



Semiannual Report To The Congress



April 1, 2002 - September 30, 2002

Office of Inspector General

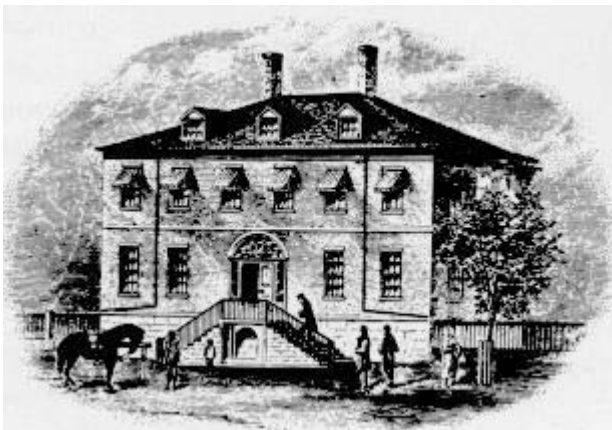
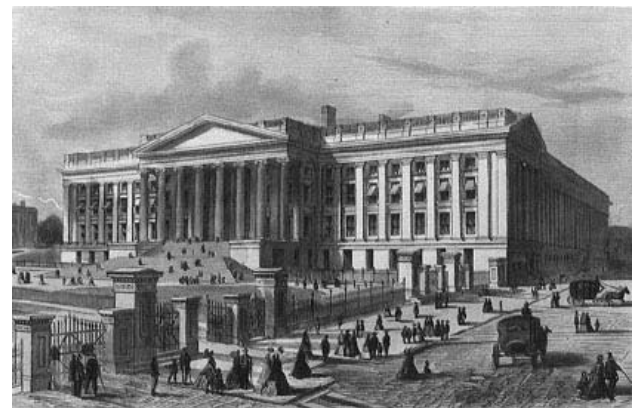
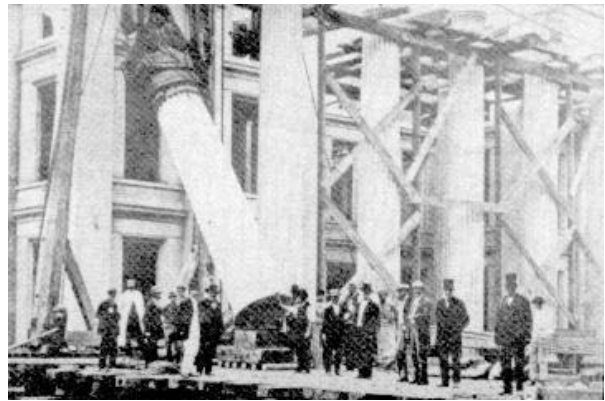
DEPARTMENT OF THE TREASURY

About Treasury

Congress enacted a law on September 2, 1789, which created the Department of the Treasury, thereby making it the second oldest department in the Federal government. Starting with our first Secretary, Alexander Hamilton (1789-1795), through our current Secretary, Paul O'Neill (2001 – present), 72 individuals have committed time in their lives to the responsibility of managing our country's finances. Over time the role of Treasury has expanded greatly. Present duties and functions include:

- \$\$ Collecting taxes, duties, and monies paid to and due to the U.S. and paying all bills of the U.S.
- \$\$ Producing currency, coinage, and postage stamps
- \$\$ Managing Government accounts and the public debt
- \$\$ Supervising national banks and thrift institutions
- \$\$ Advising on domestic and international financial, monetary, economic, and trade policy
- \$\$ Combating money laundering, including terrorist financing, and other financial crimes
- \$\$ Investigating and prosecuting tax evaders, counterfeiters, forgers, smuggle spirits distillers, and gun law violators
- \$\$ Protecting the President, Vice President, their families, candidates for those offices, foreign missions resident in Washington and visiting foreign dignitaries

To meet its broad mission, Treasury assigned its offices and bureaus unique roles in helping the department carry out its duties and functions. Today, over 160,000 civil servants proudly call themselves Treasury employees.





INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY

Washington

October 29, 2002

The Honorable Paul H. O'Neil
Secretary of the Treasury
Washington, D.C. 20220

Dear Mr. Secretary:

Enclosed is my Semiannual Report to the Congress. This report summarizes the activities of the Office of Inspector General for the 6-month period ending September 30, 2002

Sincerely,

A handwritten signature in black ink, appearing to read "Jeffrey Rush, Jr.", is written over the typed name.

Jeffrey Rush, Jr.
Inspector General.

Enclosure

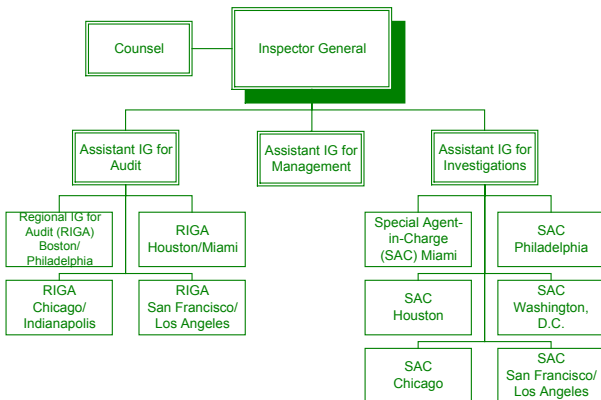
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Our Office

The Department of the Treasury's Office of Inspector General (OIG) was established pursuant to the 1988 amendment to the Inspector General Act of 1978, 5 U.S.C.A. Appendix 3. The OIG is headed by an Inspector General who is appointed by the President of the United States, with the advice and consent of the United States Senate. The Inspector General reports to the Secretary and in so doing provides the Secretary with independent and objective reviews of the Department's operations. The Inspector General is required to keep both the Secretary and the Congress fully and currently informed about the problems and deficiencies relating to the administration of department programs and operations and the necessity for corrective action. Serving with the Inspector General in the immediate office is a Deputy Inspector General. During FY 2002, the OIG had an authorized budget of \$35.4 million and a staff of 282 full-time civil servants.

The OIG is organized into four divisions: (1) Office of Audit (OA), (2) Office of Investigations (OI), (3) Office of Management (OM), and (4) Office of Counsel (OC).



OA performs program, financial, information technology, and contract audits, as well as program evaluations. The Assistant Inspector General for Audit (AIGA) has two deputies who help supervise auditing and evaluation activity. One deputy is assigned to program audits and evaluations, while the other deputy is assigned to financial

management and information technology. OA headquarters is located in Washington, DC, with four regional offices located in Boston, Chicago, Houston, and San Francisco.

OI performs investigations aimed toward the detection and prevention of fraud, waste, and abuse in Treasury programs and operations. OI provides direct oversight of the internal investigations performed by the Offices of Inspection of the Bureau of Alcohol, Tobacco and Firearms and the United States Secret Service, and the Office of Internal Affairs of the United States Customs Service. The Assistant Inspector General for Investigations (AIGI) has a deputy who is responsible for day-to-day operations. The immediate office of the AIGI develops OI policy and procedures in addition to administering OI's budget and records management. OI headquarters also maintains the Hotline and conducts sensitive inquiries of high-level department officials. OI headquarters is located in Washington, DC, with six field offices located in Chicago, Houston, Philadelphia, Miami, San Francisco, Washington, DC, and one sub-office in Los Angeles.

OM provides a range of services designed to maintain the OIG administrative infrastructure. These services include: asset management, budget formulation and execution, financial management, information technology, office policy preparation, planning, and reporting for the OIG. The Assistant Inspector General for Management (AIGM) has four directors covering the core OM responsibilities. The four directors are responsible for: (1) Asset Management, (2) Budget, (3) Human Resources, and (4) Information Technology.

OC serves as the senior legal counsel and policy advisor to the Inspector General, Deputy Inspector General, and the Assistant Inspectors General. OC provides legal advice on issues that arise from statutorily mandated investigative, oversight, and audit activities performed by OI and OA. In addition, OC provides the OIG legal advice

Our Office

related to government contracts, appropriations, budget formulation and execution, disclosure, records retention, tax information safeguards, equal employment opportunity and personnel law. Finally, OC represents the OIG in administrative proceedings before the Merit Systems Protection Board and the Equal Employment Opportunity Commission.

OIG Work Priorities

The OIG provides independent and objective reviews of Treasury's program and operational activities. These reviews are a vital link in helping Treasury achieve its broad mission, which includes: (1) promotion of a prosperous and stable American and world economy, (2) management of our Government's finances, (3) protection of our financial systems, (4) protection of our nation's leaders, (5) securing a safe and drug-free America, and (6) continuing efforts to build a strong institution. In doing so, the work of the OIG covers program and operational activity of all Treasury offices and bureaus, with the exception of the Internal Revenue Service (IRS), which falls under the jurisdiction of the Treasury Inspector General for Tax Administration (TIGTA). The OIG is responsible for program and operational activity at:

- Bureau of Alcohol, Tobacco and Firearms (ATF)
- Bureau of Engraving and Printing (BEP)
- Bureau of the Public Debt (BPD)
- U.S. Customs Service (Customs)
- Departmental Offices (DO)
- Financial Crimes Enforcement Network (FinCEN)
- Federal Law Enforcement Training Center (FLETC)
- Financial Management Service (FMS)
- U.S. Mint (Mint)
- Office of the Comptroller of the Currency (OCC)
- Office of Thrift Supervision (OTS)
- U.S. Secret Service (Secret Service)

OA and OI are the two primary components responsible for overseeing Treasury program activity. As such, the IG established clear work priorities for OA and OI.

OA Work Priorities

1. Audit products mandated by law

- Chief Financial Officers Act of 1990 (P.L. 101-576)
- Federal Deposit Insurance Corporation Improvement Act of 1991 (P.L. 102-242)
- United States Mint Reauthorization and Reform Act of 1992 (P.L. 102-390)
- Treasury Forfeiture Fund Act of 1992 (P.L. 102-393)
- Government Management Reform Act of 1994 (P.L. 103-356)
- Federal Financial Management Improvement Act of 1996 (P.L. 104-208)
- Government Information Security Reform Act (P.L. 106-398)
- Reports Consolidation Act of 2000 (P.L. 106-531)
- National Drug Control Program 21 U.S.C. § 1704(d)
- District of Columbia Public Works Act of 1954 (P.L. 83-364), as amended by the Consolidated Appropriation Act of 2001 (P.L. 106-554)
- 12 U.S.C. § 14 (National Bank Act of 1864, OCC reporting requirement added to P.L. 106-569 in 2000)
- 12 U.S.C. § 1462a(g) (OTS reporting requirement created by P.L. 101-73 in 1989)

2. Audit products in support of the President's Management Agenda

The OIG recognizes that the President's Management Agenda (PMA) parallels our mission of improving the economy, effectiveness, and efficiency of the Department's programs and operations. Accordingly, OA conducts audits and evaluations of the Department's progress in relation to five government-wide PMA initiatives, which are:

Our Office

- Strategic Management of Human Capital
- Competitive Sourcing
- Improved Financial Performance
- Expanded Electronic Government
- Budget and Performance Integration

3. **Audit products that address material weaknesses and other deficiencies**

OA conducts audits and evaluations measuring the Department's progress addressing material weaknesses and known significant vulnerabilities.

OI Work Priorities

1. **Allegations of serious employee misconduct**

Allegations against Treasury employees are received through calls and letters to the OIG Hotline. Many additional allegations are also made directly to Treasury bureaus, who then forward those allegations to OI. All complaints, whether received directly by the OIG Hotline or indirectly from a Treasury bureau, are thus reviewed by OI to determine the appropriate handling of the matter. OI then decides whether an OI field office or the affected bureau will conduct an investigation. OI primarily conducts investigations of the most significant allegations.

2. **Allegations of fraud involving Treasury contracts or grants**

OI conducts investigations into allegations of fraud involving Treasury contracts or grants. Such allegations frequently involve contractors who are providing or seeking to provide goods or services to the Department. OI typically receives allegations from Treasury employees, contractors, members of the public and the Congress alleging criminal or other misconduct constituting violation of laws, rules, or regulations.

3. **Law enforcement oversight**

OI conducts oversight reviews of the Inspection/Internal Affairs functions for three of Treasury's

law enforcement bureaus (ATF, Customs, and Secret Service). Oversight reviews are also conducted of FinCEN, two of the Department's police units (Mint and BEP), and the Special Investigations and Security Division at FLETC. The purpose of the reviews is to assess the effectiveness and efficiency of internal investigative programs.

OIG Values

The values of the OIG include producing high quality products that are accurate, timely, relevant, and responsive to the needs of decision-makers. The OIG strives to ensure fairness, integrity, independence, objectivity, proficiency, and due care in performing our work. The OIG promotes teamwork and open communication among organizational components. The OIG encourages and rewards its workforce for innovation, creativity, dedication, and productivity. Finally, the OIG fosters an environment of respect, equal opportunity, and diversity among its workforce.

Number of OIG Audit Reports Issued Between April 1 and September 30, 2002

Bureau	# Reports
ATF	4
BPD	1
BEP	5
Customs	13
DO	12
FLETC	1
FMS	4
Mint	5
OCC	2
OTS	2
Secret Service	1
Multi-Bureau	2
Other (Independent)	2
Total	54



Audit Products Mandated by Law

Financial Statement Audits

The Chief Financial Officers (CFO) Act, as amended by the Government Management Reform Act (GMRA) requires annual audits of Treasury and OMB designated components. OMB has designated ATF, Customs, and IRS for annual financial statement audits. However, ATF and Customs received a waiver from this requirement for FY 2001 and 2002. Certain other components are audited pursuant to other requirements, or due to their materiality to Treasury. The FY 2002 audits are currently in progress. The table below shows audit results for FY 2001 and 2000.

Department of the Treasury Audited Financial Statements						
<u>Entity</u>	FY2001 Audit Results			FY2000 Audit Results		
	<u>Opinion</u>	<u>Material Weaknesses</u>	<u>Other Reportable Conditions</u>	<u>Opinion</u>	<u>Material Weaknesses</u>	<u>Other Reportable Conditions</u>
GMRA/CFO Requirements						
Treasury Department	UQ	2	2	UQ	2	2
ATF	(A)	-	-	UQ	0	1
Customs	(A)	-	-	UQ	2	6
IRS	UQ	6	1	UQ	6	2
Other Required Audits						
BEP	UQ	0	0	UQ	0	0
CDFI Fund	UQ	0	0	UQ	0	0
Office of D.C. Pensions	UQ	0	0	UQ	0	0
Exchange Stabilization Fund	UQ	0	2	UQ	0	2
Federal Financing Bank	UQ	0	0	UQ	0	0
OCC	UQ	0	2	UQ	0	2
OTS	UQ	0	0	UQ	0	0
Treasury Forfeiture Fund	UQ	0	2	UQ	1	2
Mint						
Financial Statements	UQ	2	1	UQ	0	1
Custodial Gold and Silver Reserves	UQ	0	0	UQ	0	0
Material to Treasury Department Financial Statements						
BPD						
Schedule of Federal Debt	UQ	0	0	UQ	0	0
Government Trust Funds	UQ	0	0	UQ	0	0
Schedule of Loans Receivable	UQ	0	0	UQ	0	0
FMS						
Treasury Managed Accounts	UQ	0	0	UQ	0	0
Operating Cash of Federal Government	UQ	1	0	(B)	1	0
UQ = Unqualified opinion rendered.						
(A) The Department requested and received waivers from OMB for the requirement for stand-alone audited financial statements for ATF and Customs for FY 2001. Limited audit work was performed at these two entities to support the audit of the Department's financial statements.						
(B) Audit work performed to verify reliability of cash balances managed by FMS for FY 2000. No separate audit opinion was rendered.						

Audit Products Mandated by Law

Federal Financial Management Integrity Act (FFMIA)

Treasury's financial systems continue to be in substantial non-compliance with the requirements of FFMIA. The following instances of non-compliance were reported in connection with our FY 2001 audits. The current status of these FFMIA non-compliances, including progress in implementing remediation plans, are being evaluated as part of our audit of the Department's FY 2002 financial statements.

<u>Entity</u>	<u>Type of Non-Compliance</u>	<u>First Reported for FFMIA Purposes (FY)</u>	<u>Condition</u>
Customs	Federal Financial Management Systems Requirements; Standard General Ledger	1997	Core financial systems do not provide complete and accurate information for financial reporting and for preparation of audited financial statements.
Customs	Federal Financial Management Systems Requirements	1997	Weaknesses exist in Electronic Data Processing controls including application software development and program modifications.
FMS	Federal Financial Management Systems Requirements	1997	General control weaknesses may affect information in FMS system.
IRS	Standard General Ledger	1997	The general ledger does not conform to the U.S. Government Standard General Ledger.
IRS	Federal Financial Management Systems Requirements	1997	The bureau lacks a reliable subsidiary ledger for its property and equipment.
IRS	Federal Financial Management Systems Requirements	1997	IRS lacks an effective audit trail from its general ledger back to subsidiary detailed records and transaction source documents.
IRS	Federal Accounting Standards; Federal Financial Management Systems Requirements	1997	Material weaknesses included controls over the financial reporting process, unpaid tax assessments, tax revenue and refunds, property and equipment, budgetary and computer activities.
IRS	Federal Financial Management Systems Requirements	1997	IRS cannot rely on information from its general ledger to prepare financial statements.
IRS	Federal Financial Management Systems Requirements	1997	IRS lacks a subsidiary ledger for its unpaid assessments.
OCC	Federal Financial Management Systems Requirements	1999	Financial management systems do not comply with Federal financial management systems requirements.
Mint	Federal Financial Management Systems Requirements	2001	Weaknesses exist in the Mint information system general controls.
Mint	Federal Financial Management Systems Requirements	2001	Weaknesses exist in Mint information system application and E-commerce controls.

Audit Products Mandated by Law

Exchange Stabilization Fund: Unqualified Opinion with Repeat Reportable Conditions for Fiscal Years 2001-2000

The Exchange Stabilization Fund (ESF) was authorized in the Gold Reserve Act of 1934 that provided for a fund to be operated by the Secretary of the Treasury, with the approval of the President. Section 10 of the Act, as amended, provides that “consistent with the obligations of the Government in the International Monetary Fund on orderly exchange arrangements and a stable system of exchange rates, the Secretary or an agency designated by the Secretary, with the approval of the President, may deal in gold, foreign exchange, and other instruments of credit and securities the Secretary considers necessary.”

We issued an unqualified opinion on the financial statements for the ESF for Fiscal Years 2001 and 2000. We identified two repeat reportable conditions involving internal controls related to: (1) inconsistent supervisory review and approval of transactions recorded in the general ledger, and (2) need for complete and updated written procedures documenting the accounting operations and financial statement preparation process. The lack of consistent reviews led to errors in the calculations and related recording of quarterly International Monetary Fund remunerations and interest accrual associated with Special Drawing Rights and foreign currency denominated assets. Likewise, complete and updated written procedures could have prevented further errors in the processing of these transactions, while reducing need for OIG assistance in the financial statement process. Finally, no instances of reportable noncompliance with laws and regulations were found. (OIG-02-086)

Treasury's Security Program and Practices Needs Improvement

The Government Information Security Reform Act (Security Act) mandates that we perform an independent evaluation related to procedures and practices of the unclassified information security program at Treasury. We are responsible for evaluating Treasury's components, except IRS. The Treasury Inspector General for Tax Administration (TIGTA) is responsible for assessing IRS programs and prepared a separate evaluation for IRS' information security program.

Over the last year, Treasury has made progress in establishing and implementing its Information Systems Security Program in concert with the Security Act compliance. Component security was targeted for major improvement in FY 2002. The Treasury Office of Information Systems Security revamped its component oversight program to provide better oversight and guidance to components. The components include all Treasury bureaus including IRS and TIGTA as well as the OIG and the Treasury Communication System. However, the number of oversight reviews actually performed was limited. Treasury is also in the process of revising and updating its Security Manual. Further, over the past several months, Treasury has been working with component management to bring greater focus on material weaknesses and the corresponding need to expedite the resolution of these often long-standing challenges.

Overall, more improvement is needed to meet the requirements of the Security Act. Most notably, Treasury has not met its performance measure to have 65 percent of all systems accredited by the end of FY 2002. While progress has been made over the last year, Treasury has accredited only 32 percent of its systems, including 9 percent that only have interim authority to operate. As a result, Treasury should consider declaring this condition an overall material weakness for the Department. Further, while TIGTA's FY 2002 independent evaluation

Audit Products Mandated by Law

of the IRS also noted significant improvements, they concluded that the level of security over IRS information systems is not yet adequate. Our overall evaluation incorporates the results of TIGTA's efforts. Because this is an independent evaluation, no recommendations are being made. (OIG-02-120)

Rural Development Act: Implementation Efforts Need to Follow Department Policy

The Treasury and General Government Appropriations Act of 2002 required us to provide a report to the Senate and House Appropriation Committees about policies and procedures in place at Treasury for implementing the Rural Development Act (RDA). The RDA relates to the location of new offices and facilities. The RDA requires executive branch agencies to establish and maintain policies and procedures that give first priority to locations of new offices and other facilities in rural areas. In November 1989, Treasury issued Treasury Directive (TD) 72-03, *Location of New Offices and Facilities in Rural Areas*, which states current policies and procedures for implementation of the RDA.

Although TD 72-03 outlines policies and procedures related to the RDA, in most instances where bureaus were acquiring new offices and other facilities we found that the RDA was not considered. Instead most bureaus considered efficiency of mission performance, functions of facilities with regard to those being served, and safety and security issues. In light of this we recommended that management should remind all Treasury bureaus and offices about TD 72-03 requirements, and establish controls to ensure compliance with the directive.

Management concurred with our recommendation and noted that plans to implement corrective action would be completed by January 2003. (OIG-CA-02-004)

Superior Bank, FSB: Follow-up to Material Loss Review

As discussed in our last semi-annual report, we performed a Material Loss Review (MLR) addressing the failure of Superior Bank (Superior) of Oakbrook Terrace, Illinois, and issued a report on the MLR in February 2002 (OIG-02-040). Because legislatively mandated timeframes for issuing the MLR report and delays in receiving subpoenaed documents from OTS, we were unable to fully assess certain aspects of OTS supervision. During this semi-annual period, we completed our review of the subpoenaed documents and did not note any additional facts that would alter our February 2002 MLR report.



Our follow-up review afforded us an opportunity to further assess two areas related to OTS supervisory practices that warrant management attention: (1) OTS examination process of holding companies, and (2) examiner reviews of Suspicious Activity Reports (SARs). For instance, we found questionable financial transactions (e.g., a loan from the holding company to a principal owner's company) that were evident years before OTS finally questioned them in 2001. In addition, we believe that the number of SARs aggregating over \$40 million, particularly those related to fraudulent appraisals, may have been used as an early indicator of Superior's erroneous assumptions in support of their overstated residual assets. To this end, we recommended that OTS: (1) evaluate whether current holding company examination procedures need expansion,

Audit Products Mandated by Law

(2) instruct examiners to evaluate the institution's quality of earnings when assessing if dividends might adversely affect capital, and (3) assess whether sufficient examination guidance exists on how to use SARs. OTS generally concurred with our findings and recommendations and has already begun corrective action, or planned actions to address them. (OIG-02-111)

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

The District of Columbia (DC) Public Works Act of 1954 (P.L. 83-364), as amended, requires that bureaus make timely payments for DC water and sewer services. The Consolidated Appropriation Act of 2001 (P.L. 106-554) requires the Inspector General to submit a quarterly report to the Committees on Appropriations of the House of Representatives and Senate analyzing the promptness of payment with respect to the water and sewer services furnished to the Department of the Treasury by the District of Columbia. Management of the Department's bureaus utilizing DC water and sewer services is responsible for the timely payment of such services.

Three Treasury bureaus are billed directly by Treasury's Financial Management Service (FMS) for DC water and sewer services: BEP, OTS, and DO. The DC Water and Sewer Authority provides FMS with a cost of service estimate for the fiscal year, and for the three bureaus billed directly, FMS prepares billing letters and subsequently collects quarterly payments. Water and sewer services for other Treasury component entities are included as part of rental payments.

We performed certain agreed-upon procedures to assist the Committees on Appropriations in evaluating the Department's compliance with the law. For the third and fourth quarter of FY 2002, we noted no exceptions. (OIG-02-088 and OIG-02-101)



Audit Products Supporting President's Management Agenda

Stronger Oversight of Treasury Worker Compensation Program Could Contain Costs

The Federal Employees' Compensation Act (FECA) provides compensation and medical benefits to civilian Federal government employees for personal injury or disease sustained while performing their duties. Benefits provided under the FECA program constitute the sole remedy against the United States for work-related injury or disease. With some special legislative additions, FECA generally covers all civilian Federal employees except for non-appropriated fund employees. FECA also provides benefits to dependents if a work-related injury or disease results in an employee's death. Currently, the Department of Labor (DOL) administers the program by determining eligibility, adjudicating claims, and issuing payments, while the employing agency is responsible for the initiation of claims and much of the case management.

In 1989, our multi-bureau report, entitled *Audit of the Treasury Federal Workers' Compensation Program*, identified that Treasury was billed over \$37.5 million for FECA benefits the previous year. We evaluated Treasury's progress in reducing workers' compensation costs since 1989, and at the same time looked to identify opportunities for reducing Treasury's Worker Compensation Program (WCP) costs. Based on DOL reports, we noted that Treasury's WCP costs have increased at a rate greater than aggregate costs for all other Federal agencies. Specifically, Treasury's FECA costs increased by 53.2% over a 10-year period between 1990 and 1999, while total costs for all FECA agencies increased 31.7%. We recommended that management update the Treasury Personnel Management Manual to include a mechanism for identifying and sharing effective techniques and activities already in place at bureaus and offices so as to reduce overall Treasury WCP costs. We also recommended that Treasury management schedule regular program reviews of bureau and office WCP's. Treasury management concurred with both recommendations. The Department is also

considering moving workers' compensation costs to the bureau discretionary funds in the FY 2004 budget so that bureaus will be accountable and responsible for containing costs. (OIG-CA-02-005)



Allegations ATF Violated Acquisition Laws

We initiated an audit in response to three specific allegations that ATF violated acquisition laws, regulations, or policies and procedures relating to contracts awarded for work at its National Tracing Center. We did not substantiate two allegations that ATF: (1) improperly awarded sole source contracts to implement an Internet firearms tracing system and to complete work on an imaging system, and (2) purchased imaging equipment for an excessive price that was not suited for its intended purpose. We found with regard to the third allegation – funding was delayed and requirements changed by ATF to force the original contractor for the imaging system contract to withdraw from the project – that ATF did not follow its policies and procedures. Specifically, the original contract did not include certain requirements because it was awarded without the approval of ATF's Information Resources Management Council. We recommended that ATF ensure that the Council review procedures to ensure compliance with current policies requiring the Council to review all IT contracts. As of September 30, 2002, ATF management had not provided our

Audit Products Supporting President's Management Agenda

office with its planned corrective action on this recommendation. (OIG-02-093)

ATF "Offers in Compromise" Could be More Effective and Timely

An "Offer in Compromise" (OIC) is an agreement between ATF and an industry member to pay a lower amount to settle an adverse action. An OIC is used to settle a case where violations are not strong enough to warrant permit action or criminal prosecution, but lesser administrative action is deemed insufficient for ensuring future compliance.

We issued a report examining the effectiveness and timeliness of ATF's OIC process. ATF struggled to provide us with an accurate count of cases closed during fiscal year 1999 and 2000. As for the 28 cases closed during this time period, 15 were processed more than 2 years after case initiation with two of them closing roughly 6 years after initiation. This resulted in \$1.8 million of revenue that was not recognized in a timely manner and subsequently could have been put to better use. Related to this we found that ATF was not effectively using N-Spect for tracking and monitoring OIC cases, failing to produce management reports, and analyzing OIC case trends. In addition, we found that OIC case processing procedures lacked timeliness guidelines that were clear. To this end, we recommended that ATF ensure the implementation of an appropriate tracking system to:

(1) accurately and consistently track OIC cases, (2) produce meaningful management reports, and (3) identify trends and patterns to measure the effectiveness of the OIC process. In addition, we recommended that ATF management ensure OIC case processing procedures are revised to include timeliness guidelines and processing guidance for OIC cases. ATF concurred with our recommendations. (OIG-02-078)

A Different Approach to Reviews of Non-Beverage Drawback Claims Could Allow ATF More Time for Manufacturing Plant Inspections

We issued a report examining non-beverage drawback claims processed by ATF's National Revenue Center. Non-beverage product manufacturers pay federal excise taxes when purchasing the distilled spirits. However, the manufacturer is entitled to a tax refund (drawback) if the resulting final product is unfit for beverage use. Non-beverage products include medicines, medicinal preparations, food products, flavors, flavoring extracts or perfume which are manufactured using tax-paid distilled spirits.

Over a 3-year period between fiscal year 1999 and 2001, ATF received roughly 7,900 drawback claims totaling near \$967 million, of which ATF allowed \$965 million. Our work found that while ATF performs a time-consuming line-by-line review of each claim, similar benefits could be obtained from a more limited review based on statistical sampling of drawback claims. Although ATF was performing extensive reviews, little time was devoted to inspecting non-beverage product manufacturing plants. We found that ATF performed 52 non-beverage product manufacturing plants between fiscal year 1999 and 2001, and that some plants had not been inspected in over 10 years. Yet, according to ATF's fiscal year 2001 operation plan, 147 non-beverage manufacturing plants should have been inspected in 2001 alone. To this end, we recommended that ATF consider adopting sampling strategies for reviewing drawback claims and increasing the number of manufacturing plant inspections. (OIG-02-098)

Security Clearance Processing Could Be Improved

Personnel security deals with the standards and procedures for determining whether an individual should be employed or retained by the Federal government, or whether that individual should

Audit Products Supporting President's Management Agenda

be eligible for access to classified information. According to Federal regulations personnel generally must undergo a background investigation appropriate for their position. Depending on the sensitivity of the position and need for access to classified information, the investigation may take 1 to 12 months in some cases. The standards for investigations, the subjects that investigations should cover and in what depth, and the processes by which investigative findings are evaluated are defined in the book of Federal regulations. The Office of Critical Infrastructure Protection is responsible for personnel security for Departmental Offices, the Office of Inspector General, and high-level positions across the Department.



We issued two evaluation reports focusing on the security clearance processing system.

- As discussed in the first report, within Departmental Offices (DO), personnel security is the responsibility of the Personnel Security Branch (PSB). The PSB is generally accomplishing its mission of processing background investigations consistent with security guidelines. However, we found that the PSB was currently working through a backlog of clearances, and was not ensuring reinvestigations were performed as required by Federal regulations. We also reported that there was no clear rationale for the U.S. Secret Service's (Secret Service) role in performing DO personnel investigations. Furthermore, increased coordination with the Office of

Personnel Resources (OPR) may improve the timeliness of security clearances. Frequent delays in the security clearance process occur due to applicants' misunderstanding of the security forms, and the information sheet that PSB prepared to deal with this problem often does not reach applicants. Management was responsive to our recommendations to (1) ensure sufficient resources are available to PSB, (2) generally use the Office of Personnel for personnel investigations, and (3) improve coordination with OPR. (OIG-CA-02-006)

- As discussed in the second report, the process of investigating an individual's background and adjudicating the results necessarily takes time. The entire process, from PSB's receipt of completed security forms to certification of the clearance, averages 97 days for Schedule C employees, 193 days for DO employees, and 243 days for OIG employees. We found that the PSB currently has no capability to verify security clearances from any location other than its office located in the Treasury Annex. We also reported that a more capable management information system (MIS) would likely increase the efficiency of PSB, and that additional efficiencies may be possible by adopting electronic documents and eliminating the need to process and deliver some paper documents. In response to our recommendations, management advised that it has procured the services of a contractor to increase the functionality of the PSB database and it is moving forward on the Administration's e-Clearance initiative. (OIG-CA-02-007)

Audit Products Supporting President's Management Agenda

Customs Unable to Measure Effectiveness of NAFTA Enforcement

We issued a report examining Customs enforcement of the North American Free Trade Agreement (NAFTA). NAFTA provides preferential tariff treatment for merchandise imported from Canada and Mexico that qualify under specific rules of origin. To ensure only qualified merchandise is afforded this treatment, Customs conducts verifications and audits, and assesses penalties for non-compliance.



We could not fully assess the adequacy of Customs enforcement efforts because Customs did not have accurate and sufficient NAFTA enforcement data. Also, revenue recoveries from penalty cases were not consistently recorded or reconciled with collections for violations of NAFTA regulations. As a result, Customs has not been able to measure the effectiveness of its efforts. In addition, we found that Customs has not been able to identify significant noncompliance from its NAFTA-related audits. While we do not have evidence that significant noncompliance exists, we believe Customs could enhance its opportunity to identify noncompliance by modifying how it selects potential noncompliant claimants for audit. We recommended that Customs implement a tracking system that accurately accounts for Customs NAFTA-related enforcement efforts and adopt an audit targeting strategy that includes more of a risk-based focus. Customs is

taking actions to address these recommendations. (OIG-02-096)

Customs Cost Accounting Data Lacks Documentation to Support Validity and Reliability

We issued a report examining the Cost Management Information System (CMIS) Customs uses to monitor the full cost of programs and activities, in addition to the costs for its products and services. CMIS is an activity-based costing (ABC) management system that incorporates Custom-wide costs and operational data. ABC measures the performance levels and costs of activities and products by assigning resource costs to activities and costs based on their resource consumption. CMIS is capable of providing Customs with the full cost of its programs and activities, thus allowing for better management of operations. Information retrieved from CMIS could aid Customs in analyses that are associated with adjusting user fees.

We found that Customs field offices did not have sufficient documentation to support the validity of the labor distribution hours used by the CMIS to distribute costs to activities. Thus, we were unable to use available documentation to determine the reliability of CMIS cost data for reviewing user fees. Moreover, we found that Customs does not rely on CMIS data to manage operations, but instead primarily uses the data for preparing its Statement of Net Cost and determining if certain user fees need adjustment. To this end, we recommended that Customs: (1) accurately capture labor distribution hours at the activity level and use the information for CMIS input, (2) managers periodically review reports to ensure labor distribution hours are being captured by appropriate CMIS activity, (3) continue taking a proactive approach towards encouraging management use of CMIS data, (4) establish policy regarding use of CMIS data for managing operations, and (5) monitor progress toward updating CMIS monthly to provide more timely cost management data. For the most

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part Customs concurred with the recommendations, or proposed alternative solutions for addressing the issues. (OIG-02-113)

Customs Law Enforcement Data Lacks Adequate Security Controls

Law enforcement data is vital to the mission of Customs. The Treasury Enforcement Communications System (TECS) database helps Customs protect our borders and interdict illicit drugs. The Seized Asset and Case Tracking System (SEACATS) database provides Customs with a cradle-to-grave system for tracking seized and forfeited property, penalties, and liquidated damages. Any type of compromise in the security of either of these two databases can negatively affect Customs ability to carry out its law enforcement responsibilities.



We found that Customs lacks adequate controls for these systems. We made nine recommendations that management concurred with. (OIG-02-083)



BEP Disaster Recovery Process Could Use Stronger Assurances of Successes

We evaluated whether BEP is able to recover its mainframe environment from an unplanned disruption or disaster. This work is important because Office of Management and Budget (OMB) requires that controls for major applications and general support systems provide for contingency planning. Further, in satisfying these requirements system owners must periodically test the capabilities for performing agency functions supported by the applications in the event of a disruption or disaster. We found that BEP can recover its mainframe operations, but we identified areas where BEP could provide stronger assurances that they can successfully restore their operations. For example, BEP did not alternate computer operations between testing exercises, and BEP did not follow standard operating procedures (SOP) designed for the recovery process. We recommended BEP: (1) alternate computer operations in future recovery exercises, (2) adhere to SOPs, (3) remove obsolete tapes from inventory, and (4) identify deficiencies associated with contractor performance and establish appropriate communication regarding deficiencies. BEP implemented two recommendations, and plans to implement the other two recommendations in time for its next planned test of the disaster recovery process. (OIG-02-085)

OCC Disaster Recovery Process Could Use Stronger Assurances of Success

While OCC was successful in recovering its mainframe operations and Exchange E-mail system, we identified areas where better assurance of a successful restoration of operations could be obtained. Most noteworthy: critical back-up tapes were missing; cases used to transport back-up tapes did not ensure the safety and security of the tapes in transit; and evaluation copies of the Altiris software (used to recover the Exchange E-mail system) instead of the production version were used for the disaster recovery exercise. We

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recommended that OCC revise its current tape back-up delivery procedures to ensure that all back-up tapes are securely transported to the restoration site, and purchase and certify the Altiris software. OCC has already implemented the recommendations. (OIG-02-114)

Customs Port of Brownsville, Texas: HAZMAT Program Needs An Improved Emergency Action Plan

This report is the first in a series of planned audits on Customs hazardous materials (HAZMAT) program. The objective of these audits is to determine whether Customs has sufficient processes in place to ensure the safe and legal transport and inspection of cargo containing hazardous materials. A hazardous material is a substance or material that has been determined by the Secretary of Transportation to be capable of posing an unreasonable risk to health, safety and property. Customs developed a HAZMAT Handbook to provide procedures for processing this type of cargo and to ensure compliance with all statutes and regulations pertaining to hazardous materials. During FY 2001, 255,231 trucks were processed at Brownsville, of which 2,625 contained HAZMAT cargo.



We found that the Port of Brownsville generally complied with Customs national HAZMAT policy. However, improvements should be made in the Emergency Action Plan, HAZMAT training, Automated Targeting System (ATS) training, and contractor identification. Our review of HAZMAT

training records and files indicated some port personnel are still in need of required HAZMAT training. We also found that personnel who regularly use the ATS are in need of formal training. In addition, HAZMAT contractors need to be identified who can handle gases or explosives. Customs management agreed with our recommendations to address these issues and have implemented corrective actions. (OIG-02-123)



Customs Agreed to Improve Oversight of National Marine Maintenance Contract

As the primary enforcement agency protecting the Nation's border Customs has an extensive air, land, and marine interdiction force. The national marine program became operational in 1973 with five confiscated boats. Customs currently employs a fleet of 110 vessels that are state of the art and outfitted with a variety of equipment in performing its marine enforcement mission. The fleet is maintained under a contract administered by Customs that provides for the maintenance, repair, and refurbishment of the Customs fleet with the greatest emphasis placed on preventive and corrective maintenance. Customs administration responsibilities include providing the proper oversight of maintenance performed, along with proper control and accountability of Government Furnished Property (GFP) in the possession or control of the contractor.

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Our audit of Customs' oversight and monitoring of this contract found that preventive maintenance was not always performed in a timely manner because Customs did not have an effective system to monitor either the elapsed number of days or engine hours in order to properly schedule vessel maintenance. The lack of timely maintenance can result in excessive downtime, costly repairs, unsuccessful missions, and more importantly, jeopardize the safety of the crew. Also, the automated vessel inventory and accounting system did not provide sufficient information to ensure the effective and efficient accomplishment of the workload. The system did not contain all data fields needed to capture required information, and a prior computer system crash had corrupted the data. We also found that the contract did not provide contractor performance standards, and progress reports required under the contract did not provide sufficient information to monitor contractor performance, workload management, or cost management. Improved accountability over GFP was also needed.

We made recommendations requiring Customs to: (1) establish a system to capture and track engine hours and the number of days between scheduled maintenance, (2) revise the automated inventory system to include needed data fields, and (3) develop contractor performance standards. Customs agreed with our recommendations and plans to take action to implement them. (OIG-02-121)

Legislative Constraints Impair OFAC's Ability to Monitor Financial Institution Compliance

The Office of Foreign Assets Control (OFAC) administers economic and trade sanctions against hostile targets to further U.S. foreign policy and national security objectives. These sanction programs are normally imposed pursuant to a declaration of national emergency by the President under specific statutory authority, but may also be

imposed directly by the Congress. OFAC receives guidance from the National Security Council and the U.S. Department of State.

OFAC has devoted considerable outreach to the financial community to enhance, through education, the awareness of foreign sanctions requirements. However, OFAC is limited in its ability to monitor financial institution compliance with foreign sanction requirements due to legislative impairments. First, OFAC primarily relies on the authority established under the Trading With the Enemy Act (TWEA) and the International Emergency Economic Powers Act (IEEPA). Neither TWEA nor IEEPA provide OFAC with the authority to randomly monitor financial institution compliance with foreign sanction requirements. Also, the Right to Financial Privacy Act (RFPA), with some exceptions, does not allow financial institution regulators to share the financial records of the institutions they supervise with OFAC because OFAC is not a bank supervisory agency. As a result, OFAC must rely on the financial institution regulators' compliance examination process to monitor financial institution compliance with foreign sanctions. We found that this process may not provide adequate assurance that the financial institutions are complying with the requirements of the various foreign sanctions. We also found that OFAC generally followed its guidance for processing blocked and rejected financial transactions, annual blocked asset reports, license applications, and civil penalties. However, we identified instances where procedures were not established, databases were not updated, and guidance was not followed. Consequently, OFAC has limited assurance that statistical reports captured complete, reliable, and timely information.

We recommended that the Treasury Department inform Congress that (1) OFAC lacks sufficient legislative authority to ensure financial institution compliance with foreign sanctions and (2) OFAC's ability to ensure financial institution compliance with sanctions would be enhanced by assuring that bank regulators share information that comes to

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their attention with OFAC. We also recommended that OFAC establish processing procedures for financial transactions reported, update its databases to reflect current information, along with other processes that will strengthen OFAC's overall Foreign Sanctions program. OFAC management agreed that current legislative authority could be improved with regard to Federal bank regulators sharing information with OFAC. Also, OFAC management stated that enhancements to its processes and procedures will be made to increase the accuracy of sanctions processing and reporting. (OIG-02-082)

Hurdles Make Federal Efforts to Recover Unclaimed State-Held Assets Difficult

The Department may collect unclaimed and abandoned assets held by states on behalf of other Federal agencies. Examples of unclaimed assets may include: savings and checking accounts, un-negotiated cashier checks and money orders, credit balances and refunds, insurance and bankruptcy proceeds, and dividends and royalties. Unclaimed assets arise from a variety of reasons such as misdirected or undelivered mail, and the relocation or closure of Federal agencies. In general, if assets remain unclaimed for a period of time, state laws require holders of these assets to turn over the funds to the state of the asset owner's last known address. The unclaimed property laws and abandonment period vary by state. Holders of unclaimed assets may include financial institutions, insurance companies, healthcare, telecommunication, and utility providers, as well as other general business entities.

The Treasury Financial Manual (TFM) requires Federal agencies to make efforts to identify and recover their unclaimed assets from the states. If agencies have attempted asset recovery, they may also contract with Treasury to recover assets on their behalf. However, if agencies do not recover assets in a timely manner, the TFM authorizes Treasury to act as the collector of last resort for

unclaimed federal assets. In reviewing Federal recovery efforts, we visited 3 states, surveyed the other 47 and the District of Columbia, and also surveyed 26 Federal agencies to evaluate their efforts to identify and collect state-held Federal assets. We found that Federal recovery efforts were marginally effective because many Federal agencies did not actively identify or attempt to recover their unclaimed assets, and few asked Treasury for assistance. The lack of Federal recoveries was largely due to resource constraints, difficulties in systematically identifying what unclaimed assets states actually held, and arduous state collection procedures. Another key disincentive was the fact that agencies generally could not retain recovered assets. Instead, recovered assets had to be turned over to the Treasury General fund.

As part of our audit, we identified and referred to the Department for recovery approximately \$3.2 million in Federal assets held by 14 states as of 2001. We estimate that Treasury could have avoided approximately \$1.7 million in debt interest costs had the \$3.2 million been recovered prior to our discovery. Our report notes that even more Federal assets might be recoverable since we did not determine the amount of Federal assets for the other 36 states and the District of Columbia.

We made several recommendations aimed at enhancing the identification and recovery of unclaimed federal assets held by states. Although management did not fully concur with the recommendations, final program decisions are being deferred until the end of the Department's pilot program in June 2003. In our report, we strongly urge the Department to assess the risk that states may not have sufficient internal controls to safeguard assets while in their custody. (OIG-02-105)

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CDFI Fund's Post-Award Administration Is Generally Effective

The Community Development Financial Institutions (CDFI) Fund is a wholly-owned government corporation. Its mission is to promote access to capital and local economic growth by directly investing in and supporting CDFIs, and by expanding financial service organizations' lending, investment, and services within underserved markets. Its vision is an America in which all people have access to capital and financial services.

CDFIs include private for-profit and not-for-profit financial institutions that have community development as their primary mission and have received certification from the Fund. They include community development banks and credit unions, not-for-profit loan funds, micro-enterprise loan funds, and community development venture capital funds.

The CDFI Fund administers several programs, including the CDFI Program with its new Native American CDFI Technical Assistance component, the Bank Enterprise Award Program, and the New Markets Tax Credit Program. These programs are designed to facilitate the flow of lending and investment capital into distressed communities and to individuals who have been unable to take full advantage of the financial services industry. During FYs 1996-1999, the Fund granted 370 awards totaling \$217 million. The CDFI Fund also granted 143 awards in FY 2000 totaling \$80.4 million, and 140 awards in FY 2001 totaling \$63.7 million.

We performed an audit of the CDFI Fund's post-award administration process and as part of our review, teams of auditors and investigators visited 48 CDFIs around the country. The audit covered a sample of 54 CDFI Program awards from FYs 1996 through 1999. These 54 awards totaled \$60.8 million, or 28 percent of the total CDFI Program dollars awarded during the time period.

We concluded that, in general, the post-award administration process is effective in ensuring that CDFI award recipients are carrying out their activities in accordance with the assistance agreements. Our report contains 10 findings and 16 recommendations aimed toward additional opportunities to enhance the Fund's post-award administration. Perhaps the most significant finding was the limited accountability over the financial assistance disbursed to CDFIs. Essentially, under its current legislative mandate, the Fund did not require CDFIs to account separately for their use of financial assistance and corresponding matching funds. The recommendations cover a range of issues such as decreasing the amount of time required to disburse funds, tracking CDFI compliance with reporting requirements, assessing compliance with assistance agreements in a timely manner, enhancing data analysis and documentation, and increasing accountability over financial assistance.

CDFI management expressed general concurrence with the findings and recommendations, while also providing information on actions taken or planned to enhance controls and improve operations. For instance, plans are under way to require additional accounting controls for future assistance awards, with changes to be reflected in the FY 2003 Notices of Funds Availability. The result will be a significant increase in accountability over the Federal funds. These actions address the intent of our recommendations. (OIG-02-122)

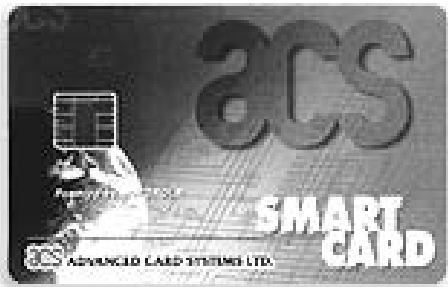
Treasury's Smart Card and Public Key Infrastructure Needs Strategic Vision

The Government Paperwork Elimination Act (GPEA) requires that Federal agencies use electronic forms, electronic filing, and electronic signatures to conduct official business with the public by October 2003. In doing so, agencies will create records that are of business, legal, and in some cases, historical value. The objective of this audit was to determine whether Treasury is planning for and implementing

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an efficient and effective secure electronic delivery system based on a centrally managed smart card and Public Key Infrastructure (PKI). PKI is the architecture, organization, techniques, practices, and procedures that collectively support the implementation and operation of a certificate-based public cryptographic system.

to support smart card and PKI; (5) develop a strategy to consolidate and minimize the number of unique and bureau specific smart card and PKI systems; (6) develop a cross-certification policy; (7) provide strong two-factor authentication for digital signatures through the use of a hard token; and (8) establish appropriate record management controls. (OIG-02-115)



Our review disclosed that Treasury had not formulated a strategic vision to mitigate the uncertainties, problems, interoperability issues, and risks that will be encountered during the implementation of smart cards and PKI as an enterprise-wide infrastructure. In addition, Treasury is lacking on a range of other challenges, such as: a clearly defined Treasury PKI model; a program to effectively manage the adoption and deployment of smart cards and PKI; a plan that defines roles and management responsibilities and identifies milestones and resources; a strategy to consolidate and minimize unique and bureau specific smart card and PKI systems; a Treasury Cross-Certification Policy; strong two-factor authentication for digital certificates; and, appropriate record management controls. We made eight recommendations: (1) conduct an analysis, resolve discrepancies, accurately document and communicate the Treasury PKI model; (2) establish a program to effectively manage the adoption and deployment of smart cards and PKI as an enterprise infrastructure; (3) develop a plan that defines roles and responsibilities while identifying milestones and resources needed for smart card and PKI initiatives; (4) plan for adequate staffing of employees

Audit Products Addressing Material Weakness and Other Deficiencies

Oversight of Customs Automated Commercial Environment (ACE) Systems Initiative

The Customs Modernization Program is a 15-year, \$5 billion effort to modernize Customs automated systems. Also, the Modernization Program will develop and document repeatable processes, and update the Enterprise Life Cycle Methodology (ELCM). The ability of Customs to process the growing volume of imports while ensuring compliance with trade laws depends heavily on improving the trade compliance process and modernizing supporting automated systems.



The first effort is to replace the Automated Commercial System (ACS) with ACE to modernize Customs commercial programs. According to Customs, ACE will not only replace ACS, but will transform the way Customs does business by: (1) enabling Customs to process and monitor import and export shipments and related trade activity more efficiently through trade accounts versus individual transactions, and (2) enabling Customs to release cargo more efficiently by integrating international law enforcement intelligence, commercial intelligence, and data mining results to focus efforts on high-risk importers and accounts.

The processes, management, and ELCM developed for ACE will be used for subsequent modernization efforts. On April 27, 2001, Customs awarded a 5-year, \$1.3 billion contract to eCP, a coalition of contractors led by International Business Machine

(IBM) Global Services. While the initial work on ACE started on August 13, 2001, negotiations on the first three task orders were not completed until September 28, 2001. The first three task orders under the contract were: Task 1, Program Management; Task 2, Enterprise Engineering; and Task 3, Requirements and Planning. Currently, Customs plans to implement ACE over the next 4 years.

As part of our ongoing audit oversight of the ACE development effort, we completed two audits during this semiannual period on Customs ACE program management and obligation of funds under the prime integration contract. The results of these audits are discussed below:

- During the first 6 months of this 4 year development program, the Customs Modernization Office (CMO) was simultaneously working to: form the various contractor, trade and Customs offices into an effective partnership; develop an integrated program management system, enterprise architecture, and user requirements; and lay the foundation of plans and processes necessary to manage the modernization effort. In our opinion, the major long-term risk to ACE development would be a continued emphasis on schedule over quality and completeness.

We found that the six management control systems we reviewed were not fully implemented, the integrated baseline reviews were not performed, and the initial deliverables from the prime contractor had significant deficiencies which required re-work. Customs long-term program management plans are basically sound. Therefore, ACE can be successfully developed, if both Customs and eCP: adequately staff the effort; communications are improved; management control systems are fully implemented; integrated baseline reviews are conducted; and the quality of future deliverables improves.

Audit Products Addressing Material Weakness and Other Deficiencies

We made six recommendations to improve program management in these areas. Customs concurred with our recommendations. (OIG-02-102)

- Customs did not promptly obligate the minimum order quantity specified in its prime contract as required by law. Customs' delay in recording, as an obligation, the \$25 million minimum order quantity stated in the contract was primarily due to confusing and contradictory internal funding guidance. Consequently, Customs financial management system underreported obligations by \$25 million for approximately 5 months. During this 5-month period, Customs prime contractor performed work. This underreporting of obligations not only undermined the precision and integrity of Customs financial management reports but could have led to poor management decisions with regard to Customs modernization effort. Customs concurred with our two recommendations concerning its policies, procedures, and practices with regard to obligating minimum order quantities stated in contracts. (OIG-02-104)

Customs Personal Search Policies and Procedures Are Reasonable

Customs inspectors process approximately 493 million arriving international travelers at more than 300 ports of entry each year. Of this 493 million, 80 million arrive by air, 11 million by sea, and 402 million arrive on land. According to Customs, the vast majority of arriving travelers conform to U.S. laws. However, some travelers do not follow U.S. laws and arrive at our airports with illegal contraband, including illegal drugs. Customs inspectors therefore attempt to catch those breaking the laws, while expediting the travel of law-abiding travelers. To do this, inspectors try to identify the few likely smugglers among millions of arriving travelers. They have a set of human, canine, and electronic tools to aid in this task. One of these tools is the personal search. During fiscal year 2000,

about 1 in every 9,000 travelers was selected for a personal search, and 9,012 travelers in total were selected in the commercial air environment for a personal search. Some critics have questioned whether Customs' legal authority to search arriving airline travelers was excessive and its policies and procedures in this area unreasonable.



Based on our review that included observations at several major international airports, we found that Customs personal search policies, procedures, and training appear reasonable. However, additional data collection and analysis is necessary for Customs management to be able to evaluate more fully the personal search process so as to ensure that travelers are selected for personal searches without regard to race or ethnic background. Customs management agreed with our recommendation to continue working with the U.S. Immigration and Naturalization Service to identify what universe data about travelers is needed, and how it should be collected and analyzed to facilitate such determinations. (OIG-CA-02-003)

Interdiction Efforts for Vessel Containers Need Improvement at Port Everglades, Florida

A major Customs goal is to prevent the smuggling of drugs into the country by creating an effective drug interdiction capability that disrupts smuggling organizations. During the past two decades, South

Audit Products Addressing Material Weakness and Other Deficiencies

Florida ports of entry have led the national seizure statistics for cocaine, marijuana, and heroin arriving from Central and South America, as well as the Caribbean. Since 1986, the Miami Seaport and Port Everglades, despite recent declines in seizures, are leaders in cocaine interdiction as narcotics traffickers began using containerized sea cargo as the preferred method of smuggling multi-kilo size loads of narcotics into South Florida. As part of inspection, interdiction and targeting advancements, Customs established Contraband Enforcement Teams (CET) in the early 1980's. The primary focus of CET is the interdiction of large quantities of narcotics usually found in conveyances and cargo.

We performed an audit at Port Everglades seaport to determine whether Customs targets, secures, and inspects vessel containers to prevent drug smuggling in an effective manner. During 2001, approximately 175,000 vessel containers entered the United States through Port Everglades. The seaport consists of 8 terminals spread over a 2,190 acre area.

Our review at Port Everglades disclosed that the CET team met many of its responsibilities for interdicting narcotics. However, commerce from Central and South America is increasing, and Customs overall interdiction efforts at Port Everglades need to improve in order for them to keep pace with the increasing narcotics threat. More specifically, our review work identified weaknesses in the areas of inspection and security. Customs concurred with the recommendations we made to resolve the problems identified.

Port Everglades was the first of a series of planned audits at Customs seaports. While the emphasis of this completed audit was narcotics interdiction, our later audits will also include targeting, securing, and inspecting for instruments of terrorism in response to September 11th. At the end of this semiannual reporting period, we had audits on going at the Los Angeles/Long Beach, Charleston, New York/Newark, and Philadelphia seaports, and plan to issue our

reports on these audits in either late 2002 or early 2003. Collectively, these four seaports account for 56 percent of vessel containers entering the United States during the 12-month period ending March 2002.

Control Over Sensitive Property

In FY 2001, Senator Charles Grassley requested that our office review the Department of Treasury's inventory practices over firearms, computers, and other sensitive items. During the past 6 months we've issued "Control Over Sensitive Property" reports for 10 Treasury bureaus/offices. On one hand, we found many instances of good internal controls over certain sensitive property items, while on the other hand, we assigned moderate-to-high risk scores for some bureaus' internal control over select items. For each of the 10 bureaus reviewed, all had some sensitive property such as firearms, computers, ammunition, credentials, or seized property that was at varying levels of control risk. In each report, our recommendations focused toward actions for rectifying control weaknesses on higher risk items. At the end of the semi-annual period, we had audit work continuing on sensitive property at DO and sensitive property at Secret Service.

Allegations of Serious Employee Misconduct

Former Customs Employee Convicted for Benefits Fraud – Update

Following up on an earlier OI investigation, a former Customs employee who received approximately \$600,000 in compensation benefits since 1977, while also earning more than \$100,000 per year, was convicted of worker's compensation fraud in May 2002. As previously reported the former Customs employee was randomly selected to answer a Customs survey about family interests and income. The former employee responded by claiming to earn more than \$100,000 per year. However, in previous responses to similar questionnaires from the Department of Labor, the former employee had denied other income. A sentencing date has yet to be determined.

Two Former Mint Employees Indicted for Theft of Sacagawea Mule Coins

Two former Mint employees were indicted and charged with conversion of government property and witness tampering. The charges stem from the theft of Sacagawea "Mule" error coins from the U.S. Mint, and the former employees' attempt to dissuade witnesses from cooperating in an OI investigation. The coins were sold on multiple occasions to unwitting buyers for approximately \$200,000. On July 11, 2002, one former employee was arraigned in the Eastern District of Pennsylvania and released on his own recognizance. He subsequently pled guilty and will be sentenced in February 2003. The other former employee failed to appear at the hearing and a bench warrant was issued.



OCC Employee Resigns Following Employment with Lending Institution

An OI investigation determined that between 1997 and 2000 an OCC National Bank Examiner was employed by and compensated in the amount of \$2,000 for performing compliance audits for a mortgage company without first notifying and acquiring OCC approval. As a result, OCC proposed that the individual be terminated from Federal employment. The employee appealed this proposal, but later resigned prior to the scheduled hearing.

ATF Employee Made Unauthorized Cash Withdrawals With Government Credit Card

An OI investigation determined that from January 2001 to March 2002, a senior ATF employee misused a government issued travel card on several occasions. In addition to authorized travel expenses, the employee made several unauthorized cash withdrawals. The employee's credit card was temporarily suspended until the account was paid in full. Disciplinary action is pending.



Mint Employee Embezzled Funds

An OI investigation determined that following changes in Mint's account receivable procedures, an employee engaged in a multi-year scheme to

Allegations of Serious Employee Misconduct

embezzle nearly \$200,000 from the Mint. The employee directed Mint products from existing inventory be shipped to various vendors, and for the vendors to directly pay him. The scheme was discovered as a result of OI conducting a review of the Mint shipping records and the vendor payment records. The individual is no longer a Mint employee. Action to recover the money is pending.

Secret Service Agent Guilty of Disaster Relief Fraud

A joint investigation conducted by OI, Secret Service, and the Federal Emergency Management Agency (FEMA) determined that a Secret Service employee made false statements to FEMA representatives in order to illegally obtain disaster relief benefits. The investigation uncovered that the agent fraudulently claimed a rental property as a primary residence in order to receive disaster relief benefits after the property had been damaged in a flood. After pleading guilty to theft of government property, the employee resigned from the Secret Service as a part of a plea agreement. In addition to earlier restitution payments totaling near \$4,700, the former employee was sentenced to 6 months probation, fined \$500, and ordered to perform 100 hours of community service.

Former FMS Contract Employees Found Guilty of Misusing Government Phones

Two OI investigations determined that a former contract security guard and a former contract cleaning person misused government telephones to place unauthorized international long distance calls to various African countries. The international calls amounted to approximately \$9,143. Both former employees admitted their misuse. The contract security guard was not prosecuted and subsequently repaid the U.S. Government approximately \$2,511. The cleaning person, who placed considerably more international calls, was prosecuted and subsequently sentenced to 1-year probation and ordered to make full restitution in the amount of \$6,632.

DO Employee Misuses Government Property to Operate Personal Business

An OI investigation determined that a DO computer specialist was using government time and resources to run a personal business. The employee admitted using a government telephone, e-mail and Internet services for several hours per day during normal work hours to facilitate a business website and store-front. The employee also admitted using government computers to view pornographic websites. Removal action has been initiated.

No Prosecution Against Customs Agent Who Shared Sensitive Information with Personal Friend

An OI investigation determined that a Customs agent shared confidential information regarding a Suspicious Activity Report (SAR) to a personal friend; a former IRS employee now a licensed Private Investigator. The Customs agent admitted sharing SAR information with his friend, but the United States Attorney's Office declined prosecution given the lack of evidence indicating the Customs agent received anything of value in return for the information.

Proactive Review for Fraud in Treasury Purchase Card Program

In a joint initiative with OA, OI is continuing a proactive review of Citibank purchase card transaction records for Treasury employees. The review examines whether fraud exists in the Treasury purchase card program and assesses overall risk for credit card fraud in the Department. We contacted the U.S. General Accounting Office's (GAO) Office of Special Investigations to learn what types of review approaches are being used in their investigations of purchase card programs. Since April 2002, OI has opened 34 inquiries into questionable purchase card transactions, and issued 10 Reports of Investigation. To date, OI

Allegations of Serious Employee Misconduct

inquiries show that what appear to be questionable transactions have, in fact, been legitimate, authorized purchases. Initial purchase card reviews began at the U.S. Customs Service. We are now reviewing purchase card transactions for all Treasury bureaus. Similarly, we've now expanded the initiative to include examinations of Treasury's Fleet Card and Individually Billed Travel Card (IBTC) programs. Our IBTC initiative is focusing on travel advances and IBTC bills paid with bad checks.

Mint Employees Violate Civil False Claims Act

OIG conducted a joint investigation with the Department of Veterans Affairs (VA), OIG, and the Northern Judicial District of California. A civil action was filed against five Mint employees for filing false claims to collect educational benefits administered by the VA. The employees fraudulently participated in a college program in Oakland, CA, where they conspired with instructors and students to perform false assignments and attend evening group meetings organized by other students in lieu of regularly scheduled courses offered by the college. Two Mint employees have acknowledged their actions in violation of the Civil False Claims Act. One of the two individuals who fraudulently received approximately \$18,211 in VA benefits has agreed to a settlement of \$12,000. The other employee who received approximately \$14,950 in VA benefits has agreed to a settlement in which he will perform 1,150 hours of community service, valued at \$23,000. Additional administrative actions for these two individuals are still pending. Likewise, administrative and judicial actions for the remaining three employees are also pending.

Administrative Action Imposed on Secret Service Employees - Update

The employment of two Secret Service agents was terminated as a result of an investigation previously reported involving three other Secret Service agents being found guilty of making false statements. One employee was fired for accepting a gratuity from

a confidential informant and for having knowledge of an informant receiving cash proceeds from ATM fraud. The other individual was terminated for failing to disclose the existence of a videotape that depicted the informant involved in ATM fraud. The U.S. Attorney's Office opined that both employees would be subject to Giglio disclosures and would be unreliable witnesses in any Federal prosecution.



Allegations of Fraud Involving Treasury Contracts or Grants

CDFI Fund Award Recipient Pleads Guilty to Grand Theft – Update

Following up on an earlier OI investigation, a CDFI Fund award recipient who fraudulently received a Bank Enterprise Award of \$127,500, and subsequently used the program funds for personal use, pleaded guilty to one count of grand theft. The recipient was sentenced in the Northern District of California to five years probation and ordered to pay \$127,500 in restitution and \$325 in fines and other penalties.

Deli Owner Indicted on Bank Fraud

We joined the Department of Labor (DOL) and Secret Service in an investigation that resulted in a July 19, 2002, indictment of a Philadelphia, PA, deli owner for one count of bank fraud in the Eastern District of Pennsylvania. The deli owner negotiated numerous U.S. Treasury checks, totaling \$140,053, through his business bank account. The deli owner has pleaded not guilty and a trial date has yet to be determined.

Financial Management Center Vendor Guilty on Forgery Charges

An OI investigation determined that four non-Federal workers stole 42 checks, including 15 U.S. Treasury checks collectively valued at \$45,716, from a contractor for the Financial Management Center (FMC), Philadelphia, PA. The four workers negotiated the stolen checks under forged signatures. Two of the four workers were former employees of the contractor, while the remaining two had no affiliation with the contractor or the FMC. Thus far, three of the four individuals were found guilty in State Court of theft by deception. One individual was sentenced to 6 to 23 months in custody and ordered to pay restitution in the amount of \$2,257. A second individual was sentenced to 2 years probation and ordered to pay restitution of \$1,618, plus court costs of \$208. The third individual was sentenced to 5 years probation. The last of the

four defendants was indicted in the Eastern District of Pennsylvania on bank fraud and forgery of U.S. Treasury checks. The trial date is scheduled for February 2003.

Former SES Official Convicted of Defrauding the Government

As the result of an OI investigation, a retired Senior Executive Service (SES) employee was found guilty of: (1) conspiracy to defraud the government, (2) conflict of interest, (3) wire fraud, and (4) bribery for attempting to steer contracts to a contractor and a company formed by a co-conspirator, along with soliciting bribes from two other contractors. The SES employee's co-conspirator, a former analyst for the Executive Office of Asset Forfeiture, was found guilty of similar charges for his role in the scheme. The retired SES employee and co-conspirator were sentenced on September 9, 2002. Each received a prison term of 7 years, 3 months, and fines of \$15,000. In addition, the contractor pled guilty to conspiracy under an agreement with the government, and was sentenced to 6 months home detention and 3 years probation.



Allegations of Fraud Involving Treasury Contracts or Grants

FinCEN Employee Guilty of Computer Fraud – Update

As previously reported by OI, a FinCEN employee who pleaded guilty to one count of computer fraud was sentenced to 2 years supervised probation, one weekend incarceration, and 40 hours of community service. On four occasions during a four-year period, the employee exceeded authorized access to two sensitive law enforcement databases by making at least 24 unauthorized queries of the names of family members and friends. The employee queried the names of two relatives who were then under investigation by the U.S. Drug Enforcement Administration (DEA) and disclosed this information to a third party. The employee resigned two months before sentencing.

Vendor Agrees to Refund Interest Earned from Misrouted Mint Payments – Update

Following up on an earlier OI investigation, a Mint vendor agreed to pay the Federal government approximately \$26,483 in interest; an amount earned on \$1.2 million his company mistakenly received in the form of two erroneously sent payments. Information was received that a legitimate Mint vendor failed to receive two payments of approximately \$1.2 million for services provided to the Mint. It was determined that the Mint misrouted the payments to a second legitimate Mint vendor, whose account number was similar to that of the intended recipient. The \$1.2 million was recovered and reported previously. Action to recover the \$26,483 in interest from the vendor is on-going.

Law Enforcement Oversight

During this reporting period, OI conducted oversight reviews of the Mint's Police and Production Division at the Philadelphia, PA, facility, the Mint Police headquarters function, the Secret Service Inspection Division, the ATF Office of Inspection and the Office of Internal Affairs of Customs. Additionally, a review was performed of the Special Investigations & Security Division of the Federal Law Enforcement Training Center. Below are some comments on the results of each of these reviews:

U.S. Mint – Philadelphia

- This review revealed some systemic weaknesses in the physical security of the facility. These vulnerabilities, specifically the lack of restricted access to critical areas, resulted in the theft of error coins from the facility.
- Mint officials implemented several changes during and after this review.

U.S. Mint Police Headquarters

- This review identified the fact that Mint Police spend a disproportionate amount of time dealing with incidents, i.e. arrests, unrelated to the protection of Mint personnel or property.
- A critical bureau directive regarding firearms policy existed but had not yet been implemented. This policy relates to the authority for Mint Police to carry off-duty weapons.

U.S. Secret Service – Inspection Division

- This review identified a recurring issue involving the failure of the Inspection Division to be notified of all allegations made against their employees. This occurs because the Assistant Director's Office responsible for an employee has discretion on whether or not to report the allegation or incident to Inspection or handle it as a management issue. This problem appeared to apply only to administrative matters, not criminal matters.

- Investigations by Inspection were found to be thoroughly investigated; however, there were some delinquencies noted in the timeliness of reports.

Alcohol, Tobacco and Firearms – Office of Inspection

- This review revealed that Inspection investigations are conducted in a thorough and timely manner.
- All employee allegations are reviewed by the Assistant Director for Inspection, thus ensuring proper accounting for all allegations.

U.S. Customs – Office of Internal Affairs

- This review revealed that the investigations conducted by Internal Affairs were complete and thorough, but there were numerous instances of delinquent reporting.
- All employee allegations are reported to the *Allegation Intake Desk*, ensuring proper control of allegations.

Federal Law Enforcement Training Center – Special Investigations & Security Division

- This review determined that investigations were conducted in a thorough and timely manner.
- This review also addressed the employee discipline process, and it was determined that there were some deficiencies in the interaction between Special Investigations and Human Resources. Specifically, HR failed to notify Special Investigations of the outcome of employee discipline and HR did not have an automated system of records to record and track discipline.

Other OIG Activity and Accomplishments

Responding to Congressional Requests

In a letter dated July 3, 2002, the Chairman of the Senate Governmental Affairs Committee requested information our office identified as security concerns in Treasury programs and operations. In our reply, we supplied the Committee with a list of 72 audit reports our office issued over the previous five years. The range of reports covered a broad spectrum of security related issues, such as: (1) border control, (2) public safety, (3) suspicious financial transactions and foreign asset control, (4) information technology, and (5) Treasury infrastructure. Our reply also noted that we did not issue any OIG investigative reports related to the requested information.



Joint Evaluation Finds Federal Financial Institutions Examination Council Accomplishing Its Mission

The Federal Financial Institutions Examination Council (FFIEC) was established in March 1979 pursuant to the Financial Institutions Regulatory and Interest Control Act of 1978 and is a formal interagency body empowered to, among other things: (1) prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration, OCC, and OTS, and (2)

make recommendations to promote uniformity in the supervision of financial institutions.



We teamed up with the OIGs of the FDIC and FRB to evaluate whether the FFIEC is accomplishing its mission of prescribing uniform principles and standards for examining financial institutions, and whether a more coordinating role is necessary in light of the Gramm-Leach-Bliley Act (GLBA). Based on interviews with Council principals, banking agency supervision officials, and representatives from banking trade associations, we found that FFIEC is accomplishing its mission, and that most do not favor making legislative changes relative to FFIEC. The only concern raised was the timeliness in which interagency projects get completed. To that end, the Council chairperson offered several suggestions for making the FFIEC more efficient. We recommended that the chairperson's suggestions be merged into the FFIEC's *Rules of Operations* document. Likewise, we recommended that FFIEC look for opportunities to improve communication with trade associations when appropriate. (OIG-02-099)

Guest from Republic of Cyprus

On August 30, 2002 we were privileged to host a representative from the Treasury in the Republic of Cyprus. This individual has responsibilities that include auditing government ministries and departments in Cyprus. The short time our guest spent with us was part of an August visit to Washington, DC as a participant in the Cyprus-

Other OIG Activity and Accomplishments

American Scholarship Program, an international training project funded by the Department of State. We were pleased to brief our guest on the OIG mission, including our financial and program audit activities.



Intelligence Community IGs Forum (ICIG)

In response to the heightened threat from terrorism, the ICIG Forum established an Information Sharing Working Group (ISWG) to help document the processes and procedures of intelligence sharing between the intelligence and law enforcement communities. We collected information on these processes and procedures for Treasury law enforcement bureaus and shared our work with the ISWG.

Our Work - The Numbers

Audit Reports with Questioned Costs Between April 1, 2002 Through September 30, 2002*			
<u>Report Status</u>	<u># Reports</u>	<u>Questioned Cost \$</u>	<u>Unsupported Cost \$</u>
No Management Decision Made By Beginning of Period	13	\$3,099,000	\$0
Reports Issued During Period	2	\$1,383,000	\$0
Total	15	\$4,482,000	\$0
<i>Management Decision Made During Period</i>	3(a)	\$2,064,000	\$0
a) \$ Value of Disallowed Costs	3	\$1,866,000	\$0
b) \$ Value of Allowed Costs	2	\$198,000	\$0
<i>Management Decision Not Made During Period</i>	12	\$2,418,000	\$0
<i>No Management Decision Made within 6 Months of Issuance</i>	12	\$2,418,000	\$0

* Numbers are rounded to nearest thousandth.
(a) Two reports were partially agreed to and partially not agreed to.

Audit Reports with Recommendations That Funds Be Put to Better Use April 1 and September 30, 2002*				
<u>Report Status</u>	<u># Reports</u>	<u>Total \$</u>	<u>\$ Savings</u>	<u>\$ Revenue Enhancement</u>
No Management Decision Made by Beginning of Period	2	\$861,000	\$861,000	\$0
Reports Issued During Period	3	\$12,789,000	\$6,030,000	\$6,759,000
Total	5	\$13,650,000	\$6,891,000	\$6,759,000
<i>Management Decision Made During Period</i>	4	\$7,620,000	\$861,000	\$6,759,000
a) \$ Value Agreed to by Management	4	\$7,620,000	\$861,000	\$6,759,000
1) Based on Proposed Management Action	4	\$7,620,000	\$861,000	\$6,759,000
2) Based on Proposed Legislative Action	0	\$0	\$0	\$0
b) \$ Value Not Agreed to by Management	0	\$0	\$0	\$0
<i>Management Decision Not Made During Period</i>	1	\$6,030,000	\$6,030,000	\$0
<i>No Management Decision Made within 6 Months of Issuance</i>	0	\$0	\$0	\$0

* Numbers are rounded to the nearest thousandth.
Audits were performed by Defense Contract Auditing Agency (DCAA) or OIG auditors. Recommendation that funds be put to better use denotes that funds could be used more efficiently if management took actions to implement and complete the recommendation including: (1) reduction in outlays, (2) de-obligations of funds from program or operations, (3) costs not incurred by implementing recommended improvements related to operations, (4) avoidance of unnecessary expenditures noted in pre-award review of contract agreements, (5) any other savings which are specifically identified, or (6) enhancements to revenues.

Contract Audits Completed Between April 1, 2002 Through September 30, 2002						
<u>Bureau</u>	<u>Pre-Award Proposal Audits</u>		<u>Overhead Audits</u>		<u>Other Contract Audits</u>	
	<u># Completed</u>	<u>Funds Better Use</u>	<u># Completed</u>	<u>Questioned Costs</u>	<u># Completed</u>	<u>Questioned Costs</u>
BEP	2	\$6,030,033	0	\$0	1	\$0
Customs	1	\$0	1	\$0	1	\$614,712
Mint	0	\$0	0	\$0	2	\$768,588
Total	3	\$6,030,033	1	\$0	4	\$1,383,300

The monetary amounts are reflected in the table on monetary benefits from OIG audits (See Summary of OIG Activity Table). Audits were performed by DCAA. All Treasury bureau requests for pre-award, cost incurred, and other contract audits are referred to the OIG. The OIG has the option to perform the audits, refer the audits to DCAA and other government audit agencies, or contract with an Independent Public Accountant (IPA). DCAA performed 8 contract audits, which questioned \$7,413,333 in Treasury costs. Contracting officers agreed to savings and disallowed costs of approximately \$2,728,029 including amounts that were questioned prior to April 1, 2002. An additional \$8.4 million in potential monetary benefits, including amounts that were questioned prior to October 1, 2002 are awaiting completion of negotiations with the contractors.

Our Work - The Numbers

Significant Unimplemented Recommendations as of September 30, 2002		
<u>Report Number</u>	<u>Issue Date</u>	<u>Report Title/Potential Monetary Benefits and Recommendation Summary</u>
OIG-95-130	9/95	Audit of Customs FY 1994 Financial Statements Improve and integrate core financial systems by including a "customer-based" accounts receivable subsidiary ledger; identify the modifications necessary to the general ledger systems to capture all financial transactions as they occur.
OIG-96-098	9/96	Audit of Customs FY 1995 Consolidated Financial Statements Fully recover high priority applications and expeditiously implement an approach. Provide for and test disaster recovery capability.
OIG-99-011	11/98	U.S. Secret Service's FY 1997 Financial Statements Ensure that the seized property system captures all seized property data necessary to generate a complete analysis of changes in seized and forfeited property. Improve controls over property and equipment by ensuring that exception reports are researched timely and proper disposition determined. Improve procedures to record accounts receivable by ensuring that the accounts receivable subsidiary ledger is periodically reconciled to the general ledger. Improve controls over operating materials and supplies by ensuring that all transactions are recorded in the inventory systems timely. Improve cut-off procedures for year-end closing by ensuring that documents processed after the year-end for reimbursable agreements are reviewed so that accounts receivable are properly reflected at year-end.
OIG-99-123	9/99	Bureau of Alcohol, Tobacco and Firearms Controls Over Tax Free Spirit Exports Amend 27 CFR to include specific timeframes for Distilled Spirits Plants to submit documents that support claimed exports and provide additional guidance defining export evidence.
OIG-00-036	2/00	Customs' Performance Data for Commercial Activity Correct the use of inappropriate confidence levels in the GMRA, ensure Results Act sufficiently discusses data limitations, and implement COMPEX sampling for pedestrians.
OIG-00-047	2/00	Opportunities for the Bureau of Engraving and Printing to Improve the Processing of Mutilated Currency Install an automated system to track mutilated currency cases, analyze data, and assess the efficiency and effectiveness of the program.
OIG-00-066	3/00	U.S. Customs Service Automated Commercial System (ACS) Cargo Selectivity Instruct Port Directors to establish procedures ensuring that reasons for overriding intensive cargo examinations are properly documented; establish procedures to review performance of intensive narcotic examinations; ensure hazardous material equipment is maintained; and ensure management control reviews cover ACS Cargo selectivity, narcotics enforcement, and hazardous material examinations. (Three recommendations)
OIG-00-080	4/00	Bureau of ATF Compliance Inspection Strategy for Firearms and Ammunition Excise Taxes Periodic internal reviews should be performed to gauge the effectiveness of ATF's inspection selection process, and ensure that taxpayers from various risk groups are represented. (Two recommendations)
OIG-00-085	5/00	United States Customs Automated Information Systems (AIS) – Computer Security Safeguards Need Improvement The Commissioner of Customs should ensure that Automated Information Systems Security Branch has sufficient authority to enact the required information security controls for Customs. (Two recommendations)
OIG-00-099	6/00	United States Customs Services Management Services Inquiry Process The Commissioner of Customs should ensure that controls are established to flag management inquiries for follow-up action when delays occur.

Our Work - The Numbers

OIG-00-109	7/00	<p>United States Custom Services Support for the Business Anti-Smuggling Coalition (BASC)</p> <p>The Commissioner of Customs should reinforce the domestic BASC through the commitment of sufficient funding and personnel and jointly with U.S. business entities implement policies and procedures needed to ensure that BASC would continue as a viable organization along the U.S. Southern border.</p>
OIG-00-111	7/00	<p>United States Customs Service Has Undercharged Couriers for the Cost of Inspector Services</p> <p>The Commissioner of Customs needs to improve billing controls, amend regulations to increase the computational charge to reflect the cost of services provided, and ensure staffing at courier locations is appropriate. (Three recommendations.)</p>
OIG-01-014	11/00	<p>Review of Treasury Computer Security Plans</p> <p>The Treasury Chief Information Officer should update system security planning guidance, ensure that periodic reviews are conducted of the bureau security plans, correct identified DO system vulnerability plans, and identify all existing and newly implemented DO Systems. (Two recommendations)</p>
OIG-01-019	11/00	<p>Alcohol, Tobacco and Firearms Needs to Improve its Controls Over Tax-Free Tobacco Exports</p> <p>The ATF Director should establish controls to ensure Tobacco Unit specialists properly monitor open notices of removal files.</p>
OIG-01-023	12/00	<p>Customs Performance Measure for Commercial Activities</p> <p>The Commissioner of Customs should include the overall and significant compliance rates in the GMRA reports for all three of the commercial processes, evaluate alternatives for measuring regulatory burden, include cost and Full Time Equivalent data in GMRA reports, design a sampling plan for the outbound program, and include a narrative discussion in Results Act reports of any problems in obtaining reliable data. (Five recommendations)</p>
OIG-01-025	12/00	<p>Treasury's Critical Infrastructure Protection Program</p> <p>The Assistant Secretary for Management/ CFO should ensure that funding and resources are made available to implement President Decision Directive (PDD) 63 and effective oversight of PDD 63 activities is provided. (Two recommendations)</p>
OIG-01-026	12/00	<p>Review of Surcharges from the Sale of Commemorative Coins</p> <p>The Director of the Mint should ensure that the Mint's implementation of Activity Based Costing provides equitable and cost effective methods for allocating General & Administrative costs.</p>
OIG-01-032	1/01	<p>U.S. Secret Service Change Control Procedures</p> <p>The Director of Secret Service should ensure (1) that automated controls are implemented to ensure that programmer and database administrator access to program source code and data sets is limited to those individuals that are authorized such access, (2) documentation is maintained of approvals for changes and testing, and (3) procedures include guidance for hardware changes. (Three recommendations)</p>
OIG-01-034	1/01	<p>The U.S. Mint Computer Security Plans</p> <p>Ensure that system security plans are developed for all systems. Ensure that guidance for the preparation of system security plans is expanded to include a standardized format and necessary details such as system background and general information, management, and other controls are included in the security plans.</p>

Our Work - The Numbers

OIG-01-035	1/01	<p>U.S. Customs Service Change Control Procedures</p> <p>The Commissioner of Customs should ensure that the draft standard Operating Procedures for Operating System Support be revised to include guidance for hardware changes and emergency changes, security approval of applicable changes is documented, and test plans are established for changes. (Three recommendations)</p>
OIG-01-039	2/01	<p>Information Technology: Financial Management Services Change Control Process Needs Improvement</p> <p>The Commissioner of FMS should ensure that system and user documentation are updated to reflect system changes, major FMS systems have current accreditations and tapes are properly controlled. (Three recommendations)</p>
OIG-01-045	2/01	<p>Financial Management: Report on United States Customs Service's Fiscal Years 2000 and 1999 Financial Statements</p> <p>We reaffirmed recommendations made in prior years relating to core financial systems, drawback controls, compliance measurement programs, in-bond shipment controls, security program planning.</p>
OIG-01-052	6/01	<p>Follow-up Audit of the Bureau of Alcohol, Tobacco and Firearm's Special Occupation Tax Program</p> <p>The ATF Director should take steps where practical to automate the state matching program.</p>
OIG-01-061	3/01	<p>Financial Management: The Exchange Stabilization Fund's Fiscal Years 2000 and 1999 Financial Statements</p> <p>Ensure batch runs of transactions and adjustments are consistently reviewed and approved before posting to the general ledger. Establish written procedures detailing the process for recording all transactions, performing year-end closing, and preparing financial statements.</p>
OIG-01-063	4/01	<p>Financial Management: Review of Controls Over Entry Summaries Subject to Antidumping or Countervailing Duty</p> <p>Customs should ensure that the procedures requiring supervisors verify that applicable entries have been liquidated and follow-up with field personnel on all unliquidated entry summaries open four months after liquidation.</p>
OIG-01-066	4/01	<p>Improvements Needed in the Bureau of Alcohol, Tobacco and Firearms' Administration of the Certificate of Label Approval (COLA) Program</p> <p>The ATF Director should ensure that the information in ATF's COLA/Formula Modernization System is updated timely and accurately to better manage the COLA.</p>
OIG-01-071	5/01	<p>Information Technology: Change Management Controls Lack Departmental Oversight</p> <p>The CIO should ensure that guidance be issued to address systemic information technology problems, should ensure that oversight is developed to include guidance on internal security review programs, and schedule regular visits to each bureau and compliance with issued guidance.</p>
OIG-01-076	6/01	<p>Financial Management: Audit of the United States Mint's Fiscal Years 2000 and 1999 Financial Statements</p> <p>The Director of the Mint should ensure that the CIO and CFO review, update and maintain risk assessments and security plans. The Director should formally document disaster recovery plans and develop standard operating procedures for Mint IT facilities.</p>
OIG-01-077	6/01	<p>Protecting the Public: Bureau of Alcohol, Tobacco, and Firearms' Investigative Case and Time Data Needs Improvement</p> <p>The ATF Director should establish a method to track all dates for opening, closing, and re-opening, and re-closing of individual cases.</p>

Our Work - The Numbers

OIG-01-083	8/01	Revenue Collection: Additional Corrective Actions Needed to Improve ATF's Revenue Inspection Program The ATF Director should require the Assistant Director, ATF, to develop and test additional performance measures for the ATF revenue program.
OIG-01-084	8/01	Narcotics Interdiction: Customs Management Action Needed to Ensure Benefits of Non-Intrusive Inspection Technology are Fully Realized The Commissioner of Customs should ensure that the effectiveness of non-intrusive inspection equipment is measured, that quality controls are established so that seizure data is accurate, that Customs better collects and analyzes non-intrusive inspection utilization data, issue a notice emphasizing the need and importance of accounting for equipment on a routine basis, further discuss problems associated with the installation and deployment of large non-intrusive inspection systems, ensure that a formal planning process be adopted for deployment and installation of the major non-intrusive inspection systems, that the existing policy requiring Personal Radiation Detectors use be followed, and justify the non-use of Personal Radiation Detectors. (Eight recommendations)
OIG-01-090	9/01	Protecting the Public: Increased Benefits Possible from ATF's Alcohol and Tobacco Laboratories The Director of ATF should review formula approval to determine if it can be made less burdensome on both the manufacturers and ATF, while not reducing the risk of using non-beverage alcohol for beverage purpose.
This list of unimplemented recommendations in OIG audit reports is based on information in Treasury's automated tracking system, which is maintained by Treasury management officials, and annual financial statement audits.		

Our Work - The Numbers

Reports with Pending Management Decisions* Undecided for Over Six Months as of September 30, 2002

Report #	Amount **	Title and Date Issued
OIG-96-042	\$5,404	Costs Incurred Under Contract TOS-91-31 for Calendar Year 1991, 3/12/96 a/
OIG-97-002	\$135,662	Direct and Indirect Costs and Rates Claimed Under Contract TC-89-047 for Calendar Year Ended December 31, 1993, 10/10/96 c/
OIG-97-113	\$33,774	Final Procurement Determined Indirect Cost Rates Claimed Under Contract TC-89-047 for Contractor FY Ended December 31, 1992, 7/23/97 c/
OIG-97-114	\$112,884	Final Procurement Determined Indirect Cost Rates Claimed Under Contract TC-89-047 for Contractor FY Ended December 31, 1993, 7/23/97 c/
OIG-97-132	\$37,716	Direct and Indirect Costs and Rates Claimed Under Contract TC-89-047 for FY Ended December 31, 1994, 9/15/97 c/
OIG-98-025	\$39,071	Direct and Indirect Costs and Rates Claimed Under Contract TC-89-047 for FY Ended December 31, 1995, 12/10/97 c/
OIG-98-045	\$562,205	Contractor's FYs Ended December 31, 1992 through 1994, Applicable to Contracts TOS-91-31 and TOS-94-25, 2/25/98 a/
OIG-99-028	\$27,366	Revised Direct and Indirect Costs and Rates Claimed Under Contract TC-89-047 for FY Ended December 31, 1994, 1/7/99 c/
OIG-99-108	\$196,527	Incurred Costs for Contractor's FY Ended December 31, 1997, 8/23/99 b/
OIG-00-030	\$584,192	Incurred Cost for Contract TOS-92-20 for FY 1997, 1/7/00 a/
OIG-01-010	\$269,817	Costs Claimed Under Contract TSW-87-0228, 10/17/01 d/
OIG-01-037	\$412,890	Direct and Indirect Costs and Rates Incurred Under Contract TC-94-027 for Contractor's FY 1998, 2/2/01 a/
Total 13 reports	\$2,417,508	

* Management decision refers to the evaluation by management of the findings and recommendations included in a report and the issuance of a final decision. ** Amount indicates questioned costs and/or potential funds to be put to better use. a/ Contract negotiations have not yet been held or completed. b/ Contract is in dispute. c/ Negotiations complete/PNM to be completed d/ Awaiting contract modification to close contract.

Management Decisions with Which the Inspector General Was in Disagreement as of September 30, 2002

There were no management decisions with which the Inspector General was in disagreement with during the reporting period between April 1, 2002 and September 30, 2002.

Our Work - The Numbers

Prosecutorial Action Taken Between April 1, 2002 Through September 30, 2002					
Types of Action	Offices of Internal Affairs and Inspection				Total #
	OIG	ATF	Customs	Secret Service	
Cases Pending Prosecutorial Decision at Beginning of Period	0	0	9	8	17
Cases Pending Prosecutorial Decision at End of Period	0	0	4	3	7
Cases Referred to Prosecutorial Authorities During Period	0	2	12	6	20
<i>Reporting Period</i>					
a) Cases Accepted	0	0	8	3	11
b) Cases Declined	4	2	8	8	22
c) Successful Prosecutions*	2	0	12	5	19
Includes those cases where individuals are found guilty by a Federal or State Court; accepted for pretrial diversion agreements by the Department of Justice, or granted plea bargaining agreements.					

Administrative Actions Taken Between April 1, 2002 Through September 30, 2002					
Types of Action	Offices of Internal Affairs and Inspection				Total #
	OIG	ATF	Customs	Secret Service	
Personnel Actions	12	35	226	13	286
Suspensions and/or Debarments of Contractors	0	0	0	0	0
This chart reflects the number of personnel actions, suspensions, and debarments taken against Treasury employees and contractors as a result of investigations conducted by the OIG, and the Offices of Inspection and Internal Affairs during the period ending September 30, 2002.					

Summary of OIG Activity Between October 1, 2001 Through September 30, 2002		
OIG Activity	10/1/01 – 3/31/02 Number / \$ Amount	4/1/02 – 9/30/02 Number / \$ Amount
Reports Issued (<i>Audits & Evaluations</i>)	76	54
Reports Issued & Oversight Reviews (<i>Investigations</i>)	64	61
Regulation and Legislation Comments	19	21
Disputed Audit Recommendations	0	0
Significant Revised Management Decisions	0	0
Management Decision in Which the IG Disagrees	0	0
Instances Where Information Was Refused	0	0
Number of Hotline Calls	3,992	2,453
<i>Monetary Benefits (Audit)</i>		
a) Questioned Costs	\$681,000	\$1,383,000
b) Funds Put to Better Use	\$89,370,000	\$6,030,000
c) Revenue Enhancements	\$681,000,000	\$6,759,000
Total Monetary Benefits (Audit)	\$771,051,000	\$14,172,000
<i>Monetary Benefits (Investigations)</i>		
a) Fines/Restitutions	\$432,000	\$237,734
b) Recoveries	\$1,202,500	\$0
c) Savings/Cost Avoidance	\$205,000	\$200,000
Total Monetary Benefits (Investigations)	\$1,839,500	\$437,734

Recent Reports

The following OIG reports were issued during the period April 1, 2002 through September 30, 2002. Each entry in the list contains the name of the report, report number (prefixed by "OIG" for audit reports, "OIG-CA" for evaluation reports, and "QA" for investigative oversight reports), issue date, and if applicable, the amount of revenue enhancements (R), savings (S), and questioned costs (Q).

Audit Products Mandated by Law

Departmental Offices, Financial Management: Audit of the Exchange Stabilization Fund's Fiscal Years 2001 and 2000 Financial Statements, OIG-02-086, 5/13/02

Departmental Offices, Management Letter for FY 2001 Audit of the Federal Financing Bank Financial Statements, OIG-02-087, 5/13/02

Departmental Offices, Financial Management: Treasury Payments for Water and Sewer Services Provided by the District of Columbia for the Third Quarter of Fiscal Year 2002, OIG-02-088, 5/23/02

Departmental Offices, Financial Management: Treasury Payments for Water and Sewer Services Provided by the District of Columbia for the Fourth Quarter of Fiscal Year 2002, OIG-02-101, 7/11/02

Departmental Offices, Information Technology: Audit of Treasury's Security Program and Practices for Fiscal Year 2002, OIG-02-120, 9/16/02

FMS, Management Letter for Fiscal Year 2001 Audit of Schedule of Non-Entity Government-Wide Cash, OIG-02-077, 4/15/02

FMS, Management Letter for Fiscal Year 2001 Audit of Schedule of Non-Entity Assets, Non-Entity Costs and Custodial Revenue, OIG-02-081, 4/24/02

FMS, Management Letters for Fiscal Year 2001 Audits of Schedule of Non-Entity Government-Wide Cash and Schedule of Non-Entity Assets, Non-Entity Costs and Custodial Revenue, OIG-02-084, 4/30/02

Mint, Financial Management: Audit of the U.S. Mint's EDP General and Application Controls, OIG-02-079, 5/21/02

Multi-Bureau, General Management: Treasury Policy Gives First Priority to Locating New Offices in Rural Areas but the Policy Could be Better Implemented, OIG-CA-02-004, 5/10/02

OTS, Follow-on Report to the Material Loss Review of Superior Bank, FSB, OIG-02-111, 8/20/02

Recent Reports

Audit Products Supporting President's Management Agenda

ATF, Revenue Collection: ATF Needs To Improve Its Offers In Compromise Process, OIG-02-078, 4/15/02, **\$1,854,450 R**

ATF, Protecting the Public: Bureau of Alcohol, Tobacco and Firearms Technical Contract Allegations, OIG-02-093, 5/30/02

BEP, Information Technology: The Bureau of Engraving and Printing's Disaster Recovery Process Could be Improved, OIG-02-085, 5/7/02

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Acronyms

ABC	Activity-Based Costing
ACE	Automated Commercial Environment
ACS	Automated Commercial System
AIGA	Assistant Inspector General for Audit
AIGI	Assistant Inspector General for Investigations
AIGM	Assistant Inspector General for Management
AIS	Automated Information System
AMS	Automated Manifest System
ATF	Alcohol, Tobacco and Firearms
BEP	Bureau of Engraving and Printing
BPD	Bureau of Public Debt
CDFI	Community Development Financial Institutions
CET	Contraband Enforcement Teams
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
CI	Confidential Informant
CMIS	Cost Management Information System
CMO	Customs Modernization Office

References to the Inspector General Act and Acronyms

Customs	U.S. Customs Service
DC	District of Columbia
DCAA	Defense Contract Audit Agency
DO	Departmental Offices
DOL	Department of Labor
ECLM	Enterprise Life Cycle Methodology
ESF	Exchange Stabilization Fund
FDIC	Federal Deposit Insurance Corporation
FECA	Federal Employees' Compensation Act
FEMA	Federal Emergency Management Agency
FFB	Federal Financing Bank
FFIEC	Federal Financial Institutions Examinations Council
FFMIA	Federal Financial Management Improvement Act of 1996
FinCEN	Financial Crimes Enforcement Network
FLETC	Federal Law Enforcement Training Center
FMC	Federal Management Center
FMS	Financial Management Service
FRB	Board of Governors of the Federal Reserve System
FY	Fiscal Year
GAO	U.S. General Accounting Office
GMRA	Government Management Reform Act
GPEA	Government Paperwork Elimination Act
IBM	International Business Machine
IBTC	Individually Billed Travel Card
ICIG	Intelligence Community Inspector General
IEEPA	International Emergency Economic Powers Act
IG	Inspector General
IPA	Independent Public Accountant
IRS	Internal Revenue Service
ISWG	Information Sharing Working Group
IT	Information Technology
IRS	Internal Revenue Service
Mint	U.S. Mint
MIS	Management Information System
MLR	Material Loss Review
NAFTA	North American Free Trade Agreement
OA	Office of Audit
OC	Office of Counsel
OFAC	Office of Foreign Assets Control
OI	Office of Investigations
OIC	Offer in Compromise

References to the Inspector General Act and Acronyms

OCC	Office of the Comptroller of the Currency
OIG	Office of Inspector General
OM	Office of Management
OMB	Office of Management and Budget
OPR	Office of Personal Resources
OTS	Office of Thrift Supervision
PKI	Public Key Infrastructure
PMA	President's Management Agenda
PSB	Personnel Security Branch
Q	Questioned Costs
QA	Investigative Oversight Reports
R	Revenue Enhancements
RDA	Rural Development Act
Results Act	Government Performance and Results Act
RFPA	Right to Financial Privacy Act
RIGA	Regional Inspector General for Audit
S	Savings
SAIC	Special Agent-in-Charge
SAR	Suspicious Activity Report
SEACATS	Seize Asset and Case Tracking System
Secret Service	U.S. Secret Service
Security Act	Government Information Security Reform Act
SES	Senior Executive Service
Superior	Superior Bank of Oakbrook Terrace, Illinois
TECS	Treasury Enforcement Communications System
TD	Treasury Directive
TFF	Treasury Forfeiture Fund
TFM	Treasury Financial Manual
TIGTA	Treasury Inspector General for Tax Administration
TWEA	Trading With the Enemy Act
VA	Veterans Affairs
WCP	Worker Compensation Program

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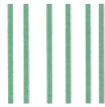
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