

The Honorable Robert E. Rubin
Secretary of Treasury
Washington, D.C. 20220

Dear Mr. Secretary:

I am pleased to submit the Office of Inspector General's (OIG) Semiannual Report to the Congress for the six-month period ending March 31, 1998. This report highlights the completion of Treasury's first ever audited consolidated administrative financial statements and custodial schedules. A substantial portion of the OIG's audit resources are devoted to strengthening financial management at the Department and accomplishing the audit requirements of the Chief Financial Officers Act and the Government Management Reform Act. The OIG's consolidated audit report reflected the cumulative results of audit work performed at 15 Treasury bureaus and component entities, as well as the audit of the consolidation itself.

The OIG issued an unqualified opinion on the administrative financial statements and a qualified opinion on the custodial schedules, and also reported four material weaknesses, six other reportable conditions, and two instances of noncompliance with laws and regulations at the Department-wide level. Despite the Department's substantial progress in achieving its financial management goals, major challenges remain. These include addressing continuing weaknesses in financial systems and internal controls, and implementing comprehensive new Federal accounting and reporting standards, which become effective for Fiscal Year 1998.

We also were among the first in the OIG community to consult with various Congressional committees on our Strategic Plan, and we have instituted a monthly reporting process on progress in achieving our performance goals. Over the last 3 years, the OIG has worked with the Department to assist with the implementation of the strategic planning process and to suggest to bureaus areas where their processes could be strengthened.

The Department continues to face significant management and programmatic challenges that require intensive oversight and attention. In planning all future work, the OIG will emphasize eleven issue areas that we believe deserve vigilant monitoring. These issue areas include Treasury's Year 2000 compliance progress; data security at the Internal Revenue Service, the Financial Management Service, and the United States Customs Service; Treasury's ability to produce consolidated financial statements; Treasury's debt collection initiatives; Electronic Funds and Benefits Transfer; the protection of taxpayer rights; and implementation of the Government Performance and Results Act.

At a time when the Department is facing unique challenges with respect to technology, new mandates, and an increasing focus on management initiatives, we look forward to creatively working to provide policymakers and managers assistance in assuring the highest levels of program efficiency, effectiveness, and integrity in Treasury's operations.

Sincerely,

Richard B. Calahan
Deputy Inspector General

TABLE OF CONTENTS

	Page
FOREWORD	i
OVERVIEW	1
INTRODUCTION	5
Treasury Functions and Organization	6
CHAPTER I: FINANCIAL MANAGEMENT	
Financial Audits	7
CHAPTER II: ECONOMY, EFFICIENCY, AND EFFECTIVENESS	
Performance Reviews	15
Management Assessments	27
Information Technology Oversight	30
Contract Oversight	32
CHAPTER III: INVESTIGATIVE ACTIVITIES	
Integrity Awareness and Deterrence	35
Criminal Investigations	36
STATISTICAL SUMMARIES	45
APPENDIX A: REPORT LISTING OCTOBER 1, 1997 THROUGH MARCH 31, 1998	65
APPENDIX B: STATUTORY AND ADMINISTRATIVE RESPONSIBILITIES	75
APPENDIX C: CROSS REFERENCES TO INSPECTOR GENERAL ACT	77

The OIG issued 72 reports during the reporting period with recommendations that funds be put to better use and questioned costs totaling \$5.3 million. The IRS Inspection Service issued 68 reports with recommendations that \$1.7 million be put to better use. Monetary benefits relating to investigations conducted by the OIG and Offices of Internal Affairs and Inspection exceeded \$2.5 million. The following summaries represent major issues and concerns for the first half of Fiscal Year (FY) 1998.

FINANCIAL MANAGEMENT

■ The OIG audited the Department's FY 1997 consolidated custodial schedules and consolidated administrative financial statements, as required by the Government Management Reform Act (GMRA). These schedules and statements are included in the Department's FY 1997 Accountability Report. The OIG rendered a qualified opinion on the FY 1997 consolidated custodial schedules and an unqualified opinion on the FY 1997 consolidated administrative financial statements. The audit also identified four material weaknesses, six other reportable conditions, and two instances of reportable noncompliance with laws and regulations.

n The FY 1997 audit results clearly reflect the Department's substantial progress in implementing the financial management requirements of the Chief Financial Officers (CFO) Act and GMRA during the past year. The unqualified opinion on the first ever audit of the Federal debt balances managed by BPD was a particularly noteworthy accomplishment. In addition, IRS received unqualified opinions on its administrative accounts and custodial revenue accounts for the first time since annual IRS audits were initiated in FY 1992.

n Financial statements audit work at the Department is primarily based on the CFO Act and GMRA requirements. However, other statutory financial statement audit requirements also are incorporated into the overall audit plan. The OIG must perform sufficient audit work to enable it to opine on the consolidated administrative financial statements and consolidated custodial schedules.

n The OIG has developed a strong working relationship with the General Accounting Office in order to provide efficient audit coverage of Treasury accounts and activities, which are material to both Departmental and Government-wide reporting. A formal Memorandum of Understanding sets forth respective audit responsibilities, reciprocal review procedures, and resolution processes for accounting, reporting, and auditing issues. The partnership also serves as a model for cooperative working relationships in the Federal audit community. (See pages 7 to 14.)

IRS MODERNIZATION

■ The IRS Inspection Service still considers Modernization a Federal Managers' Financial Integrity Act material weakness and categorizes Modernization control weaknesses as "Program Management," "Infrastructure," and "Financial Management."

■ The Telefile Program, an interactive voice response system that allows taxpayers to file their returns using touch-tone telephones, is a major component of IRS' Modernization strategy. In 1997, IRS decided to further expand the TeleFile Program by allowing business taxpayers in the Southeast Region to file their Forms 941 (Employer's Quarterly Federal Tax Return) over the telephone. Overall, IRS experienced a successful first quarter with 48,834 returns filed via the 941 TeleFile pilot system. However, the auditors recommended that IRS identify an appropriate process for approving changes to the pilot participant profile, revise the 1998 participant profile to correctly reflect the selection criteria used, and ensure that the revised profile is properly approved. (See pages 30 to 31.)

CUSTOMS DRUG INTERDICTION EFFORTS

n The OIG completed the second in a series of planned audits covering various aspects of Customs drug interdiction efforts. The audit, which discusses Customs' Contraband Enforcement Team (CET) program at an airport and a seaport, covered two of the busiest ports of entry on the West coast. Rather than concentrating on drugs, port management focused its efforts on non-CET operations, such as passenger processing, trade enforcement, and outbound operations. The OIG also found weaknesses in the ports' CET operational and management practices. (See pages 15 to 16.)

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL OPERATIONS

n The Inspectors General of the Board of Governors of the Federal Reserve System, the Department of the Treasury, the Federal Deposit Insurance Corporation, and the National Credit Union Administration completed an audit scoping review of Federal Financial Institutions Examination Council (FFIEC) operations. The FFIEC is responsible for prescribing uniform principles, standards, and reporting systems for the examination of financial institutions by the five Federal financial institution regulatory agencies; making recommendations to promote uniformity in the supervision of financial institutions; and conducting schools for examiners employed by the five member agencies and state supervisory agencies. The review's objective was to identify areas that may deserve audit attention and to develop an overall strategy for conducting any future audits. (See pages 19 to 20.)

LAW ENFORCEMENT OFFICER COVERAGE COSTS MODEL

n At the request of the Department's Office of Personnel Policy, the OIG developed a model to estimate the costs associated with various proposals for converting Treasury employees to Law Enforcement Officer (LEO) status. In applying the model, the OIG selected a group of 8,172 Treasury employees who were on the Department's payroll for pay period 10 in 1997. The model found that Treasury would annually incur an additional \$50.6 million to provide LEO status to this specific group of employees. In addition, the OIG estimated that increased LEO retirement costs would result in a one-time unfunded liability of nearly \$539.1 million. (See pages 27 to 28.)

IRS CUSTOMER SERVICE/TAXPAYER RELATIONS

n IRS internal auditors reviewed the use of enforcement statistics in the direction, achievement, and evaluation of the Collection function at the national and regional levels and 12 district offices. The auditors concluded that in striving for increased productivity, IRS executives focused on achieving enforcement goals and believed it was critical that the goals and progress be continuously shared with revenue officers and their managers. In implementing this strategy, national and regional officials issued guidance that encouraged sharing enforcement goals and results at the group level, in violation of the law.

n The Taxpayer Bill of Rights 2 (TBOR2) was enacted by Congress on July 30, 1996, and amplifies and extends taxpayer rights and protections included in the original law. The TBOR2 requires changes to the Internal Revenue Code, Internal Revenue Manual, and computer systems, and affects all functional areas of IRS. IRS internal auditors conducted a review soon after the law's enactment to determine if IRS management had established the framework necessary to implement TBOR2. (See pages 23 to 25.)

IRS PRIVACY AND SECURITY

■ IRS internal auditors conducted a review to assess the overall systems security program for safeguarding taxpayer data and other critical information. The overall objective of the review was to evaluate the effectiveness of management's efforts to enhance IRS' systems security initiatives, and to validate that security controls are in place for selected systems that process sensitive data. During the review, the auditors determined that IRS has not developed a complete inventory of sensitive systems, and that the security evaluation process was primarily a review of documentation rather than an independent evaluation of controls. (See pages 25 to 26.)

IRS EMPLOYEE PLEADS GUILTY TO WELFARE FRAUD

n An IRS Office of Regional Counsel secretary, who plead guilty to welfare fraud, was sentenced on October 23, 1997. Full imposition of the sentence was waived for 5 years, subject to the secretary serving 12 months in county jail, making nearly \$95,000 in restitution, and signing a Confession of Judgment in favor of the county that prosecuted. After being overpaid nearly \$77,000 in Aid to Families with Dependent Children benefits and \$18,000 in Food Stamps, the secretary was arrested at work on August 22, 1996. (See page 36.)

Under the provisions of the Inspector General Act of 1978, as amended, Treasury's OIG reports to the Congress semiannually on its activities. This report, which covers the first half of FY 1998, describes major issues and concerns identified during reviews, audits, evaluations, and investigations, along with recommendations for corrective action. **Because the report describes selected significant reviews and investigations, the conditions should not be considered as representative of overall conditions in the Department of the Treasury and its bureaus.**

Treasury's OIG consists of the following components:

- n The **Audit Directorate**,
- n The **Investigations Directorate**,
- n The **Office of Evaluations**,
- n The **Office of Information Technology**, and
- n The **Resources Directorate**.

In accordance with the Government Performance and Results Act (Results Act), the OIG is engaging in a strategic planning process with the goals of achieving the greatest impact from available resources and ensuring mission accomplishment and customer satisfaction. The **OIG's** mission is to conduct independent audits, investigations, and reviews to help the Department accomplish its mission; improve the Department's programs and operations; promote economy, efficiency, and effectiveness; and prevent and detect fraud and abuse.

In addition to Treasury OIG operations, the report covers the activities of the Offices of Internal Affairs and Inspection at ATF, Customs, IRS, and Secret Service. The Inspector General is responsible for oversight of internal investigations by the Offices of Internal Affairs and Inspection at ATF, Customs, and Secret Service and of the IRS Inspection Service's internal audits and investigations.

The **ATF Office of Inspection** plans, directs, and coordinates ATF's inspection and internal affairs activities. Those activities include: office and program inspections, which appraise the effectiveness of ATF operations, assess the quality of management and supervision, and determine adherence to organizational policies, regulations, and procedures; shooting reviews; and investigations into allegations of employee misconduct (both administrative and criminal), fraudulent Office of Worker's Compensation Program claims, and bribery, and investigations of tort claims and other critical or sensitive incidents. All findings are reported to the Director of ATF and his Executive Staff. In addition, the Office of Inspection executes ATF's personnel security program.

As part of its shared responsibility with management to secure the right of every Customs employee to work in an environment that is free from corruption, misconduct, or mismanagement, the **Customs Office of Internal Affairs** investigates allegations of misconduct; reports investigative results in a professional and timely manner; screens potential Customs employees for character and suitability; educates Customs employees regarding ethical standards and integrity responsibilities; evaluates physical security threats to Customs employees, facilities, and sensitive information; and inspects Customs operations and processes for managerial effectiveness and improvement.

Guided by a commitment to uphold the policies of **Secret Service** and to ensure quality assurance, the **Office of Inspection**'s responsibilities include internal special investigations, policy compliance reviews, ethics assessments, reviews of operational programs, and validation of career development and training programs. As a unique, non-parochial operational unit, which is responsible for critical and impartial reviews, the Office of Inspection provides objective and unbiased feedback and oversight that validates both the Secret Service strategic and customer service plans.

The **IRS Inspection Service** provides independent services to promote the effective administration of the nation's tax laws; detect and deter fraud and abuse in IRS programs and operations; and protect IRS against external attempts to corrupt or threaten its employees. The organization, which includes Internal Audit and Internal Security functions, is headed by the Chief Inspector, who reports directly to the IRS Commissioner and is overseen by Treasury's Inspector General. This arrangement ensures that audit and investigative results are reported independently to the IRS Commissioner and the Secretary of the Treasury.

TREASURY FUNCTIONS AND ORGANIZATION

Treasury is organized into 12 bureaus and offices. Treasury's mission is to formulate and recommend economic, fiscal, and tax policies; serve as the financial agent of the United States Government; enforce the law; protect the President and other officials; and manufacture coins and currency.

The OIG and Offices of Internal Affairs and Inspection assist in performing reviews of Treasury's many roles, which include such diverse functions as striking commemorative medals, enforcing national firearms and explosives laws, and investigating financial institution fraud. Today, over 140,000 full-time Federal employees work for the Department of the Treasury throughout the world. Treasury, as one of the oldest Federal agencies, performs some of the most fundamental governmental activities, including collecting and borrowing the money to run the United States Government, and enforcing Federal laws.

The CFO Act and GMRA, which are intended to strengthen Federal financial management, require audited financial statements. The CFO Act requires audited financial statements for revolving funds, trust funds, and significant commercial activities. The GMRA extends these requirements to encompass all accounts and activities of the agencies covered by the CFO Act.

The process of preparing and auditing financial statements has resulted in the identification of areas for improvement in management controls and business processes. Using this information, Department and bureau managers can more effectively fulfill their responsibilities, as well as provide an audited annual reporting of their operations and positions.

FINANCIAL AUDITS

Financial statements audit work at the Department is primarily based on the CFO Act and GMRA requirements. However, other statutory financial statement audit requirements also are incorporated into the overall audit plan. The OIG must perform sufficient audit work to enable it to opine on the consolidated administrative financial statements and consolidated custodial schedules. In addition, stand-alone audited financial statements must be submitted for four Treasury entities, IRS, Customs, ATF, and BPD, designated by the Office of Management and Budget (OMB) under GMRA. Financial statements audits required by other statutes, which are incorporated into the overall audit plan, include BEP, the Federal Financing Bank (FFB), OCC, the Mint, the Treasury Forfeiture Fund (TFF), OTS, the Exchange Stabilization Fund (ESF), and the Community Development Financial Institutions (CDFI) Fund. The “Department of the Treasury Audited Financial Statements” table at the end of this section provides a summary of financial statements audits performed for FYs 1995 through 1997.

The OIG utilizes a variety of resources to accomplish financial statements audit requirements at the Department. The audits of the Treasury consolidation, IRS administrative financial statements, Customs, ESF, Secret Service, and the Mint gold and silver reserves are performed by OIG staff. The OIG provides contract oversight for audits performed by Independent Public Accountants (IPAs) at ATF, DO, FFB, TFF, BEP, the Mint, OCC, OTS, the CDFI Fund and portions of FMS and BPD.

In addition, the OIG has developed a strong working relationship with the General Accounting Office (GAO) in order to provide efficient audit coverage of Treasury accounts and activities, which are material to both Departmental and Government-wide reporting. A formal Memorandum of Understanding (MOU) sets forth respective audit responsibilities, reciprocal review procedures, and resolution processes for accounting, reporting, and auditing issues. Under this MOU, GAO audits the IRS custodial financial statements, FMS central banking activities, FMS Government-wide payments and central accounting systems, FMS preparation of the Consolidated Financial Statements of the United States Government, and the

Federal debt. This audit partnership benefits GAO, the OIG, and the Department by maximizing overall audit efficiency in meeting both Treasury and Government-wide reporting objectives. It also serves as a model for cooperative working relationships in the Federal audit community.

Department-wide Financial Statements

The OIG audited the Department's FY 1997 consolidated custodial schedules and consolidated administrative financial statements, as required by GMRA. These schedules and statements are included in the Department's FY 1997 Accountability Report, along with additional information that meets the reporting requirements of the CFO Act, GMRA, the Federal Managers' Financial Integrity Act (FMFIA), the Federal Financial Management Improvement Act (FFMIA), the Prompt Payment Act, and certain other legislation.

The Department performs numerous functions on behalf of the Federal Government, including servicing the Federal debt, collecting Federal revenues, disbursing Federal funds, and maintaining certain other Federal assets and liabilities. The consolidated custodial schedules are designed to report these activities.

Through its bureaus and Departmental Offices, the Department formulates, recommends, and implements economic, fiscal, and tax policies; carries out a variety of law enforcement responsibilities; and serves as the financial agent for the Federal Government. These and other Treasury-specific programs and activities are reported in the Department's consolidated administrative financial statements, which present the financial position, results of operations, and changes in net position related to the appropriations and other revenue received to conduct these operations.

The OIG rendered a qualified opinion on the FY 1997 consolidated custodial schedules and an unqualified opinion on the FY 1997 consolidated administrative financial statements. The qualified opinion on the consolidated custodial schedules was attributable to material weaknesses identified at FMS, which precluded the OIG's ability to apply adequate audit procedures to certain custodial balances reported by FMS. The audit identified four material weaknesses: (1) FMS needs to improve its financial management and reporting; (2) management and reporting of IRS' revenue collection and related activities need to be improved; (3) the Department's consolidated financial reports preparation process needs improvement; and (4) Electronic Data Processing (EDP) security controls over certain bureaus' financial systems must be strengthened.

The audit also identified two instances of reportable noncompliance with laws and regulations. As reported by the Department, financial management systems within the Department did not substantially comply with FFMIA requirements. In addition, IRS' policies and procedures for certification of the distribution of excise tax collections to the designated trust funds do not comply with the Internal Revenue Code. Besides the four material weaknesses described above, the audit identified six other reportable conditions: (1) the process for distributing net tax revenue to various trust funds needs to be documented and

improved; (2) property management needs to be improved at certain bureaus; (3) accountability and reporting for the Department's seizure and forfeiture activities needs improvement; (4) Customs' management of trade activities needs additional improvement; (5) the CDFI Fund's controls over the administration of its awards programs and financial reporting need to be strengthened; and (6) controls over trust fund accounting and investment services need to be strengthened.

The FY 1997 audit results clearly reflect the Department's substantial progress in implementing the financial management requirements of the CFO Act and GMRA during the past year. This progress was made possible by senior management's continued commitment to strengthening financial management systems and improving financial accounting and reporting. The unqualified opinion on the first ever audit of the Federal debt balances managed by BPD was a particularly noteworthy accomplishment. In addition, IRS received unqualified opinions on its administrative accounts and custodial revenue accounts for the first time since annual IRS audits were initiated in FY 1992. These achievements were instrumental in enabling the OIG to render a clean opinion on the Department's consolidated administrative financial statements and a qualified opinion on its consolidated custodial schedules.

However, major challenges remain for the Department to achieve its financial management goals. The material weaknesses and other reportable conditions referred to above required extensive additional work by management and the auditors in order to adjust the balances reported in the FY 1997 consolidated statements and schedules. Resolution of these internal control weaknesses not only will facilitate annual financial reporting, but will also improve the capability of the Department's financial systems to produce more reliable and timely information throughout the year. This should enable managers to make more informed decisions.

Looking forward, FY 1998 brings major challenges in the form of new Federal accounting standards and reporting requirements. The standards significantly expand the Federal Government's financial accounting and reporting requirements, and could have a significant impact on the ability of the Department and its bureaus to prepare financial statements that can be successfully audited.

The consolidated Department-wide audit results reflect the cumulative results of audit work performed at 15 Treasury bureaus and component entities, as well as the consolidation itself. Highlights of the individual bureau and component entity audits for which final reports have been issued appear below. In those cases where final reports have not yet been issued, sufficient audit work was performed to support the conclusions in the OIG's audit report on the Department's consolidated statements and schedules.

IRS

■ The OIG issued an unqualified opinion on IRS' FY 1997 administrative financial statements. The statements present the financial position and results of operations related to IRS administrative activities funded by appropriations and

reimbursements from other Federal agencies, state and local governments, and the public. The audit disclosed two material weaknesses related to: (1) controls over property and equipment; and (2) procedures for ensuring that liabilities and expenses are recorded in the proper period, and are properly valued and classified. IRS manually adjusted accounting records to properly state property and equipment, accounts payable, and expenses in the administrative financial statements in order to correct for errors noted during the audit.

Three other reportable conditions were identified during the audit, which related to the need for IRS to: (1) improve procedures to identify transactions to be eliminated in the Department's consolidated administrative financial statements; (2) improve controls over reimbursable accounts receivable; and (3) strengthen EDP general controls. The audit also disclosed one instance of reportable noncompliance, related to the Federal Financial Management Systems Requirements under the FFMIA, due to the material weaknesses described above.

IRS' FY 1997 custodial financial statements were audited by GAO. The OIG coordinated closely with GAO and reviewed its work for the purposes of incorporating the audit results into the OIG's audit report on the Department's consolidated custodial schedules. GAO issued an unqualified opinion and reported six material weaknesses, one other reportable condition, one instance of non-compliance with laws and regulations, and noncompliance with the requirements of the FFMIA.

The material weaknesses included: (1) IRS' general ledger does not support the preparation of financial statements; (2) IRS lacks a subsidiary ledger for unpaid assessments; (3) documentary support for unpaid assessments is inadequate; (4) weaknesses exist in controls over refunds; (5) revenue accounting and reporting do not meet user needs; and (6) controls over computer security are inadequate. The other reportable condition is the existence of vulnerabilities in controls over manual tax receipts; and the noncompliance with laws and regulations is that IRS' certification of excise taxes did not comply with legal requirements.

In its audit report, GAO also noted that IRS faces significant challenges in fully implementing the provisions of Statement of Federal Financial Accounting Standards (SFFAS) No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting. The SFFAS No. 7 is required to be fully implemented for FY 1998, and the significant internal control and system weaknesses identified by GAO may affect IRS' ability to implement the standard until corrective actions have fully resolved the weaknesses.

Customs

The audit of Customs' FY 1997 financial statements resulted in an unqualified opinion. The OIG's report cited two material weaknesses in Customs' internal controls, six other reportable conditions, and one instance of noncompliance. One material weakness dealt with Customs' core financial systems and the other with Customs' lack of adherence to systems development standards. The other reportable conditions in Customs' internal controls included the need for:

(1) strengthened controls over drawback; (2) strengthened controls over bills of lading and in-bond shipments; (3) additional compliance measurement programs; (4) improved security over computer systems; (5) improved disaster recovery capabilities; and (6) improved accountability controls over covert operations. In addition, Customs' financial management systems did not substantially comply with FFMIA requirements.

BPD

n An IPA issued an unqualified opinion on the FY 1997 BPD administrative financial statements. The IPA found no reportable conditions in the internal control structure and no instances of reportable noncompliance with laws and regulations.

n GAO, with assistance from the OIG, rendered an unqualified opinion on BPD's FY 1997 schedule of Federal Debt, which reported a total of \$5.4 trillion of Federal debt, including \$3.8 trillion of Federal debt held by the public and \$1.6 trillion of Federal debt held by Federal entities. GAO identified no reportable conditions and no noncompliances with laws and regulations. Achieving such positive audit results in the first ever audit of such a major activity is a truly remarkable accomplishment, which clearly reflects a high level of financial accountability on the part of BPD management.

n An IPA under contract to GAO rendered an unqualified opinion on the schedule of loans receivable from Federal entities and related interest receivable serviced by BPD at September 30, 1997. The IPA identified one reportable condition related to incomplete reporting of interest income, which was not considered to be a material weakness. No noncompliances with laws and regulations were reported.

ATF

An IPA issued an unqualified opinion on ATF's FY 1997 financial statements. The IPA found no material weaknesses in ATF's internal control structure and no instances of reportable noncompliances with laws and regulations. The IPA identified five reportable conditions, which related to controls over the information security management function, the effectiveness of access control software, the application software change control process, telecommunication security, and the rotation of inspector assignments.

ESF

The OIG issued an unqualified opinion on the ESF's FY 1997 financial statements. The auditors identified no reportable conditions related to the internal control structure, and no instances of reportable noncompliance with laws and regulations.

BEP

An IPA rendered an unqualified opinion on BEP's FY 1997 financial statements. No reportable conditions were reported, and the auditors identified no instances of reportable noncompliance with applicable laws and regulations.

DO

An IPA rendered an unqualified opinion on DO's FY 1997 financial statements. The report on compliance with laws and regulations identified no instances of noncompliance. However, the report on internal controls over financial reporting cited two reportable conditions, which were not considered to be material weaknesses. Specifically, DO's personnel did not follow established procedures for the purchase, movement, and disposition of fixed assets; and salaries and expense payroll data submitted to the Department of Agriculture's National Finance Center (NFC) were not reconciled timely with resulting payroll reports.

Mint Custodial Gold and Silver Reserves

An OIG audit of the Mint's FY 1997 statement of custodial gold and silver reserves resulted in an unqualified opinion. There were no reportable conditions involving the internal control structure and no instances of reportable noncompliance with applicable laws and regulations.

CDFI Fund

An IPA rendered an unqualified opinion on the CDFI Fund financial statements covering the period from its inception in FY 1995 through FY 1997. The Community Development Banking and Financial Institutions Act of 1994 created the CDFI Fund to promote economic revitalization and community development through investment in and assistance to CDFIs.

The IPA's report on internal controls over financial reporting cited the lack of a formal FMFIA program and the understatement of liabilities at year-end as material weaknesses. The lack of a formal FMFIA program affected the CDFI Fund's ability to identify and correct internal control weaknesses. Significant audit adjustments were required to properly state year-end financial statement balances. In addition, the report on compliance with laws and regulations noted that the CDFI Fund did not have a process in place to assess and report on internal controls, including an assessment of its compliance with FFMIA financial management systems requirements. (OIG)

Revenue Accounting Controls over Deposit Discrepancies

The IRS Inspection Service conducted an audit to determine whether service center controls are effectively resolving unconfirmed and unmatched deposits reported through the Interim Revenue Accounting Control System (IRACS). The Accounting Branch at each IRS service center is responsible for reconciling IRS deposits to Federal Reserve Bank deposit records, a process that ensures the accurate reporting of funds to the United States Treasury. FMS sends Statement of Difference reports to IRS to assist IRS in its reconciliation process. In addition, FMS sends reminder letters to service center directors if monthly Statements of Difference remain at \$1 million or more for 3 months, or \$100,000 or more for 5 months. If Statement of Difference reports are not resolved within 6 months, discrepancies are charged to the Budget Clearing Account and may materially affect the accuracy of IRS' revenue statistics.

Overall, the IRS internal auditors found no indication of missing deposits that may have been lost or stolen. The auditors determined that reconciliation controls at all service centers were generally effective to resolve unconfirmed and unmatched IRS deposits. However, IRS could improve efforts to ensure the timely reconciliation of both daily and monthly discrepancy reports. The review of service center Budget Clearing Accounts revealed that one service center made numerous errors in posting charges to its account. IRS management researched the extent of the erroneous charges and determined that service center revenue was reduced because the Budget Clearing Account had been overstated. In August 1997, service center management approved General Ledger journal entries to reverse the charges, which decreased the combined Budget Clearing Account balance to (\$156,000) and allowed IRS to report \$1.38 million in increased revenue.

The review also identified potential improvements to guidelines and procedures in the Internal Revenue Manual (IRM) and the Accounting Branch function. The auditors recommended that: (1) IRS clarify the IRM to define specific timeliness criteria for reconciling daily and monthly discrepancy reports, and to state that deposit discrepancy files must document the resolution action taken by employees; (2) IRS management reemphasize the importance of meeting the IRM requirement to manually match the bank's deposit confirmation copy with the copy of the IRS deposit ticket; (3) IRS management conduct periodic reviews to ensure the timely resolution of daily discrepancy reports; (4) IRS modify the IRM to require the documenting and retention of managerial approval for General Ledger reversing entries on IRACS; and (5) IRS management ensure that the IRACS authorized user list is periodically reviewed in order to validate continued system access for the individuals listed. IRS management agreed with the recommendations and initiated appropriate corrective actions. (IRS Report #081705)

**DEPARTMENT OF THE TREASURY
AUDITED FINANCIAL STATEMENTS**

	FY 97 Audit Results		FY 96 Audit Results		FY 95 Audit Results	
	Opinion	Material Weaknesses	Opinion	Material Weaknesses	Opinion	Material Weaknesses
Department-Wide						
Treasury Administrative	Unqualified	4	(A)	2	Not Audited	-
Treasury Custodial	Qualified		Not Audited	-	Not Audited	-
Headquarters/DO						
ESF (S)	Unqualified	0	Unqualified	0	Unqualified	0
FFB (S) (F)	Unqualified	0	Unqualified	1	Unqualified	3
CDFI (S)	Unqualified	2	Not Audited	-	Not Audited	-
DO	Unqualified	0	Unqualified	0	Unqualified	0
Tax/Trade/Enforcement						
IRS Administrative (D)	Unqualified	2	(B)	5	Disclaimer	2
IRS Custodial (D)	Unqualified	6	(C)	3	Disclaimer	3
Customs (D)	Unqualified	2	Unqualified	3	SFP only Unqualified	5
ATF (D)	Unqualified	0	Unqualified	0	SFP only Unqualified	0
Secret Service	In progress	In progress	SFP only Qualified	2	Not Audited	-
TFF (S) (F)	Unqualified	3	Unqualified	2	Unqualified	3
Central Fiscal Services						
FMS-Salaries and Expenses (F)	Unqualified	1	Unqualified	1	Unqualified	1
FMS Credit Accounting Branch (F)	Disclaimer	4	Survey	-	Not Audited	-
FMS Central Agency Accounts	(E)	1	Not Audited	-	Not Audited	-
BPD-Government Trust Funds (F) (G)	(Ltd Scope) Unqualified	0	(Ltd scope) Unqualified	0	Not Audited	-
BPD-Administrative (D)	Unqualified	0	Unqualified	0	Not Audited	-
BPD Custodial (D) (H)	Unqualified	0	Not Audited	-	Not Audited	-
Banking/Thrift Oversight						
OCC (S) (F)	Unqualified	0	Unqualified	0	Unqualified	0
OTS (S) (F)	Unqualified	0	Unqualified	0	Unqualified	0
Manufacturing						
BEP (S)	Unqualified	0	Unqualified	0	Unqualified	0
Mint (S) (F)	Unqualified	1	Unqualified	1	Unqualified	2
Mint Custodial Gold and Silver Reserves	Unqualified	0	Unqualified	0	Unqualified	0
A= For the Department's administrative financial statements, the OIG rendered an unqualified opinion on four of five lines of business						

and a disclaimer on the Tax/Trade business line.

B= Qualified opinion on SFP; disclaimer on statement of operations.

C= Qualified opinion on statement of custodial activity; disclaimer on SFP.

D= Designated by OMB under GMRA for component entity audited financial statements.

E= Audit procedures performed to determine that cash balances managed by FMS were reliable in all material respects. Separate audit opinion

not issued.

F= Audit report issued subsequent to March 31, 1998.

G= Audit scope limited to the accounting, investment, and financial reporting services provided by BPD to the Government Trust Funds.

H= Consists of schedule of Federal debt and schedule of loans receivable from Federal entities and related interest receivable.

S= Separate statutory audit requirements incorporated into GMRA audit plan.

SFP= Statement of Financial Position

The Inspector General Act of 1978 established OIGs to promote the efficiency, economy, and effectiveness of Federal programs and operations. At Treasury, the Act has resulted in a program of audits and evaluations that focuses on internal controls, management assessment, and program compliance and performance. This work enables the OIG to provide independent, objective assessments of programs and performance which help to improve the Department's operations and ensure that programs achieve desired results.

As the Department addresses critical changes affecting its bureaus and programs, the OIG believes that its work is helping by providing independent, objective information and recommendations for program improvements. The OIG has sought to provide products that its customers, departmental managers, and the Congress will find useful and relevant. One of the OIG's objectives is to help decision makers find solutions to the problems they face in new or modified programs and with rapidly changing technology that affects all areas of business and finance.

PERFORMANCE REVIEWS

Customs Drug Interdiction Efforts at an Airport and a Seaport

The OIG completed the second in a series of planned audits covering various aspects of Customs drug interdiction efforts. In July 1997, the OIG reported on CET program weaknesses at a land border port (Report #OIG-97-105). This second audit report discusses Customs' CET program at an airport and a seaport. Customs established CET in 1982 as a dedicated resource aimed at intercepting large quantities of drugs smuggled in conveyances, such as aircraft and sea-going vessels, and commercial cargo. Although Customs recently concentrated its drug enforcement efforts on the Southwest Border, the OIG's report suggests that Customs may be vulnerable to drug smuggling on the West coast.

The OIG audit covered two of the busiest ports of entry on the West coast. Information from Customs and other law enforcement agencies suggests that the threat of drug smuggling at these ports is significant and increasing. However, the OIG found that enforcement efforts over commercial cargo and conveyances have not kept pace. Despite the increasing threat, CET drug seizures declined at the ports between FY 1991 and 1996. Rather than concentrating on drugs, port management focused its efforts on non-CET operations, such as passenger processing, trade enforcement, and outbound operations.

The OIG also found weaknesses in the ports' CET operational and management practices. Port management had not developed a comprehensive action plan to address the drug smuggling threat at the airport. For example, the action plan did not address high risk flights arriving during certain times of the day, and potential internal conspiracies involving carrier, airport and warehouse

employees. Targeting and examination weaknesses included inadequate physical control over cargo prior to examination, and limited use of available technology, such as x-ray equipment.

Port management also did not systematically monitor or measure CET activities, including cargo examinations, plane- and ship-side operations, and warehouse activities. In addition, port management did not ensure that inspectors were adequately trained and assigned to CET for long enough periods to develop specialized targeting and examinations skills. Having highly skilled CET inspectors has become increasingly important as resource constraints have reduced the number of CET examinations performed at the ports.

The OIG report included seven recommendations to improve CET targeting and examination practices. Foremost among these recommendations is the need for comprehensive action plans, resource management strategies, and management controls to ensure that CET operations are focused on the highest risk commercial conveyances and cargo. The OIG also recommended that Customs assess whether similar CET program weaknesses exist at other ports of entry. Customs management concurred with the recommendations and has initiated corrective actions. (Report #OIG-98-018)

OTS Examiner Conflict of Interest

An OIG audit reported that OTS does not have formal policies and procedures requiring conflict of interest reviews on examiners departing for employment with thrifts. As a result, OTS does not always perform these reviews. Although the OIG found no instances of wrongdoing on the part of examiners, the potential exists for compromising the examination process.

Between January 1, 1994 and September 30, 1996, 274 examiners graded OTS-12 and higher left OTS employment. Of this total, 64 examiners were hired by thrifts, including 46 individuals who had previously examined the thrifts that hired them. The OIG reviewed files for 161 of the 274 departing examiners, including 47 of the 64 examiners who were hired by thrifts. OTS performed reviews on only 15, or 32 percent, of the 47 examiners. In addition, OTS did not review the departing examiners' workpapers in order to detect potential wrongdoing.

The OIG found that none of the three regions it reviewed required personnel officers to notify ethics officials when examiners departed for the thrift industry. Instead, ethics officials relied on managers, supervisors, or departing examiners to inform them of pending resignations. Variations also existed by region. For example, the Northeast and Southeast regions reviewed only 8 of the 22 examiners who left OTS for thrift employment for conflict of interest. In contrast, the Central region reviewed 24 of 25 departing examiners.

The OIG also reviewed the workpapers of 12 departing examiners who left OTS 3 months or less after examining the thrifts that hired them. Although the OIG found no evidence of wrongdoing, supervisory reviews were not always conducted or apparent. The OIG recommended that OTS implement a policy requiring that notice be given to regional ethics officials whenever examiners depart OTS for employment with OTS-regulated thrifts; ethics officials prepare written certification that conflict of interest reviews were performed; supervisors prepare written certification that workpaper reviews were performed; and periodic reviews be performed to monitor compliance with the new policy and procedures. OTS concurred with the OIG's recommendations and implemented corrective actions. (Report #OIG-98-019)

Customs' North American Free Trade Agreement Trade Enforcement Program

The North American Free Trade Agreement (NAFTA) was implemented on January 1, 1994 with the ultimate goal of eliminating tariffs between Canada, Mexico, and the United States on nearly all qualifying goods by 2003. The elimination of tariffs significantly impacted imports to the United States, with Mexican and Canadian imports increasing from \$178 billion in 1994 to over \$200 billion in 1995. A primary NAFTA enforcement risk involves the transshipment of goods and the filing of false claims from non-NAFTA countries in order to avoid duties. To address this risk, Customs developed the NAFTA Trade Enforcement Plan, through which multiple Customs disciplines perform document reviews, exporter or producer visits, and enforced and informed compliance activities.

An OIG audit of Customs' NAFTA Trade Enforcement Plan disclosed that while the plan was technically sound and well conceived, problems that could hinder its effective implementation had been encountered. High risk imports totaling \$3.3 billion could have bypassed examination by import specialists. In addition, because information from investigations of and interventions involving potential transshipments and false claims was not routinely submitted for input into the national selectivity system, Customs may have missed opportunities to maximize revenue.

The audit also found that Customs needed to enhance the reporting of compliance measurement results. Midway through the program, there is a low percentage of verification completions and the sample contains a high percentage of non-NAFTA and duplicate items, raising the question of whether the program can be timely completed. In addition, an absence of guidelines hinders the accurate reporting of results. The OIG made six recommendations to enhance the enforcement program. Customs management concurred with the recommendations and initiated corrective action. (Report #OIG-98-038)

Commemorative Coin Program Advertising

An OIG audit of the Mint's promotions for commemorative coin sales found that advertising in general publications, such as newspapers and magazines, has not been effective in selling coins. The OIG reviewed the advertising of commemorative coin programs between 1993 and 1995 and found that, for six of the seven programs examined, the costs exceeded the revenue generated. For example, the Mint spent

approximately \$745,000 to advertise the World Cup Soccer Coin in general publications and generated only \$282,000 in additional sales revenue.

The Mint uses several advertising techniques to market commemorative coins, including direct mailings to repeat buyers, advertising in numismatic publications to reach coin collectors, and advertising in newspapers and magazines to reach the general public. Approximately 90 percent of the Mint's commemorative coin customers are repeat buyers, who were notified of new coin issues by direct mailings. The Mint's advertising in numismatic publications is most cost beneficial during the pre-issue period, when coins are sold at a discount. Pre-issue sales generated nearly \$13 in sales for every advertising dollar spent. Advertising in the follow-on period, when discounts are no longer offered, generated less than \$3 for every dollar spent.

The OIG recommended that the Mint evaluate non-numismatic advertising efforts and use publications which offer maximum opportunities for return on investment; evaluate the long-term profitability of post-discount numismatic advertising; establish baseline data to measure the success of its advertising efforts; and reach agreement with recipient agencies to define a mutually accepted advertising strategy. The Mint concurred with the OIG's recommendations and agreed to take appropriate action to improve the cost benefit of future publication advertising. It should be noted that between 1995 and 1997, various operational changes were incorporated into the Mint advertising program, which address many of the concerns or

circumstances that precipitated the OIG's findings and recommendations. (Report #OIG-98-044)

Customs' Small Purchase Procurement Process

Although Customs has significantly decreased its use of purchase orders (POs), blanket purchase agreements (BPAs), and Imprest Funds since FY 1994, further reductions could be realized to achieve maximum cost efficiency. For example, Customs employees continued to use POs, BPAs, and Imprest Funds rather than purchase cards to obtain small purchases for supplies and services. The OIG estimates that Customs processed 14,350 POs, BPAs, and Imprest Funds transactions in FY 1996, at an additional cost of \$54 per transaction. Using purchase cards for these transactions could have saved Customs \$775,000.

Customs did not realize additional savings by restricting travel-related expenses to its more cost effective automated travel payment system. Although the OIG's review focused on eligible purchase card procurements, it found that, instead of using their Government credit cards or receiving funds through direct deposit, Customs employees received travel-related payments from Imprest Funds. In addition, the audit found that controls need to be strengthened over cardholders' use of purchase cards. Noted control weaknesses, which increase the potential for fraud or misuse of purchase cards, included: cardholders who did not always use the card properly or

supply supporting documentation for charges; individuals who split purchases and failed to obtain supplies from established sources; one cardholder who exceeded the authorized dollar limit; and accounts that were not always canceled promptly when employees left Customs.

The OIG made five recommendations to reduce the administrative cost of processing transactions and to strengthen controls over the Purchase Card Program. Customs concurred with the OIG's findings and has taken action to address each of the recommendations. In addition, Customs' Purchase Card Program is now supported by a fully automated system, which has considerably increased Customs' ability to control and account for purchases made by its employees. (Report #OIG-98-061)

Treasury Enforcement Communications System

An OIG audit to assess user satisfaction with the Treasury Enforcement Communications System II (TECS) found users generally satisfied, but in need of additional training to better utilize TECS capabilities. Managed by Customs, TECS is an automated law enforcement system that links more than 29,000 users from 24 Federal agencies. The Treasury bureaus with the most TECS users include Customs with approximately 15,000; ATF with nearly 3,000; IRS with approximately 2,300; and Secret Service with approximately 900. The Department of Justice's Immigration and Naturalization Service (INS) has approximately 6,300 TECS users.

The OIG asked a sample of 209 TECS users and System Control Officers (SCOs) from throughout the country to identify TECS problems or concerns. SCOs authorize and control TECS access, and the 61 SCOs queried by the OIG are responsible for approximately 5,300 national users. The OIG found that 147 TECS users and SCOs were satisfied with the system and often made unsolicited positive comments about TECS. Thirty four additional individuals were neutral, making no strong comments either way. Only 28 of those queried expressed dissatisfaction with TECS, identifying a number of system-related concerns, including slow response time, outdated records, excessive security tests, and passwords that expired too quickly. No one concern was identified by a significant percentage of users. In addition, the problems identified have been or are currently being addressed by Customs, or seem to exist due to lack of training or familiarity with TECS.

In total, 56 of the 209 TECS users and SCOs expressed a need for more and better training. A common theme among those expressing training concerns was that they lacked a full awareness of TECS' capabilities. The OIG made several recommendations to Customs to improve user training. Customs agreed with the OIG's recommendations and has planned actions to address these concerns. (Report #OIG-98-060)

Audit Scoping Review of FFIEC Operations

The Inspectors General of the Board of Governors of the Federal Reserve System, the Department of the Treasury, the Federal Deposit Insurance Corporation (FDIC), and the National Credit Union Administration (NCUA) completed an audit scoping review of FFIEC operations. The FFIEC is responsible for prescribing uniform principles, standards, and reporting systems for the examination of financial institutions by the five Federal financial institution regulatory agencies, the Board of Governors of the Federal Reserve System, the FDIC, the NCUA, OCC, and OTS; making recommendations to promote uniformity in the supervision of financial institutions; and conducting schools for examiners employed by the five member agencies and state supervisory agencies.

The audit team conducted the review between January 13 and February 13, 1998. The review's objective was to identify areas that may deserve audit attention and to develop an overall strategy for conducting any future audits. The audit team reviewed laws, legislative history, budgets, annual reports, and prior audits and studies; and interviewed over 40 persons, including FFIEC members and staff, participants in each Interagency Task Force and Staff Group, and members of the Appraisal Subcommittee.

An audit report detailing the results of the review, which was signed by the four participating

Inspectors General, was issued to the Chair of the FFIEC on February 26, 1998. While the review found that the FFIEC is reasonably successful in fostering coordination among the five Federal financial institution regulatory agencies, the report contained two recommendations for improving FFIEC operations and identified three specific joint audits of various FFIEC operations that the Inspectors General plan to conduct during the next 3 years. (OIG)

ATF's Integrated Ballistic Identification System

An OIG audit of ATF's Integrated Ballistic Identification System (IBIS) examined how ATF assisted local law enforcement agencies in solving firearm crimes through technology. The IBIS technology, a major component of the CEASEFIRE program, provides an automated means of associating bullets or shell casings obtained from a crime scene with specific firearms. More efficient than prior manual processes, IBIS expands the possibilities of linking seemingly unrelated firearm crimes. As of March 1997, ATF had expended approximately \$10 million on 25 IBIS systems and another \$3 million in support costs since the program's inception in 1994. ATF program plans called for 30 IBIS sites throughout the country by FY 1998.

Despite IBIS' technological benefits, the OIG noted several management control weaknesses warranting ATF attention. These areas included the need for: (1) guidance and procedures to clarify the ownership of IBIS data bases, establish minimum usage criteria, and track direct and indirect program costs; (2) contingency planning, given the prospect of reduced program funding in the future; and (3) ATF to develop results-oriented measures to assess program performance. Further management control weakness included the unintended consequences of an incompatible, competing Federal Bureau of Investigation (FBI) system, and contracting procedures that allowed the IBIS contractor to imply a Treasury and ATF product endorsement through the contractor's Internet advertisements. Many of the management control weaknesses were due to ATF's initial concentration on placing IBIS systems throughout the country without first establishing focused controls and comprehensive planning.

ATF generally concurred with the OIG's findings, but was unable to fully address all of the recommendations. ATF cited the lack of a cost accounting system as an inhibiting factor to identifying and tracking all program costs, along with practical difficulties in developing results-oriented performance measures. Corrective action was initiated on the other reported weaknesses. (Report #OIG-98-069)

Customs' Reorganization to Streamline Operations

On October 1, 1995, Customs restructured its Headquarters and field offices, and implemented other actions to streamline its organization and operations. An OIG audit focused on two of the more significant organizational initiatives, replacing 7 regional and 42 district offices with 20 Customs Management Centers (CMCs), and reducing Headquarters staffing to 1,200 positions by the end of FY 1998. The OIG's specific objectives were to determine the status of Customs Headquarters' downsizing efforts and whether the CMCs were uniformly organized, appropriately staffed, and adequately tasked.

Although the OIG found the CMCs to be uniformly organized, its review of staffing revealed opportunities for achieving greater administrative support efficiencies at both CMC and Office of Enforcement (now Office of Investigations) field offices. The audit disclosed that CMC administrative support to operational staffing ratios ranged from 1:11 at three locations to 1:37 at another location. In addition, an analysis of one Special Agent-in-Charge's (SAC) administrative staff disclosed that, although it supported fewer employees, it was larger than a related CMC's mission support staff and the combined administrative staffs of two other SAC offices.

While 2 years have elapsed, some CMC activities lack performance measurements, and Customs has not assessed whether the CMCs are operating efficiently and as planned. The OIG recommended that Customs determine optimum administrative support staffing requirements and implement appropriate actions to achieve desired efficiencies. In addition, Customs should conduct a post-reorganization assessment to determine whether CMCs are operating efficiently and as intended. Customs concurred with the OIG's findings and agreed to implement the OIG's recommendations.

The OIG's analysis of Customs Headquarters' downsizing efforts indicated that Customs may fall 87 positions short of its goal. To assure that the goal is accomplished, the OIG recommended that a definitive staffing plan targeting the remaining positions to be eliminated be developed. In its response, Customs indicated its confidence that the goal can be achieved without such actions. However, Customs will reconsider its position if the goal is not met. (Report #OIG-98-068)

Customs' Use of the Advance Passenger Information System

As one of the principal border agencies, Customs processed over 64.5 million arriving passengers during FY 1996. With the volume of international air travelers increasing each year, Customs' goal is to ensure compliance with Federal laws and regulations by identifying and examining high risk passengers, including felons or drug smugglers, while expediting the processing of low risk passengers. The expanded use of automated systems is vital to Customs achieving this goal. Accordingly, Customs and INS have developed the Advanced Passenger Information System (APIS) to receive certain data in advance of passenger arrival. Customs employees then analyze the data to identify higher risk passengers for closer inspection.

An OIG audit concluded that Customs used APIS as an enforcement tool to help identify high risk passengers. However, neither Customs nor the INS consistently determined whether airlines submitted passenger data timely and completely in advance, or notified airlines of data deficiencies. In addition, Customs lacked adequate records to show whether inspectors met its goal of intercepting 85 percent of the high risk passengers identified. The OIG's analysis of a sample of high risk passengers processed at three airports and the responses received from Customs officials at three other high volume airports indicated that inspectors were not meeting Customs' goal. Unless Customs addresses these issues, there is increased risk that Customs will not intercept passengers who possess drugs or other contraband. Customs also will be unable to fully assess the benefits that APIS has provided to its drug interdiction and other enforcement efforts.

The OIG made seven recommendations to the Acting Commissioner of Customs to help strengthen the APIS program. Foremost is the OIG's recommendation that Customs and INS formalize an agreement on

how they will monitor airlines' submissions of pre-arrival passenger data. Other recommendations addressed the need for Customs to periodically analyze the processing of data to promptly detect negative trends, and to establish a monitoring and reporting process for APIS. Customs concurred with the OIG's recommendations. Until the agreement is formalized, Customs will work with carriers and set standards for noncompliant airlines. In addition, new software has been installed at the airports to monitor query and processing times, and Customs will review passenger operations to determine low interception rates. (Report #OIG-98-033)

Revenue Protection Strategies

Filing fraud has been a major concern for IRS for a number of years. In 1995, IRS implemented a Revenue Protection Strategy to combat return filing fraud and noncompliance. The strategy included several initiatives to identify invalid and duplicate Social Security Numbers (SSNs) due to concerns that those SSNs may be used to support improper claims for dependent exemptions and Earned Income Credit (EIC). However, due to resource limitations, IRS has not addressed most of the nearly 8 million problem SSNs identified. In addition, math error procedures implemented in 1997 did not address all returns received without valid SSNs, and do not affect returns

using duplicate SSNs. These unresolved cases represent a long-term revenue protection challenge for IRS.

IRS internal auditors evaluated how IRS could reduce invalid and duplicate dependent SSNs in order to improve the effective use of resources to identify and resolve improper dependent and EIC claims. Although IRS has made progress in addressing problem SSN issues and has plans for future improvements, the auditors identified areas where IRS could improve voluntary compliance, reduce taxpayer burden, and enhance program efficiency and effectiveness. The auditors recommended that IRS send notices to taxpayers before the filing season providing specific feedback on invalid and duplicate SSNs used by the taxpayers on previous returns; and that IRS consolidate in one location on the return the information needed on qualifying individuals for all dependent-related claims, including dependent exemptions, EIC claims, Child and Dependent Care Credits, and the recently enacted Adoption Credit.

IRS management agreed to request executive approval for issuing notices to taxpayers that have used problem SSNs, and is studying multiple SSN usage to identify the root causes of duplicate SSNs and appropriate solutions. However, IRS management did not agree to consolidate information on dependent-related claims in one location on the return. (IRS Report #081203)

IRS Customer Service/Taxpayer Relations

IRS internal auditors reviewed the use of enforcement statistics in the direction, achievement, and evaluation of the Collection function at the national and regional levels and 12 district offices. The auditors concluded that in striving for increased productivity, IRS executives focused on achieving enforcement goals and believed it was critical that the goals and progress be continuously shared with revenue officers and their managers. In implementing this strategy, national and regional officials issued guidance that encouraged sharing enforcement goals and results at the group level, in violation of the law. IRS Policy Statement P-1-20, which has remained essentially unchanged since 1973, states that tax enforcement results shall not be used to evaluate an enforcement officer or impose or suggest production quotas or goals.

District Directors did not fulfill their responsibilities for certifying compliance with the Taxpayer Bill of Rights and P-1-20 in evaluating revenue officers and their managers. As a result, the front-line environment is heavily focused on management's priority of achieving enforcement goals, placing taxpayer rights at risk in the collection process. IRS needs to immediately refocus its front-line environment on timely, quality case actions and on adherence to laws, policies and procedures.

IRS management agreed to a number of corrective actions in response to the report findings and recommendations. These actions include recalling the guidance document on the use of statistics, and revising procedures which influence the way compliance activities are managed; strengthening P-1-20 certification and increasing the independence of the review process; administratively applying the provisions of the Taxpayer Bill of Rights to all enforcement activities; and expanding P-1-20 to include front-line managers. The corrective actions also involved producing an overall balanced measurement process; preparing a training and communication plan to accompany the revised guidance and procedures; and strengthening procedures governing the clearance of documents by requiring IRS Counsel to thoroughly review such documents, and initiating activities to adequately address any legal concerns. (IRS Report #081904)

■ The TBOR2 was enacted by Congress on July 30, 1996, and amplifies and extends taxpayer rights and protections included in the original law. The TBOR2 requires changes to the Internal Revenue Code, IRM, and computer systems, and affects all functional areas of IRS. IRS Legislative Affairs has overall responsibility for coordinating implementation of the new legislation, and IRS internal auditors conducted a review soon after the law's enactment to determine if IRS management had established the framework necessary to implement TBOR2.

The auditors determined that Legislative Affairs established a framework that will allow IRS to implement TBOR2. Within 45 days of passage of the legislation, IRS identified priorities of actions, responsibilities, and time frames; developed an implementation plan; and issued overview information to employees and the general public. However, additional management emphasis is needed to ensure that the TBOR2 implementation plan is effectively accomplished. Specifically, the Customer Feedback System should be revised, oversight and monitoring of field actions should be expanded, and the communication of TBOR2 information to employees and managers should be improved.

The auditors recommended that management consider alternative methods of obtaining feedback from taxpayers about how they were treated, and redesign the form used to capture this data to ensure that it is more conducive to analysis. In addition, improved oversight and monitoring of TBOR2 to identify field employees' questions and concerns should help to assure that problems and issues are elevated to the appropriate level and are dealt with consistently. IRS also should ensure that current and complete TBOR2 information is available to employees and managers. (IRS Report #080303)

■ IRS executives projected that the Walk-In Program would provide assistance to over 6 million taxpayers during FY 1997. This assistance would include providing answers to taxpayer questions and, at certain locations, helping with tax return preparation. At the beginning of FY 1997, IRS executives transferred responsibility for Walk-In activities from Customer Service to the Assistant Commissioner (Collection). Walk-In assistance is now provided through approximately 400 Walk-In field offices. Although it supplements the more centralized, high volume telephone and forms distribution operations, Walk-In assistance still plays a key role in helping taxpayers. The Congress emphasized the program's importance by stating in the 1997 Appropriations Bill that IRS should be "*sensitive to the needs of Walk-In taxpayers.*"

IRS internal auditors determined that, compared with IRS' prior performance, the Walk-In field offices were successful in servicing taxpayers during the filing season. When the Collection function assumed Walk-In responsibilities, various program concerns were addressed, and a task force review to recommend improvements and elements for a redesign of the Walk-In Program was completed.

Despite the improvement in 1997, the audit identified several areas of concern. First, the reorganization that transferred Walk-In assistance from Customer Service to Collection conflicts with provisions of Public Law (P.L.) 100-647 which place the responsibility for Walk-In assistance with Customer Service. (The Walk-In Program will return to Customer Service's jurisdiction at the national level in FY 1998 to conform with statutory requirements.) Second, because the Walk-In assistance program lacks effective control and accountability, its accomplishments cannot be determined and management cannot conclude whether its \$41.6 million budget was used effectively. (Additional costs, including an estimated \$5.7 million in salaries and benefits for Compliance personnel detailed to perform Walk-In duties and an estimated \$50.6 million in reduced revenue flow that resulted from those details, raised the average cost per taxpayer serviced from approximately \$6 per visit to approximately \$15 per visit.) Finally, IRS has not yet collected sufficient customer input to determine what taxpayers expect from Walk-In assistance or how satisfied they are with the assistance.

The auditors made recommendations that supplement current IRS efforts and present strategies for raising the level of taxpayer service while reducing overall cost. The recommendations include evaluating whether the proposed Taxpayer Service organization provides the structure needed to comply with current statutes; basing program goals and measures on customer feedback; establishing a formal strategy on methods to effectively serve Walk-In traffic with lower cost alternatives; and establishing a national partnership program with colleges and universities to offer taxpayer services and return preparation training in exchange for community service opportunities. (IRS Report #081004)

IRS Privacy And Security

n On August 5, 1997, President Clinton signed the "Taxpayer Browsing Protection Act" into law. The law closes loopholes in existing statutes regarding the willful unauthorized accessing or scrutinizing of tax information; and makes all cases of unauthorized access, both in electronic and paper format, a crime that carries penalties ranging from loss of employment to fines and prison terms upon conviction. Under the law, absent mitigating circumstances, the appropriate IRS managerial response to substantiated cases is removal from employment. Beginning October 1, 1997, the IRS Inspection Service assumed responsibility for investigating all allegations of unauthorized access to tax information. In addition, the Inspection Service has established a Centralized Case Development Center, which uses computer analyses to detect unauthorized accesses by IRS employees. (IRS Inspection)

n IRS internal auditors conducted a review to assess the overall systems security program for safeguarding taxpayer data and other critical information. The overall objective of the review was to evaluate the effectiveness of management's efforts to enhance IRS' systems security initiatives, and to validate that

security controls are in place for selected systems that process sensitive data. During the review, the auditors determined that IRS has not developed a complete inventory of sensitive systems, and that the security evaluation process was primarily a review of documentation rather than an independent evaluation of controls. As a result, the process used to certify systems had not always resulted in a complete evaluation of controls prior to the issuance of a certification. Without efforts to ensure that all of IRS' sensitive systems receive a complete evaluation of security controls, IRS management does not have assurance that taxpayer data and mission critical information are adequately protected.

The auditors identified weaknesses that included limited security evaluations conducted by the Certification Section, no mechanism for conducting Post-Certification assessments of security controls, interim certifications which did not result in an increased level of certified systems, and an ineffective effort to identify all sensitive computer systems. In addition, responsibility for overseeing IRS' Systems Security Certification Program has been transferred to the National Director for Operations and Customer Support, which may result in security analysts having to evaluate and comment on policy decisions or guidance provided by other employees within their organization. The auditors made several recommendations intended to strengthen Information Systems security. IRS management agreed with the findings and recommendations and is taking appropriate corrective action. (IRS Report #080505)

Secret Service Customer Service Activities

With the enactment of Executive Order 12862, "Setting Customer Standards," the Secret Service has developed formal plans to document and implement goals and strategies in order to provide the very best customer service to all recipients of its services. The Office of Inspection continues to formulate support strategies to enhance the Secret Service Customer Service Plan, which includes developing inspection protocols that measure customer satisfaction both internally and externally. Customer service is an integral part of Secret Service's overall strategic plan and the Office of Inspection continues to play a key role in keeping customer service a priority.

Pursuant to a 1987 MOU, Secret Service provides polygraph support to OIG criminal investigations upon written request from the Inspector General. Secret Service polygraph examiners conduct the polygraphs at field locations throughout the United States. In addition to providing two polygraphs and two Forensic Examinations for the OIG, Secret Service has conducted polygraphs for the Green Bay, Wisconsin Police and the OIGs of the Nuclear Regulatory Commission, GAO, the General Services Administration, the Department of Labor, and the Federal Reserve Bank. (Secret Service Inspection)

MANAGEMENT ASSESSMENTS

Treasury’s Support for High Priority Projects and Special Endeavors

In recent years, Treasury has implemented an increasing number and variety of high priority endeavors, which have included special reviews, major Administration initiatives, and newly mandated programs. Given the significant changes occurring in technology, government, the economy, and international affairs, it is likely that the Department will increasingly be called upon to implement further highly visible endeavors that require extensive support.

A review was conducted to identify potential enhancements to the Department’s infrastructure that could assist senior management in obtaining adequate and timely support for these endeavors. An effective planning process would contribute to smoother implementation and operation. The OIG performed case studies of four specific endeavors which reflect the diverse challenges that face Treasury. The case study approach enabled the OIG to identify lessons learned from previous high priority projects and special endeavors that could be valuable experience in implementing future Departmental efforts.

The OIG found that the Department does not have a consistent and comprehensive process for planning special endeavors. Consequently, each was implemented differently, with no consistent functional approach. In addition, the Department lacked a consistent level of senior management involvement, and senior management oversight varied with each endeavor. In the future, the Department should develop a comprehensive planning process for each endeavor and ensure consistent senior management involvement during implementation and ongoing monitoring. (Report #OIG-97-E02)

Application of Model for Estimating the Cost of Law Enforcement Officer Coverage

At the request of the Department’s Office of Personnel Policy, the OIG developed a model to estimate the costs associated with various proposals for converting Treasury employees to LEO status. The model consists of certain formulas and assumptions, which were based on those previously used by the Office of Personnel Management (OPM) for estimating the financial impacts of granting LEO status to selected employees at several Federal agencies. Additional assumptions were based on discussions with Office of Personnel Policy staff.

In applying the model, the OIG selected a group of 8,172 Treasury employees who were on the Department's payroll for pay period 10 in 1997. As a result, all computations were made using the actual annualized salary information for this group for pay period 10. The estimate includes increased costs to the Government for salary, and retirement and other benefits. Any subsequent changes to legislation or regulations could alter the factors contained in the OIG's formulas and would likely cause a different outcome for the calculations.

The model found that Treasury would annually incur an additional \$50.6 million to provide LEO status to the specific group of 8,172 employees. This projected annual growth consists of the following Departmental increases: (1) \$14.9 million for base pay; (2) \$216,000 for MEDICARE contributions; (3) \$741,000 for Social Security contributions; (4) \$537,000 for Thrift Savings Plan contributions; (5) \$1.1 million for Civil Service Retirement System (CSRS) contributions; and (6) \$33.1 million for Federal Employees Retirement System (FERS) contributions. The Federal Government also would be required to annually provide \$24.4 million in additional contributions to CSRS for this group of employees as current employee and employer contributions fall far short of full funding needs. (As a result of this deficit, funds are appropriated annually to provide additional contributions to CSRS).

The amount of employee and employer contributions for past service will fund only a portion of the estimated increased LEO retirement costs. If the 8,172 Treasury employees are provided credit for past service, no mechanism exists to recover these large costs, which will have to be borne by taxpayers in the form of an unfunded liability to CSRS and FERS. Using the OPM Chief Actuary Office's calculations and factors, the OIG estimated that this one-time unfunded liability for CSRS and FERS would total nearly \$539.1 million. (Report #OIG-97-E03)

ATF Inspections

During the 6-month period ending March 31, 1998, the ATF Office of Inspection conducted 7 inspections. The inspections, which involved the review of 53 separate office locations, included areas such as personnel, training, office security, internal controls, and a qualitative and quantitative analysis of investigations and inspections. In addition, all employees were interviewed regarding morale, supervision, and work-related problems.

Deficiencies and/or variances identified during the inspections were discussed with affected managers at the closing conferences and documented in the final inspection reports, which were disseminated to all affected ATF managers. Inspection team leaders briefed the Director of ATF after each inspection. (ATF Inspection)

Customs Inspections

The Customs Office of Internal Affairs conducts various types of reviews, including comprehensive inspections, spot checks, assessments, and financial

audits of undercover operations. The reviews gauge the effectiveness and efficiency of the offices involved and verify the implementation of strategic plans and compliance with policy and established operating procedures. During the 6-month period ending March 31, 1998, the Customs Office of Internal Affairs conducted six comprehensive inspections, including four SAC offices and two port locations.

Office of Internal Affairs inspections are conducted by a multidisciplinary team of Internal Affairs staff and field managers from peer organizations, who also are known as field inspectors. Typically senior level personnel, the field inspectors participate in a training week prior to the inspection, during which the team reviews the results of research and analysis conducted on the location to be inspected. Based on the review, specific areas are targeted for on-site inspection. Having field inspectors, who possess current operational knowledge, review functions in which they have expertise enhances the credibility of the inspections. In addition, the field inspectors have an opportunity to observe a variety of management styles and operational procedures. This process has been mutually enriching and has broadened the perspective of those associated with it. A program of interim spot check inspections was initiated as a complement to the comprehensive inspections. (Customs Internal Affairs)

Secret Service Inspections

Established on July 1, 1950, the Secret Service Office of Inspection is charged with reviewing policies, procedures, and their implementation in the Secret Service. The Office of Inspection's programs include organizational analysis and cover areas such as personnel, office security, communications, training, management, and supervision. The Office of Inspection also serves as the "Internal Affairs" component within the Secret Service.

The Office of Inspection conducts inspections of Secret Service offices and divisions on a 3 year cycle. During these inspections, every employee is afforded a confidential interview to assess the quality of management and supervision within Secret Service. During the 6-month period ending March 31, 1998, the Office of Inspection conducted 32 inspections of field offices, resident offices, and resident agencies, including follow-up visits, re-inspections, and unannounced audits.

All of the field offices, divisions, and resident offices that were inspected are in compliance with Secret Service policies and procedures, with the exception of minor discrepancies that were brought to the attention of the agents in charge and corrected during the course of the inspections. Offices that previously had received recommendations were re-inspected and found to be in compliance. In addition, the unannounced audits did not reveal any misuse of Government funds or unauthorized transactions. (Secret Service Inspection)

INFORMATION TECHNOLOGY OVERSIGHT

IRS Modernization

Modernization is the centerpiece of IRS efforts to reengineer business processes, information systems, and organizational culture. Since 1988, IRS has invested between \$3 and \$4 billion to create an environment where taxpayer accounts are updated rapidly and taxpayer information is readily available to IRS employees in order to respond to taxpayer inquiries. The IRS Inspection Service and others have provided extensive audit coverage of the costs and difficulties associated with modernizing IRS information systems. The Inspection Service still considers Modernization an FMFIA material weakness and categorizes Modernization control weaknesses as "Program Management," "Infrastructure," and "Financial Management."

Since FY 1991, the Inspection Service has issued 98 reports relating to Modernization initiatives, including two in the first half of FY 1998. Each of these reports has been made available to the Department for its use in facilitating oversight. In addition, IRS internal auditors have another three Modernization

reviews in various stages of completion. All reports issued in the 6 months ending March 31, 1998 are summarized below.

n The TeleFile Program is a major component of IRS' Modernization strategy. TeleFile is an interactive voice response system that allows taxpayers to file their returns using touch-tone telephones. In 1997, IRS decided to further expand the TeleFile Program through a pilot program by allowing business taxpayers in the Southeast Region to file their Forms 941 (Employer's Quarterly Federal Tax Return) over the telephone. Overall, IRS experienced a successful first quarter with 48,834 returns filed via the 941 TeleFile pilot system. IRS internal auditors determined that returns were correctly processed during the first quarter and that over 99 percent of business taxpayers using the pilot system were able to gain access on their first attempt.

Business taxpayers gained access to the pilot system by entering their Employer Identification Number (EIN) and total prior quarter's Form 941 deposits. The system then conducted an on-line match of the information to authenticate the caller. If the fields matched, the user was prompted to enter its current 941 tax data. However, if the fields did not match, the call was terminated. While the Business Master File extract for the first quarter of the 941 TeleFile pilot included approximately 868,000 eligible small businesses, only approximately 10 percent of the extracted records contained the prior quarter's deposits. As a result, the system did not adequately authenticate about 90 percent of the projected participants.

The auditors determined that the first quarter's database of businesses eligible to participate in the pilot did not match the participant profile because the database contained businesses that should have been excluded from the program. The auditors also identified an error in the 941 TeleFile Package, which may have caused some taxpayer confusion. Management was advised of the error and corrected the package for subsequent quarters.

The auditors recommended that IRS reconsider its current plans and develop an alternative process to ensure that all 941 TeleFile system users are authenticated. In addition, IRS also should identify an appropriate process for approving changes to the pilot participant profile, revise the 1998 participant profile to correctly reflect the selection criteria used, and ensure that the revised profile is properly approved. Management generally agreed with the conditions and recommendations cited in the report and implemented or established plans for corrective actions. (IRS Report #080704)

n IRS decided to develop the Integrated Submission and Remittance Processing (ISRP) system as an interim replacement system for the Distributed Input System (DIS) and the Remittance Processing System (RPS). The nationwide replacement of DIS and RPS, which are the core components for paper return and payment input processing throughout IRS' ten service centers, is planned to be completed by December 1998.

IRS internal auditors found that the ISRP project did not initially follow a disciplined development process, that risks existed within the project development strategy, and that the contract's statement of work needed modification. Although a standard methodology is now in place, IRS had limited experience and no training in the new Software Development Methodologies.

The auditors recommended that IRS management develop a contingency plan should the ISRP project not be ready for rollout to the service centers until after the Year 2000 (Y2K); complete the Business Case or establish a baseline for future comparison; and reassess its decision to include enhancements to RPS' core functionality and concentrate on developing and implementing core functionality for both RPS and DIS. IRS management agreed with the recommendations and has initiated appropriate corrective actions. (IRS Report #082204)

IRS Year 2000 Conversion Efforts

One of the IRS Inspection Service's top priorities is reviewing IRS' Y2K conversion efforts. Eight reviews involving the Y2K conversion are currently in process. The Y2K century date change is one of the most critical problems facing IRS. At the request of IRS' Chief Information Officer, IRS internal auditors performed an on-line review of IRS' efforts to prepare for Y2K. Audit work showed that IRS has made great strides in preparing for the century date change. The Y2K Project Office has coordinated the development of the *Year 2000 Project Management Plan*, which contains high-level planning information for IRS' conversion project, and senior executives have placed a high emphasis on the Y2K effort.

The auditors determined that additional steps were needed to ensure that IRS' information systems environment operates effectively in 2000. IRS' Y2K planning efforts needed to be more detailed; its Y2K planning process did not contain established due dates for several critical Y2K activities; and numerous established due dates have slipped several times. In the auditors' opinion, IRS needed a more effective process for ensuring that project efforts are coordinated nationwide. The Y2K Project Office requires status information from each Information Systems programming area to track and report the progress of Y2K activities. However, the auditors determined that of the 21 programs, which the Project Office reported as being fully Y2K compliant in April 1997, 19 (or 90 percent) did not conform to IRS' Y2K standards.

The auditors recommended that: (1) IRS' Y2K plans, including the *Year 2000 Project Management Plan*, be revised to reflect specific completion dates and the interrelationships between all project activities; (2) IRS appoint a Y2K Executive for approximately 1 year to direct and coordinate the IRS-wide conversion effort; and (3) the Y2K Project Office and the Information Systems programming sections work together to ensure that Y2K status reports are more accurate. IRS management agreed with the recommendations and initiated appropriate corrective actions. (IRS Report #081807)

CONTRACT OVERSIGHT

\$4.5 Million in Contract Costs Questioned

All Treasury bureau requests for preaward, cost incurred, and other contract audits are referred to the OIG. The OIG either performs the audits, refers the audits to the Defense Contract Audit Agency (DCAA) and other cognizant Government audit agencies, or contracts with an IPA.

As shown on the following page, the OIG performed or contracted for a total of 45 contract audits, which questioned \$4.5 million in Treasury contractor costs. Contracting officers agreed to savings and disallowed costs of over \$1.5 million, including amounts which were questioned prior to September 30, 1997. An additional \$13 million in potential monetary benefits, including amounts which were questioned prior to September 30, 1997, are awaiting completion of negotiations with the contractors.

Preaward audits, which provide information on whether pricing proposals are fair and reasonable, are used by contracting officers in negotiating contracts. During the period, DCAA auditors questioned costs of \$853,873 in a \$27,029,455 proposal submitted to Customs for the operation and maintenance of the Customs vessel fleet. Disposition of the questioned costs is pending future contract negotiations.

The audit questioned direct labor, fringe benefits, and general and administrative (G&A) expenses. The questioned direct labor was due to a variance in the proposed and recommended direct labor hours, while the questioned fringe benefits and G&A expenses resulted from the application of the proposed indirect rates to the questioned direct labor. (Report #OIG-98-009)

During the period, DCAA performed an audit of another proposal submitted to Customs for a second year option for the management and sale of seized property. DCAA questioned \$468,587 of the total \$9,437,047 proposed. The questioned costs were attributed to overhead and holding costs, operated facilities costs, and G&A expenses, with the majority involving the utilization of historical costs for the second option year. (Report #OIG-98-011)

An audit of a termination settlement was submitted pursuant to a claim filed under the Contract Disputes Act of 1978 against a Customs contract for nationwide background investigative services. The audit questioned \$147,142 of the \$150,215 claimed. The questioned costs represented "unabsorbed" overhead costs, labor and fringe costs, and the associated G&A and profit after the stop work order. In addition, the audit disclosed that the contractor's use of a modified formula of the Eichleay method produced an inequitable distribution of indirect costs, and would result in excessive and duplicative recovery of costs. (Report #OIG-98-010)

The OIG and the Offices of Internal Affairs and Inspection at ATF, Customs, IRS, and Secret Service carry out many activities designed to protect the integrity of the Department and its bureaus. These activities range from preventive measures such as integrity awareness programs to investigations of civil and criminal fraud. Because of the sensitive nature of much of the Department's work, this is a high priority area for the OIG and the Offices of Internal Affairs and Inspection.

INTEGRITY AWARENESS AND DETERRENCE

Integrity Awareness: A High Priority

Integrity awareness remains a high priority for Treasury internal investigators. During the last 6 months, the OIG and Offices of Internal Affairs and Inspection at ATF, Customs, IRS, and Secret Service gave 997 presentations to over 19,860 employees. Highlights of these programs follow:

■ IRS Inspection Service auditors and investigators routinely make presentations to IRS personnel that are designed to heighten their awareness of ethics and integrity. These presentations address various topics and are tailored to the particular needs of the audience. For the 6-month period ending March 31, 389 presentations were made to 16,192 employees.

n Customs' Office of Internal Affairs special agents conduct yearly integrity and bribery awareness presentations. In the past 6 months, Internal Affairs agents made 118 presentations to 2,705 employees.

■ ATF Inspection special agents and managers present integrity awareness briefings at conferences, meetings, and training classes throughout the country. During the 6-month period, Inspection made 11 integrity awareness presentations to more than 270 criminal investigators, inspectors, analysts, managers, supervisors, and administrative personnel.

n Secret Service's Office of Inspection works closely with all elements of the Secret Service to foster the highest standards of integrity and ethics. To this end, inspectors conducted 475 integrity and ethics briefings for 652 Secret Service employees, including criminal investigator recruits, experienced criminal investigators, special officers, Uniformed Division Officer recruits and officers, and administrative personnel.

n The OIG gave four briefings to approximately 41 employees. (OIG and Office of Internal Affairs and Inspection)

CRIMINAL INVESTIGATIONS

Criminal investigations by the OIG and the Offices of Internal Affairs and Inspection at ATF, Customs, IRS, and Secret Service include investigations of procurement fraud; assaults and threats against employees; bribery; allegations of criminal acts, such as embezzlement and theft, by employees; referrals from national integrity projects; and allegations of corruption against IRS by practitioners, such as attorneys and Certified Public Accountants (CPAs).

IRS Employee Pleads Guilty to Fraudulently Collecting Welfare

An IRS Office of Regional Counsel secretary, who pled guilty to welfare fraud, was sentenced on October 23, 1997. Full imposition of the sentence was waived for 5 years, subject to the secretary serving 12 months in county jail, making nearly \$95,000 in restitution, and signing a Confession of Judgment in favor of the county that prosecuted. Compliance with restitution will be reviewed by the court and is scheduled on the court docket. The investigation was a cooperative effort between the Alameda District Attorney's Office and the OIG.

The individual, who was hired as a secretary for the IRS Office of Regional Counsel in 1987, began receiving Aid to Families with Dependent Children (AFDC) benefits and Food Stamps in 1980. Upon returning to work, the secretary was ineligible for AFDC benefits or Food Stamps. However, the secretary failed to report the employment or earnings to the welfare department, and denied working when subsequently questioned during eligibility reviews. After being overpaid nearly \$77,000 in AFDC benefits and \$18,000 in Food Stamps, the secretary was arrested at work on August 22, 1996. (OIG)

Former IRS Employee Sentenced for Felony Theft

A former IRS employee, investigated for misusing his Government-issued American Express card, pled guilty to felony theft and was sentenced to 7 years of imprisonment (with all but 49 days suspended), 5 years of probation, and over \$13,000 in restitution. The investigation revealed that the former employee had improperly used the American Express card to purchase personal items in the amount of \$13,000. After his arrest, the former employee fled the area to avoid prosecution and remained a fugitive for over 2 months. Following numerous conversations between his family, himself, and the OIG, the former employee surrendered to the OIG. (OIG)

Former ATF Contractor Debarred

An 8(a) contractor, along with its president and owner, has been debarred. Currently serving 37 months in prison, the contractor's president and owner was

notified of the debarment while incarcerated. The debarment is effective throughout the Executive Branch of the Government and extends to all divisions and other organizational elements of the contractor. As reported in the March 1996 Semiannual Report, a joint investigation by IRS and the OIG led to the president and owner's conviction for wire fraud, false statements, bank fraud, misuse of a SSN, unpaid Federal and state tax liabilities, and filing a false application with the Small Business Administration in order to qualify for the 8(a) program. (OIG and IRS Inspection)

OCC Employee Resigns for Falsifying Documents

An OCC employee, who resigned during an OIG investigation of allegations that the employee had falsified expense vouchers and award documents, entered into an agreement for deferral of prosecution. Required to perform 80 hours of community service, the former OCC employee has already made over \$2,700 in restitution. As reported in the March 1997 Semiannual Report, the investigation revealed that the former employee kept the cash received for several on-the-spot awards for subordinate employees and falsified expense vouchers totaling nearly \$2,750. (OIG)

Customs Inspector Fired

As a result of a joint investigation by the OIG and Customs Internal Affairs, a Customs inspector was notified that he is being removed from his position with Customs and agreed to repay over \$11,700 in outstanding travel advances. The investigation revealed that the inspector failed to file a Currency Monetary Instrument Report or to return travel advances of canceled participants, misused Government travel advances, submitted misleading information to Customs supervisors and the NFC, and repaid outstanding travel advances only after being threatened with collection action. (OIG and Customs Internal Affairs)

Allegations Against IRS Headquarters Personnel Substantiated

The OIG initiated an investigation of IRS Headquarters personnel pursuant to a whistleblower's complaint. The investigation disclosed that the Division Director and/or the Branch Chief involved directed the processing of (1) over 30 ineligible management appraisals, providing false information to the union when subsequently questioned, and (2) a special act award for a senior executive's assistant that was not authorized or proper, later destroying related records to hide the impropriety. In addition, the Division Director and/or the Branch Chief pressured a subordinate employee to file a report falsely asserting that 100 percent of the targeted IRS population had received mandatory Office of Government Ethics training; and delayed the reporting of time and attendance allegations involving union officials to the IRS Inspection Service. The Division Director received an oral admonishment from IRS as punishment for his actions. Appropriate action is being pursued against the Branch Chief, who left IRS. (OIG)

Civil Settlement Reached with Former IRS Branch Chief

The OIG initiated an investigation into allegations that a former IRS Branch Chief violated post employment restrictions relating to his employment with a company whose contract he administered during his last 2 years with IRS. The case was presented to the United States Attorney's Office and accepted for civil action. Negotiations resulted in a civil settlement, whereby the former Branch Chief paid \$3,000 to the United States Treasury. (OIG)

OCC Contract Employee Fired for Stealing Computers

An OIG investigation of allegations that computers had been stolen from the OCC data center in Landover, Maryland resulted in a contract employee admitting to the theft. The contract employee, who had been hired to assist in the moving and transport of computers, was fired and paid \$2,500 in restitution. Two of the stolen computers, valued at \$4,000 each, were recovered from a local pawn shop. (OIG)

Former Supervisory Customs Inspector Sentenced for Smuggling Narcotics

On October 27, 1997, four defendants, including a former Supervisory Customs Inspector, were sentenced as a result of Operation Eclipse, a joint corruption investigation by Customs Internal Affairs and the FBI. Each defendant was sentenced for his role in a narcotics smuggling enterprise derailed by the joint operation. The former Supervisory Customs Inspector received 6 ½ years of imprisonment to be followed by 3 years of supervised release. (Customs Internal Affairs)

Customs Impersonation Case

On December 16, 1997, an individual who is not a Customs employee was sentenced to 1 year in prison and 2 years of supervised release for mail and wire fraud, and impersonating a Federal officer. In addition, the individual was ordered to make over \$47,000 in restitution to the victims of his telemarketing scheme.

The individual and others still under investigation by Customs Internal Affairs defrauded victims by representing themselves as Customs officers who demanded duty payments before forwarding lottery winnings checks, gems and other merchandise. Many of the victims were senior citizens, and the fraudulent scheme often succeeded because the victims were lead to believe that the callers were Government officials who could be trusted. (Customs Internal Affairs)

Fugitive Tax Preparer Pleads Guilty to Fraud

A fugitive tax preparer pled guilty to bank fraud, interfering with the administration of internal revenue laws, forging IRS refund checks, credit card fraud, and unlawful possession of firearms. Sentencing is pending.

After the television show “Unsolved Mysteries” presented the fugitive tax preparer’s criminal history, the IRS Inspection Service received an anonymous tip, which provided the fugitive’s current alias, address, and telephone number and lead to his arrest. (The “Unsolved Mysteries” episode, which originally aired over 2 years ago, generated over 100 investigative leads.) The Inspection Service’s investigation was initiated over 4 years ago when a taxpayer alleged that the tax preparer had accepted cash payments, but failed to send the money or tax returns to IRS. Monitored telephone calls confirmed that the tax preparer had accepted cash payments for 4 years without filing any returns.

A cooperating revenue officer conducted a full compliance review of the preparer’s tax business. After admitting that he was an illegal alien who did not have a valid SSN, the tax preparer solicited the revenue officer’s assistance in using a bogus SSN. Search warrants were later obtained for the tax preparer’s residence and business, and resulted in the seizure of approximately 40 boxes of records, unlawful firearms, and bogus credit cards. After his arrest and release on Federal bond, the tax preparer disappeared.

A prominent businessman in his community, the tax preparer obtained clients through a church affiliation, preying on individuals who could not speak English and who did not understand the tax system. The investigation disclosed that the tax preparer, who was using at least 17 aliases, defrauded clients and a credit union of more than \$70,000. (IRS Inspection)

Individuals Plead Guilty to Conspiracy and Forgery

Sentencing is pending for an individual who pled guilty to conspiracy and forgery. An investigation was initiated after the IRS Inspection Service was notified that United States Treasury salary checks had been stolen from an IRS service center and fraudulently negotiated. A man, who attempted to cash one of the checks at a check cashing agency, was seen leaving the agency in a vehicle registered to a second individual. Later that same day, the man attempted to negotiate one of the checks at a second check cashing agency before fleeing the scene. The owner of the second check cashing agency confiscated the check and a fraudulent military identification (ID) card.

Subsequently identified through forensic and photographic evidence, the man agreed to cooperate with the IRS Inspection Service, which set up a monitored meeting between the man and the second individual. During the meeting, the second individual discussed his involvement in the scheme and indicated that the salary checks had been supplied by a former IRS employee. IRS inspectors then interviewed the second individual, who confessed to his involvement in fraudulently negotiating 30 to 40 salary checks, worth approximately \$18,000, at various check cashing agencies. The second individual recruited three people from his neighborhood and paid them to negotiate the checks, which had been stolen by the former IRS employee. (The second individual had acquired a military ID card, which he used as a template for producing fraudulent cards that bore the names of check payees and the photographs of his three recruits.)

A cooperating FBI witness subsequently provided information that the second individual was involved in the fraudulent negotiation of an erroneous refund check for nearly \$78,000 that had been returned to the service center. The cooperating witness gave an exact description of the second individual as well as a detailed account of the second individual’s involvement in the negotiation of the check. Forensic examination of the check identified six latent fingerprints of the second individual. The second individual later pled guilty to conspiracy and to forging over \$95,000 of United States Treasury checks. (IRS Inspection)

Tax Protester/Militia Leader Pleads Guilty to Interfering with IRS Laws

Three years after his arrest by the IRS Inspection Service and FBI, a well-known tax protester and militia leader pled guilty to attempting to interfere with internal revenue laws and willfully failing to file returns. Sentencing is pending. The individual had been arrested for threatening a revenue agent and filing a bogus \$1.1 million lien against IRS, and was indicted for charges that included possessing an unregistered machine gun and silencer, obstruction of justice, and bank fraud. The Inspection Service had initiated its investigation after a confidential source reported that, during a tax protester meeting, the tax protester and militia leader stated that he had filed a lien against IRS and planned on seizing an IRS post of duty.

Prior to the anticipated, highly publicized trial, the tax protester and militia leader jumped bail and fled the country. The FBI and IRS Inspection Service conducted a fugitive investigation, eventually apprehending and arresting the individual at a relative's residence. As part of the plea process, the tax protester and militia leader agreed to cooperate with the Inspection Service regarding other tax protester activities and provided information concerning the location of a fugitive, who was one of the country's most prominent tax protesters and who had been convicted of tax evasion and contempt of court several years ago. As a result of the information, the fugitive was arrested by the United States Marshals Service. The tax protester and militia leader is continuing to cooperate with the Inspection Service. (IRS Inspection)

IRS Bribery Cases

Bribery of employees is a major concern for IRS revenue and collection operations. IRS revenue agents and other employees who have frequent contact with taxpayers need to be particularly alert to the fact that their positions and associated responsibilities make them potential targets for bribery attempts. The following cases illustrate examples of bribery offers made to IRS employees.

■ Sentencing is pending for a taxpayer who pled guilty to bribery. An investigation was begun when an IRS revenue agent reported that the taxpayer made a bribery overture during a telephone call, stating that he wanted to take the revenue agent to dinner and discuss the audit as friends.

During a monitored meeting, the taxpayer told the revenue agent that if he could help the taxpayer, the taxpayer might subsequently be able to do something for him. In a second monitored meeting, the taxpayer gave the revenue agent a brown envelope containing \$2,000 in cash, telling the revenue agent that the money was for him and that the taxpayer wanted a reduction in the penalties on his pending IRS tax assessments. The taxpayer, who directed the revenue agent to tell anyone who asked about the money that it was a loan, acknowledged that he understood what he was doing was wrong and that he could go to jail for his actions.

When interviewed by IRS inspectors, the taxpayer denied that the \$2,000 was a bribe payment in exchange for the reduction of penalties and indicated that the money was a loan to the revenue agent. When confronted with the statements he made during the second monitored meeting, the taxpayer had no explanation for the difference between the recorded conversation and his subsequent declarations.

n Two taxpayers arrested for bribing a public official subsequently pled guilty. A revenue agent, who had gone to a gas station to conduct an audit regarding an adjustment of the company's excise tax, met with an individual who identified himself as one of the station's owners. After telling the revenue agent that he could not afford to pay any taxes, the individual stated that he would give the revenue agent money to "take care" of the taxes and indicated that he wished to speak to his partner about the matter.

During a subsequent electronically monitored call, the individual told the revenue agent that he and his partner had discussed the matter and that they wished to meet with the revenue agent in person. During a meeting with both partners, the revenue agent was advised that he would be paid a total of \$400 for eliminating the excise taxes and related penalties. The revenue agent was then given \$200 with the understanding that he would provide paperwork indicating no taxes were owed and be paid the remaining \$200 at a later date.

Although both partners were scheduled to attend a subsequent meeting with the revenue agent, only one appeared. That partner was arrested and later pled guilty to neglect in preventing or reporting a felony. After investigative efforts disclosed his location, the other partner was arrested, was extradited, and pled guilty to bribing a public official.

n Sentencing is pending for a taxpayer who pled guilty to bribing public officials and witnesses. An investigation was initiated after an IRS employee advised the IRS Inspection Service that a taxpayer had informed the IRS employee that he owed approximately \$10,000 in taxes, but did not want to pay that amount. The taxpayer stated that if the IRS employee could help him with his problem, he would subsequently tell the IRS employee what he could do in return.

A review of IRS records revealed that the taxpayer had not filed his tax returns for the last 3 years.

The IRS employee calculated that the taxpayer owed approximately \$28,000 in interest and penalties. During a monitored meeting between the IRS employee and the taxpayer, the IRS employee explained the taxpayer's options for paying the taxes owed, including an offer-in-compromise and an installment agreement. When the taxpayer asked if anything could be waived, the IRS employee indicated that there were no grounds for doing so. The taxpayer then stated that he "had no problem taking care of" the IRS employee "as far as that was concerned." When the IRS employee responded that they could both get into trouble, the taxpayer stated that he understood and then indicated that he would give the IRS employee \$1,500 to get rid of the penalties and interest, reduce the taxes to \$15,000, and allow the taxpayer 3 years to pay the amount owed. During a second monitored meeting, the taxpayer provided the IRS employee with \$1,500. (IRS Inspection)

CPA Pleads Guilty to Interfering with IRS Laws

A CPA, who embezzled approximately \$250,000 from numerous clients and defrauded additional individuals using other confidence schemes, pled guilty to attempting to interfere with IRS laws. Sentencing is pending. An investigation was begun when an IRS employee reported that a CPA may have converted to his own use monies that his clients intended for transmission to IRS as tax payments.

The CPA, who instructed his victims to write out their quarterly tax payments to IRS, later altered the checks to the name of a business that he was running on the side and deposited the checks into the business account. Bank records obtained through a grand jury subpoena confirmed that all of the money which was intended for the payment of Federal taxes was funneled through the business account. In addition, the CPA was interviewed and admitted his involvement in altering and cashing the checks. (IRS Inspection)

Field Office Squad Assistant Resigns

On March 11, 1998, the Secret Service Office of Inspection was advised that \$1,000 in genuine \$100 Federal Reserve Notes (FRNs) was missing from \$3,500 being held in evidence at a Secret Service field office. The theft was discovered while the money was being prepared for transfer to the Asset Forfeiture Suspense Fund. The FRNs and a Xerox copy of an evidence form had been stored in an evidence folder in the Special Agent in Charge's safe. Prior to being copied, the evidence form had been changed to reflect \$2,500, rather than \$3,500.

A field office squad assistant was interviewed by Secret Service inspectors and admitted to the theft on March 13, 1998. The field office squad assistant resigned from her position effective that day, and agreed to reimburse the \$1,000 she stole. The Assistant United States Attorney declined prosecution of the former employee. (Secret Service Inspection)

Cash Management Specialist Resigns

A copy of an altered Statement of Earnings and Leave for a cash management specialist was discovered on a copy machine at Secret Service's Financial Management Division. The cash management specialist was interviewed by inspectors and admitted to altering her Statement of Earnings and Leave to show her grade level as a GS-06 rather than her current grade of GS-11. In a signed sworn statement, she acknowledged that she altered her pay statement to qualify for county assistance, but never actually applied for welfare benefits. The cash management specialist later admitted to Secret Service inspectors that her statement was untrue. She had applied for the Women, Infant and Children (WIC) Program using her correct pay information, but was denied benefits because her income was too high. The cash management specialist also indicated that she had received "coupons" from the WIC Program, which she returned prior to any use.

Initial inquiry with WIC program officials indicated that WIC "coupons" would only be issued to covered recipients. An investigation revealed that the cash management specialist did apply for, and receive, WIC benefits as a GS-06, negotiating six checks for a total amount of \$105.02. On January 7, 1998, the cash management specialist was interviewed in the Inspection Division and admitted to applying for the WIC Program using the altered Statement of Earnings and Leave. The cash management specialist gave a signed, sworn statement admitting her guilt. The Assistant United States Attorney declined Federal criminal prosecution in lieu of administrative action, and the cash management specialist resigned from Secret Service on March 14, 1998. (Secret Service Inspection)

VESTIGATIVE ACTIVITIES

This chapter contains statistical analyses of OIG and Office of Inspection and Internal Affairs activities. Several of the analyses fulfill reporting requirements in the Inspector General Act, as amended.

Statistical Summary

STATISTICAL HIGHLIGHTS a/ APRIL 1997 - MARCH 1998			
	6 MONTHS ENDED		TOTAL
	9/30/97	3/31/98	
<u>AUDITS</u>			
Audit Reports	170	138	308
Recommended Monetary Benefits (in Thousands):			
Questioned Costs	\$6,120	\$2,164	\$8,284
Savings	26,046	3,458	29,504
Revenue Enhancements	<u>74,933</u>	<u>1,386</u>	<u>76,319</u>
Total	\$107,099	\$7,008	\$114,107
<u>EVALUATIONS</u>			
Evaluation Reports	4	2	6
<u>INVESTIGATIONS</u>			
Cases Opened	2,044	1,906	3,950
Cases Closed	2,049	2,094	4,143
Successful Prosecutions	197	147	344
Administrative Sanctions	551	485	1,036
Recoveries and Penalties (in Thousands)	\$5,332	\$2,588	\$7,920
<u>OVERSIGHT AND QUALITY ASSURANCE REVIEWS</u>			
Reviews and Analyses	4	1	5
a/ Includes statistics for the OIG and Treasury Offices of Internal Affairs and Inspection.			

Audit and Evaluation Reports Issued by Bureau

Appendix A of this report lists individual audit and evaluation reports issued during the 6 months ended March 31, 1998.

OIG Audits and Evaluations	Reports
ATF	5
Customs	24
DO	17
BEP	4
FMS	1
IRS*	13
Mint	3
BPD	1
Secret Service	2
OTS	<u>2</u>
	72
Inspection Service Audits of IRS	<u>68</u>
Total	<u>140</u>

*Includes OIG contract audits.

Audit Reports With Questioned Costs

The IRS Inspection Service did not issue any audit reports with questioned costs during this semiannual reporting period. The term "questioned cost" means a cost that is questioned because of (1) an alleged violation of a provision of a law, regulation, contract, or other requirement governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation ("unsupported cost"); or (3) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

The term "disallowed cost" means a questioned cost that management, in a management decision, has sustained or agreed should not be charged to the Government.

OIG AUDIT REPORTS WITH QUESTIONED COSTS 6 MONTHS ENDED MARCH 31, 1998			
Report Category	Number	Questioned Costs a/ (in Thousands)	Unsupported Costs a/ (in Thousands)
1. For which no management decision had been made by the beginning of the reporting period	28	\$11,429	\$0
2. Which were issued during the reporting period	<u>10</u> b/	<u>2,164</u>	<u>0</u>
3. Subtotals (1 plus 2)	38	13,593	0
4. For which a management decision was made during the reporting period	8	2,587	0
n dollar value of disallowed costs	6 c/	714	0
n dollar value of costs not disallowed	6 c/	1,873	0
5. For which no management decision has been made by the end of the reporting period (3 minus 4)	<u>30</u>	<u>\$11,006</u>	<u>\$0</u>
6. Reports for which no management decision was made within six months of issuance	<u>22</u>	<u>\$9,042</u>	<u>\$0</u>

a/ "Questioned costs" includes "unsupported costs."
b/ All audits were performed by DCAA.

c/ Four reports were partially agreed to and partially not agreed to.

Audit Reports With Recommendations That Funds Be Put To Better Use

The term "recommendation that funds be put to better use" means a recommendation that funds could be used more efficiently if management took actions to implement and complete the recommendation, including (1) reductions in outlays; (2) deobligations of funds from programs or operations; (3) costs not incurred by implementing recommended improvements related to operations; (4) avoidance of unnecessary expenditures noted in pre-award reviews of contract agreements; (5) any other savings which are specifically identified; or (6) enhancements to revenues.

The term "management decision" means the evaluation by management of the findings and recommendations included in an audit report and the issuance of a final decision concerning its response to such findings and recommendations, including actions concluded to be necessary.

**OIG AUDIT REPORTS WITH RECOMMENDATIONS THAT
FUNDS BE PUT TO BETTER USE
6 MONTHS ENDED MARCH 31, 1998**

<u>Report Category</u>	<u>Number</u>	<u>Total</u>	<u>Savings (in Thousands)</u>	<u>Revenue Enhancements (in Thousands)</u>
1. For which no management decision has been made by the commencement of the reporting period	15	\$70,026	\$21,452	\$48,574
2. Which were issued during the reporting period	8 a/	<u>3,158</u>	<u>3,158</u>	<u>0</u>
3. Subtotals (1 plus 2)	23	73,184	24,610	48,574
4. For which a management decision was made during the reporting period	6	8,397	6,197	2,200
n dollar value of recommendations that were agreed to by management	3 b/	3,430	1,230	2,200
n based on proposed management action	3 b/	3,430	1,230	2,200
n based on proposed legislative action	3 b/	3,430	1,230	2,200
n dollar value of recommendations that were not agreed to by management	4	4,967	4,967	0
5. For which no management decision has been made by the end of the reporting period (3 minus 4)	<u>17</u>	<u>\$64,787</u>	<u>\$18,413</u>	<u>\$46,374</u>
6. Reports for which no management decision was made within six months of issuance	<u>9</u>	<u>\$61,629</u>	<u>\$15,255</u>	<u>\$46,374</u>

a/ Seven audits were performed by DCAA.

b/ One report was partially agreed to and partially not agreed to.

**IRS AUDIT REPORTS WITH RECOMMENDATIONS THAT
FUNDS BE PUT TO BETTER USE
6 MONTHS ENDED MARCH 31, 1998**

<u>Report Category</u>	<u>Number</u>	<u>Total</u>	<u>Savings</u> (in Thousands)	<u>Revenue Enhancements</u> (in Thousands)
1. For which no management decision has been made by the commencement of the reporting period	0	\$0	\$0	\$0
2. Which were issued during the reporting period	<u>4</u>	<u>1,686</u>	<u>300</u>	<u>1,386</u>
3. Subtotals (1 plus 2)	4	1,686	300	1,386
4. For which a management decision was made during the reporting period	4	1,686	300	1,386
n dollar value of recommendations that were agreed to by management	4	1,686	300	1,386
n based on proposed management action	4	1,686	300	1,386
n based on proposed legislative action	0	0	0	0
n dollar value of recommendations that were not agreed to by management	0	0	0	0
5. For which no management decision has been made by the end of the reporting period (3 minus 4)	<u>0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
6. Reports for which no management decision was made within six months of issuance	<u>0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Disputed Audit Recommendations

The Inspector General Act requires Inspectors General to provide information on significant management decisions in response to audit recommendations, with which

the Inspectors General disagree. As of March 31, 1998, there was one disagreement to report.

ATF did not concur with one of the recommendations rendered by the OIG as a result of its review of ATF's Special Occupational Tax (SOT) Program. Specifically, the OIG recommended that SOT payment verification be devolved to state or local licensing activities that volunteer to participate. In exchange, the participating licensing activities would share a portion of the SOT collected in their jurisdictions. ATF management believes that this proposal would be very difficult to implement and would require legislation at the Federal, state, and local levels. In addition, ATF management considers the projected net gains to the

revenue to be speculative and not to justify such a major legislative amendment.

The OIG agreed with ATF management that enabling legislation would be needed at the Federal, state, and local levels to allow ATF to contract with states to verify SOT payment. However, because states participating in the SOT verification program would do so on a strictly voluntary basis, the OIG believes that enabling legislation at the state and/or local level would not be difficult to obtain. Furthermore, the OIG is of the opinion that ATF should pursue the SOT verification proposal with the states to ensure that it would result in net gains to the SOT revenue collected.

Undecided Audit Recommendations

The Inspector General Act requires a summary of each audit report which has been undecided for over 6 months. There were 31 such reports.

<u>Report Title and Date</u>	<u>Report Number</u>	<u>Amounts</u>
1. ATF Administration of Cover Over Payments to Puerto Rico and the Virgin Islands, 3/28/94 c/	OIG-94-063	3,160,000
2. Defective Pricing Review of Cost or Pricing Data Submitted Under Contract TEP-88-205(TN), Option Year One, 5/26/94 e/	OIG-94-096	2,967,177
3. Defective Pricing Review of Cost or Pricing Data Submitted Under Contract TEP-91-18(TN) Base Year Costs, 7/21/94 e/	OIG-94-116	163,499
4. Evaluation of Procurement Overhead Rates Under Contract TC-89-047, Review of Contractor's Accounts Payable Processing System, and Compliance with Cost Accounting Standard 412, 12/15/94 a/	OIG-95-029	10,234
5. Evaluation of Direct and Indirect Costs and Rates Claimed Under Contract TC-89-047 for Calendar Year Ending 12/31/92, 1/11/95 a/	OIG-95-033	69,284

6. Evaluation of Direct and Indirect Costs and Rates Claimed Under Contract TFTC 91-9 for the Periods October 1, 1992, through December 31, 1993, 2/2/95 a/	OIG-95-045	5,282
7. Follow-Up Audit of the Federal Workers' Compensation Program at the Bureau of Alcohol, Tobacco and Firearms, 8/24/95 f/	OIG-95-118	4,000,000
8. Costs Incurred Under Contract TOS-92-71 for Audit Services, 10/12/95 a/	OIG-96-001	10,923
9. Follow-Up Audit of the Federal Worker's Compensation Program at the U.S. Customs Service, 10/19/95 f/	OIG-96-007	2,100,000
10. Use of Equitable Sharing Funds by the Philadelphia, Pennsylvania Police Department, 3/4/96 g/	OIG-96-038	22,092
11. Cost Incurred Under Contract TOS-91-31 for Calendar Year 1991, 3/12/96 a/	OIG-96-042	5,404
12. Incurred Costs Under Contract TEP-92-39(N) Covering Fiscal Years 1992 and 1993, 5/2/96 a/	OIG-96-065	12,998
13. Costs Incurred Under Contract TOS-92-70 for Contract Audit Services, 7/26/96 a/	OIG-96-086	14,198
14. Customs Officers Pay Reform, 9/13/96 g/	OIG-96-094	15,200,000
15. Direct and Indirect Costs and Rates Claimed Under Contract TC-89-047 for Calendar Year Ended December 31, 1993, 10/10/96 a/	OIG-97-002	135,662
16. Direct and Indirect Costs and Rates Claimed Under Contract TFTC-91-9 for the Period December 29, 1993 Through December 31, 1995, 11/5/96 a/	OIG-97-012	179,091
17. Incurred Costs Under Contracts TC-90-049 and TC-95-018 for Fiscal Year 1995, 11/6/96 a/	OIG-97-013	12,084
18. Alcohol, Tobacco, and Firearms Special Occupational Tax Program, 12/27/96 g/	OIG-97-016	24,000,000
19. Allegation on Internal Revenue Service Use of High Intensity Drug Trafficking Area Funds, 1/27/97 f/	OIG-97-035	68,000
20. Public Vouchers Submitted Under Contract TC-91-003 for Fiscal Years 1991 Through 1996, 6/13/97 a/	OIG-97-099	52,727
21. Proposal Submitted Under Contract TIRNO-94-D-0028 for Development of an Integrated Submission and Remittance Processing System, 6/27/97 a/	OIG-97-100	3,459,152

22. Termination Voucher No. 2 Submitted Under Contract TIRNO-94-D-0028 for the Document Processing System, 7/22/97 a/	OIG-97-111	30,630
23. Final Procurement Determined Indirect Cost Rates Claimed Under Contract TC-89-047 for Contractor Fiscal Year Ended December 31, 1992, 7/23/97 a/	OIG-97-113	33,774
24. Final Procurement Determined Indirect Cost Rates Claimed Under Contract TC-89-047 for Contractor Fiscal Year Ended December 31, 1993, 7/23/97 a/	OIG-97-114	112,884
25. Internal Revenue Service Office of the Chief Counsel Library's Deposit Accounts, 7/25/97 g/	OIG-97-117	14,000
26. Contractor's Equitable Adjustment Proposal Submitted Pursuant to Modification 113 Under Contract TIRNO-94-D-00028, 8/14/97 a/	OIG-97-120	5,036,188
27. Contract Termination Review Under Contract No. TIRNO-95-D-00059, Task Order IR-95-4515 for the Workflow Management Services, 8/22/97 a/	OIG-97-123	58,674
28. Subcontract Proposal Submitted Under Contract TIR-95-0065 for Treasury Information Processing Support Services, 9/2/97 a/	OIG-97-127	89,094
29. Proposal Submitted Under Solicitation CS-97-015 for the P-3 Airborne Early Warning Program, 9/4/97 b/	OIG-97-130	9,606,970
30. Direct and Indirect Costs and Rates Claimed Under Contract TC-89-047 for Fiscal Year Ended December 31, 1994, 9/15/97 a/	OIG-97-132	37,716
31. Verification of Voucher Costs, 9/24/97 a/	OIG-97-136	3,153
TOTAL		\$70,670,890
a/ Contract negotiations have not yet been held or completed. b/ Contract negotiations have not been held and the OIG is awaiting receipt of the negotiation documentation. c/ Recommendation is awaiting decision from General Counsel. d/ The OIG is in the process of reviewing the negotiation documentation. e/ The contractor is under investigation by the OIG. f/ There is no corrective action plan in place. g/ Corrective action plan not yet completed.		

Significant Unimplemented Recommendations

The Inspector General Act requires identification of significant recommendations described in previous semiannual reports on which corrective actions have not been completed. The following lists of such unimplemented recommendations in OIG and Inspection Service internal audit reports are based on information in the Department's automated tracking system, which is maintained by Treasury management officials. All of the recommendations are being implemented in accordance with currently established milestones.

<u>Report Number</u>	<u>Issue Date</u>	<u>Report Title/Potential Monetary Benefits and Recommendation Summary</u>
----------------------	-------------------	--

<u>OIG Audits</u>		
OIG-93-024	1/93	<p><i>Contract Administration at the Federal Law Enforcement Training Center</i></p> <p>Consult with Legal Counsel to determine whether the Government can collect improper payments to contractors.</p>
OIG-94-060	3/94	<p><i>U.S. Customs Service Antidumping and Countervailing (AD-CV) Duty Program</i></p> <p>Implement a Performance Measurement System for the AD-CV Duty Program that includes measures of quality, timeliness, and efficiency, and will allow Customs to assess how well the program has been implemented.</p>
OIG-94-063	3/94	<p><i>Alcohol, Tobacco, and Firearms Administration of Cover Over Payments to Puerto Rico and the Virgin Islands, \$3,160,000</i></p> <p>Implement the decision of the Department of the Treasury, Office of the General Counsel, on the timing of cover over payments.</p>
OIG-94-071	3/94	<p><i>U.S. Customs Service: Paperless Entry Program Entails Greater Risks Than Perceived</i></p> <p>Establish a single audit program for districts to use in assessing the paperless program. (Two recommendations)</p>
OIG-94-097	5/94	<p><i>FMS's Activities to Process and Monitor Agency Disbursements</i></p> <p>Ensure that unresolved access control weaknesses are corrected.</p>
OIG-95-118	8/95	<p><i>Follow-Up Audit of the Federal Worker's Compensation Program at the Bureau of Alcohol, Tobacco and Firearms, \$4,000,000</i></p> <p>There is no corrective action plan in place.</p>
OIG-97-016	12/97	<p><i>ATF SOT Program, \$24,000,000</i></p> <p>Develop verification of SOT payment to state or local licensing activities, and negotiate with those states unable to verify SOT payment prior to issuing licenses. (Two recommendations)</p>

OIG-97-025	1/97	<p><i>Financial Management Service's Internal Controls Over Processing Refunds</i></p> <p>Ensure that the Accounts Branch is provided with sufficient supervisory oversight to promptly identify and apply unidentified payments and revise the Code of Federal Regulations. (Five recommendations)</p>
OIG-97-041	2/97	<p><i>Final Report on the U.S. Customs Service Use of Administratively Uncontrollable Overtime (AUO)</i></p> <p>Review employees whose AUO hours appear to follow a regular pattern to ensure overtime hours qualify for AUO. (Five recommendations)</p>
OIG-97-042	2/97	<p><i>Final Report on the U.S. Secret Service: Audit of AUO</i></p> <p>Provide documented support with specific descriptions of AUO activities performed that clearly demonstrates that the overtime work performed meets the criteria for receiving AUO payments. (Two recommendations)</p>
OIG-96-E18	6/97	<p><i>Department of the Treasury Audit Follow-up Systems</i></p> <p>Institute a proactive audit resolution and follow-up process; conduct an analysis of all unimplemented recommendations over 1 year old; modify the Inventory, Tracking and Closure System to allow for the centralized entry of data from GAO audits and to allow projected savings to be adjusted; revise the monthly Management Control Statistics; emphasize joint oversight responsibility in the area of audit follow-up; conduct a needs analysis for a user friendly system. (Eight recommendations)</p>
<u>Inspection Service Audits</u>		
#035006	9/93	<p><i>Debtor Master File Processing, \$116,300,000</i></p> <p>Improve the debtor file validation process by implementing all recommended systemic changes and assess whether mismatch conditions could be resolved through the use of IRS data files. (Two recommendations)</p>
#041403	1/94	<p><i>Nonresident Alien Information Documents</i></p> <p>Identify noncompliance during processing.</p>

#051902	1/95	<p><i>Individual Retirement Arrangement (IRA) Excise Taxes, \$315,000,000</i></p> <p>Increase taxpayer awareness and ensure compliance by expanding systems and programs to advise elderly taxpayers of IRA minimum distribution requirements.</p>
#052903	2/95	<p><i>Controls Over the Issuance of EINs</i></p> <p>Modify processing procedures to ensure actions are taken to obtain all necessary data from taxpayers requesting EINs. (Three recommendations)</p>
#054406	5/95	<p><i>Interim Evaluation of the Service Center Recognition/Image Processing System (SCRIPS) Pilot</i></p> <p>Improve read accuracy rates on Form 1040EZ and Information Return Program documents to meet contract specifications.</p> <p>Develop the required test deck and system report for SCRIPS.</p>
#056703	9/95	<p><i>Implementation of Examination's FY 1995 Refund Strategy</i></p> <p>Track and assess the effectiveness of actions taken to change IRS computer systems to adjust taxpayer filing status and child care credits automatically when dependents are disallowed.</p>
#061509	1/96	<p><i>TAXLINK Processing and Related Programs</i></p> <p>Enhance TAXLINK design and programming to identify non-compliant payments.</p>
#061610	1/96	<p><i>IRS' Efforts in Monitoring Trust Fund Recovery Penalty Assessments Need Improvement</i></p> <p>Automate the processing of adjustments resulting from payments or credits on related Trust Fund Recovery accounts and reevaluate the definition of accounts receivable related to Trust Fund Recovery assessments. (Two recommendations)</p>
#060402	1/96	<p><i>Early Intervention Contact Processing</i></p> <p>Consider alternate methods of obtaining current taxpayer locator information.</p>
#061714	2/96	<p><i>Electronic Fraud Detection System (EFDS) Rollout</i></p> <p>Develop and test a comprehensive Quality Measurement plan for Phase II to evaluate system functionality.</p>
#064102	5/96	<p><i>Preparer Program</i></p> <p>Associate the preparer Taxpayer Identification Number (TIN) with each individual return in the audit stream.</p> <p>Enhance the Midwest Automated Compliance System (MACS) so that the preparer TIN can be matched on the Audit Information Management System.</p>
#064008	6/96	<p><i>The Financial Accounting and Reporting of Collection's Seized Assets Could be Improved</i></p> <p>Develop a strategy and implementation plan for the transmission of data between the Automated Work Control System seizure module and the Revenue Accounting Control System.</p>

#064401	6/96	<p><i>1996 Telefile Program</i></p> <p>Ensure that the Telefile systems are adequately tested and that a Security Certification and Accreditation is completed as soon as possible.</p>
#065002	7/96	<p><i>Validity of Assessments</i></p> <p>Evaluate causes of unproductive cases and identify additional program improvements.</p> <p>Pursue the capability to access Social Security data via computer to enable quick, economical processing of cases.</p>
#065503	8/96	<p><i>Employment Tax Nonfiler Program</i></p> <p>Use Income and Tax Statements (Forms W-3) and Wage and Tax Statements (Forms W-2) information to activate filing requirements and identify nonfilers. (Three recommendations)</p>
#066401	9/96	<p><i>Follow-up Review of Information Security Over Small Scale Computer Systems</i></p> <p>Include in first-line managers' expectations a requirement that they test computer security in periodic reviews.</p>
#070905	1/97	<p><i>SCRS Consolidation in the Computing Center</i></p> <p>Re-evaluate staffing assumptions contained in the consolidation plan.</p> <p>Identify and justify staffing needed to operate partitioned Service Center Support System platforms.</p>

#071404	2/97	<p><i>Productivity of the Underreporter Program</i></p> <p>Calculate yield to cost ratio, determine productivity, and select inventory for the Underreporter Program using the Gross Assessment Method.</p> <p>Calculate productivity using actual site costs.</p>
#071304	3/97	<p><i>Quality of Information Document Processing</i></p> <p>Review IRS reports to determine whether large variances exist between processing years in the volume and dollars of information documents.</p>
#071703	3/97	<p><i>ACS/ICS DB2 Database Management System</i></p> <p>Identify material security-related activities which can be captured in the audit trail; and include DB2 as a critical application in the service centers' disaster recovery plans.</p>
#072002	3/97	<p><i>National Office Examination Planning</i></p> <p>Analyze the use of MACS and other operational data to help determine productive areas for utilization of Examination resources.</p>
#072208	4/97	<p><i>Service Efforts to Ensure Compliance of Taxpayers Receiving Foreign Sourced Income</i></p> <p>Establish system controls with applicable goals and measurements to evaluate program performance. (Eight recommendations)</p>
#072703	4/97	<p><i>Assessment of the Telephone Routing Interactive System (TRIS)</i></p> <p>Develop a methodology for surveying taxpayers who do not complete the TRIS application.</p>
#072303	4/97	<p><i>Cyberfile, \$1,732,864</i></p> <p>Define and implement a Systems Life Cycle for all future development efforts and strengthen project management procedures.</p>
#073502	5/97	<p><i>Public Transportation Subsidy Program</i></p> <p>Assess program effectiveness.</p> <p>Ensure that databases are timely updated, validity checks are conducted, and measurable program costs/benefits and employee participation information are captured.</p>
#073604	6/97	<p><i>Employee Tax Compliance Program</i></p> <p>Select and screen all cases of potential underreporting of income by employees.</p> <p>Modify Employee Tax Compliance Program criteria to improve effectiveness and efficiency.</p>
#073804	7/97	<p><i>Inventory Delivery System Development</i></p> <p>Develop and implement an overall test plan.</p>

		<p>Review and update the sampling plan.</p> <p>Include the Self-Monitoring Program as one of the factors for determining national implementation.</p>
#074502	7/97	<p><i>Service's Electronic Management System (EMS)</i></p> <p>Ensure EMS security is appropriately certified and accredited.</p>
#074204	7/97	<p><i>Follow-up of Design Deficiencies in the Integrated Data Retrieval System (IDRS) Audit Trail</i></p> <p>Ensure that IDRS accesses create an individual record on the audit trail.</p> <p>Ensure that IDRS command code record layouts agree with the formal audit guidelines and the audit trail record.</p> <p>Ensure that bulk transcript information is captured on the audit trail.</p>
#075404	9/97	<p><i>Office of Disclosure</i></p> <p>Track and control all requests for tax checks.</p> <p>Protect sensitive data maintained on the inventory control system.</p>
#075008	9/97	<p><i>Controls Over the Service's ADP Resources</i></p> <p>Perform periodic summary level comparisons between the Integrated Network and Operations Management System (INOMS) Property Management System and the administrative general ledger.</p> <p>Migrate towards having all telecommunication assets on the INOMS database.</p>

#075805	9/97	<p><i>Multiple Virtual Storage Operating System</i></p> <p>Determine the optimal set for System Management Facility records for both local and National Office levels.</p>
---------	------	--

Revised Management Decisions

The Inspector General Act requires Inspectors General to provide a description and explanation of the reasons for any significant revised management decisions made during the reporting period. There were no such decisions during this reporting period.

Legislative and Regulatory Review

The Inspector General Act requires the Inspector General to review existing and proposed legislation and regulations relating to the programs and operations of the Department and to make recommendations concerning their impact. The OIG reviewed and commented on eleven Treasury Directives and Treasury Orders in the 6 months ended March 31, 1998. In addition, the OIG reviewed and commented on four existing and proposed legislative items.

Hotline Allegations

The table below summarizes allegations of fraud, waste, misconduct, mismanagement, and assault received through "800" hotline numbers during the 6 months ended March 31, 1998. It does not include (1) allegations received by the OIG and Treasury Offices of Inspection and Internal Affairs through other sources; (2) inquiries on taxes and other matters which are referred informally to Treasury program managers and others for appropriate disposition; or (3) pending allegations for which dispositions have not been determined.

<u>Disposition of Allegations</u>	<u>Organization</u>			
	<u>Total</u>	<u>OIG</u>	<u>USCS</u>	<u>IRS</u>
Referred for investigative or audit inquiry	25	17	0	8
Referred to program managers	62	48	0	14
Referred to other agencies	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Totals	<u>87</u>	<u>65</u>	<u>0</u>	<u>22</u>
1-800-359-3898 OIG Hotline 1-800-BE-ALERT Customs Hotline 1-800-366-4484 IRS Hotline				

Caseload Accounting

This table accounts for the caseload of the OIG and Offices of Internal Affairs and Inspection for the 6 months ended March 31, 1998. The beginning balance of cases, plus the cases opened, minus the cases closed, equals the ending balance of open cases.

	Organization					
	<u>Total</u>	<u>OIG</u>	<u>ATF</u>	<u>USCS</u>	<u>IRS</u>	<u>USSS</u>
Number of open cases at the beginning of the period	2,591*	182*	133	635*	1,599*	42
Number of cases opened during the period	1,906	22	129	198	1,524	33
Number of cases closed during the period	2,094	20	83	346	1,618	27
Number of open cases at the end of the period	2,403	184	179	487	1,505	48
*Adjusted figures.						

Nature of Allegations

The table below classifies the nature of allegations for investigative cases opened during the period. The number of allegations equals the number of cases opened because only the most significant allegation per case was counted.

	Organization					
	<u>Total</u>	<u>OIG</u>	<u>ATF</u>	<u>USCS</u>	<u>IRS</u>	<u>USSS</u>
Bribes, graft, kickbacks	66	0	2	8	56	0
Procurement and contract irregularities	12	3	4	1	4	0
Assaults/threats	538	0	6	7	520	5
False statements and claims	121	4	9	9	98	1
Theft/misuse of funds/property	279	2	34	17	223	3
Drug abuse and control	14	0	2	4	7	1
Impersonating a Government official	67	0	0	3	64	0

Criminal – Other	357	1	5	5	343	3
Sexual Harassment	16	0	0	13	3	0
Improper conduct or disclosure	344	7	52	103	172	10
Non-Criminal – Other	<u>92</u>	<u>5</u>	<u>15</u>	<u>28</u>	<u>34</u>	<u>10</u>
Total Allegations	<u>1,906</u>	<u>22</u>	<u>129</u>	<u>198</u>	<u>1,524</u>	<u>33</u>

Prosecutive Actions

The chart below accounts for the prosecutive actions of the OIG and Offices of Internal Affairs and Inspection for the 6 months ended March 31, 1998. The number of pending cases at the beginning of the period, plus the cases referred to prosecutive authorities, less the cases accepted for prosecution, less the declinations, equals the pending cases at the end of the period.

	Organization					
	Total	OIG	ATF	USCS	IRS	USSS
Number of cases pending prosecutive decision at the beginning of the period	903*	17	5	24*	852	5*
Number of cases referred to prosecutive authorities during the period	745	9	5	34	691	6
Number of cases accepted for prosecution during the period	160	4	1	22	132	1
Number of declinations during the period	485	5	7	13	457	3
Number of cases pending prosecutive decision at the end of the period	1,003	17	2	23	954	7
*Adjusted figures.						

Successful Prosecutions

This chart shows the number of successful prosecutions involving the cases of the OIG and Offices of Internal Affairs and Inspection during the 6 months ended March 31, 1998. Successful prosecutions include the number of individuals who as a result of investigations (1) are found guilty by a Federal or state court, (2) are accepted for pretrial diversion agreements by the Department of Justice, or (3) are granted plea bargaining agreements.

<u>Organization</u>	<u>Prosecutions</u>
OIG	5
ATF	0
USCS	31
IRS	110
USSS	<u>1</u>
Total	<u>147</u>

Administrative Sanctions

This chart shows the number of personnel actions and the number of suspensions and debarments of contractors involving cases of the OIG and Offices of Internal Affairs and Inspection.

<u>Organization</u>	<u>Personnel Actions</u>	<u>Suspensions and Debarments</u>
OIG	10	3
ATF	32	0
USCS	79	0
IRS	346	0
USSS	<u>15</u>	<u>0</u>
Total	<u>482</u>	<u>3</u>

Investigative Monetary Benefits

This table summarizes monetary benefits relating to investigations of the OIG and Offices of Internal Affairs and Inspections.

<u>Organization</u>	<u>Total</u>	<u>Recoveries</u>	<u>Criminal Penalties</u>	<u>Administrative Penalties</u>	<u>Savings</u>
OIG	\$206,455	\$205,131	\$0	\$0	\$1,324
ATF	0	0	0	0	0
USCS	213,780	213,780	0	0	0
IRS	2,161,586	1,992,986	168,600	0	0
USSS	<u>6,458</u>	<u>0</u>	<u>6,458</u>	<u>0</u>	<u>0</u>
Total	<u>\$2,588,279</u>	<u>\$2,411,897</u>	<u>\$175,058</u>	<u>\$0</u>	<u>\$1,324</u>

Access to Information

The Inspector General Act requires Inspectors General to report on unreasonable refusals of information available to the agency which relate to programs and operations for which the Inspector General has responsibilities. There were no instances to report where information or assistance requested by the Inspector General or the Offices of Internal Affairs and Inspection were unreasonably refused.

October 1, 1997 Through March 31, 1998

OIG Audits and Evaluations

Bureau of Alcohol, Tobacco and Firearms

Direct Labor and Indirect Rates Submitted in Response to Solicitations BATF-97-24 and BATF-97-23, OIG-98-034, 1/13/98

Direct Labor, Indirect Expense and Subcontract Rates Submitted in Response to Solicitation BATF-97-16, OIG-98-035, 1/23/98

Bureau of Alcohol, Tobacco and Firearms' Firearms Enforcement Strategy, OIG-98-062, 3/13/98

Bureau of Alcohol, Tobacco and Firearms Fiscal Year 1997 Financial Statements, OIG-98-065, 3/27/98

Final Report on the Bureau of Alcohol, Tobacco and Firearms' Integrated Ballistics' Identification System, OIG-98-069, 3/31/98

U.S. Customs Service

Proposal Submitted in Response to Solicitation CS-97-012 for Operation and Maintenance of U.S. Customs Vessel Fleet, OIG-98-002, 10/7/97, **\$376,660 S**

Proposal Submitted in Response to Solicitation CS-97-012 for Vessel Fleet Operation and Maintenance, OIG-98-003, 10/8/97, **\$110,270 S**

Initial Pricing Proposal Submitted Under Solicitation CS-97-012 for National Marine Vessel Maintenance, OIG-98-006, 10/16/97, **\$309,710 S**

Direct and Indirect Costs and Rates Claimed Under Contract TC-91-022 for Fiscal Years Ended December 31, 1994 and 1995, OIG-98-007, 10/23/97, **\$39,350 Q**

Proposal Submitted in Response to Solicitation CS-97-012 for Vessel Fleet Operation and Maintenance, OIG-98-009, 10/23/97, **\$853,870 S**

Termination Settlement Proposal and Claim Submitted Under Contract TC-96-019, OIG-98-010, 10/28/97, **\$147,150 Q**

Pricing Proposal Submitted Under Contract TC-96-001 (Second Option Year) for the Management and Sale of Seized Property, OIG-98-011, 11/5/97, **\$468,580 S**

1/ Amounts shown for some reports represent recommended monetary benefits.

Q = Questioned Costs; S = Savings; R = Revenue Enhancements.

Proposal Submitted Under Solicitation CS-97-015 for the P-3 Airborne Early Warning Program, OIG-98-012, 11/5/97, **\$221,350 S**

Initial Pricing Proposal Submitted Under Solicitation CS-97-012 for National Marine Vessel Maintenance, OIG-98-015, 11/24/97

Incurred Costs Under Contract TC-92-002 for Fiscal Years 1990 Through 1995, OIG-98-016, 11/25/97

United States Customs Service's Weaknesses in Narcotics Interdiction Identified at the Port of San Francisco, California, OIG-98-018, 12/24/97

Direct and Indirect Costs and Rates Claimed Under Contracts TC-87-032, TC-90-025, and TC-94-023 for Contractor's Fiscal Years 1994 and 1995, OIG-98-020, 12/3/97

Direct and Indirect Costs and Rates Claimed Under Contracts TC-90-025 and TC-94-023 for Contractor's Fiscal Year 1996, OIG-98-021, 12/3/97

Direct and Indirect Costs and Rates Claimed Under Contract TC-89-047 for Fiscal Year Ended December 31, 1995, OIG-98-025, 12/10/97, **\$39,070 Q**

Proposal Submitted in Response to Solicitation CS-97-012 for Operation and Maintenance of the United States Customs Vessel Fleet, OIG-98-026, 12/10/97

Direct and Indirect Costs and Rates Claimed Under Contract TC-90-025 for Fiscal Years 1992 and 1993, OIG-98-027, 12/10/97

Proposal Submitted in Response to Solicitation CS-97-012 for Vessel Fleet Operation and Maintenance, OIG-98-028, 12/11/97

Final Report on the Advance Passenger Information System, OIG-98-033, 3/9/98

U.S. Customs Trade Enforcement Program Over the North American Free Trade Agreement, OIG-98-038, 2/9/98

The U.S. Customs Service's Fiscal Years 1997 and 1996 Financial Statements, OIG-98-050, 3/5/98

Compliance of Disclosure Statement, dated April 26, 1995, OIG-98-057, 3/11/98

Final Report on the Treasury Enforcement Communications System User's Needs, OIG-98-060, 3/11/98

The Small Purchase Procurement Process Could be Further Streamlined at the United States Customs Service, OIG-98-061, 3/11/98, **\$775,000 S**

United States Customs Service Reorganization to Streamline Operations, OIG-98-068, 3/31/98

Departmental Offices

Subcontractor's Invoice No. 49, Applicable to Contract TOS-91-31, OIG-98-022, 12/4/97

Subcontractor's Invoice No.78, Applicable to Contract TOS-91-31, OIG-98-023, 12/4/97

Subcontractor's Invoice No.69/96, Applicable to Contract TOS-91-31, OIG-98-024, 12/4/97

Treasury's Support for High Priority Projects and Special Endeavors, OIG-97-E02, January 1998

Audited Fiscal Years 1997 and 1996 Financial Statements of the Exchange Stabilization Fund, OIG-98-043, 3/31/98

Contractor's Fiscal Year Ended December 31, 1992 through 1994, Applicable to Contracts TOS-91-31 and TOS-94-25, OIG-98-045, 2/25/98, **\$562,200 Q**

Contractor's Fiscal Years Ended December 31, 1992 through 1995, Applicable to Contracts TOS-91-31 and TOS-94-25, OIG-98-046, 2/25/98

Contractor's Fiscal Years Ended December 31, 1992 through 1995, Applicable to Contracts TOS-91-31 and TOS-94-25, OIG-98-047, 2/25/98

Internal Control Issue on Gifts to Foreign Dignitaries, OIG-98-049, 2/24/98

Timekeeping Procedures and Observations of Work Areas at Offsite Field Location, OIG-98-052, 2/27/98

Subcontractor's Invoice No. 49, Applicable to Contract TOS-91-31, OIG-98-053, 2/26/98

Incurred Costs for Fiscal Year 1992-1995 Applicable to Contract TOS-91-31, OIG-98-054, 2/26/98

The Adequacy of Disclosure Statement dated January 1, 1997, Applicable to Contract TOS-97-16, OIG-98-055, 2/26/98

Audited Fiscal Year 1997 Financial Statements of the Departmental Offices, OIG-98-056, 2/27/98

Application of Model for Estimating Cost of Law Enforcement Officer Coverage, OIG-97-E03, March 1998

Audited Fiscal Years 1997, 1996 and 1995 Financial Statements of the Community Development Financial Institutions Fund, OIG-98-064, 3/23/98

Report on the Department of the Treasury's Fiscal Year 1997 Custodial Schedules and Administrative Statements, OIG-98-066, 3/30/98

Bureau of Engraving and Printing

Cost Impact Proposal of CAS 410 Noncompliance Allocation of Business Unit G&A Expenses to Final Cost Objective, OIG-98-039, 2/18/98

Cost Impact Proposal Resulting from the Voluntary Accounting Change of Top Size Overhead Pool, OIG-98-048, 2/23/98

Contractor's Offset Proposal, Applicable to Contract TEP-91-38(TN), OIG-98-058, 3/11/98, **\$1,174,400 Q**

Audited Fiscal Year 1997 Financial Statements of the Bureau of Engraving and Printing, OIG-98-067, 3/30/98

Financial Management Service

The Financial Management Service On-Line Payment and Collection System,
OIG-CA-98-001, 2/23/98

Internal Revenue Service

Termination Settlement Proposal Submitted Under Contract TIR-89-0056, Task Order 068 and Task Order 082, OIG-98-001, 10/2/97, **\$161,360 Q**

Postaward Audit of Cost or Pricing Data Related to Contract TIR-91-0038, Modification No. 0034, OIG-98-004, 10/9/97

Follow-Up Audit of Contractor's Billing System Internal Controls, OIG-98-005, 10/15/97

Verification of Subcontractor Costs Claimed Under Task Order IR-95-4515,
OIG-98-008, 10/23/97, **\$4,100 Q**

Contractor's Forward Pricing Direct Labor and Indirect Rates and Factors,
OIG-98-013, 11/12/97

Contractor's Estimating System, OIG-98-017, 11/25/97

Direct and Indirect Costs and Rates Claimed Under Contract TIRNO-95-00058 and TOS-92-33 for Fiscal Year Ended March 31, 1996, OIG-98-029, 12/11/97

Termination Settlement Proposal Submitted Under Contract IR-95-0059, Task Order IR-905-4515 for the Information Processing Support Services, OIG-98-031, 1/6/98,
\$6,675 Q

Termination Voucher Number 5 Submitted Under Contract TIRNO-94-D-00028 for the Document Processing System, OIG-98-032, 1/8/98

Costs Incurred Under Contract TIRNO-D-93-00025 for Fiscal Years 1996 and 1997, OIG-98-040, 2/18/98, **\$12,010 Q**

Direct and Indirect Costs and Rates for Fiscal Year Ended December 20, 1996, OIG-98-042, 2/20/98

Lack of Controls in Executing a Reimbursable Agreement for the Consolidated Asset Tracking System, Project Number 4-389, OIG-98-059, 3/11/98

Audit of the Internal Revenue Service Fiscal Year 1997 Administrative Financial Statements, OIG-98-063, 3/27/98

U.S Mint

Costs Billed Under Contract TM-93-2014, OIG-98-030, 1/6/98, **\$18,550 Q**

Audited Statements of Custodial Gold and Silver Reserves for the United States Mint as of September 30, 1997 and 1996, OIG-98-041, 2/23/98

Publications Advertising for Commemorative Coin Programs, OIG-98-044, 2/23/98

Bureau of the Public Debt

Audited Fiscal Year 1997 Financial Statements of the Bureau of Public Debt's Administrative Accounts, OIG-98-070, 3/31/98

U.S. Secret Service

Incurred Costs for Contractor's Calendar Years 1995 and 1996 Applicable to Contract TSS-95-0016, OIG-98-014, 11/24/97

Proposal Submitted for Application of Identity Verification and Privacy Enhancement to Treasury Transactions, OIG-98-037, 1/28/98, **\$42,050 S**

Office of Thrift Supervision

The Office of Thrift Supervision Needs to Strengthen Conflict of Interest Controls Over Examiners Resigning for Employment With Thrifts, OIG-98-019, 11/28/97

Internet Activity of Thrifts in the Office of Thrift Supervision's West Region, OIG-98-036, 1/28/98

Inspection Service Audits

Internal Revenue Service

Inventory of Computer Systems/Applications for the Century 2000 Date Conversions - Southeast Region, 180100, 10/2/97

Physical Security Controls - Northeast Region, 680104, 10/7/97

Controls Over the Clearance Procedure - Northeast Region, 680205, 10/16/97

Service Efforts to Develop a Business Information Database, 080101, 10/17/97

Inventory of Computer Systems/Applications for the Century 2000 Date Conversion in the ATSC, 180200, 10/17/97

Physical Security Internal Controls - Western Region, 980202, 10/17/97

Selected Investigation Equipment - Criminal Investigation Division, 980303, 10/20/97

Risk Assessment of Information Systems Security - Western Region, 980403, 10/20/97

Transition Review of Selected High Areas - Pacific-Northwest District, 980104, 10/22/97

Effectiveness of Customer Service Response to Taxpayer Request at the Distribution Center, 080203, 10/24/97

Controls Over the Movement of Automated Data Processing (ADP) Equipment, 080404, 10/24/97

Processing of Bankruptcy Unpostable Assessments - Midstates Region, 380101, 10/24/97

Controls Over Collection Division Seized and Collateral Property - Midstates Region, 380202, 10/24/97

Service's Efforts to Ensure Information Systems are Adequately Secured, 080505, 10/31/97

Implementation of the Taxpayer Bill of Rights 2, 080303, 11/4/97

Remittance Processing Controls Western Region, 980701, 11/12/97

Controls Over the Distributed Input System - Kansas City Service Center, 380304, 11/13/97

Los Angeles District Tax Fraud Referral Program, 980502, 11/17/97

Follow-Up Review of Midstates Region Remittance Processing, 380502, 11/19/97

Customer Service Toll-Free Telephone System Filing Season Readiness, 080606, 11/20/97

Mortgage Interest Deductions - Andover Service Center, 680300, 11/20/97

Remittance Processing - Los Angeles District, 980605, 11/21/97

Transition Review of Selected High Risk Areas - Western Region, 980805, 11/21/97

Docketed Office Audit Cases - Western Region, 980903, 11/24/97

Controls Over the Clearance Process - Western Region, 981001, 11/24/97

Examination and Collection Statute Controls - Ohio District, 680405, 12/1/97

1997 Telefile Pilot - Business Master File, 080704, 12/2/97

Use of Statistics and the Protection of Taxpayer Rights - Arkansas-Oklahoma District Collection Field Function, 380402, 12/5/97

Statute Controls - Connecticut-Rhode Island District, 680504, 12/9/97

Service's Workers' Compensation Program, 081302, 12/10/97

Service's Reduction in Force Efforts Within the National Office, 280101, 12/11/97

Contracting Out Collection Activities, 080805, 12/19/97, **\$78,263 S**

Taxpayer Walk-In Program for the 1997 Filing Season, 081004, 12/22/97

Controls Over Investigative Equipment in Selected Criminal Investigation Offices Nationwide, 080902, 12/23/97

Single Entry Time Reporting Reengineering Project, 081401, 12/23/97

Remittance Processing Controls - International District Operations - Puerto Rico Post of Duty, 180303, 12/23/97

Statute Controls - Brookhaven Service Center, 680600, 1/6/98

Productivity of the General Examination Program - New England District, 680703, 1/7/98

New England District's Problem Solving Day Program, 680800, 1/9/98

Revenue Accounting Controls over Deposit Discrepancies, 081705, 1/9/98,
\$1,385,820 R

Use of Enforcement Statistics - Collection Field Function, 081904, 1/12/98

Collection of Agreed Deficiencies by Examiners - Central California District, 981103, 1/14/98

1997 Tax Season On-Line, 081106, 1/16/98

On-Line Review of the Service's Year 2000 Efforts, 081807, 1/20/98

Impact of Notice Reengineering on Collection, 082003, 1/23/98

Controls over the Employee Clearance Process, 082102, 1/26/98

Physical Security Internal Controls - IRS National and District Office Facilities, 081602, 1/30/98

Initial System Development Activities of the Integrated Submission and Remittance Processing System,
082204, 1/30/98

Productivity of the General Examination Program - Manhattan District, 680904, 1/30/98

Headquarters Operations' Process for Filling Vacancies Under Career Transition Assistance Plan, 280302,
2/11/98

Ohio District's Problem Solving Day Program, 681002, 2/11/98

Pennsylvania District's Problem Solving Day Program, 681103, 2/12/98

MSRO Contracts and Procurement Operations, 380604, 2/17/98

Bankruptcy Issues on Examination Cases - Southeast Region, 180401, 2/18/98

Revenue Protection Processing of Invalid and Duplicate Social Security Numbers, 081203, 2/20/98

Brooklyn District's Problem Solving Day Program, 681201, 2/20/98

Manhattan District's Problem Solving Day Program, 681301, 2/20/98

Local Travel Expenses Within Headquarters, 280401, 2/24/98

Productivity of the General Examination Program - Brooklyn District, 681406, 2/24/98

Internal Control Follow-Up Assessment Examination Inventory Controls-Midstates Region, 380702, 2/27/98

Inventory Controls - Michigan District Collection Field Function, 681503, 3/2/98

Federal Employee/Retiree Delinquency Initiative, 082405, 3/5/98

Follow-Up Review of the Purchase Card Program, 082700, 3/12/98, **\$216,000 S**

Service Efforts to Control Off-Net Long Distance Telecommunications Costs, 082603, 3/17/98

Recommendations to Improve the Corporate Education Learning Support Structure, 082805, 3/17/98

Georgia Host Site Transactional Processing Center, 180502, 3/19/98, **\$6,000 S**

Remittance Processing Activities, 082503, 3/24/98

Follow-up Review: Examination's Use of Taxpayer Return Information in the Southeast, 180601, 3/24/98

The Inspector General Act of 1978 (P.L. 95-452), as amended, sets forth specific requirements for Semiannual Reports to be made to the Secretary for transmittal to the Congress. Other statutory and administrative reporting and enforcement responsibilities and authorities are listed below:

AUDIT AND MANAGEMENT REVIEW RESPONSIBILITIES

P.L. 97-177	Prompt Payment Act
P.L. 97-255	FMFIA
P.L. 100-504	Inspector General Act Amendments of 1988
P.L. 101-576	CFO Act of 1990
P.L. 103-62	Results Act of 1993
P.L. 103-356	GMRA of 1994
P.L. 104-106	Information Technology Management Reform Act of 1996
P.L. 104-208	National Defense Authorization Act for FY 1996 FFMIA of 1996

CRIMINAL AND CIVIL INVESTIGATIVE AUTHORITIES

Title 5	United States Code (U.S.C.), section 552a(i)
Title 18	U.S.C., sections on crime and criminal procedures as they pertain to the OIG's oversight of departmental programs and employee misconduct
Title 31	U.S.C., section 3729 et seq., the Civil False Claims Act, and 3801 et seq., the Program Fraud Civil Remedies Act
Title 42	U.S.C., sections 1320a-7, 1320a-7a, 1320c-5, 1395l, 1395m, 1395u, 1395dd, and 1396b

Section 4(a)(2): Review of Legislation and Regulation 59

Section 5(a)(1): Significant Problems, Abuses, and Deficiencies 7-43

Section 5(a)(2): Recommendations with Respect to Significant Problems, Abuses,
and Deficiencies 7-43

Section 5(a)(3): Significant Unimplemented Recommendations Described in
Previous Semiannual Reports 52-59

Section 5(a)(4): Matters Referred to Prosecutive Authorities 61-62

Section 5(a)(5): Summary of Instances Where Information Was Refused 63

Section 5(a)(6): List of Audit Reports 65-73

Section 5(a)(7): Summary of Significant Reports 7-43

Section 5(a)(8): Statistical Table - Questioned Costs 46-47

Section 5(a)(9): Statistical Table - Recommendations that Funds Be Put to Better
Use 47-49

Section 5(a)(10): Summary of Audit Reports Issued Before the Commencement of
the Reporting Period for which No Management Decision Has Been Made 50-52

Section 5(a)(11): Significant Revised Management Decisions Made During the
Reporting Period 59

Section 5(a)(12): Management Decisions with which the Inspector General Is in
Disagreement 49-50

1/ As Amended

AD-CV	Antidumping and Countervailing	LEO	Law Enforcement Officer
AFDC	Aid to Families with Dependent Children	MACS	Midwest Automated Compliance System
APIS	Advanced Passenger Information System		
ATF	Bureau of Alcohol, Tobacco and Firearms	Mint	U.S. Mint
AUO	Administratively Uncontrollable Overtime	MOU	Memorandum of Understanding
BEP	Bureau of Engraving and Printing		
BPAs	Blanket Purchase Agreements	NAFTA	North American Free Trade Agreement
BPD	Bureau of the Public Debt		
CDFI	Community Development Financial Institutions	NCUA	National Credit Union Administration
CET	Contraband Enforcement Team	NFC	National Finance Center
CFO	Chief Financial Officers	OCC	Office of the Comptroller of the Currency
CMCs	Customs Management Centers	OIG	Office of Inspector General
CPAs	Certified Public Accountants	OMB	Office of Management and Budget
CSRS	Civil Service Retirement System		
U.S. Customs Service			
DCAA	Defense Contract Audit Agency	OPM	Office of Personnel Management
DIS	Distributed Input System		
DO	Departmental Offices	OTS	Office of Thrift Supervision
EDP	Electronic Data Processing	P.L.	Public Law
EFDS	Electronic Fraud Detection System	POs	Purchase Orders
EIC	Earned Income Credit		
EIN	Employer Identification Number	Act	Results and Results Act
EMS	Electronic Management System	RPS	Remittance Processing System
ESF	Exchange Stabilization Fund	SAC	Special Agent-in-Charge
FBI	Federal Bureau of Investigation	SCOs	System Control Officers
FDIC	Federal Deposit Insurance Corporation	SCRIPS	Service Center Recognition/Image Processing System
FERS	Federal Employees Retirement System		
FFB	Federal Financing Bank	SOT	Special Occupational Tax
FFIEC	Federal Financial Institutions Examination Council	SSFAS	Statement of Federal Financial Accounting Standards
FFMIA	Federal Financial Management Improvement Act		
FLETC	Federal Law Enforcement Training Center	SSNs	Social Security Numbers
FMFIA	Federal Managers' Financial Integrity Act	Secret	U.S. Secret Service
FMS	Financial Management Service		
FRNs	Federal Reserve Notes	Service	
FY	Fiscal Year	TBOR2	Taxpayer Bill of Rights 2
G&A	General and Administrative	TECS	Treasury Enforcement Communications System II
GAO	General Accounting Office		
GMRA	Government Management Reform Act	TFF	Treasury Forfeiture Fund
IBIS	Integrated Ballistic Identification System	TIN	Taxpayer Identification Number
ID	Identification		
IDRS	Integrated Data Retrieval System	TRIS	Telephone Routing Interactive System
INOMS	Integrated Network and Operations Management System		
INS	Immigration and Naturalization Service	U.S.C.	United States Code
IPAs	Independent Public Accountants	WIC	Women, Infant and Children
IRA	Individual Retirement Arrangement		
IRACS	Interim Revenue Accounting Control System	Y2K	Year 2000
IRM	Internal Revenue Manual		
IRS	Internal Revenue Service		
ISRP	Integrated Submission and Remittance Processing		