



# Semiannual Report To The Congress



October 1, 2004 – March 31, 2005

## Office of Inspector General

Department of the Treasury

## HIGHLIGHTS IN BRIEF

During this semiannual reporting period, our **Office of Audit** issued 36 audit and evaluation reports which identified, in total, approximately \$49 million in monetary benefits. Our **Office of Investigations'** work resulted in 7 convictions by plea agreement, 3 indictments, 5 informations, 19 State and local charges, and 21 cases accepted for prosecution. Investigative activities also resulted in over \$5 million in court ordered restitution and investigative recoveries as well as 13 personnel actions. Some of the significant results for this period are described below:

- The audit report on the Department of the Treasury's fiscal year 2004 consolidated financial statements was issued on November 15, 2004, representing the third year Treasury has successfully reported its financial results on an accelerated basis. While these financial statements received an unqualified opinion, the audit identified one material weakness related to IRS financial management. Also, the audit found that Treasury was not in substantial compliance with the Federal Financial Management Improvement Act, a longstanding condition.
- We completed three audits related to FinCEN's administration of the Bank Secrecy Act (BSA). As a follow-up audit, we found continued data quality problems with suspicious activity reports (SAR) filed by financial institutions under the BSA. In response, FinCEN management has taken and planned actions that should improve the quality of SARs. In another audit, we found that the BSA E-Filing system, which FinCEN implemented in response to a USA PATRIOT Act requirement, was an effective mechanism for filing reports required under the BSA. BSA E-Filing reduces processing time; provides controls to improve the accuracy, completeness, and security of BSA data; and, if used instead of paper processing, could significantly reduce the cost of processing BSA reports. However, we found that as of October 2003, BSA E-Filing was not widely used. In response to a Congressional mandate, we completed an audit of FinCEN's efforts to establish an Office of Compliance. We found that the Office was in the process of staffing up but at the time of our review, we were unable to make a fully informed assessment of the sufficiency of the planned staffing because FinCEN management needs to determine the nature and extent of the Office's workload. We also reported that FinCEN had executed a memorandum of understanding (MOU) with Federal bank regulatory agencies to share information related to BSA compliance, and had achieved a satisfactory level of cooperation so far under the MOU. However, we noted that the MOU provided no penalty for non-compliance.
- In March 2005, two individuals were sentenced as a result of our joint investigation with FDIC OIG and the FBI into the Sinclair National Bank failure. One of the individuals was sentenced to 5 years incarceration with 3 years supervised release and ordered to pay \$4.2 million in restitution. The other individual was sentenced to 2 years probation and fined \$5,000.
- As a result of our joint investigation with the HUD OIG into fraudulent predatory lending practices, an individual was indicted in November 2004 on 13 counts of Fictitious Government Financial Instruments. The individual used fraudulent bill of exchange instruments to purchase approximately \$1.6 million in real estate from low income families.

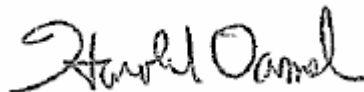
## A MESSAGE FROM THE INSPECTOR GENERAL

I am pleased to present the Department of the Treasury (Treasury), Office of Inspector General (OIG) Semiannual Report summarizing activities for the 6-month period from October 1, 2004, through March 31, 2005.

I was sworn in on April 5, 2005 as the fifth Treasury Inspector General. Prior to that, I served for nearly 2 years as the Inspector General of the Small Business Administration. Therefore, the work described in this Semiannual Report was performed under the direction of Deputy Inspector General Dennis Schindel, who served as the Acting Inspector General for almost a year prior to my swearing in. I want to thank Mr. Schindel for his outstanding leadership of the OIG during this time.

With a staff of 95, the OIG is committed to helping improve the Department's operations. As an independent and objective reviewer, evaluator, and investigator of the operations and activities of the Department, the OIG seeks to identify and prevent potential vulnerabilities and fraud in the Department's programs, promote effective program management, ensure sound financial management, improve information security, and uphold the integrity of Treasury's people and programs.

I look forward to working with Secretary Snow and the other senior leadership of the Department, along with the Congress, in achieving these objectives.

A handwritten signature in black ink that reads "Harold Damelin". The signature is written in a cursive, flowing style.

Harold Damelin  
Inspector General

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# Introduction



The Treasury's Office of Inspector General (OIG) was established pursuant to the 1988 amendment to the Inspector General Act of 1978, 5 United States Code (USC) 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. Serving with the Inspector General in the immediate office is a Deputy Inspector General. The OIG performs independent and objective reviews of Treasury programs and operations, except for the Internal Revenue Service (IRS), and keeps the Secretary of the Treasury and Congress fully informed of problems, deficiencies, and the need for corrective action. The Treasury Inspector General for Tax Administration (TIGTA) performs audit and investigative services related to the IRS.

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

The **Office of Audit (OA)** performs audits and evaluations. The Assistant Inspector General for Audit has two deputies. One deputy is primarily responsible for performance audits while the other deputy is primarily responsible for financial management and information technology audits. OA Headquarters is located in Washington, DC, and maintains field audit offices in Boston and San Francisco.

The **Office of Investigations (OI)** performs investigations and conducts proactive initiatives that are aimed toward the detection and prevention of fraud, waste, and abuse in Treasury programs and operations. OI also manages the Treasury OIG Hotline System to facilitate the reporting of allegations involving the programs and activities under the auspices of the Department. The Assistant Inspector General for Investigations is responsible for the supervision and conduct of all investigations relating to the Department's programs and operations and performs integrity oversight reviews within select Treasury bureaus. OI headquarters and criminal investigative field staff are co-located in Washington, DC.

The **Counsel to the Inspector General** serves as the senior legal counsel and policy advisor to the Inspector General, Deputy Inspector General, and the Assistant Inspectors General. The Office of Counsel (OC) provides legal advice on issues that arise from statutorily mandated audit, investigative, and oversight activities performed by OA and OI. The OC also provides the OIG with legal advice related to government contracts, appropriations, budget formulation and execution, disclosure, records retention, tax information safeguards, equal employment opportunity, and personnel law. Additionally, OC represents the OIG in administrative proceedings before the Merit Systems Protection Board and the Equal Employment Opportunity Commission. Furthermore, the OC conducts the OIG's ethics training, financial disclosure, and Freedom of Information Act programs.

# Introduction



The **Office of Management** 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; and Office-wide policy preparation, planning, emergency preparedness, and reporting for the OIG. The Assistant Inspector General for Management is in charge of these functions.

As of March 31, 2005, the OIG had 95 full-time staff onboard. The OIG's fiscal year 2005 appropriation is \$16.368 million.

## ***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. We strive to ensure integrity, independence, objectivity, proficiency, and due care in performing our work. The OIG promotes teamwork and open communication among its 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.

## ***About Treasury***

The mission of the Department of the Treasury is to promote the conditions for prosperity and stability in the United States and encourage prosperity and stability in the rest of the world. Organized into bureaus and offices, the Treasury encompasses a wide range of programmatic and operational activities. Currently, the Treasury is comprised of approximately 114,000 Full-time Equivalent (FTE) staff. Of this workforce, the IRS has approximately 99,000 FTE staff and the other Treasury bureaus and offices have approximately 15,000 FTE staff.

## **Treasury Bureaus**

**Alcohol and Tobacco Tax and Trade Bureau (TTB)** enforces and administers laws covering the production, use, and distribution of alcohol and tobacco products. TTB also collects excise taxes for firearms and ammunition.

**Bureau of Engraving and Printing (BEP)** designs and manufactures U.S. currency, many stamps, securities, and other official certificates and awards.

**Bureau of the Public Debt (BPD)** borrows the money needed to operate the Federal Government. It administers the public debt by issuing and servicing U.S. Treasury marketable, savings, and special securities.



# Introduction



**Financial Crimes Enforcement Network (FinCEN)** supports law enforcement investigative efforts and fosters interagency and global cooperation against domestic and international financial crimes. It also provides U.S. policy makers with strategic analyses of domestic and worldwide trends and patterns.

**Financial Management Service (FMS)** receives and disburses all public monies, maintains government accounts, and prepares daily and monthly reports on the status of U.S. Government finances.

**Internal Revenue Service (IRS)** determines, assesses, and collects internal revenue in the United States.

**U.S. Mint (Mint)** designs and manufactures domestic, bullion, and foreign coins as well as commemorative medals and other numismatic items. The Mint also distributes U.S. coins to the Federal Reserve banks as well as maintains physical custody and protection of our nation's gold and silver assets.

**Office of the Comptroller of the Currency (OCC)** charters, regulates, and supervises national banks to ensure a safe, sound, and competitive banking system that supports the citizens, communities, and economy of the United States.

**Office of Thrift Supervision (OTS)** regulates all federal and many state-chartered thrift institutions, which include savings banks and savings and loan associations.

## Treasury Offices

**Departmental Offices (DO)** formulates policy and manages Treasury operations.

**Office of Terrorism and Financial Intelligence (TFI)** provides policy, strategic, and operational direction to the Department of the Treasury on issues relating to implementation of the Titles I and II of the Bank Secrecy Act (financial record keeping and reports of currency and foreign transactions), U.S. economic sanctions programs, combating terrorist financing, combating financial crimes (including money laundering, counterfeiting, and other offenses threatening the integrity of the banking and financial systems), other enforcement matters, intelligence analysis and coordination functions, and security functions and programs of Treasury. TFI includes two major components: the **Office of Terrorist Financing and Financial Crimes (TFFC)** and the **Office of Intelligence and Analysis (OIA)**. TFFC is responsible for TFI's enforcement functions and for integrating the **FinCEN**, **Office of Foreign Assets Control (OFAC)**, and the **Treasury Executive Office of Asset Forfeiture (TEOAF)**. TFFC also works in close partnership with the IRS's Criminal Investigations unit (IRS-CI). OIA is responsible for intelligence functions and building analytical capability on terrorist financing by coordinating and overseeing work involving intelligence analysts in all components of Treasury. OIA is responsible for ensuring that the intelligence needs of FinCEN and

# Introduction

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OFAC are met, and for providing intelligence support to Treasury senior officials on a wide range of international and other relevant issues. FinCEN administers the Bank Secrecy Act; supports law enforcement, intelligence, and regulatory agencies through sharing and analysis of financial intelligence; builds global cooperation with counterpart financial intelligence units; and networks people, ideas, and information. OFAC administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign countries, terrorists, international narcotics traffickers, and those engaged in activities related to the proliferation of weapons of mass destruction. TEOAF administers the **Treasury Forfeiture Fund (TFF)**, which supports Treasury's national asset forfeiture program in a manner that results in Federal law enforcement's continued effective use of asset forfeiture as a law enforcement sanction to punish and deter criminal activity. TFF is the receipt account for non-tax forfeitures made by IRS-CI and the following Department of Homeland Security agencies: U.S. Immigration and Customs Enforcement, U.S. Customs and Border Protection, U.S. Secret Service, and U.S. Coast Guard.

**Office of International Affairs** advises and assists in the formulation and execution of U.S. international economic and financial policy, including the development of policies with respect to international financial, economic, monetary, trade, investment, bilateral aid, environment, debt, development, and energy programs, including U.S. participation in international financial institutions.

**Exchange Stabilization Fund (ESF)** is used to purchase or sell foreign currencies to hold U.S. foreign exchange and Special Drawing Rights assets, and to provide financing to foreign governments. All operations of the ESF require the explicit authorization of the Secretary of the Treasury.

**Community Development Financial Institutions Fund (CDFI Fund)** expands the availability of credit, investment capital, and financial services in distressed urban and rural communities.

**Federal Financing Bank (FFB)** provides Federal and Federally assisted borrowing, primarily to finance direct agency activities such as construction of Federal buildings by the General Services Administration and meeting the financing requirements of the U.S. Postal Service.

**Office of D.C. Pensions** makes Federal benefit payments associated with the District of Columbia (DC) Retirement Programs for police officers, firefighters, teachers, and judges.

**Air Transportation Stabilization Board (ATSB)** issues Federal credit instruments (loan guarantees) to assist air carriers that suffered losses as a result of the terrorist attacks on the United States that occurred on September 11, 2001.

# Significant Audits and Evaluations



## Financial Management

### Consolidated Financial Statements

An Independent Public Accountant (IPA), working under OIG supervision, issued an unqualified opinion on the Department of the Treasury's fiscal year 2004 consolidated financial statements. We audited and expressed an unqualified opinion on the Department's fiscal year 2003 consolidated financial statements. The fiscal year 2004 audit identified two reportable conditions related to (1) financial management and reporting at the IRS, and (2) electronic data processing controls over financial systems at FMS. The reportable condition related to financial management and reporting at the IRS is considered a material weakness. The IPA also reported that the Department's financial management systems are not in substantial compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA). In addition, the audit identified two other instances of reportable noncompliance with laws and regulations. **(OIG-05-007)**



The Department's ability to maintain unqualified audit opinions while accelerating its performance and accountability reporting for 3 consecutive years has clearly established it as a leader in federal financial reporting. Another significant achievement during the fiscal year 2004 financial audit cycle was the progress made by certain bureaus in addressing information security weaknesses identified in prior years' audits. As a result, the only bureau that continues to have a material weakness in information security reported in connection with its annual audit is the IRS.

Also in connection with its audit of Treasury's consolidated financial statements, the IPA issued a management letter that identified other matters, not required to be included in its report on the financial statements, where Treasury could improve the quality and efficiency of financial reporting. Specifically: (1) financial reporting standards for Department component entities should be consistent; (2) analysis of financial reports at the Department level should be improved; (3) Fund Balance with Treasury reconciliations should be prepared on a consistent basis; (4) the ESF budgetary accounting methodology should be clarified; (5) segregation of duties should be strengthened related to the Treasury Information Executive Repository (TIER), the financial management system that collects monthly bureau and program office financial data; and (6) access control should be strengthened for TIER and CFO Vision, the financial management system that produces the consolidated financial statements. **(OIG-05-017)**

### Federal Financial Management Improvement Act of 1996

The following instances of FFMIA non-compliance were reported in connection with the fiscal year 2004 audits. The current status of these FFMIA non-compliances, including

# Significant Audits and Evaluations



progress in implementing remediation plans, will be evaluated as part of our audit of Treasury's fiscal year 2005 financial statements.

Entity	Condition	Fiscal Year First Reported for FFMIA Purposes	Type of Non-Compliance
FMS	General control weaknesses may affect information in FMS system.	1997	Federal Financial Management Systems Requirements (FFMSR)
IRS	The general ledger does not conform to the U.S. Government Standard General Ledger.	1997	Standard General Ledger
IRS	IRS lacks an effective audit trail from its general ledger back to subsidiary detailed records and transaction source documents.	1997	FFMSR
IRS	Material weaknesses related to controls over unpaid tax assessments, tax revenue and refunds, and computer security.	1997	FFMSR, Federal Accounting Standards
IRS	IRS cannot rely solely on information from its general ledger to prepare financial statements.	1997	FFMSR
IRS	IRS lacks a subsidiary ledger for unpaid assessments.	1997	FFMSR

## Other Financial Audits

The Chief Financial Officers (CFO) Act as amended by the Government Management Reform Act of 1994 (GMRA), requires annual financial statement audits of Treasury and Office of Management and Budget (OMB)-designated entities. In this regard, OMB has designated IRS for annual financial statements audits. The financial statements of certain other Treasury component entities are audited pursuant to other requirements, or due to their materiality to Treasury's consolidated financial statements. The OIG is also required to perform certain other financial related reviews. The following table shows audit results for fiscal years 2004 and 2003.

# Significant Audits and Evaluations



Treasury Audited Financial Statements and Related Audits						
Entity	Fiscal Year 2004 Audit Results			Fiscal Year 2003 Audit Results		
	Opinion	Material Weakness	Other Reportable Conditions	Opinion	Material Weakness	Other Reportable Conditions
<b>GMRA/CFO Requirements</b>						
Treasury Department	UQ	1	1	UQ	2	1
IRS (A)	UQ	4	2	UQ	4	2
<b>Other Required Audits</b>						
BEP	UQ	0	0	UQ	0	0
CDFI Fund	UQ	0	0	UQ	0	0
Office of DC Pensions	UQ	0	0	UQ	0	0
ESF	UQ	0	0	UQ	0	0
FFB	(B)	(B)	(B)	UQ	0	0
OCC	UQ	0	1	UQ	0	2
OTS	UQ	0	0	UQ	0	0
TFF	UQ	0	1	UQ	0	1
Mint						
Financial Statements	UQ	0	0	UQ	0	0
Custodial Gold and Silver Reserves	UQ	0	0	UQ	0	0
<b>Material to Treasury Department Financial Statements</b>						
BPD						
Schedule of Federal Debt (A)	UQ	0	0	UQ	0	0
Government Trust Funds	UQ	0	0	UQ	0	0
Schedule of Loans Receivable	(C)	0	0	UQ	0	0
FMS						
Treasury Managed Accounts	UQ	0	0	UQ	0	0
Operating Cash of the Federal Government	UQ	0	1	UQ	1	0
TTB Schedule of Custodial Activities	(C)	0	0	UQ	0	3
International Assistance Programs	(D)	0	0	(D)	0	1
<p>UQ Unqualified Opinion</p> <p>(A) Audited by the U.S. Government Accountability Office.</p> <p>(B) Audit report not issued as of March 31, 2005.</p> <p>(C) Separate schedule was not prepared and audited in fiscal year 2004. Related accounts were audited, and any required follow-up on prior year internal control weaknesses was performed as part of the audit of the Treasury's consolidated financial statements.</p> <p>(D) Significant accounts of the International Assistance Programs were audited as part of the fiscal years 2004 and 2003 Treasury Department consolidated financial statement audits. No separate audit reports were issued. These accounts were considered materially accurate.</p>						

# Significant Audits and Evaluations

The fiscal year 2004 IPA audits of Treasury entities, performed under our supervision, noted reportable conditions related to (1) effectiveness of computer controls at FMS pertaining to the Operating Cash of the Federal Government (**OIG-05-008**), (2) accounting for undelivered orders at OCC (**OIG-05-003**), and (3) accounting for indirect overhead expenses of the national seized property contractor by TFF (**OIG-05-016**). These reportable conditions were not considered material weaknesses. We also issued a management letter in connection with our fiscal year 2004 audit of the Mint's Schedule of Custodial Gold and Silver Reserves which identified an internal control weakness related to inventory verification policies and procedures. (**OIG-05-029**)

## Attestation Engagements

### Bureau of the Public Debt Trust Fund Management Branch Schedules

An IPA, working under OIG supervision, issued an unqualified opinion that the assertions pertaining to the BPD Trust Fund Management Branch (TFMB) Schedules for Selected Trust Funds for the Period October 1, 2003, to September 30, 2004, are fairly stated. These schedules relate to the functions performed by TFMB as custodian of the following monies and investments: Federal Supplementary Medical Insurance Trust Fund, Federal Hospital Insurance Trust Fund, Highway Trust Fund, Airport and Airway Trust Fund, Hazardous Substance Superfund Trust Fund, Leaking Underground Storage Tank Trust Fund, Oil Spill Liability Trust Fund, Harbor Maintenance Trust Fund, Inland Waterways Trust Fund, and the South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund. The attestation examination identified one deficiency in internal control related to computer server controls over access to "in-house" developed programs. No instances of reportable noncompliance with laws and regulations were noted. (**OIG-05-005**)

### Treasury Payment for DC Water and Sewer Services

The 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) required the Inspector General to submit a quarterly report to the House and Senate Committees on Appropriations analyzing the promptness of payments with respect to the water and sewer services furnished to the Treasury by DC. For the first and second quarters of fiscal year 2005, we found that the payments for these services were made promptly. In total, FMS forwarded \$11.6 million to DC for water and sewer services collected from Treasury bureaus and other Federal agencies for the two quarters. The requirement for quarterly reports was eliminated by the Consolidated Appropriations Act, 2005. (**OIG-05-001, OIG-05-023**)



# Significant Audits and Evaluations



## Information Technology

### **Fiscal Year 2004 Evaluation of Treasury's Information Technology Pursuant to the Federal Information Security Management Act**

The Federal Information Security Management Act of 2002 (FISMA) requires an annual independent evaluation of Treasury's information security program and practices. An IPA, under OIG supervision, performed the fiscal year 2004 evaluation and determined that despite notable progress, Treasury has significant deficiencies that constitute substantial noncompliance with FISMA. The most important of these deficiencies were:

- Treasury's systems inventory was not accurate, complete, or consistently reported. There have been major variances in the number of systems reported year-to-year, without adequate reconciliation. The number of systems reported in FISMA changed from 708 in fiscal year 2003 to 237 in fiscal year 2004.
- The role and reporting structure of Treasury's Chief Information Officer (CIO) have not been clearly defined.
- Significant deficiencies at the IRS, as identified in TIGTA's fiscal year 2004 FISMA Report, continue to exist. **(OIG-CA-05-001)**

### **Additional Efforts Needed to Mitigate Security Vulnerabilities in the BEP's Network and Systems**

In support of FISMA, Homeland Security Presidential Directive 7, and OMB Circular A-130, *Management of Federal Information Resources*, we continuously identify fiscal year security vulnerabilities that could potentially compromise Department and bureau networks and systems, leaving them open to misuse and attacks.

In March 2003, we completed a vulnerability assessment that identified security vulnerabilities in BEP's network and systems. We recommended that BEP continue to prioritize and address the vulnerabilities detected in BEP's systems and telecommunications devices to mitigate risks and threats and provide sufficient protection for BEP's assets, infrastructure, and information.

We noted that BEP had strategically improved its overall network security. BEP had also taken necessary steps to address a number of security vulnerabilities in its network and systems, especially those identified in both prior and current audits. However, a number of critical vulnerabilities identified in the prior audit report still remain unresolved. Also, we identified a number of new vulnerabilities that could expose BEP's network and systems to unauthorized accesses and exploitation.

We recommended that BEP's Associate Director (CIO) continue to analyze, prioritize, and address the vulnerabilities detected, especially high-risk vulnerabilities, to strengthen the

# Significant Audits and Evaluations

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bureau's security posture. By strengthening its information security posture, BEP will be in a better position to deter hacker attacks and protect its network and systems from various compromises. (OIG-05-024)

## Programs and Operations

### Office of Terrorist Financing and Financial Crimes Needs to Refine Measures for Its Performance Budget and Implement a Data Collection and Reporting System

The Executive Office for Terrorist Financing and Financial Crimes (EOTF/FC) was established in March 2003 within Treasury to provide policy, strategic, and operational direction to the Department on issues relating to terrorist financing, financial crimes, money laundering, and other offenses threatening the integrity of the financial system. In April 2004, the Department realigned these functions in a newly created office headed by the Under Secretary for Terrorism and Financial Crimes.

The objectives of this audit were to determine if EOTF/FC (now TFFC), in accordance with requirements of the Government Performance and Results Act (GPRA), had established (1) performance measures and (2) adequate data collection, validation, and reporting systems to ensure the goals outlined in the Treasury's strategic plan were being achieved.

We found that EOTF/FC developed an initial set of performance measures in June 2003 for the fiscal year 2005 budget. However, these measures were not included in the budget submission because, at the time, Treasury's Office of Performance Budgeting (OPB), which had responsibility for the budget submission, found the measures to be output rather than outcome-oriented, as required by OMB. We also found that EOTF/FC had not implemented a routine data collection and recording system to report performance results. During our audit, TFFC working in conjunction with the OPB, developed a new set of performance measures for the fiscal year 2006 budget submission.

We recommended that TFFC: (1) implement the recently proposed performance measures, adjusted as appropriate based on planned discussions with OMB; (2) implement routine data collection and reporting procedures to help manage its operations and report on its performance measures, including creating a mechanism to allow TFFC to regularly gather reliable data from organizations outside of Treasury; and (3) assess the completeness and reliability of its performance measurement data. TFFC agreed to make these changes but needs to develop an action plan and timetable to complete this action. (OIG-05-032)

### FinCEN Audits

Background The Bank Secrecy Act (BSA), enacted in 1970, authorizes the Secretary of the Treasury to issue regulations requiring financial institutions to keep records and file reports on certain financial transactions. The authority of the Secretary to administer the BSA has been delegated to FinCEN. FinCEN, created in 1990, initially focused on the



# Significant Audits and Evaluations

detection of financial crimes by providing analytical support to law enforcement investigations. Its role changed in October 1994, when it absorbed Treasury's Office of Financial Enforcement—the office that administered the BSA in conjunction with the IRS and other government agencies—consolidating into a single antimoney laundering agency charged with administering the BSA. IRS retained management control over the financial information reported under the BSA.



Two of the more widely used BSA reports include the Currency Transaction Report (CTR) and the Suspicious Activity Report (SAR). CTRs are used to report transactions exceeding \$10,000, while SARs are used to report suspicious financial transactions. Law enforcement agencies use SARs to identify potential investigative leads to financial crimes such as money laundering and terrorist financing. Aggregated SAR data is also analyzed to identify trends and emerging criminal activities, as well as developing intelligence data. Nearly 1.5 million SARs have been filed with FinCEN from April 1996 through December 2003.

The BSA was amended by the USA PATRIOT Act, which was signed into law in October 2001. The number of financial institutions subject to BSA reporting requirements expanded dramatically following passage of the Act, largely due to a provision that requires non-financial trades and businesses to file a report when receiving over \$10,000 in cash or cash equivalents.

Currently, an estimated 220,000 financial institutions are potentially subject to BSA reporting and recordkeeping requirements. The institutions include: (1) depository institutions (banks, thrifts, and credit unions); (2) brokers or dealers in securities; (3) money services businesses (MSB)—money transmitters; issuers, redeemers, and sellers of money orders and travelers' checks; check cashers and currency exchangers; and (4) casinos and card clubs. However, a much smaller number of institutions, approximately 25,000 by October 2003, actually filed reports. Institutions can file BSA reports by paper or electronic means. Electronic filings can be made using cartridge, tape, diskette, or through BSA E-Filing.

During the period, we completed three audits related to FinCEN's BSA and USA PATRIOT Act responsibilities as follows:

- SAR Data Quality We assessed the status of FinCEN's implementation of its management corrective action plan in response to our December 2002 report entitled *FinCEN: Reliability of Suspicious Activity Reports* (OIG-03-035). In that prior report, we raised concerns over longstanding SAR data quality problems and that these data problems could adversely affect FinCEN's ability to meet its core mission relative to the BSA and attendant money laundering programs.

# Significant Audits and Evaluations

Our follow-up audit found that FinCEN had not established data quality standards from which SARs could be routinely monitored for data quality purposes. While FinCEN began implementing the outreach features of the corrective action plan, the majority of the previously reported control weaknesses and conditions remained outstanding. During our follow-up audit we also sampled 406 SARs, finding that 251 (62 percent) of the SARs contained one or more data quality problems (i.e., missing, incomplete, inappropriate, and or inconsistent information) in a data field critical to law enforcement agencies.

FinCEN management stated that our recommendations, when considered contextually and accorded the appropriate priority in view of the many important compliance issues, will assist in better ensuring that SARs contain as much useful information as is available to filers. FinCEN generally concurred with our recommendations and described the actions taken or planned in response to each recommendation. **(OIG-05-033)**

The image shows a 'Suspicious Activity Report' form. At the top, it says 'Suspicious Activity Report' and 'July 2003'. Below that, it lists 'Previous editions will not be accepted after December 31, 2003'. The form is divided into sections: 'Part I Reporting Financial Institution Information' and 'Part II Suspect Information'. It includes fields for name, address, city, state, zip code, and account numbers. It also has sections for suspect information, including name, address, date of birth, and relationship to the financial institution. The form is a standard FD-302 form used by the FBI.

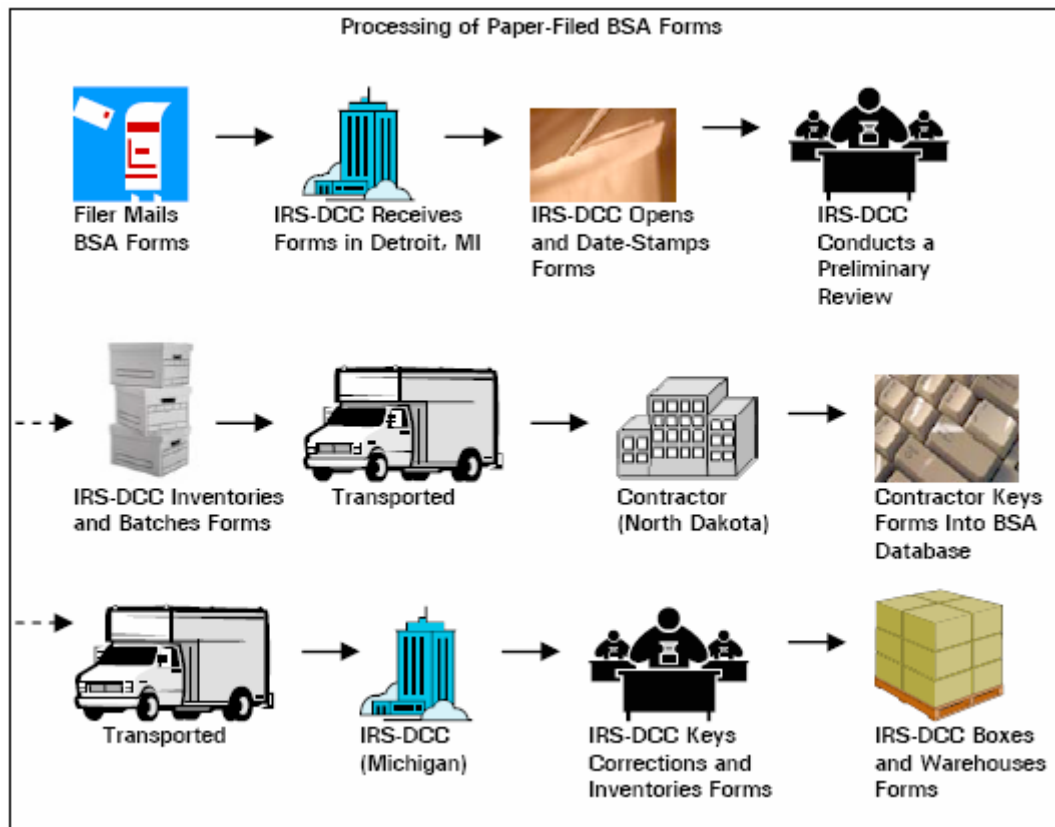
- BSA Direct E-Filing** The USA PATRIOT Act required FinCEN to develop a highly secure network to (1) allow financial institutions to file reports as required by BSA regulations and (2) provide financial institutions with alerts and other information regarding suspicious activities that warrant immediate and enhanced scrutiny. In response, FinCEN developed BSA Direct E-Filing (BSA E-Filing). BSA reports filed through BSA E-Filing primarily include CTRs and SARs. Use of BSA E-Filing is not mandatory; however, FinCEN promotes electronic filing in support of the federal government’s efforts to receive timely BSA information for law enforcement’s use to prevent and detect money laundering, terrorist financing, and other financial crimes.



We found BSA E-Filing to be an effective mechanism for filing BSA reports. BSA E-Filing reduces processing time; provides controls to improve the accuracy, completeness, and security of BSA data; could significantly reduce the cost of processing BSA reports if used instead of paper processing; and, was found to be easy to use by institutions using the system to file reports. However, as of October 2003 only about 1 percent of the institutions filing BSA reports had enrolled with FinCEN to use BSA E-Filing, and of those, even fewer had actually filed such reports using the system. Reasons for not using BSA E-Filing varied. Sixty-three percent of institutions not enrolled in BSA E-Filing that we surveyed reported that they were not familiar with

# Significant Audits and Evaluations

the system. Other non-enrollees cited low report volume, insufficient BSA E-Filing knowledge, or the lack of Internet capability. Enrolled institutions suggested easier user set-up, digital certification/authentication, and data entry could improve BSA E-Filing. We recommended that FinCEN increase awareness of BSA E-Filing by working with financial regulatory partners to conduct additional outreach efforts to potential users of the system. We also recommended that FinCEN evaluate and select certain enhancements to BSA E-Filing that could encourage increased enrollment with and use of the system. To maximize the benefits to law enforcement and reduce the cost associated with paper-filed BSA reports, we recommended as a long-term measure that FinCEN assess the feasibility and advisability of mandating the use of the BSA E-Filing system. In this regard, Treasury could make better use of the approximately \$48 million that would be spent over the next 3 years on paper BSA processing, which is depicted in the following chart. Management concurred with the recommendations in our report. (OIG-05-034)



- Establishment of the FinCEN Office of Compliance As mandated by the Conference Report to the Consolidated Appropriations Act, 2005, we assessed the status of FinCEN's progress in establishing the Office of Compliance. Our office was specifically directed to assess: (1) FinCEN's full-time equivalent (FTE) sufficiency to conduct an effective BSA compliance program and (2) the level of cooperation being achieved in implementing FinCEN's planned memoranda of agreements (MOU) with the Federal

# Significant Audits and Evaluations

regulatory agencies charged with examination and enforcement responsibilities for BSA compliance.

We found that FinCEN established the Office of Compliance during August 2004, and at the time of our review, was actively recruiting to increase its staffing from 5 to 22 employees by August 2005. We were unable to make a fully informed assessment of FTE sufficiency because FinCEN management needed to determine the nature and extent of the Office's workload. For example, the number, type, and complexity of cases likely to be referred to FinCEN on an ongoing basis were not yet known. We also found that FinCEN had executed an MOU with the 5 Federal banking agencies (OCC, OTS, Federal Deposit Insurance Corporation (FDIC), Board of Governors of the Federal Reserve System, and National Credit Union Administration) in September 2004, and had achieved a satisfactory level of cooperation under the MOU. However, it was still very early in the life of this MOU, the MOU does not provide for penalties for non-compliance, and separate MOUs were just being developed with other Federal and State regulatory agencies. **(OIG-05-030)**

## Delayed Mint A-76 Competition Study

OMB Circular No. A-76 (Revised in May 2003), *Performance of Commercial Activities*, reiterates the longstanding policy of the federal government to rely on the private sector for needed commercial services. In general, the Circular requires that federal agencies identify activities performed by government personnel as either "commercial" or "inherently governmental." Agencies are then to use a "streamlined" or "standard" competition to determine if government personnel should perform a commercial activity. Under the Circular, a standard competition study is to be completed and a "performance decision" made within 12 months.

In October 2003, the Mint issued a *Public Announcement of OMB Circular A-76 Standard Competition Study on United States Mint Preparation of Ready-to-Coin Planchets* involving the manufacturing processes of blanking, annealing, and upsetting (BAU) of coin blanks. Therefore, the decision whether or not to contract out BAU manufacturing processes to the private sector or continue performing them with Mint personnel was due near the end of October 2004.

The Congress directed our office to perform a study on the potential and cost-effectiveness of expanded use of coin blanks in the production of circulating coins and submit a report on our study to the House and Senate Committees on Appropriations by April 1, 2004. In letters dated March 23, 2004, we informed the Congress that since the Mint had already publicly announced the BAU competition study, the study as described in the Conference Report could not be performed. However, we advised that we had initiated an audit to determine whether the Mint was conducting the BAU competition study in accordance with OMB requirements and Mint policies.

# Significant Audits and Evaluations



As discussed in our October 2004 Interim Audit Report on this audit, we found that (1) the Mint missed certain critical intermediate steps and milestone dates for completing the BAU competition study (in October 2003), and accordingly, did not complete the study within the 12-month timeframe required by the Circular; (2) draft performance work statements (PWS) prepared by the Mint included inconsistent BAU manufacturing specifications and inspection criteria; (3) the Mint did not prepare the required justification for its decisions regarding Government Furnished Property (GFP) to be offered to potential contractors/offerors (bidders); and (4) potential conflicts of interest by Mint officials and staff involved in the Mint's A-76 process existed. We recommended that the Mint: (1) inform the Assistant Secretary for Management and Chief Financial Officer, the Department's Competitive Sourcing Official, that the BAU competition study was not completed within 12 months; (2) establish achievable intermediate steps and milestones for the study going forward; (3) ensure that manufacturing and inspection criteria in the PWS are consistent; (4) determine, and appropriately justify, whether government furnished property will be offered in the PWS; and (5) assign responsibilities for competitive studies and annual inventories of inherently governmental and commercial activities consistent with the Circular's requirements. Mint management agreed with the findings and recommendations and provided its corrective actions taken and planned to implement the recommendations. We are continuing to audit the BAU competition study, which will include follow-up on these matters. (OIG-05-002)

## **FMS Addressed Recommendations from Earlier Audit to Improve Controls Over the Access, Disclosure, and Use of Social Security Numbers by Third Parties**



We performed a follow-up audit on a 2003 audit report on FMS controls over Social Security Numbers (*FMS Continues To Improve Its Controls Over the Access, Disclosure, and Use of Social Security Numbers by Third Parties*; OIG-03-083). During the previous audit, we found that FMS needed to better document, maintain, and monitor third party agreements to ensure that security requirements were met. We also found that FMS at the time needed to strengthen its general security controls over Information Technology applications and systems. Ten recommendations were identified for corrective action. The objective of this audit was to determine the status of corrective actions taken by FMS in response to the recommendations contained in the previous report. We found that FMS addressed the recommendations in our prior report. The recommendations were all closed by January 2004. (OIG-05-022)

## **Formal Review Process Could Better Ensure Continued Treasury Oversight of Customs Revenue Activity**

Each year the United States collects billions of dollars in duties, taxes, and fees from importers bringing goods and merchandise into the country. Until recently, the Department of the Treasury collected this revenue. The Homeland Security Act (HSA) of 2002 transferred the former U.S. Customs Service from Treasury to the Department of Homeland Security (DHS) in March 2003, along with revenue collection responsibility.

# Significant Audits and Evaluations



These revenues are now collected by the U.S. Bureau of Customs and Border Protection (CBP), which is also responsible for prescribing regulations and issuing rulings and determinations related to international trade.

Under the HSA, Treasury retained authority to review customs revenue functions. Treasury's Office of Tax Policy reviews certain revenue function regulations and rulings to ensure they are implemented in accordance with national tax, trade, and tariff policies. This function was formalized in Treasury Order (TO) 100-16, *Delegation from the Secretary of the Treasury to the Secretary of Homeland Security of general authority over customs revenue functions vested in the Secretary of the Treasury as set forth in the Homeland Security Act of 2002*.

The objective of our audit was to assess how well this TO was implemented. Although Treasury did not have specific documentation in place that would demonstrate its effectiveness in fulfilling its responsibilities related to customs revenue, our audit found that Treasury reviewed most customs revenue function-related regulations as required. However, CBP finalized two regulations without required Treasury review and approval. We also noted that determinations and rulings were reviewed in detail on a selective basis. Furthermore, we found the Department had not developed policies, procedures, and controls to ensure: (1) all matters related to customs revenue that require Treasury review were, in fact, submitted by DHS for Treasury review; and (2) the reviews and conclusions reached were documented in a consistent manner and subjected to supervisory review within the Office of Tax Policy so as to ensure Treasury's policy objectives are achieved.

We recommended that the Assistant Secretary for Tax Policy: (1) ensure all customs revenue function-related matters requiring Treasury approval or review are provided by DHS in accordance with TO 100-16, and (2) establish written procedures regarding the Office of Tax Policy's responsibility for monitoring DHS compliance with TO 100-16. In a written response to this report, Treasury indicated actions were taken to implement both recommendations. **(OIG-05-006)**

# Significant Investigations

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## Senior Executive of Hamilton Bank Pleads Guilty

As reported in our September 2004 Semiannual Report, a 42-count indictment was returned by the federal grand jury in the Southern District of Florida against Eduardo Masferrer, John Jacobs, and Juan Carlos Bernace for violation of False Statements to Accountants (15 USC §78m), Obstruction of Examination of a Financial Institution (18 USC §1517), making false statements to OCC (18 USC §1001), Conspiracy (18 USC §371), Wire Fraud (18 USC §343), Securities Fraud (15 USC §78j), and False Filings with the Securities and Exchange Commission (15 USC § 78m). In 2002, Treasury OIG conducted a Material Loss Review of Hamilton Bank and determined the bank's closure was due to unsafe and unsound practices. Subsequently, a 2-year FDIC and Treasury OIG criminal investigation led to charges against three former senior executive officers of Hamilton Bancorp and Hamilton Bank, N.A. One executive also was charged with insider trading.

Case Update Juan Carlos Bernace, President and a Director of Hamilton Bancorp and Hamilton Bank, pleaded guilty to 2 counts of Securities Fraud (15 USC §78j) before United States District Court Judge James Lawrence King in Miami, Florida. Bernace faces a maximum statutory term of imprisonment of 10 years on each count. He also faces a maximum fine of \$1 million as well as restitution. The Hamilton Bank trial is scheduled for later this year.

## Businessman Indicted for Misuse of Treasury Seal and Impersonating a Foreign Official



As a result of a Treasury OIG investigation concerning the unauthorized use of the United States Treasury Seal and forging the signature of the Treasury Secretary, an individual was arrested and indicted on Federal charges on January 21, 2004, for Bank Fraud (18 USC §1344). On October 30, 2003, Special Agents from Treasury OIG and the United States Secret Service (Secret Service) executed a search warrant at the individual's Chicago residence. The search yielded evidence confirming the subject's involvement in a variety of financial crimes including the impersonation of a foreign government official.

Case Update Since our last Semiannual Report, superseding indictments were returned charging violations of Wire Fraud (18 USC §1343), Mail Fraud (18 USC §513a), and Bank Fraud (18 USC §1341), associated with Advance Fee Schemes (18 USC §1344) in excess of \$400,000 along with the forgery and uttering of over a half million dollars in altered and counterfeit checks. Further judicial action is pending.

# Significant Investigations

## District Resident Arrested in Real Estate Scam



An investigation conducted by the Treasury OIG resulted in the arrest of a Washington, DC resident for intent to defraud the Government. The individual presented to a real estate company a fictitious Department of the Treasury instrument, with the Secretary as the trustee, in the amount of \$470,422. On December 15, 2003, Treasury OIG Special Agents arrested the subject for Uttering a Worthless Instrument, in violation of 22 DC Code, Sections 3241, 3241(c) (2001 ed.).

Case Update Further investigation in this case led the OIG and the Secret Service Metro Area Fraud Task Force to execute an arrest warrant for subject on charges of Obstruction of Justice, 22 DC Code, Section 722, for making threats against a criminal investigator. The investigation also led to the execution of a search warrant at the subject's residence. Following his arrest, the subject was ordered by the Superior Court Judge to be incarcerated pending trial which is scheduled for April 2005.

## Cigarette Licensee Exceeds Limit on Purchase of Cigarettes and Arrested on Credit Card Fraud and Identity Theft Charges

The Treasury OIG, U.S. Postal Inspection Service, and the Federal Bureau of Investigation (FBI) executed a federal search warrant on the residence of a Richmond, VA couple. The search warrant was the result of an ongoing federal investigation involving Identity Fraud and over \$800,000 in Bank/Credit Card Fraud related to the purchase and resale of \$2.5 million in cigarettes. Using stolen credit cards for payment, the couple, licensees of TTB, structured cigarette purchases equating to amounts well in excess of their licensed limit, thereby denying TTB revenue.



Case Update On February 9, 2005, the couple pled guilty in federal court on Bank Fraud (18 USC §1344) and Conspiracy (18 USC §371) charges. The husband, Mohamed Ahmed, was sentenced to 57 months in jail, 3 years supervised probation, and ordered to pay \$734,569 in restitution. Ahmed's wife, Miriam Salah, was given time served (59 days in jail), 2 years probation, and ordered to pay \$15,100 in restitution.

## Former FMS Employee and Spouse Plead Guilty to Conspiracy and Other Crimes

As previously reported, a former FMS employee and her spouse were indicted and arrested for their involvement in an ongoing scheme to defraud the government. From January 1999 to December 2000, the former employee participated in awarding more than 100 government training agreements to two software training businesses operated by herself and her spouse. Payments totaling more than \$139,600 were made to two businesses, Computer Image and C & D Training Consultants.



# Significant Investigations

In September 2004, both subjects pled guilty to 1 count Conspiracy (18 USC §371), 2 counts Wire Fraud (18 USC §1343 and §1346), and 1 count Conflict of Interest (18 USC §208).

Case Update On February 14, 2005, Veronica Hardy-Everette and Charles Daniel Everette, were sentenced in United States District Court for the District of Maryland to 1 year imprisonment and 3 years probation.

## Overseas Adviser Admits to False Claims

A Treasury OIG investigation determined that an Office of Technical assistance contract advisor for financial institutions had bilked the Government by submitting fictitious claims involving the storage of his personal property and health care expenses while serving overseas from June 2002 through July 2004. The total amount of his false claims was \$16,521. The advisor was terminated from his contract employment as a result of our investigation.

Case Update This matter has been accepted for criminal prosecution by the United States Attorney's Office (USAO) of the District of Columbia. The USAO office has advised the subject that he is to be charged for submitting false invoices for rental storage and false invoices concerning his health care cost under False Claims (18 USC §287).

## FMS Contractor Employee Sentenced

As a result of a joint investigation with the Secret Service and U.S. Department of Labor OIG, Anthony Williams pled guilty to eight counts of Forgery (18 USC §510) in June 2004 in the Eastern District of Pennsylvania. Williams was charged for his involvement in the theft and forgery of Treasury and private business checks while he was an employee of Jetsort, a mail sorting contractor of the FMS.

Case Update On October 4, 2004, Williams was sentenced to 19 months incarceration, 60 months supervised release, and ordered to pay restitution of \$4,557. Williams is the last of four subjects to be prosecuted for the theft and forgery of over 40 checks valued at approximately \$55,000.



## Fictitious Bill of Exchange Scam

The Treasury and the Department of Housing and Urban Development OIGs conducted an investigation involving fraudulent predatory lending practices. Utilizing a fictitious Bill of Exchange, the subject's name was associated with an alleged private direct account where the Treasury Secretary was registered as the trustee. The individual used fraudulent Bill of Exchange instruments to purchase \$1.6 million in real estate from low income families.

# Significant Investigations



Case Update On November 17, 2004, an individual was indicted in the U.S. District Court of Maryland on 13 counts of Fictitious Government Financial Instruments (18 USC §541). The individual was arrested on November 19, 2004.

## **Metro Richmond Fraud and Identity Task Force Assist Leads to Federal Bank Fraud Investigation**

Treasury OIG, as a member of the Metro Richmond Fraud and Identity Theft Task Force (FITTF), received a request for investigative assistance from the Henrico County VA, Police Department - Economic Crimes Unit after three individuals were arrested on drug and check fraud charges as a result of a marijuana complaint at a local hotel. During the arrest, patrol officers seized fraudulent drivers licenses, counterfeit credit cards, two counterfeit checks, one Cashiers Check (\$9,000), and over \$20,000 in cash.

The investigation had linked the three subjects to 14 additional account takeovers in the Eastern District of Virginia involving \$112,400 in fraud and a loss of \$93,000 to a bank regulated by the OCC. The investigation is ongoing.

## **Richmond, VA Woman Robs Postal Carrier of Treasury Check**

A joint investigation with the Treasury OIG and the U.S. Postal Inspection Service (USPIS) resulted in the arrest of a Richmond resident on charges stemming from the robbery “by physical force” of a U.S. Postal Carrier in July 2004. During the robbery, a U.S. Treasury Check in the amount of \$1,203 was stolen, the payee’s signature forged and negotiated. The woman intended to use the proceeds to further her other criminal activities, such as prostitution and drug use.

Case Update On January 25, 2005, Angie Martin pled guilty in Richmond City Circuit Court to one count each of Grand Larceny (VACC 18.95) and Forgery (VACC 18.270). Martin was sentenced to 1 year home detention/electronic monitoring, 5 years probation, and was ordered to pay full restitution of \$1,203.

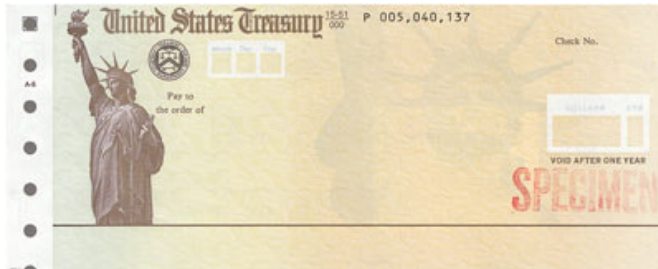
## **Roanoke, VA Postal Carrier Arrested for Stolen Treasury Checks**

Acting on information from the USPIS, Treasury OIG and USPIS Special Agents recovered two stolen U.S. Treasury Checks valued at \$1,564 from the residence of a postal carrier following the execution of a federal search warrant. The investigation disclosed that while the subject was performing his duties as a U.S. Postal Carrier, he stole several hundred pieces of U.S. Mail and concealed them at his residence.

The individual was arrested and charged with Theft of Mail (U.S. Treasury Check) by a Postal Employee (18 USC §1709). The investigation continues.

# Significant Investigations

## MS-13 Gang Members Implicated in the Theft and Forgery of Treasury Checks



In October of 2004, the Prince George's County Police Department and the Regional Area Gang Enforcement Unit (RAGE) requested the assistance of the Secret Service Task Force regarding the negotiation of six stolen United States Treasury Tax Refund Checks with losses totaling \$18,242. The joint investigation revealed

that the stolen Treasury Checks were cashed utilizing counterfeit identification cards and social security cards. It is common practice for members of the MS-13 to obtain and use false identification documents in order to assist them in committing other crimes. Through a coordinated effort of the agencies involved, the investigation has identified two suspects purported to be associated with MS-13. At this time, a Maryland State arrest warrant has been issued charging Felony Theft (Maryland Code §7-104), Uttering (Maryland Code §8-609(b)(2)), and Forgery (Maryland Code §8-601a), for the theft and negotiation of a U.S. Treasury Check. The OIG, working with RAGE and the Metro Area Fraud Task Force, are actively seeking the individual for whom this arrest warrant has been issued.

## South Carolina Man Indicted on Forgery of U.S. Treasury Checks



A joint investigation with the Social Security Administration (SSA) OIG resulted in the indictment of a Columbia, SC man who had been forging and cashing his deceased mother's widow benefits checks from 1989 until 2001. The subject failed to notify the SSA of his mother's death, and after multiple failed attempts to validate his mother's health, the SSA discontinued the benefits payments. FMS was unable to locate

documentation recording the death or change in the status of the deceased's account. The subject admitted to having forged his mother's signature on the benefits checks, for a total loss of \$66,799. The USAO for the District of South Carolina indicted the subject on 7 counts of forgery of Treasury checks. These charges relate to the last year of the on-going fraud.

## U.S. Mint Shipment of Nickels Disappears, Five Subjects Arrested



In January 2005, the Treasury OIG received a report from the Mint Police regarding the disappearance of a shipment of nickels valued at \$180,000. On December 18, 2004, a Mint contractor with his tractor-trailer loaded with nickels departed the Mint facility in New Jersey en route to a Federal Reserve Bank facility in Louisiana. On December 20, 2004, the tractor-trailer was found abandoned near Fort Pierce, Florida, and the driver's whereabouts were unknown. Acting on a tip from an informant, a consensual search of a farm

in the Miami-Dade County area was conducted by the Drug Enforcement Agency Task Force

# Significant Investigations

and the FBI Cargo Theft Task Force. Pursuant to the search, approximately \$160,000 worth of nickels were recovered, a marijuana grow house was identified, and five subjects were arrested. This incident was the subject of a segment on a recent episode of the television program, *America's Most Wanted*, in efforts to locate the driver of the tractor-trailer. Investigation continues.

## Violation of BEP Security Protocols Leads to Currency Theft



Treasury OIG was notified by BEP Police of a possible theft of currency from the Western Currency Facility (WCF) in Ft. Worth, Texas. A joint investigation with the Secret Service identified a BEP employee who allegedly removed at least \$5,000, in increments of \$50 Federal Reserve Notes, from the WCF. The investigation determined that the employee circumvented or violated multiple BEP security policies and procedures. The suspect has been terminated from BEP, and indictments are expected later this year in the Northern District of Texas.

## Anonymous Complaint Reveals Mint Police Officers' Acceptance of Gratuities



An anonymous complaint alleged that certain members of the Mint Police regularly accepted gratuities in the form of free meals from local merchants in and around the Headquarters Mint Police facility. Evidence gathered revealed 20 Mint Police officers had been accepting meals from 3 restaurant businesses without paying for them on a weekly basis. The estimated value of meals received ranged from \$132 to \$220 per week. This matter was presented to the USAO for the District of Columbia who declined criminal prosecution opting instead for administrative remedies. A Report of Investigation is being prepared.

## Former Treasury Franchise Fund CFO Admits to Running an Illegal Parking Program

An investigation was initiated upon receiving a referral from the Franchise Fund that a former Treasury Franchise CFO misused funds from a parking program. The investigation determined the former CFO had been running an unauthorized parking service for the tenants of the Fallon Federal Building in Baltimore, MD. For the past 7 years, this enterprise generated revenue in excess of \$100,000. The subject used most of the revenue to pay personal bills and also to pay cash to himself.

Facing a formal Notice of Proposed Removal, he retired on January 18, 2005. This case has been referred to the USAO for the District of Maryland for prosecution, charging the subject with violation of Salary of Government officials and Employees Payable only by the United States, (18 USC §209, (supplementation of salary), and Acts Affecting a Personal Financial Interest (18 USC §208).

# Significant Investigations

## DC Resident Arrested and Indicted on Theft and Burglary Charges

On September 27, 2004, the Treasury OIG and DC Metropolitan Police arrested a DC resident and executed a search warrant as a result of an OIG investigation into thefts from Treasury and other tenants at an office building in Washington, DC. The investigation revealed that the subject was also responsible for multiple thefts from other government facilities and commercial buildings throughout the DC metropolitan area. She was subsequently arrested and charged in Montgomery County, Maryland, and Washington, DC, for thefts involving the government agencies. On December 6, 2004, the subject pled guilty in Maryland to misdemeanor theft charges stemming from her thefts from a government facility. Investigation continues as the subject continues to cooperate and provide additional information about her activities.

## Senior Executive Misuses Time and Attendance

A Treasury OIG investigation established that a senior executive working in DO had abused time and attendance procedures. The investigation, predicated on an anonymous complaint, established that the former employee was absent from work, without taking any leave, for approximately 46 days, valued at \$25,883, from July 2002 through December 2004. The subject could not explain his excessive leave balance, although in 2002 while a government employee of another Department, he received \$5,841 by settling unused annual leave hours. The employee resigned from his position in December 2004. This case was referred and accepted for criminal prosecution by the Public Integrity Section, Department of Justice.

## Contractor Misuses Government Purchase Card



The Treasury and General Services Administration OIGs conducted an investigation into the misuse of a purchase card of a government fleet vehicle. The investigation determined that an FMS contractor employee charged \$650 for purchases for snack food, cigarettes, and condoms. From approximately October 2004 to January 2005, the contractor made numerous unauthorized transactions. The individual was arrested for Theft (22 DC Code 3811) and his contract employment immediately terminated by FMS. The individual is awaiting prosecution by the USAO in Washington, DC.

## Former INS Attorney Violates Conflict of Interest on FMS Program

The Treasury and Department of Homeland Security OIGs, conducted an investigation into a former Immigration and Naturalization Service (INS) employee engaged in a conflict of interest (18 USC §207) when he appeared as a witness on behalf of an insurance company that issues immigration bonds during a hearing conducted by FMS. During the hearing, the former employee stated he reviewed the company's bonds while employed with INS and participated in settlement discussions involving the Department of Justice and the company. The USAO in Washington, DC has accepted the case for prosecution for violation of 18 USC §207.

# Significant Investigations



## **Principals of Sinclair Bank Fraud Sentenced**

As previously reported, in August 2004, Susan Sinclair Wintermute was convicted by a jury in the Western District of Missouri of Conspiracy to Commit a False Statement (18 USC §371) and Making a False Statement (to the OCC) (18 USC §1001), and Clarence Stevens was convicted of Conspiracy to Commit Bank Fraud (18 USC §371).

Case Update On March 25, 2005, Wintermute and Stevens appeared for sentencing before U.S. District Judge Scott Wright. Wintermute was sentenced to 2 years probation and fined \$5,000. She was also required to surrender her passport immediately. Stevens was sentenced to 5 years incarceration, 3 years supervised release, and ordered to pay \$4.2 million in restitution to the FDIC.

# Other OIG Activity And Accomplishments

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## Treasury OIG Hosts Delegation from China

On November 30, 2004, Deputy Inspector General **Dennis Schindel**, Assistant Inspector General for Investigations **Nick Swanstrom**, Deputy Assistant Inspectors General for Audit **Bill Pugh** and **Bob Taylor** met with a delegation from the Ministry of Supervision, Peoples Republic of China, including the Director-General **Liu Sen**, Sixth Supervisory Department. We discussed the mission of U.S. Government Inspectors General and the Treasury OIG. The meeting was arranged by FCC Group International, Inc. The delegation also visited with other federal OIGs and agencies during their trip to Washington, DC.



Deputy IG Schindel and  
Director-General Liu Sen

## *Office of Audit*

### IGATI Curriculum Review Board

The Inspectors General Auditor Training Institute (IGATI) was created by the President's Council on Integrity and Efficiency (PCIE) in December 1990. IGATI provides training to enhance the skills, abilities, and knowledge of auditors in the federal OIG community. During this semi-annual period, the IGATI Curriculum Review Board (the Board) was formed under the leadership of Assistant Inspector General for Audit **Marla Freedman**. The Board's mission is to assist the PCIE Audit Committee in achieving its strategic goal to identify and provide useful, relevant, and cost-effective auditor training. The Board established a methodology for reviewing each IGATI course offering. That methodology involves a course materials review, classroom observations, and focus group discussions with former students and supervisors. The Board plans to review 12 IGATI courses during fiscal year 2005, and expects to cover all course offerings during the next 3 years. In addition to **Treasury OIG**, the Board currently consists of representatives from the **Naval Audit Service** and the Offices of Inspector General at the **Agency for International Development, Department of Commerce, Department of Defense, Department of Education, Department of Energy, Environmental Protection Agency, Federal Housing Finance Board, General Services Administration, Department of Housing and Urban Development, Department of the Interior, and Social Security Administration.**

### 2005 PCIE/GAO Financial Statement Audit Roundtable

On March 9, 2005, **Bill Pugh** served on a panel at the 2005 PCIE/Government Accountability Office (GAO) Financial Statement Audit Roundtable. The panel also included representatives from OMB, GAO, and a public accounting firm. Mr. Pugh discussed the factors that have enabled the Treasury Department to early implement and sustain the accelerated annual financial statement audits required by OMB, to include detailed planning, the Department's improved monthly and quarterly financial reporting, and effective working relationships between management and the auditors. Mr. Pugh also discussed various aspects of the working relationships among the OIG, its contracted auditors, and GAO that have enabled

# Other OIG Activity And Accomplishments

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Departmental as well as Government-wide financial statement audit objectives to be achieved in the most efficient manner.

## *Office of Investigations*

### **Office of Investigations Joins Multi-Jurisdictional Task Force to Combat Fraud**

In November 2004, the United States Attorney (USA) for the Eastern District of Virginia and the Attorney General for the Commonwealth of Virginia (AGVA) announced the formation of the Metro-Richmond Fraud and Identity Theft Task Force.

The following local, state, and federal authorities joined USA and AGVA in committing resources and personnel from their respective agencies to the task force:

- Treasury OIG, Office of Investigations;
- United States Postal Inspection Service;
- United States Secret Service;
- FBI;
- Henrico County Police Department;
- Richmond Police Department;
- Social Security Administration OIG, Office of Investigations;
- HUD OIG, Office of Investigations;
- Department of Criminal Investigative Services;
- Bureau of Immigration and Customs Enforcement;
- IRS - CI, Criminal Investigations;
- Virginia Department of Motor Vehicles;
- Chesterfield County Police Department; and
- Virginia State Police.

The task force coordinates and integrates the ongoing efforts of the various agencies and task forces throughout the U.S. to fight the growing problem of fraud and identity crimes. By functioning as a repository of expertise and intelligence, the task force will improve the speed, quality, and effectiveness of law enforcement's response to these types of cases. The USA stated: "The formation of this task force is a clear example of the continued commitment of law enforcement in Virginia to set aside jurisdictional boundaries and pool resources to bring the combined power of local, state, and federal law enforcement to bear on those who victimize everyday citizens." The AGVA added: "Today we are taking yet another important step forward in our work to protect the citizens of Virginia from those who would steal their identities, compromise their finances, or otherwise imperil their credit or good name."



# Statistical Summary

## Summary of OIG Activity

For the 12 Months Ended March 31, 2005 (Dollars in Thousands)

OIG Activity	4/1/2004 – 9/30/2004	10/1/2004 – 3/31/2005	Period Totals
<b>Office of General Counsel Activity</b>			
Regulation and Legislation Reviews	65	43	108
Instances Where Information was Refused	1 continuing issue; originally arose in the previous Semi-Annual reporting period; see discussion at page 31.		
<b>Office of Audit Activities</b>			
Reports Issued (Audits and Evaluations)	18	36	54
Disputed Audit Recommendations	0	0	0
Significant Revised Management Decisions	0	0	0
Management Decision in Which the IG Disagrees	0	0	0
Monetary Benefits (Audit)			
a) Questioned Costs	\$0	\$975	\$975
b) Funds Put to Better Use	\$0	\$48,000	\$48,000
c) Revenue Enhancements	\$0	0	0
Total Monetary Benefits	\$0	\$48,975	\$48,975
<b>Office of Investigations Activities</b>			
Reports of Investigation	5	5	10
Preliminary Inquiry Closing Memorandums	4	17	21
Number of OIG Hotline Calls Processed	1,239	517	1,756
Allegations – Total Number Processed	211	212	423
Referrals Made During the Period	101	111	212
Cases Open at Start of Period	54*	113*	61 Start*
Cases Opened in the Reporting Period	58	46	104
Cases Closed in the Reporting Period	6	9	15
Cases Open at the End of the Period	106*	150	150 End
Inquires Open at Start of Period	10*	30*	12 Start*

\*7 cases and 2 inquires were inadvertently not tabulated during the last reporting period. Tabulations are now corrected.

# Statistical Summary

OIG Activity	4/1/2004 – 9/30/2004	10/1/2004 – 3/31/2005	Period Totals
Inquiries Opened in the Reporting Period	23	50	73
Inquiries Closed in the Reporting Period	5	21	26
Inquiries Open at the End of the Period	*28	59	59 End
<b>Judicial Actions</b>			
Cases Referred for Prosecution	28	54	82
Cases Accepted for Prosecution	26	21	47
Arrests	36	59	95
Search Warrants	13	12	25
Indictments/Information	17	8	25
Pleas	4	7	11
Conviction by Trial	2	0	2
Imprisonment (Months)	27	169	196
Home Detention (Months)	12	0	12
Probation (Months)	108	300	408
Community Service (Hours)	25	0	25
<b>Administrative Sanctions</b>			
Adverse Personnel Actions	5	13	18
Contractor Suspensions/Debarments	1	1	2
Individual Suspensions/Debarments	4	5	9
<b>Oversight Activities</b>			
Quality Assessment Reviews	1	0	1
Management Implication Reports	2	1	3
Fraud and Integrity Briefings	2	12	14
<b>Monetary Benefits</b>			
Fines	\$3	\$7	\$10
Restitution	\$0	\$5,019	\$5,019
Recoveries	\$0	\$73	\$73
Settlements	\$350	\$0	\$350
Savings/Cost Avoidance	\$644	\$0	\$644
Actual Losses Identified	\$161,889	\$5,167	\$167,056
Potential Losses Identified	\$2,491	\$48	\$2,539

\*7 cases and 2 inquires were inadvertently not tabulated during the last reporting period. Tabulations are now corrected.

# Statistical Summary

## ***Significant Unimplemented Recommendations***

*For Reports Issued Prior to March 31, 2004*

<b>Report Number</b>	<b>Issue Date</b>	<b>Report Title and Recommendation Summary</b>
OIG-01-014	11/00	<p><i>Review of Treasury Computer Security Plans</i></p> <p>The Treasury CIO should: (i) correct system vulnerabilities identified in DO systems, update DO system security plans, ensure through the certification and accreditation process that system security plans are kept up-to-date and that new system vulnerabilities are identified and addressed; and (ii) develop a means to identify all existing and newly developed DO systems. (1 recommendation)</p>
OIG-02-115	9/02	<p><i>Treasury's Planning, Management, and Implementation of a Smart Card and Public Key Infrastructure (PKI) Needs Improvement</i></p> <p>The CIO should ensure that Treasury: (1) establishes a Treasury program to effectively manage smart cards and PKI; (2) develops a program plan defining roles and responsibilities, and milestones and resources needed for smart card and PKI initiatives; (3) plans for adequate staffing of employees to support smart card and PKI infrastructure as enterprise architecture; (4) develops a strategy to consolidate and minimize the number of smart card and PKI administrative systems (inventory management, personnel management, administrative, travel, manpower, etc.); (5) uses another hard token as an interim security measure along with smart cards to provide strong two-factor authentication for digital certificates; and (6) establishes appropriate record management controls for general, sensitive, and secret information related to the Treasury smart card and PKI infrastructure. (6 recommendations)</p>
OIG-02-122	9/02	<p><i>Community Development Financial Institution (CDFI) Fund</i></p> <p>The CDFI Fund Director should initiate action to amend the OMB Circular A-133 Compliance Supplement to reflect revised accountability requirements for financial assistance funds. (1 recommendation)</p>
OIG-03-007	10/02	<p><i>Controls Over FinCEN's Law Enforcement Data Need Improvement</i></p> <p>The FinCEN Director should establish a formal process for approving, transmitting, and maintaining system access authorization forms to reduce the risks associated with granting excessive or unauthorized access privileges, alterations, misunderstandings, and mishandled forms. (1 recommendation)</p>
OIG-03-034	12/02	<p><i>Audited Financial Statements of the Treasury Forfeiture Fund for Fiscal Years 2002 and 2001</i></p> <p>TEOAF should, for all direct costs and common support costs not directly traceable to individual seizures: (1) develop and implement an allocation process. Indirect costs will have to be applied to the individual seizures. Direct and indirect costs will have to be added together to provide total costs seizure; and (2) vigorously pursue the enhancement of Seized Assets and Case Tracking System (SEACATS) capabilities to record and report expenses at the asset level. (2 recommendations)</p>

# Statistical Summary

## ***Significant Unimplemented Recommendations***

*For Reports Issued Prior to March 31, 2004*

OIG-03-038	12/02	<i>Treasury Departmental Offices' Control Over Computers Needs To Be Improved</i> DO should re-evaluate the method for reporting lost or stolen computers to ensure all losses are reported to the proper authorities. This should include periodic reconciliations between the CIO, Treasury Office of Security and Critical Infrastructure Protection, and the OIG Office of Investigations. (1 recommendation)
OIG-03-093	8/03	<b><i>INFORMATION TECHNOLOGY: Treasury's Cyber-Based Critical Infrastructure Protection Implementation Efforts Remain Inadequate</i></b> The Treasury CIO should finalize draft documents that are key elements of the Treasury Critical Infrastructure Protection Plan and distribute them to DO and the bureaus, ensuring that DO and the bureaus have the necessary guidance to comply with Presidential Decision Directive 63 requirements. (1 recommendation)
OIG-04-003	11/03	<i>The Department of the Treasury's Fiscal Years 2003 and 2002 Financial Statements</i> The Assistant Secretary for Management and Chief Financial Officer should: 1) provide effective oversight to ensure that the specific recommendation detailed in a previous OIG report, and the related plans for corrective actions, are implemented completely and timely by the various bureaus; and (2) oversee efforts to ensure effective financial management structures are established at TTB and International Assistance Program (IAP). (2 recommendations)
OIG-04-007	11/03	<i>Alcohol and Tobacco Tax and Trade Bureau's Schedule of Custodial Activities for Fiscal Year Ended September 30, 2003</i> TTB Management should: (1) review the network services and open ports and disable any that are unnecessary, and review and update current policies and procedures to provide clear guidelines for approving which services will run on servers attached to the network; and (2) complete an inventory of all databases within the environment, and ensure that all default passwords have been removed, user and developer access is appropriate, and database server passwords abide by TTB password requirements. In addition, TTB should develop policies and procedures to ensure the database server is periodically scanned for weak or default passwords. (2 recommendations)
OIG-04-016	12/03	<i>The Department of the Treasury Forfeiture Fund's Fiscal Years 2003 and 2002 Financial Statements</i> TEOAF should: (1) develop an allocation process for all common support costs not directly traceable to individual seizures; and (2) vigorously pursue the enhancement of SEACATS capabilities to record and report total expenses at the asset level. (2 recommendations, repeated from OIG-03-034)

# Statistical Summary

## ***Significant Unimplemented Recommendations***

*For Reports Issued Prior to March 31, 2004*

OIG-04-022	2/04	<p><i>Management Letter for Fiscal Year 2003 Audit of the Department of the Treasury Financial Statements</i></p> <p>The Department should: (1) research and determine whether component reporting entities reporting on a basis other than Federal Generally Accepted Accounting Principles (GAAP) are required to do so by statute; that all reporting entities within the Department prepare their financial statements in accordance with Federal GAAP; and entities that are statutorily required to report on a basis of accounting other than Federal GAAP provide supplemental information in their annual reports that meets the reporting requirements of Federal GAAP, to include a Management Discussion and Analyses (MD&amp;A); and (2) implement analytical review procedures as an integral part of interim financial reporting at the individual bureau level as well as the Department level. The results of these analytical reviews should be documented in a brief narrative accompanying the financial reports. (2 recommendations)</p>
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This list of unimplemented recommendations in OIG audit reports is based on information in Treasury's automated audit recommendation tracking system, which is maintained by Treasury management officials.

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## ***Summary of Instances Where Information Was Refused***

*October 1, 2004, through March 31, 2005*

As discussed in our prior Semiannual Report to the Congress, the OIG sought information from OCC in connection with an investigation involving a failed bank but OCC questioned the OIG's jurisdiction and refused to provide the information. During the last Semiannual period we also reported that we brought this matter to the Secretary's attention as well as to the House and Senate oversight committees. The OIG is continuing efforts to resolve this dispute.

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## ***Listing of Audit and Evaluation Reports Issued***

*October 1, 2004, through March 31, 2005*

### **Financial Audits and Attestation Engagements**

**Departmental Offices, FINANCIAL MANAGEMENT:** Department of the Treasury Payments for Water and Sewer Services Provided by the District of Columbia Were Made Timely for the First Quarter of Fiscal Year 2005, OIG-05-001, 10/15/04

**OCC,** Audit of the Office of the Comptroller of the Currency's Fiscal Years 2004 and 2003 Financial Statements, OIG-05-003, 11/4/2004

# Statistical Summary

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## ***Listing of Audit and Evaluation Reports Issued***

*October 1, 2004, through March 31, 2005*

**Mint**, Audit of the United States Mint's Schedule of Custodial Gold and Silver Reserves as of September 30, 2004 and 2003, OIG-05-004, 11/5/2004

**BPD, FINANCIAL MANAGEMENT**: Report on the Treasury Bureau of the Public Debt Trust Fund Management Branch Schedules for Selected Trust Funds for the Period October 1, 2003 to September 30, 2004, OIG-05-005, 11/6/2004

**Departmental Offices**, Audit of the Department of the Treasury's Fiscal Years 2004 and 2003 Financial Statements, OIG-05-007, 11/15/04

**FMS**, Audit of the Financial Management Service's Fiscal Years 2004 and 2003 Schedules of Non-Entity Government-Wide Cash, OIG-05-008, 11/15/04

**FMS**, Audit of the Financial Management Service's Fiscal Years 2004 and 2003 Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue, OIG-05-009, 11/5/04

**Departmental Offices**, Audit of the Department of the Treasury's Special-Purpose Financial Statements for Fiscal Year 2004, OIG-05-010, 11/18/04

**Departmental Offices**, Agreed-Upon Procedures for the Department of the Treasury's Fiscal Year 2004 Intragovernmental Activity and Balances, OIG-05-014, 12/2/04

**Departmental Offices**, Audit of the Exchange Stabilization Fund's Fiscal Years 2004 and 2003 Financial Statements, OIG-05-015, 12/3/04

**TEOAF**, Audit of the Department of the Treasury Forfeiture Fund's Fiscal Years 2004 and 2003 Financial Statements, OIG-05-016, 12/13/04

**Departmental Offices**, Management Letter for Fiscal Year 2004 Audit of the Department of the Treasury's Financial Statements, OIG-05-017, 12/14/04

**OTS**, Audit of the Office of Thrift Supervision's Fiscal Years 2004 and 2003 Financial Statements, OIG-05-018, 12/14/04

**CDFI Fund**, Audit of the Community Development Financial Institutions Fund's Fiscal Years 2004 and 2003 Financial Statements, OIG-05-019, 12/14/04

**BEP**, Audit of the Bureau of Engraving and Printing's Fiscal Years 2004 and 2003 Financial Statements, OIG-05-020, 12/15/04

# Statistical Summary

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## ***Listing of Audit and Evaluation Reports Issued***

*October 1, 2004, through March 31, 2005*

**Office of DC Pensions**, Audit of the Office of D.C. Pensions' Fiscal Years 2004 and 2003 Financial Statements, OIG-05-021, 12/16/04

**Departmental Offices**, FINANCIAL MANAGEMENT: Department of the Treasury Payments for Water and Sewer Services Provided by the District of Columbia Were Made Timely for the Second Quarter of Fiscal Year 2005, OIG-05-023, 1/14/05

**Departmental Offices**, Management Letter for the Fiscal Year 2004 Audit of the United States Mint's Schedule of Custodial Gold and Silver Reserves, OIG-05-029, 3/10/05

**Mint**, Audit of the United States Mint's Fiscal Years 2004 and 2003 Financial Statements, OIG-05-031, 3/15/05

## **Information Technology Audits and Evaluations**

**Departmental Offices**, INFORMATION TECHNOLOGY: Evaluation of Treasury's FISMA Implementation for Fiscal Year 2004, OIG-CA-05-001, 10/5/04

**BEP**, INFORMATION TECHNOLOGY: Additional Efforts Needed to Mitigate Security Vulnerabilities in the Bureau of Engraving and Printing's Network and Systems, OIG-05-024, 3/4/05, LOU

## **Performance Audits and Evaluations**

**Mint**, MANUFACTURING OPERATIONS: Mint's Standard A-76 Competition Study for the Preparation of Ready-to-Coin Planchets Is Delayed and Requires Significant Actions to Complete, OIG-05-002, 10/29/04

**Departmental Offices**, REVENUE COLLECTION: Formalizing the Review Process Could Better Ensure Continued Treasury Oversight of Customs Revenue Activity, OIG-05-006, 11/8/04

**FMS**, GOVERNMENT-WIDE FINANCIAL MANAGEMENT SERVICES: The Financial Management Service Has Addressed Recommendations Controls Over the Access, Disclosure, and Use of Social Security Numbers by Third Parties (Follow-Up on OIG-03-083), OIG-05-022, 12/20/04

**FinCEN**, TERRORIST FINANCING/MONEY LAUNDERING: Status Report on the Establishment of the Financial Crimes Enforcement Network (FinCEN) Office of Compliance, OIG-05-030, 3/10/05

# Statistical Summary

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## ***Listing of Audit and Evaluation Reports Issued***

*October 1, 2004, through March 31, 2005*

**TFFC**, TERRORIST FINANCING/MONEY LAUNDERING: Office of Terrorist Financing and Financial Crimes Needs to Refine Measures for Its Performance Budget and Implement a Data Collection and Reporting System, OIG-05-032, 3/23/05

**FinCEN**, Heightened Management Attention Needed Over Long Standing Suspicious Activity Report Data Quality Problems, OIG-05-033, 3/23/05

**FinCEN**, TERRORIST FINANCING/MONEY LAUNDERING: Additional Outreach and System Enhancements are Needed to Encourage Greater Use of FinCEN's BSA E-Filing, OIG-05-034, 3/31/05, **\$48,000,000 S**

## **Supervised Contract Audits**

**OCC**, Contract Audit: Evaluation of Costs Incurred for Metrica's Fiscal Year Ended September 30, 2001, OIG-05-011, 11/29/04

**Departmental Offices**, Contract Audit: Evaluation of Costs Incurred for Metrica's Fiscal Year Ended September 30, 2002, OIG-05-012, 11/29/04

**BEP**, Contract Audit: Evaluation of Haws and Tingle General Contractors, (HTGC) Proposal for Incurred Costs and Claimed Extended Overhead Costs, Related to Contract TEP-01-30 Modifications 0098 and 0102, OIG-05-013, 11/29/04, **\$238,966 Q**

**BEP**, Contract Audit: Examination of Johns Hopkins University/Applied Physics Laboratory's Costs Incurred for Fiscal Year Ending September 30, 2003, as Related to BEP Contract TEP 01-020, OIG-05-025, 3/3/05

**FMS**, Contract Audit: Evaluation of Costs Incurred for Computer Sciences Corporation (CSC) Civil Division for Fiscal Year Ended March 31, 2000, OIG-05-026, 3/3/05

**Departmental Offices**, Contract Audit: Audit Report on Metrica, Incorporated's Contract Audit Closings for TOS-94-25 and TOS-91-31, OIG-05-027, 3/3/05, **\$41,690 Q**

**BEP**, Contract Audit: Audit Report on Benmol Corporation's General Services Contract Board of Appeals (GSCBA) Claim 16372-TD on Contracts TEP-97-23 and TEP-02-10, OIG-05-028, 3/3/05, **\$694,614 Q**



# Statistical Summary

## ***Listing of Audit and Evaluation Reports Issued***

*October 1, 2004, through March 31, 2005*

**Departmental Offices, Contract Audit: Financial Capability Risk Assessment of Metrica, Incorporated, OIG-CA-05-002,11/30/04**

## ***Audit Reports Issued with Questioned Costs***

*October 1, 2004, to March 31, 2005 (Dollars in Thousands)*

Category	Total		
	No. of Reports	Questioned Costs	Unsupported Costs
For which no management decision had been made by beginning of reporting period	3	1,151	0
Which were issued during the reporting period	3	975	0
Subtotals	6	2,126	0
For which a management decision was made during the reporting period	4	1,390	0
dollar value of disallowed costs	0	0	0
dollar value of costs not disallowed	4	1,390	0
For which no management decision had been made by the end of the reporting period	2	737	0
For which no management decision was made within 6 months of issuance	0	0	0

"Questioned costs" denotes that one or more of the following three situations exist: (1) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable. During the period, there were no reports with unsupported costs.

# Statistical Summary

## **Contract Audits Completed**

October 1, 2004, through March 31, 2005

Entity	Pre-Award Audits		Costs Incurred Audits		Other Contract Audits	
	Number Completed	Funds to be Put to Better Use	Number Completed	Questioned Costs	Number Completed	Questioned Costs
BEP	0	\$0	2	\$238,966	1	\$694,614
Departmental Offices	0	\$0	2	\$0	2	\$41,690
FMS	0	\$0	1	\$0	0	\$0
<b>Totals</b>	<b>0</b>	<b>\$0</b>	<b>5</b>	<b>\$238,966</b>	<b>3</b>	<b>\$736,304</b>

These monetary amounts are reflected in the table on monetary benefits from OIG audits in the Summary of Activities Table. Treasury bureau requests for pre-award, costs 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 IPA. DCAA performed 8 audits, which questioned \$974,270 in Treasury contract costs. The contracting officers did not agree that the disallowed cost for one contract amounting to \$238,966 should not be disallowed. In addition, the contracting officer agreed those costs for \$1,151,801 from prior period should not be disallowed.

## **Audit Reports Issued with Recommendations that Funds be Put to Better Use**

October 1, 2004, through March 31, 2005 (Dollars in Thousands)

Category	No. of Reports	Total	Savings	Revenue Enhancement
For which no management decision had been made by the beginning of the reporting period	0	0	0	0
Which were issued during the reporting period	1	48,000	48,000	0
Subtotals	1	48,000	48,000	0
For which a management decision was made during the reporting period	1	48,000	48,000	0
Dollar value of recommendations agreed to by management	1	48,000	48,000	0
based on proposed management action	1	48,000	48,000	0
based on proposed legislative action	0	0	0	0
Dollar value of recommendations not agreed to by management	0	0	0	0
For which no management decision has been made by the end of the reporting period	0	0	0	0
For which no management decision was made within 6 months of issuance	0	0	0	0

A recommendation that funds be put to better use denotes 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 programs or operations, (3) costs not incurred by implementing recommending 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.

# Statistical Summary

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## ***Previously Issued Audit Reports Pending Management Decisions***

*As of March 31, 2005 (Dollars in Thousands)*

There are no previously issued Audit Report pending Management Decisions for this reporting period.

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## ***Significant Revised Management Decisions***

*October 1, 2004, to March 31, 2005*

There were no significant revised management decisions during the period.

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## ***Significant Disagreed Management Decisions***

*October 1, 2004, to March 31, 2005*

There were no management decisions this period with which the Inspector General was in disagreement.

# Statistical Summary

## *Reference to the Inspector General Act of 1978, as Amended*

Reference	Requirement	Page
Section 4(a)(2)	Review of legislation and regulations	1
Section 5(a)(1)	Significant problems, abuses, and deficiencies	5-24
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies	5-24
Section 5(a)(3)	Significant unimplemented recommendations described in previous semi-annual reports	29-31
Section 5(a)(4)	Matters referred to prosecutive authorities	27-28
Section 5(a)(5)	Summary of instances where information was refused	31
Section 5(a)(6)	List of audit reports	31-35
Section 5(a)(7)	Summary of significant reports	5-24
Section 5(a)(8)	Audit Reports with questioned costs	35
Section 5(a)(9)	Recommendations that funds be put to better use	36
Section 5(a)(10)	Summary of audit reports issued before the beginning of the reporting period for which no management decision has been made	N/A
Section 5(a)(11)	Significant revised management decisions made during the reporting period	37
Section 5(a)(12)	Management decisions with which the Inspector General is in disagreement	37
Section 5(a)(13)	Instances of unresolved FFMIA non-compliance	6
Section 5(d)	Serious or flagrant problems, abuses or deficiencies	N/A
Section 6(b)(2)	Report to Secretary when information or assistance is unreasonably refused	N/A

# Acronyms

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AGVA	Attorney General for the Commonwealth of Virginia
ATSB	Air Transportation Stabilization Board
BAU	Blanking, Annealing, and Upsetting
BEP	Bureau of Engraving and Printing
BPD	Bureau of the Public Debt
BSA	Bank Secrecy Act
BSA E-Filing	BSA Direct E-Filing
CDFI Fund	Community Development Financial Institutions Fund
CFO	Chief Financial Officer
CIO	Chief Information Officer
CTR	Currency Transaction Report
CBP	U.S. Customs and Border Protection
DC	District of Columbia
DCAA	Defense Contract Audit Agency
DHS	Department of Homeland Security
DO	Departmental Offices
EOTF/FC	Executive Office of Terrorist Financing and Financial Crimes
ESF	Exchange Stabilization Fund
FBI	Federal Bureau of Investigation
FDIC	Federal Deposit Insurance Corporation
FFB	Federal Financing Bank
FFMIA	Federal Financial Management Improvement Act of 1996
FFMSR	Federal Financial Management Systems Requirements
FinCEN	Financial Crimes Enforcement Network
FISMA	Federal Information Security Management Act
FMS	Financial Management Service
FTE	Full-time Equivalent
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GMRA	Government Management Reform Act of 1994
GPRA	Government Performance and Results Act
HSA	Homeland Security Act
IGATI	Inspectors General Auditor Training Institute
INS	Immigration and Naturalization Service
IPA	Independent Public Accountant
IRS	Internal Revenue Service
IRS-CI	IRS Criminal Investigations
Mint	U.S. Mint
MOU	Memorandum of Understanding
MSB	Money Service Business
OA	Office of Audit
OC	Office of Counsel
OCC	Office of the Comptroller of the Currency
OFAC	Office of Foreign Assets Control
OI	Office of Investigations
OIA	Office of Intelligence and Analysis

# Acronyms

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OIG	Office of Inspector General
OMB	Office of Management and Budget
OPB	Office of Performance Budgeting
OTS	Office of Thrift Supervision
PCIE	President's Council on Integrity and Efficiency
PKI	Public Key Infrastructure
PWS	Performance Work Statement
RAGE	Regional Area Gang Enforcement Unit
SAR	Suspicious Activity Report
SEACATS	Seized Assets and Case Tracking System
Secret Service	U.S. Secret Service
TEOAF	Treasury Executive Office for Asset Forfeiture
TFF	Treasury Forfeiture Fund
TFFC	Office of Terrorist Financing and Financial Crimes
TFI	Office of Terrorism and Financial Intelligence
TFMB	Trust Fund Management Division, BPD
TIER	Treasury Information Executive Repository
TIGTA	Treasury Inspector General for Tax Administration
TO	Treasury Order
Treasury	Department of the Treasury
TTB	Alcohol and Tobacco Tax and Trade Bureau
USA	United States Attorney
USAO	United States Attorney's Office
USC	United States Code
USPIS	U.S. Postal Inspection Service
UQ	Unqualified Opinion
WCF	Western Currency Facility, BEP



The Main Treasury Building's long colonnade is perched high upon the ground story base that skims 15th Street, creating a strong horizontal facade that designer Robert Mills considered "both grand and imposing." By the early 1830's, the Treasury's distinctive uninterrupted colonnade appeared in only a few buildings in America, never used before in federal architecture in Washington. The thirty columns retain its repetitious impact, even after the pediments at the North and South were added with the later extensions to the Treasury. *(from Office of the Curator website, Department of the Treasury)*

## contact us

### Headquarters

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

### Office of Audit

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

### Office of Investigations

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

### Office of Counsel

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

### Office of Management

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

### Eastern Field Audit Office

408 Atlantic Avenue, Room 330  
Boston, Massachusetts 02110-3350  
Phone: (617) 223-8640; Fax (617) 223-8651

### Western Field Audit Office

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

Treasury OIG Hotline  
Call Toll Free: 1.800.359.3898

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