobacco, Firearms, and Explosives, which moved to the Department of Justice in January 2003; and TTB, which remains in the Department of the Treasury. The programs and operations of TTB are the prime focus of this issue area.

As an agent of the Federal Government and as authorized by law, TTB collects excise taxes from the alcohol, tobacco, firearms and ammunition industries, as well as permit and license fees. In addition, Special Occupational Taxes are collected from businesses, including producers, distributors, and retailers of liquor and dealers in industrial alcohol. Substantially, all of the taxes and fees collected by TTB, net of related refund disbursements, are remitted to the Treasury General Fund. Treasury further distributes this revenue to federal agencies in accordance with various laws and regulations. TTB disburses refunds to taxpayers and license applicants as well as monthly payments to the governments of Puerto Rico and the Virgin Islands. These payments are used to cover over (rebate) excise taxes collected for alcohol (mostly rum) produced in these territories and used by U.S. producers to support economic revitalization. TTB also refunds excise taxes to taxpayers who use distilled spirits in the manufacturing of non-beverage products such as medicines, food products, and flavorings.

According to its fiscal year 2002 financial statements, ATF, now TTB, collected about \$15.1 billion in excise taxes, fees, licenses, and other revenue during the fiscal year. It refunded over \$374 million during the year, which amounted to about 2.5 percent of collections. The eligibility and basis for these refunds vary, but each refund requires the

# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Revenue Collection and Industry Regulation*

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filing of special forms as well as the retention of certain documentation in support of claimed refund credit. Prior OIG audits of some tax credits programs have identified weaknesses where ATF had not provided sufficient audit coverage or ATF files lacked sufficient documentation in support of the claimed refund.

Revenue collection plays an integral role in the strength of the national economy. With significant revenue collected by TTB, it is necessary to ensure that proper policy and procedures and applicable laws are followed to achieve the Department's mission.

It should also be noted that while the Homeland Security Act of 2002 transferred Customs to DHS, the Act provides that the Secretary of the Treasury retains the regulatory authority for what the Act defines as customs revenue functions. The Act also provides the Secretary plenary power to delegate such authority to the Secretary of DHS.

Industry Regulation. TTB is authorized to administer the qualification requirements for producing wine, including the qualification requirements for small producers. Other duties such as conducting product evaluations, performing industry analysis, clarifying policies, and issuing certificates of label approval (COLA), are also the responsibility of TTB. Furthermore, TTB cannot issue a COLA without first performing a product evaluation.

As described in the Federal Alcohol Administration Act, 27 U.S.C. § 205(e), TTB is authorized and required to issue regulations that prevent consumer deception and ensures that consumers are provided with adequate information as to the identity and quality of every alcohol beverage. Existing regulations and procedures require the submission of various forms of product evaluation in order for TTB to determine whether a proposed label identifies the product in an adequate and non-misleading way. Product evaluations entail chemical analysis of the product and/or review of the product's ingredients and formulation. This product review is referred to as the pre-COLA product evaluation.

TTB requires a pre-COLA product evaluation in order to ensure that no alcohol beverage contains a prohibited ingredient, limited ingredients are used within prescribed limitations or restrictions, and that wine labeled without a sulfite declaration contains less than 10 parts per million sulfur dioxide. Formulas and statements of process are required by regulation for some domestically produced products, most commonly when flavoring or coloring materials are added. Field inspections can be used to verify the accuracy of these documents. Since TTB does not have access to foreign plants, some imported products are subject to either laboratory analysis or pre-import letter approval. Chemical analysis of a sample of the product is the feature that distinguishes laboratory analysis from pre-import letter approval. Chemical analysis is generally required when flavors or coloring materials have been used in the product formulation and provides TTB with better assurance that the product is formulated in accordance with U.S. laws and regulations regarding tax classification, standards of identity, and product safety.

# OIG Issue Areas and Planned Audit Projects

## *Issue Area - Revenue Collection and Industry Regulation*

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### *In Progress and Planned Fiscal Year 2004 Audit Projects*

- **TTB Targeting of Excise Tax Inspections**

Objective: To determine whether the newly established TTB has a sufficient program (i.e. organizational structure, staffing, resources, and targeting methods) to ensure excise taxes are being collected and that progress is being made to address the existence or absence of a revenue gap. We anticipate that this project will require 2,000 hours.

- **Treasury's Responsibility for Customs Revenue Functions**

Objective: To determine what Treasury's continuing role is for Customs revenue functions under the Homeland Security Act of 2002. We anticipate that this project will require 400 hours.

### *Audit Projects Under Consideration for Future OIG Annual Plans*

- **TTB Safeguards and Security Over 6103 Taxpayer Information**

Objective: To assess TTB's controls to ensure security over taxpayer information. We anticipate that this project will require 1,600 hours.

- **TTB Excise Tax Refunds**

Objective: To assess TTB's overall program to ensure sufficient taxpayer compliance with available refunds and credits and to evaluate the renewed emphasis on compliance via a staffed-up excise tax audit program. We anticipate that this project will require 2,000 hours.

# OIG Issue Areas and Planned Audit Projects

## *Issue Area – Bill and Coin Manufacturing, Marketing, and Distribution Operations*

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### **Issue Area - Bill and Coin Manufacturing, Marketing, and Distribution Operations**

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

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

#### **Bureau of Engraving and Printing**

BEP manufactures the financial and other securities of the United States. Accordingly, the bureau designs, prints, and furnishes a large variety of security products, including Federal Reserve notes, U.S. postage stamps, Treasury securities, identification cards, naturalization certificates, and other special security documents. All products are designed and manufactured with advanced counterfeit deterrence features to ensure product integrity, and the bureau advises other federal agencies on document security matters. BEP also processes claims for the redemption of mutilated currency. Its research and development efforts focus on the continued use of automation in the production process and counterfeit deterrent technologies for use in security documents, especially U.S. currency. BEP's production facilities are located in Washington, D.C., and Fort. Worth, Texas.

In 2002, BEP delivered 7.0 billion Federal Reserve Notes to the Federal Reserve System and 12.2 billion postage stamps to the U.S. Postal Service. This resulted in revenue of \$443 million and an excess of expenses over revenue of \$29 million. When setting currency prices for 2002, the BEP chose to fund the additional costs incurred to prepare for the production of next generation currency through working capital and productivity improvements rather than price increases.

#### **United States Mint**

Since its creation in 1792, the Mint has grown to a Fortune 500-sized manufacturing and international marketing enterprise with about 2,500 employees. In fulfilling its mission to produce the nation's circulation coinage for trade and commerce, the Mint produced nearly 15 billion circulating coins in fiscal year 2002. Along with the Mint's headquarters in Washington, D.C., there are four production facilities (Philadelphia, West Point, Denver, and San Francisco) and the bullion depository at Fort Knox.

In fiscal year 1996, the Mint Public Enterprise Fund (PEF) was created to enable the Mint to operate as a revolving fund. All receipts deposited into the PEF are available for Mint operations and the cost of safeguarding government assets in the Mint's custody without fiscal year limitations. Also, a portion of the fund's profits is retained for start-up



# OIG Issue Areas and Planned Audit Projects

## *Issue Area – Bill and Coin Manufacturing, Marketing, and Distribution Operations*

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operations in subsequent fiscal periods and to improve Mint facilities. Excess profits, as determined by the Secretary of the Treasury, are deposited into the Treasury General Fund. Even though the Mint is not dependent on appropriated funds, its spending authority is approved each fiscal year. With more than \$1.8 billion in revenues in fiscal year 2002, the Mint purchased approximately \$770 million worth of goods and services and contributed \$1.03 billion to the Treasury General Fund.

The PEF legislation also accorded the Mint with greater flexibilities in conducting its procurement and personnel activities. For example, the Mint is exempt from following the Federal Acquisition Regulation. In a 2002 audit, we noted weaknesses in the Mint's use of the PEF authority to acquire leased space for its headquarters operations, including acquiring space in excess of its needs. In 2001, the Department reviewed the Mint's procurement operations, also noting significant weaknesses. As another example, in 2001, the Mint implemented "Gainsharing" as a process improvement program that ties pay to improvement in workforce productivity. Gainsharing rewards employees for their role in reducing costs and improving the efficiency of the business. For fiscal year 2002, the "full share" payout to employees for Gainsharing was \$1,866. Continued prudent use of its PEF authority flexibilities is necessary to ensure a maximum return to the Treasury General Fund from the Mint's operations.

Implemented in fiscal year 1999, the Consolidated Information System (COINS) integrates the Mint's financial, manufacturing, and marketing management systems. Its primary objective is to have one-time capture of information at its source. The three major sub-systems under COINS are PeopleSoft (accounting), the e-business Solution Project (inventory), and MAXIMO (maintenance). Over the system's 10-year life, the Mint will spend an estimated \$40 million with an expected return of somewhere between \$1.2 billion and \$2.1 billion. It is expected that the system will reduce the time the financial staff spends reconciling the Mint's accounts from 45 days to 24 hours. COINS, if implemented effectively, will also help the Mint control and reduce its production and inventory costs.

The last time we audited COINS was during fiscal year 1999, in its early implementation phase. We noted that although COINS may eventually be capable of providing the necessary data for performance reporting, at the time it was not able to fully support the performance reporting requirements of the Mint. The audit focused on performance reporting of three performance measures for circulating coinage. We found that COINS production data contained errors and could not always be relied upon, and management controls over data input needed improvement. We also found that clear working definitions of data elements were needed, and the development and refinement of some cost allocations could be performed. We recognized that at the time of our review, the Mint had not been able to sufficiently address a number of the data and reporting issues due to other priorities. While the GPRA was a priority for the Mint, other priorities such as full implementation of COINS, efforts for Year 2000 compliance, introduction of the new commemorative quarters, and certain other factors including loss of critical information

# OIG Issue Areas and Planned Audit Projects

## *Issue Area – Bill and Coin Manufacturing, Marketing, and Distribution Operations*

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systems staff impacted the GPRA reporting. Also, since the audit only focused on COINS' ability to support performance measurements data the results may not be representative of COINS' overall effectiveness.

### *In Progress and Planned Fiscal Year 2004 Audit Projects*

- **Mint Procurement Operations**

Objective: To determine whether the Mint has established and is following logical procurement procedures and prudent business practices when procuring goods and services, including real property. As part of the audit, we will assess the corrective action taken by the Mint to address weaknesses identified in the Department's 2001 review as appropriate. We anticipate that this project will require 2,400 hours. *(PMA Initiative Supported: Improved Financial Performance)*

- **Mint's Consolidated Information System (COINS)**

Objective: To determine if the implementation of COINS system meets user needs. We anticipate that this project will require 2,000 hours. *(PMA Initiative Supported: Budget and Performance Integration)*

- **BEP's Pricing of Currency and Other Products**

Objective: To evaluate BEP's methodology for pricing its currency and other products. We anticipate that this project will require 1,600 hours. *(PMA Initiative Supported: Improved Financial Performance)*

### *Audits Under Consideration for Future OIG Annual Plans*

- **Mint Leases for Headquarters Operations (Follow-Up)**

Objective: To determine whether the Mint took corrective action in response to our March 2002 report to comprehensively analyze its space needs and eliminate unneeded space in the two buildings leased for its headquarters operations. We anticipate that this project will require 800 hours. *(PMA Initiative Supported: Improved Financial Performance)*

# OIG Issue Areas and Planned Audit Projects

## *Issue Area – Domestic and International Assistance Programs*

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### **Issue Area - Domestic and International Assistance Programs**

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

The Department administers or has an important role in a number of domestic and international assistance programs. Major assistance programs are described below.

#### **Domestic Assistance**

Helping Distressed Communities. The CDFI Fund was created to expand the availability of credit, investment capital, and financial services in distressed urban and rural communities. The CDFI Fund has two strategic goals: (1) to improve the economic and living conditions of underserved communities by providing an array of community development financial services through CDFIs and CDEs and (2) to strengthen the financing, capacity, sustainability, or self-reliance of a nationwide network of regulated and non-regulated financial institutions serving underserved communities.

The Community Renewal Tax Relief Act of 2000, signed into law on December 21, 2000, provides for \$15 billion in tax incentives under the New Markets Tax Credit Program to help spur economic growth in new markets in urban and rural communities across the country. This relatively new program of the CDFI Fund permits individual and corporate taxpayers to receive a credit against federal income taxes for making qualified equity investments in designated CDEs. Substantially all of the qualified equity investment must in turn be used by the CDE to provide investments in low-income communities. The credit provided to the investor totals 39 percent of the cost of the investment and is claimed over a 7-year credit allowance period.

In response to audit recommendations in a September 2000 OIG report, the CDFI Fund planned to improve its procurement procedures, particularly with reference to awarding contracts to consultants and non-government personnel who assist in the selection of applicants for CDFI grants and loans. A follow-up review of the CDFI Fund's procurement practices is needed.

Assisting the Airline Industry. ATSB was established in September 2001 following the September 11<sup>th</sup> terrorist attacks. The Treasury Under Secretary for Domestic Finance is one of three voting members of the ATSB. ATSB was authorized to issue up to \$10 billion in loan guarantees to compensate air carriers for losses incurred as a result of the terrorist attacks. ATSB reviews applications for loan guarantees in conjunction with reports of private consultants (credit rating agents and industry analysts) under the criteria established by the Air Transportation Safety and System Stabilization Act and the

# OIG Issue Areas and Planned Audit Projects

## *Issue Area – Domestic and International Assistance Programs*

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regulations promulgated by OMB. The key criteria for evaluation are the borrower's ability to repay the loan, protection of the government's financial interests, and the lender's ability to administer the loan.

The deadline for application was June 28, 2002. A total of 16 air carriers applied by the deadline. Ten applications were denied and the remaining six were either approved or conditionally approved. The total amount of approved or conditionally approved loan guarantees is approximately \$1.7 billion, which is significantly less than the amount authorized by the Congress. Borrowers are required to make the scheduled quarterly payments of the loan guarantee fees to the ATSB from the time of the settlement until the time the loan guarantee is effective.

Providing Fiscal Relief to the States. Section 401(b) of the Jobs and Growth Tax Relief Reconciliation Act of 2003 provides \$10 billion in payments to states, \$5 billion each for fiscal years 2003 and 2004 to provide temporary state fiscal relief. FMS is responsible for making these payments. The money is to be divided among the 50 states, Guam, Northern Mariana Islands, Puerto Rico, Virgin Islands, and the District of Columbia, according to their relative population sizes, adjusted for minimum payments to smaller population jurisdictions.

Each state's proposed use of the funds should be consistent with the provisions of the Act, i.e., to provide essential government services, or cover the costs of complying with any federal intergovernmental mandate (as defined in section 421(5) of the Congressional Budget Act of 1974) to the extent that the mandate applies to the state and the Federal Government has not provided funds to cover the costs. Each state will also use the funds for the types of expenditures permitted under the most recently approved budget for the state. The states are subject to Single Audit requirements.

Expanding Access to Financial Services. The First Accounts program provides financial resources to develop and implement programs to expand access to financial services for low- and moderate-income individuals who currently do not have an account with an insured depository institution or an insured credit union. The funds for First Accounts grants result from appropriations in the Consolidated Appropriations Act of 2001 and the Department of Transportation and Related Agencies Appropriations Act of 2001. The paramount goal of First Accounts is to move a maximum number of "unbanked" low- and moderate-income individuals to a "banked" status with either an insured depository institution or an insured credit union through the development of financial products and services that can serve as replicable models in other communities without the need for ongoing public subsidies. Additional goals include the provision of financial education to "unbanked" low- and moderate-income individuals.

The 15 First Accounts pilot programs, which received grants announced in May 2002 and totaling \$8.35 million, provide an opportunity for Treasury to evaluate a variety of experiments intended to increase participation in mainstream financial institutions. Grant

# OIG Issue Areas and Planned Audit Projects

## *Issue Area – Domestic and International Assistance Programs*

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recipients include nonprofit organizations, insured depository institutions, insured credit unions, a community development financial institution, a faith-based organization and a foundation. The 15 awardees, selected from among 231 applications from 38 states, have pledged that insured bank accounts will be opened by 35,400 “unbanked” people in 25 states. The awardees are to implement projects that provide financial literacy training, connect individuals to insured accounts, develop low- or no-cost products and services, and increase access to financial services through installation of automated teller machines.

Improving Citizens’ Knowledge About Financial Choices. The Office of Financial Education (OFE) was established in May 2002 in an effort to ensure that Americans have access to financial education programs that help them obtain practical knowledge and skills to make informed financial choices throughout their lives. The Office concentrates its efforts on four key areas: basic savings, credit management, homeownership, and retirement planning. In addition, the OFE is responsible for Treasury’s financial education policymaking and for coordinating financial education initiatives within the Department and its bureaus.

Since its inception, the OFE has worked with other federal departments, agencies, and commissions to raise awareness about the need for financial education and to find ways to improve financial literacy levels throughout the United States. In May 2002, the OFE co-hosted with the Department of Education a discussion on the importance of integrating financial education into core curricula in grades K-12 and published an October 2002 white paper on the subject. In May 2003, a roundtable event on credit management, co-hosted by the Federal Reserve, resulted in the development of a consensus among a diverse group of credit-related organizations on the credit management fundamentals most important for consumers to understand. The OFE created the Financial Education Certificate of Recognition, with the U.S. Treasurer awarding the first Certificate in June 2003.

Ensuring Accountability of Federal Assistance. Each year, the Federal Government awards billions of dollars to state and local governments and to not-for-profit organizations. These awards include grants, loans, loan guarantees, insurance, and direct appropriations and federal cost reimbursement. Entities that receive federal funds are subject to audit requirements that are commonly referred to as Single Audits.

## **International Assistance**

Reconstructing Iraq. Treasury is taking the lead role in the financial and economic reconstruction of Iraq. Since March 20, 2003, \$1.7 billion of frozen assets have been vested for the reconstruction. Already nearly one-half of it has been used to pay civil servants and pensioners, provide working capital for government ministries, and purchase equipment for local police forces. International financial institutions are expected to provide additional funds, and the proceeds from the sale of Iraqi oil will also be placed in the Development Fund for Iraq, an account of the Central Bank of Iraq. Some of the critical areas of the financial and economic reconstruction are stabilization and possible

# OIG Issue Areas and Planned Audit Projects

## *Issue Area – Domestic and International Assistance Programs*

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creation of new currency, development of a transparent and accountable national budget, and reforming the banking sector.

Supporting International Development. Treasury's Office of the Assistant Secretary for international Affairs (OASIA) oversees the United States' interests in international financial Institutions, including Multilateral Development Banks (MDB) and the International Monetary Fund (IMF). The United States participates in International Financial Institutions to support poverty reduction, private sector development, transition to market economies and sustainable economic growth and development, and thereby advancing United States' economic, political, and commercial interests abroad. The MDBs typically refer to the World Bank Group and four regional development banks: African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, and Inter-American Development Bank Group. The World Bank Group and most of the regional development banks operate both a hard loan window and a soft loan window. The hard loan windows provide loans at market-based rates to lower and middle-income countries. Developed countries, such as the United States, provide the bulk of the capital base needed to support these loans, enabling the MDBs to access the international capital markets on preferred terms. In contrast, soft loan windows, provide loans on a concessional basis (30-40 year maturities and very low interest rates) to the poorer countries. Funding for soft loans is provided by donor countries, including the United States, through periodic replenishments, as well as through both repayments of prior loans and use of the institution's own income earnings.

It has been a high priority of the Administration to improve the effectiveness of the MDBs. Accordingly, the Department has been pursuing a reform agenda that emphasizes such key elements as: (1) focusing MDB operations on projects and programs that raise productivity growth, which is viewed as the key to raising living standards and reducing poverty; (2) measuring results to determine the effectiveness and level of the United States contributions; (3) increasing use of grants as the best way to deliver assistance to the poorest countries; and (4) strengthening efforts to stimulate private-sector investment, promote good government and the rule of law, and fight corruption.

Reforming the International Monetary Fund. The IMF is a monetary institution rather than a development bank. Yet, it has lent mainly to developing countries in recent decades and its policies often affect economies of the borrowing countries. In the late 1990s, Congress took a new initiative to reform the IMF. A list of reform proposals was prescribed, as provided in Section 610 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act of 1999 (P.L. 105-277). It contains a broad range of reform and promotion initiatives related to transparency in IMF operations and accounting systems of member countries, exchange rate stability, social policies in recipient countries, the environment, and a host of other social and economic issues. Further reforms are prescribed in Foreign Operations, Export Financing, and Related Programs Appropriations Act of 2001 (P.L. 106-429). Section 613 of the 1999 appropriations act, as amended by the 2001 appropriations act, mandates the Secretary of the Treasury to submit an annual

# OIG Issue Areas and Planned Audit Projects

## *Issue Area – Domestic and International Assistance Programs*

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report on the progress of the reform to Congress. Each annual report asserts considerable progress in the implementation of the key components of the reform initiatives. Progress in implementation notwithstanding, the effectiveness of reform remains a challenging issue.

### *In Progress and Planned Fiscal Year 2004 Audit Projects*

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

Objective: To ensure action is taken on findings related to Treasury programs identified by Single Audits of state and local governments. We anticipate that this project will require 200 hours during fiscal year 2004.

- **New Markets Tax Credit Program**

Objective: To determine whether the CDFI Fund implemented adequate controls over the award of tax credits in this new program. Our work will be coordinated with that of GAO, who has initiated a review of the program. An audit review of overall program effectiveness will be considered in future plans. We anticipate that this project will require 2,000 hours.

### *Audit Projects Under Consideration for Future OIG Annual Plans*

- **Treasury First Accounts Program**

Objective: To determine if the Department has developed control measures and is providing sufficient oversight to ensure that the program is achieving its intended purposes. We anticipate that this project will require 1,600 hours.

- **Treasury's Efforts on the Reconstruction of Iraq**

Objective: To determine if the efforts of the Department to reconstruct the Iraqi economy (e.g., the new currency, banking structure, etc.) are effective. In addressing this objective, we will determine whether the performance goals and measures established by Treasury appear appropriate and performance data is reliable. We anticipate that this project will require 1,200 hours.

- **OASIA's Monitoring of the Administration's Reform Agenda for Multilateral Development Banks**

Objectives To determine the effectiveness of OASIA's oversight of the MDBs progress towards the Administration's reform agenda. We anticipate that this project will require 1,600 hours.

# OIG Issue Areas and Planned Audit Projects

## *Issue Area – Domestic and International Assistance Programs*

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- **ATSB's Loan Guarantee Application Process**

Objectives: To determine if the ATSB has applied the standards set by the Air Transportation Safety and System Stabilization Act and the regulations and if the program has achieved its goals. We anticipate that this project will require 1,200 hours.

- **ATSB's Loan Guarantee Fee Receipts**

Objective: To determine if the ATSB has received and properly accounted for loan guarantee fees from airlines. We anticipate that this project will require 200 hours.

- **CDFI Fund Procurement Practices (Follow-Up)**

Objective: To determine if the CDFI Fund has implemented planned corrective actions to enhance procurement procedures in response to a prior OIG audit. We anticipate that this project will require 600 hours.

- **Use of State Fiscal Relief Funds**

Objectives: To determine if Treasury is distributing funds to the states in accordance with the provisions of the Jobs and Growth Tax Relief Reconciliation Act of 2003, and whether controls are in place to ensure the states meet the conditions for the funds. We anticipate that this project will require 800 hours.

- **Performance Review of the Office of Financial Education**

Objective: To determine if the financial education efforts of the Office of Financial Education have been effective. We anticipate that this project will require 1,200 hours.

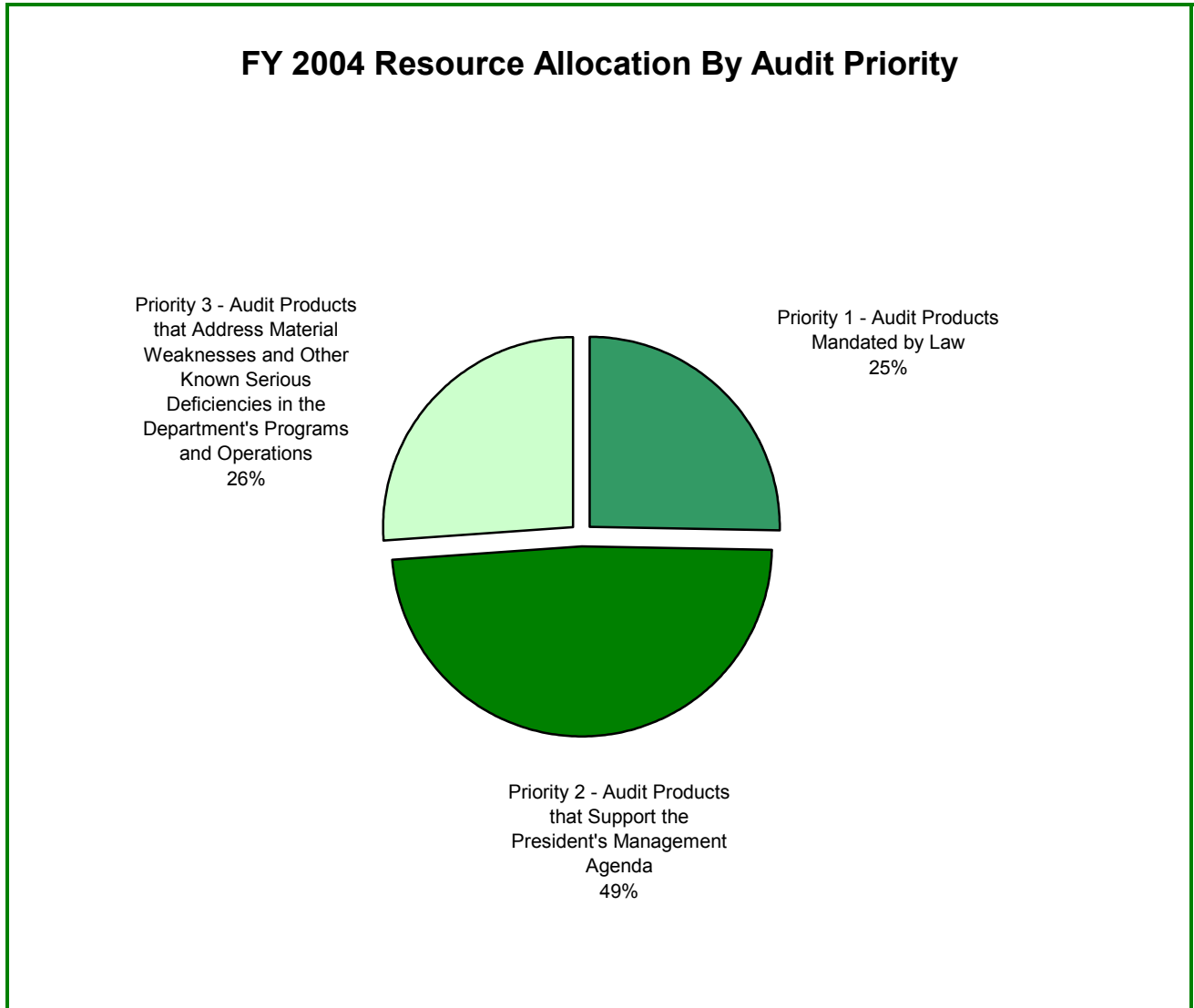


## Appendix A Office of Audit Fiscal Year 2004 Resource Allocation

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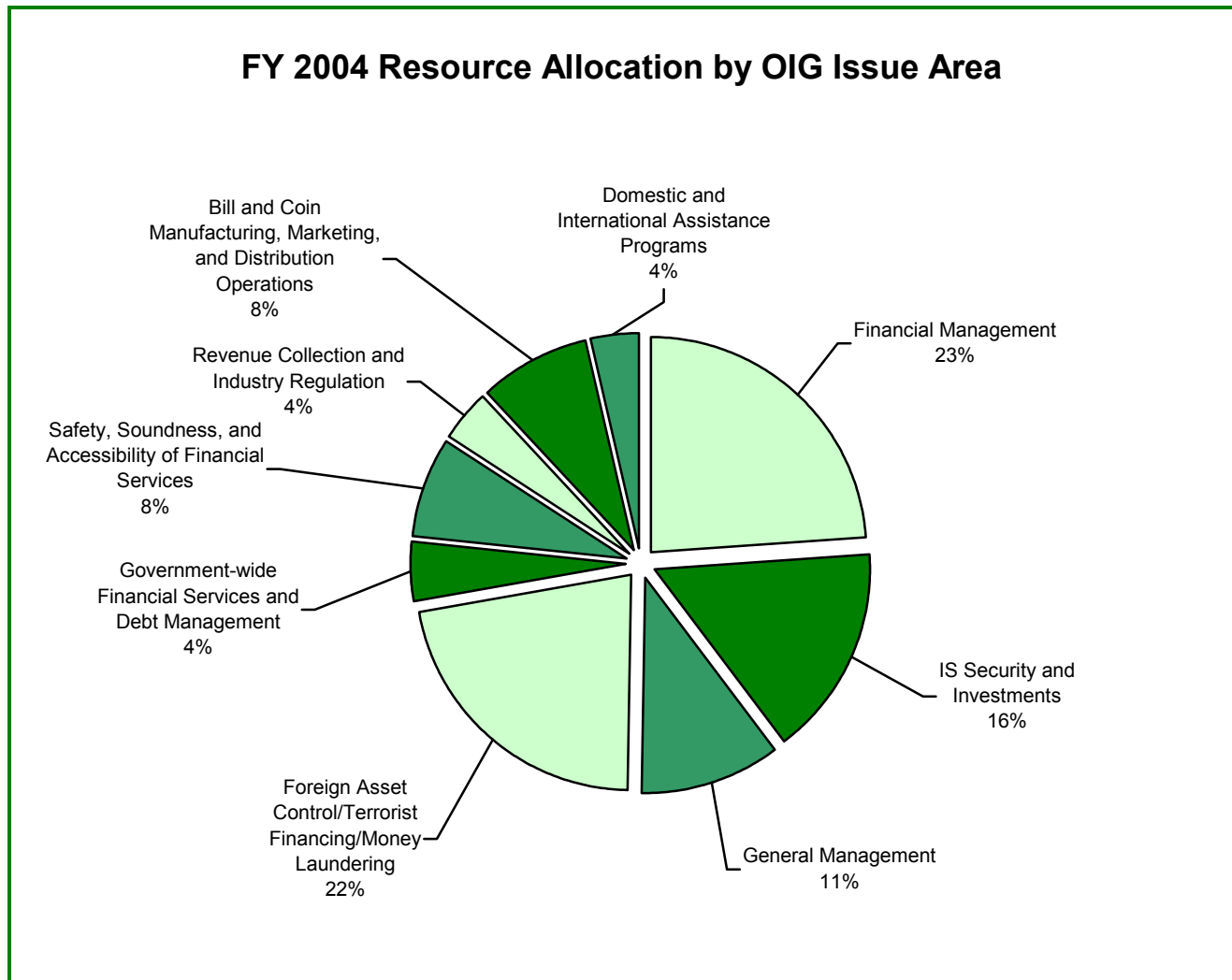
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Our planned OIG audit staff resource utilization by the three priority areas for FY 2004 is shown in the following chart:



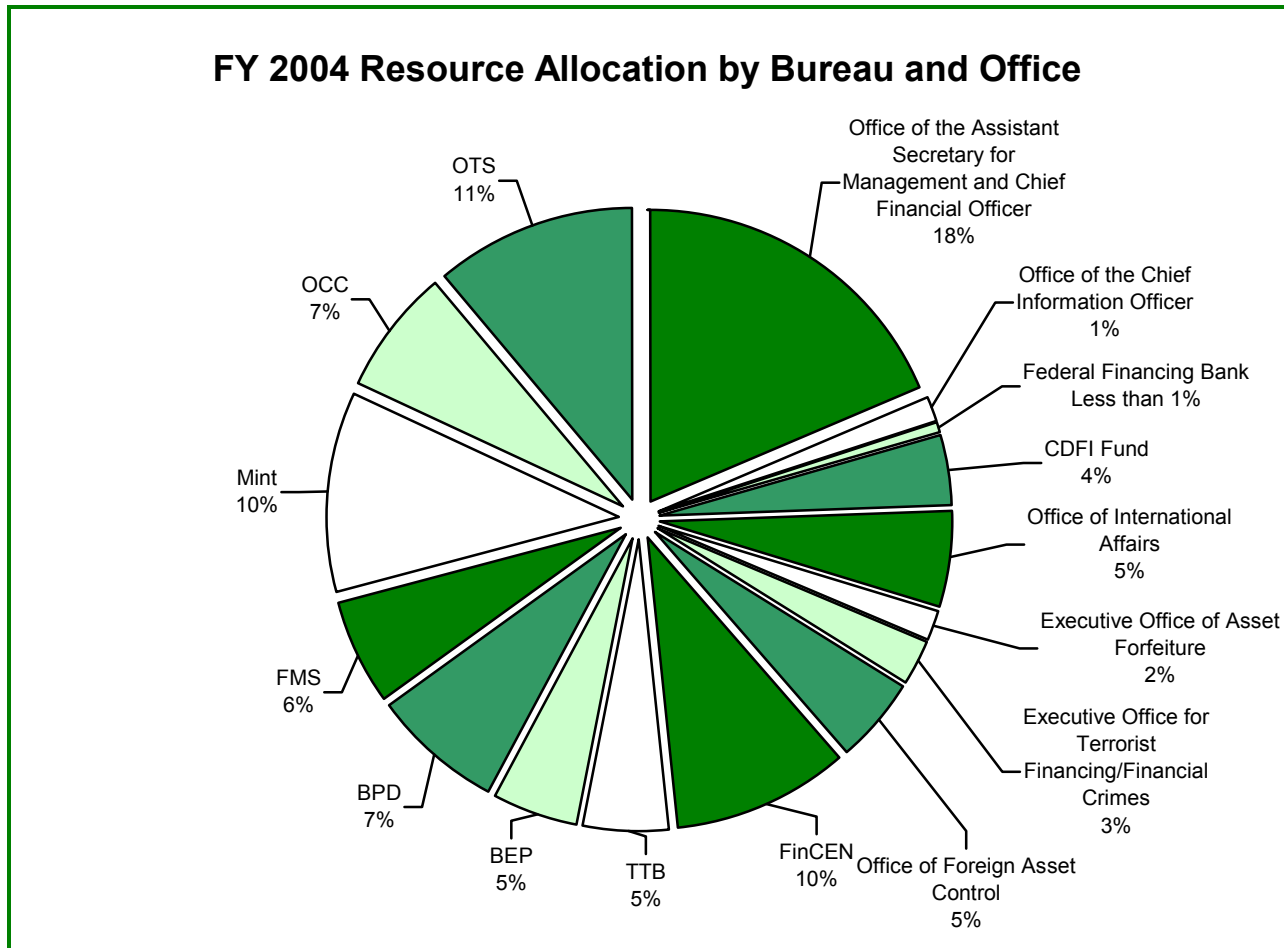
## Appendix A Office of Audit Fiscal Year 2004 Resource Allocation

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



## Appendix A Office of Audit Fiscal Year 2004 Resource Allocation

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



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# CONGRESS RECOGNIZES THE ACCOMPLISHMENTS OF THE INSPECTORS GENERAL

## H. J. RES. 70

108<sup>TH</sup> CONGRESS  
1<sup>ST</sup> SESSION

Recognizing Inspectors General over the last 25 years in their efforts to prevent and detect waste, fraud, abuse, and mismanagement, and to promote economy, efficiency, and effectiveness in the Federal Government.

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IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 29, 2003

Mr. TOM DAVIS of Virginia (for himself, Mr. WAXMAN, Mr. PLATTS, and Mr. TOWNS) introduced the following joint resolution; which was referred to the Committee on Government Reform

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Whereas for 25 years the Inspectors General have worked with Congress to facilitate effective oversight to improve the programs and operations of the Federal Government: Now, therefore, be it

*Resolved by the Senate and House of Representatives of the United States of America in Congress assembled,*

That the Congress—

- (1) recognizes the many accomplishments of the Inspectors General in preventing and detecting waste, fraud, abuse, and mismanagement in the Federal Government;
- (2) commends the Inspectors General and their employees for the dedication and professionalism displayed in the performance of their duties; and
- (3) reaffirms the role of Inspectors General in promoting economy, efficiency, and effectiveness in the administration of the programs and operations of the Federal Government.

*The Inspector General Act of 1978 was signed into law on October 12, 1978. Inspectors General now exist in the 29 largest executive branch agencies and in 28 other Federal entities. Created in 1988 Amendments to the IG Act, the Treasury Office of Inspector General has served the American taxpayer by promoting economy, efficiency, effectiveness, and integrity in the administration and programs and operations of the Treasury Department for 14 years. The above excerpt is from a joint resolution passed by the Congress recognizing the 25<sup>th</sup> Anniversary of the original IG Act.*

## contact us

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

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

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

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

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

Eastern Field Audit Office  
408 Atlantic Avenue  
Captain J. F. Williams Federal Building  
Boston, MA, 02110  
Phone: (617) 223-8640; Fax (617) 223-8651

Western Field Audit Office  
333 Market Street, Suite 275  
San Francisco, California 94105  
Phone: (415) 977-8810; Fax: (415) 977-8811

Treasury OIG Hotline  
Call Toll Free: 1.800.359.3898

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