



Annual Plan Fiscal Year 2005

Office of Inspector General

DEPARTMENT OF THE TREASURY

FOREWORD

We are pleased to provide our Fiscal Year 2005 Annual Plan. This document outlines the major initiatives, priorities, and challenges of our office in assisting the Department of the Treasury with fulfilling its mission.

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

December 2004

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Introduction

This planning document outlines the major initiatives, priorities, and challenges of our office to assist the Department of the Treasury in fulfilling its mission, priorities, and plans. This planning document further provides senior officials of the Department, Members of Congress, and other stakeholders with a greater understanding of who we are, what we do, and what our intended work will be for fiscal year 2005.

The four components of the Office of Inspector General (Management, Counsel, Investigations, and Audit) made contributions to the development of this plan. Each component is described along with its function, role, organizational structure, and the expected challenges each respective workforce may encounter in fiscal year 2005.

Background

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

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

The OIG is headed by an Inspector General who is appointed by the President, with the advice and consent of the Senate. The Inspector General exercises the above duties and responsibilities for the Department of the Treasury operations, with the exception of the

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Internal Revenue Service (IRS).¹ Specifically, the Treasury OIG has jurisdiction over the following Treasury bureaus:

- **Alcohol and Tobacco Tax and Trade Bureau (TTB)** – enforces and administers laws covering the production, use, and distribution of alcohol and tobacco products. TTB also collects excise taxes for firearms and ammunition.
- **Bureau of Engraving and Printing (BEP)** – produces U.S. currency, postage stamps, and other government securities. The BEP also redeems damaged or mutilated currency for the public.
- **Bureau of the Public Debt (BPD)** – borrows the money needed to operate the federal government and accounts for the resulting debt. BPD also administers the public debt by issuing and servicing U.S. Treasury marketable, saving, and special purpose securities.
- **Financial Crimes Enforcement Network (FinCEN)** – collects, analyzes, and shares information to support law enforcement investigative efforts and foster interagency and global cooperation against domestic and international financial crimes.
- **Financial Management Service (FMS)** – provides central payment services for all Executive Branch agencies, operates the federal government’s collections and deposit systems, provides government-wide accounting and accounting services, and manages the collection of delinquent non-tax debt owed to the government.
- **U.S. Mint (Mint)** – produces circulating coinage for use by the general population; produces and sells commemorative, numismatic, and investment products; and protects U.S. Treasury precious metals and other monetary assets held in the custody of the Mint.
- **Office of the Comptroller of the Currency (OCC)** – charters, regulates, and supervises national banks to ensure a safe, sound, and competitive banking system.
- **Office of Thrift Supervision (OTS)** – charters, regulates, and examines federal thrift institutions to ensure their safety and soundness.

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

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

- **Departmental Offices (DO)** – formulates policy and manages Treasury operations.
- **Office of Terrorism and Financial Intelligence (TFI)** – develops and implements U.S. government strategies to combat terrorist financing domestically and internationally, and develops and implements the National Money Laundering Strategy as well as other policies and programs to fight financial crimes. Reporting to TFI are **FinCEN**, the **Office of Foreign Assets Control (OFAC)**, and the **Treasury Executive Office for Asset Forfeiture (TEOAF)**. OFAC administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign countries, terrorists, international narcotics traffickers, and those engaged in activities related to the proliferation of weapons of mass destruction. TEOAF manages the **Treasury Forfeiture Fund (TFF)**, which supports Treasury's national asset forfeiture program in a manner that results in federal law enforcement's continued effective use of asset forfeiture as a law enforcement sanction to punish and deter criminal activity.
- **Office of International Affairs (OIA)** – advises and assists in the formulation and execution of U.S. international economic and financial policy, including the development of policies with respect to international financial, economic, monetary, trade, investment, bilateral aid, environment, debt, development, and energy programs, including U.S. participation in international financial institutions.
- **Exchange Stabilization Fund (ESF)** – through the Secretary of the Treasury, deals in gold and foreign exchange and other instruments of credit and securities as deemed necessary, consistent with U.S. obligations in the International Monetary Fund, regarding orderly exchange arrangements and a stable system of exchange rates.
- **Community Development Financial Institutions (CDFI) Fund** – provides equity investments, grants, loans, and technical assistance to new and existing community development financial institutions; provides grants to insured depository institutions to facilitate investment in CDFI and increase community lending activities; and administers the New Markets Tax Credit Program by providing allocations of tax credits to Community Development Entities (CDE), which in turn provide the tax credits to entities that invest in the CDE.

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- **Federal Financing Bank (FFB)** – provides federal and federally-assisted borrowing, primarily to finance direct agency activities such as the construction of federal buildings by the General Services Administration and meeting the financing requirements of the U.S. Postal Service, and ensures the coordination of such borrowing from the public in a manner least disruptive to private financial markets and institutions.
- **Office of D.C. Pensions** – makes federal benefit payments associated with the District of Columbia retirement programs for police officers, firefighters, teachers, and judges.
- **Treasury Franchise Fund** – as authorized by the Government Management Reform Act and other legislation, provides administrative support services on a competitive, fee for service, and full-cost basis. Currently, the Treasury Franchise Fund consists of four separate business activities: FedSource, the Federal Consulting Group, Treasury Agency Services, and the Administrative Resource Center.
- **Air Transportation Stabilization Board (ATSB)** – issues federal credit instruments (loan guarantees) to assist air carriers that suffered losses as a result of the terrorist attacks on September 11, 2001.

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

Organizational Structure and Fiscal Resources

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

The OIG is structured into four components with its headquarters in Washington, D.C. The four components include:

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

For fiscal year 2005, the OIG's budgetary resources are \$16.368 million. For fiscal year 2004, the OIG's budgetary resources were \$13 million.

OIG Performance Measures

The OIG established performance measures for two programs which are discussed below.

Office of Audit Program Performance Measures

Audit Performance Measure 1 – During fiscal year 2005, 100 percent of audits and evaluations sampled will meet applicable standards.

The IG Act requires that our audits be conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. OIG evaluations are conducted in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency (PCIE). The purpose of these standards is to ensure that users of our audits and evaluations have confidence that the work is objective and credible.

Audit Performance Measure 2 – 53 audits and evaluations are expected to be completed during fiscal year 2005.

The purposes of our audits and evaluations are to: (1) promote economy, efficiency, and effectiveness of Treasury programs and operations; (2) prevent and detect fraud, waste, and abuse in those programs and operations; and (3) keep the Secretary and the Congress fully informed. Audits and evaluations are also a key element in fulfilling the government's duty to be accountable to the public.

Audit Performance Measure 3 – During fiscal year 2005, 100 percent of audits required by statute will be completed by the required date.

Underlying legislation mandating certain audit work generally prescribes, or authorizes the Office of Management and Budget (OMB) to prescribe, the required completion date for recurring audits, such as those for annual audited financial statements. For

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other types of mandated audit work, such as a material loss review (MLR) of a failed financial institution, the legislation generally prescribes a timeframe to issue a report (6 months for an MLR, as an example) from the date of an event that triggers the audit.

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

Audit Workload Measure – *Monetary Benefits Identified.*

Our audits and evaluations may identify *questioned costs, recommendations that funds be put to better use, or revenue enhancements*. Our audit and evaluation reports include, where appropriate, a schedule of the estimated monetary benefits expected to be achieved through implementation of the report recommendations.

**Office of Investigations
Program Performance Measures**

Investigative Performance Measure 1 - *100 percent of investigations sampled will meet PCIE standards.*

Investigative Performance Measure 2 – Refer investigations for timely *judicial action*.

Our goal is to consult with or preliminarily refer to criminal prosecutors and/or civil litigators within 120 days of case initiation in order to enhance the likelihood of acceptance for judicial action within 1 year.

Investigative Performance Measure 3 – Refer investigations for timely corrective administrative action.

Our goal is to refer cases to Treasury officials for administrative action, to include discipline, suspension and debarment, and to mitigate and correct vulnerabilities of Treasury programs and operations.

OIG COMPONENT ORGANIZATIONS AND FISCAL YEAR 2005 INITIATIVES

The following section describes the function, organizational structure, priorities, and fiscal year 2005 initiatives for the four components of the OIG.

Office of Audit

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

The Office of Audit conducts or oversees the conduct of performance, financial, information technology, and contract audits as well as evaluations. The purpose of these audits and evaluations is to improve the quality, reduce the cost, and increase the integrity of Treasury's programs and operations. The work of the Office is performed in compliance with the standards and guidelines established by the Comptroller General of the United States and the PCIE.

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

In addition to its authorized full-time equivalent ceiling, the Office of Audit uses Independent Public Accounting (IPA) firms under contract to perform a substantial portion of the financial statement audits of Treasury bureaus and activities required pursuant to the Chief Financial Officer (CFO) Act, the Government Management Reform Act (GMRA), and other statutes. The Office also uses a contracted IPA to perform the required annual independent evaluation of the Department's information security program and practices for its unclassified systems.

Performance Audit

Under the management and direction of the Deputy Assistant Inspector General for Performance Audit are four Directors of Audit. The Directors of Audit are responsible for performance audits conducted by Washington, D.C., and field office staff as well as coordinating audit planning for their assigned functional areas to ensure that audits of highest priority are included in the annual plan. The functional areas of the Directors are described below:

Director, Banking and Fiscal Service provides nationwide leadership for performance audits of OCC, OTS, CDFI Fund, TFI, FinCEN, OFAC, other banking-related Treasury

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components, FMS, BPD, and OIA. The Director is also responsible for managing OIG's responsibilities under the Single Audit Act.

Director, Revenue/Departmental Offices/Manufacturing/Procurement provides nationwide leadership for performance audits of TTB, BEP, the Mint, and Treasury's Departmental Offices, as well as for performance audits of procurement activities at all Treasury bureaus and offices. The Director is also responsible for managing OIG's contract audit function.

Director, Eastern Field Audit Office plans and leads national audits of the operations in all Treasury bureaus with a concentration of work in TTB, FinCEN, and OFAC.

Director, Western Field Audit Office plans and leads national audits of the operations in all Treasury bureaus with a concentration of work in OCC, OTS, and FinCEN.

Financial Management and Information Technology Audit

Under the management and direction of the Deputy Assistant Inspector General for Financial Management and Information Technology Audit are two Directors of Audit. The Directors are responsible for audits performed by Washington, D.C. staff and for oversight of work performed by contracted IPA firms. Also, they are responsible for planning the audits in their assigned functional areas to ensure that audits of highest priority are included in the annual plan. The functional areas by Director are described below:

Director, Consolidated Financial Audit is responsible for performing or providing contractor oversight of the annual audit of the Department's consolidated financial statements pursuant to the CFO Act and GMRA, and performing or providing contractor oversight for audits of other components or activities that are material to Treasury or are required to be audited by other statutes. The Director coordinates with the U.S. Government Accountability Office (GAO) with respect to its audits of IRS and the Public Debt, as the IRS and Public Debt accounts are included in the Department's consolidated financial statements.

Director, Information Technology Audit conducts or provides contractor oversight of reviews of the acquisition, use, and disposal of complex computer and other information technology systems, and the overall management of information technology as a capital and managerial asset of the Department. The reviews are performed to ensure that the systems are effective, efficient, productive, and economical; contain adequate safeguards to protect the data integrity and data

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

Fiscal Year 2005 Planning Approach This plan reflects our effort to provide appropriate audit and evaluation coverage to Treasury and its bureaus given our available resources. In formulating the plan, we considered: (a) observations and suggestions by our managers, auditors, evaluators, and investigators; (b) Treasury's fiscal year 2005 budget priorities; and (c) recent Congressional activity, testimony by Treasury officials, and remarks indicating significant areas of interest by Treasury, OMB, and Congressional officials and staff.

Key features of this plan include:

- *Perspective* – The plan emphasizes the issues of greatest significance to the Department rather than to individual bureaus.
- *Customer and Stakeholder Participation* – Our draft plan was provided to Treasury officials for comment. The Directors and their staffs met with Department and bureau officials and staff throughout the year to solicit audit suggestions. In addition to Treasury officials, we solicited input from other interested staff from OMB, various congressional committees, and GAO.
- *Responsiveness* – The plan will be subject to revision throughout the year to accommodate new legislative requirements, changing bureau missions, and unforeseeable events or high priority requests for our audit services.
- *Continuity* – The plan is a dynamic document that will be updated and continued beyond fiscal year 2005. With current resources, we are only able to perform a limited number of audits that are not mandated.

Audit Priorities for Fiscal Year 2005

Priority 1 – Audit products mandated by law.

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

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Priority 2 – Audit products that support the President’s Management Agenda.

We recognize that the President’s Management Agenda (PMA) parallels our mission of improving the economy, effectiveness, and efficiency of the Department’s programs and operations. Accordingly, for fiscal year 2005 we have included audits to assess the Department’s progress in addressing the PMA’s five government-wide initiatives (Strategic Management of Human Capital, Competitive Sourcing, Improved Financial Performance, Expanded Electronic Government, and Budget and Performance Integration).

Priority 3 – Audit products that address serious deficiencies or high risks in the Department’s programs and operations.

We will undertake audits during fiscal year 2005 to assess the Department’s progress in addressing significant known and potential vulnerabilities. Principal areas that will be a continued focus of our office are IT security and Terrorist Financing/Money Laundering, and a significant body of work is planned in these areas.

Relationship of Audit Plan to Treasury Strategic Plan The mission of the Department of the Treasury, as stated in its strategic plan for fiscal years 2003-2008, is to promote the conditions for prosperity and stability in the U.S. and encourage prosperity and stability in the rest of the world. To accomplish this mission, the Department identified five strategic goals. As part of our audit planning process, we identified seven core “issue areas,” which address one or several Treasury strategic goals. The linkage of OIG issue areas to the Department’s goals that they principally address follows:

Treasury Strategic Goal	OIG Issue Area
Promote Prosperous U.S. and World Economies	<ul style="list-style-type: none"> • Domestic and International Assistance Programs
Promote Stable U.S. and World Economies	<ul style="list-style-type: none"> • Bill and Coin Manufacturing, Marketing, and Distribution Operations
Preserve the Integrity of Financial Systems	<ul style="list-style-type: none"> • Terrorist Financing, Money Laundering, and Foreign Assets Control • Safety, Soundness, and Accessibility of Financial Services
Manage the Government’s Finances Effectively	<ul style="list-style-type: none"> • Government-wide Financial Services and Debt Management • Revenue Collection and Industry Regulation
Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury	<ul style="list-style-type: none"> • Treasury General Management and Infrastructure Support

OIG COMPONENT ORGANIZATIONS AND FISCAL YEAR 2005 INITIATIVES

It should be noted that the Treasury General Management and Infrastructure Support issue area crosscuts all of the Department's strategic goals. It encompasses such activities as financial management, information technology security, major systems and other capital investments, human capital, initiatives to identify and reduce improper payments, and procurement.

Audit Initiatives for Fiscal Year 2005 Through our planning process, we identified 51 new projects that we will undertake during fiscal year 2005. We will also complete work on 11 projects started during fiscal year 2004. Additionally, we identified 73 high-priority projects that due to our resources must be deferred to a future year. Our in-process and planned work and projects for future consideration are identified in more detail in the "OIG Issue Areas and Planned Audit Projects" section of this Annual Plan.

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

Office of Investigations

The Assistant Inspector General for Investigations (AIGI) is the Treasury Inspector General's senior law enforcement official responsible for the overall investigative and oversight activities of the OIG relating to the programs and operations of the Department of the Treasury, except for the IRS.

During fiscal year 2004, we made necessary and, in certain cases, comprehensive changes to our structure, organization, and business practices so that we are well-positioned carry out our mandates and fulfill our mission. Thus, we have constructed a comprehensive annual plan that integrates this office's responsibilities with those of the Department's programs and operations.

Organizational Structure The AIGI is supported by a Deputy Assistant Inspector General for Investigations. During fiscal year 2004, OI reorganized into two divisions – the Investigations Division and Operations Division. At present, the office responds to all allegations of fraud and other crimes from our office in Washington, D.C.

The Role of Investigations OI's role within the OIG is to conduct and provide oversight of investigations relating to programs and operations of the Department and its

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bureaus. OI is responsible for the prevention, detection, and investigation of fraud, waste, and abuse in Treasury programs and operations.

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

The type of work OI performs is both *reactive* and *proactive*. The majority of the work involves responding to and mitigating ongoing criminal activity by conducting, supervising, or otherwise overseeing investigations involving fraud and other crimes. Proactively, OI exercises a law enforcement or criminal investigative-oriented leadership role designed to engage and support Treasury's bureaus and offices. As a team, our collective objective is to *prevent or deter* and *detect or identify* activities that range from improper to illegal conduct. Together, our collective efforts ensure the Secretary and Congress are kept fully and currently informed.

In accordance with the IG Act, the Treasury OIG's *primary* responsibility is to counter wasteful and abusive practices. However, the IG Act also empowered the IG community with the responsibility to combat fraud as well. As such, the Treasury OIG has *concurrent* responsibility with the Federal Bureau of Investigation (FBI) to combat *fraud and other crimes* that occur within and/or are directed against the Department's programs and operations. Therefore, a significant amount of our work has the potential to be investigated jointly with the FBI and other federal law enforcement partners – often in a task force setting worked in close cooperation with the U.S. Department of Justice (DOJ).

Because the IG community is responsible for the *programs and operations* of their respective departments or agencies, we work *fraud and other crimes* that relate to the government's programs and operations – occurring within and as directed against the government. As such crime often involves perpetrators who are either on the inside (i.e., government employees or contractors) or are on the outside acting either alone or in collusion with another to obtain access to inside information or resources (i.e., the regulated community, external parties, and the public at large), the top investigative priority of the Treasury OIG is to seek out and rectify *criminal employee misconduct* across the Department's programs and operations.

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Challenges

Resources

Sufficient resources remains our top management challenge. Accordingly, we continue to work closely with Treasury's senior leadership and OMB to address the remaining investigative programmatic needs for FY 2006 and beyond.

Articulating Roles and Responsibility for Investigative Programs and Operations

The Department has regulatory enforcement programs that are statutorily authorized to bring administrative and civil actions (e.g., OCC, OTS, TTB, OFAC), but lack either statutory authority or an in-house criminal enforcement capability. The statutory authority of the Treasury OIG, pursuant to the IG Act, grants the responsibility to combat fraud and other crimes against or within Treasury programs and operations – in particular, where a regulatory enforcement program lacks a criminal investigative statutory authority or criminal enforcement capability (i.e., an authorized program has not been implemented).

Investigative Priorities for Fiscal Year 2005 We are committed to developing a vigorous, comprehensive, and capable investigative program that contributes to the Secretary's ability to excel in all of his top priority policy areas. In this regard, the following four overarching investigative priorities are intended to detect and prevent fraud and other crimes against the Department's programs and operations.

Priority 1 – Criminal and Serious Employee Misconduct

Investigating complaints involving the alleged criminal and other serious misconduct by employees of the Department is our highest investigative priority. OI investigates criminal violations of the general crimes found in Title 18 of the United States Code and other federal criminal violations, the Ethics in Government Act, and any other act of serious misconduct prohibited by the Standards of Ethical Conduct for Employees of the Executive Branch. In addition, several bureaus and offices of the Department have additional rules and regulations relating to ethical standards for their own employees.

OI produces reports of investigations which refer criminal and other serious employee misconduct matters to DOJ for criminal prosecution or, upon declination, to the Department's legal and personnel professionals for administrative adjudication that ranges from verbal reprimands to letters of counseling, suspension, demotion, and removal.

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Priority 2 – Fraud Involving Contracts, Grants, Guarantees, and Funds

We conduct investigations into allegations of fraud and other crimes involving Treasury contracts, grants, guarantees, and federal funds. Such allegations often involve contractors who are providing or seeking to provide goods or services to the Department. Complaints are received from employees, contractors, members of the public, and the Congress alleging criminal or other misconduct constituting a violation of laws, rules, or regulations.

Priority 3 – Financial Programs and Operations Crime

The Treasury OIG conducts and supervises a wide variety of investigations relating to the programs and operations of the Department. The Department's programs include the issuance of licenses, providing benefits, and exercising oversight of this country's financial institutions. Such investigations are usually conducted jointly with the United States Secret Service, Federal Deposit Insurance Corporation (FDIC) OIG, FBI, and DOJ.

Priority 4 – Homeland Security and Fiscal Protection

Treasury has an important role in securing the homeland's financial sector. Proactive efforts by this office focus on detecting, investigating, and deterring electronic crimes and addressing threats to the Department's critical infrastructure.

Relationship of Investigative Priorities to the Department's Top Priorities The four overarching investigative priorities are intended to detect and prevent fraud and other crimes against the Department's programs and operations. The following chart identifies the Secretary of the Treasury's top policy priorities for fiscal year 2005 with a cross-walk to our investigative priorities as they principally relate to those policy priorities.

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Secretary's Fiscal Year 2005 Top Policy Priorities	OIG Investigative Priorities			
	Criminal and Serious Employee Misconduct	Fraud Involving Contracts, Grants, Guarantees, and Funds	Financial Programs and Operations Crimes	Homeland Security and Fiscal Protection
Promoting Prosperous and Stable U.S. and World Economies		√	√	
Maintaining Public Trust and Confidence in Our Economic and Financial Systems		√	√	√
Fighting the War on Terrorism and Safeguarding Our Financial Systems				√
Ensuring Professionalism, Excellence, Integrity and Accountability in Management of Treasury	√	√		

Investigative Products The following table depicts the OIG product and service line, or tools, we use to implement the investigative priorities and initiatives.

Product/Service	Definition	Remedy Support		
		Criminal	Civil	Administrative
Investigation	An investigation or inquiry conducted under the cognizant criminal, civil or administrative standards.	√	√	√
Management Implication Report	A report identifying policy or systemic deficiencies, vulnerabilities and conditions which leave a program or office susceptible to fraud.		√	√
Quality Assurance Review	A review or spot check intended to assess compliance with law, rules and regulations, and or policy.		√	√
Awareness Briefings	Presentation that provides and understanding of ethical conduct, red flags of misconduct to employees and contractors.			√

Communication OI will continue to enhance and promote the OIG Hotline program as a mechanism that employees can use to report instances of waste, fraud, and abuse relating to Treasury's programs and operations. The OIG website will offer individuals the opportunity to forward complaints and allegations directly to the OIG.

OIG COMPONENT ORGANIZATIONS AND FISCAL YEAR 2005 INITIATIVES

Office of Counsel

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

The Role of the Office of Counsel The Office of Counsel provides legal advice on issues arising during the statutorily mandated investigative, oversight, and audit activities conducted by the Offices of Audit and Investigations. In addition, the Office of Counsel provides legal advice on issues concerning government contracts, appropriations, budget formulation and execution, disclosure, records retention, tax information safeguards, equal employment opportunity, and personnel law. The office represents the OIG in administrative proceedings before the Merit Systems Protection Board (MSPB) and the Equal Employment Opportunity Commission (EEOC).

The office manages the OIG ethics program, which includes financial disclosure, training, and advice on the governing law and regulations. In the area of disclosure law, the Office of Counsel manages the OIG's Freedom of Information Act (FOIA) and Privacy Act programs. The Office of Counsel also coordinates document requests from Congress and from litigation, as well as responding to Giglio² requests from the Department of Justice for information on Treasury personnel.

Counsel Initiatives for Fiscal Year 2005 The Office of Counsel will support OIG investigative, oversight, and audit activities by responding to requests for legal advice, and through reviewing and processing requests for the issuance of Inspector General subpoenas. In the area of disclosure, the Office of Counsel will focus resources to provide timely responses to FOIA and Privacy Act requests, and to carry out its litigation responsibilities in MSPB and EEOC cases. Based upon past experience, the Office of Counsel expects to process 50 initial FOIA/Privacy Act requests and 10 appeals from those initial responses. In the area of electronic FOIA, the Office of Counsel expects to review approximately 50 audit, evaluation, and oversight reports for posting on the OIG web site. To reflect changes to the OIG's structure and jurisdiction as a result of the divestiture of programs and personnel pursuant to the Homeland Security Act, the Office of Counsel will amend the Privacy Act systems of records notices for both OIG's investigative and administrative records systems, and will continue to coordinate with the Department in updating the Treasury Order and

² Giglio v. United States, 405 U.S. 150 (1972), requires the Government to provide potential impeachment evidence to criminal defendants about government employees who may testify at their trials. Such evidence generally includes specific instances of proven misconduct, evidence of reputation for credibility, prior inconsistent statements, and evidence suggesting bias.

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Directives that establish and define the OIG's authority, responsibility, and organization. Finally, the Office of Counsel will respond to Giglio requests, coordinate responses to document requests from Congress, and respond to discovery requests arising from litigation involving the Department and its bureaus. The Office of Counsel will provide training on the IG Act and other subjects in connection with new employee orientation and in-service training. The Office will obtain necessary training in order to provide advice in emerging areas of OIG responsibility. As statutorily mandated, the Office will review legislative and regulatory proposals and, where appropriate, will coordinate comments.

Office of Management

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

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

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

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

The Information Technology function develops and maintains OIG automated data and integrated voice systems. This includes ensuring electronic infrastructure sufficiency

OIG COMPONENT ORGANIZATIONS AND FISCAL YEAR 2005 INITIATIVES

and the proper installation, support, maintenance, and management of hardware, software, and voice and data telecommunications.

Management Initiatives for Fiscal Year 2005 The Office of Management will continue to identify operational efficiencies to improve management support, while identifying opportunities to reduce costs. It will continue to enable the OIG to maintain its independence from Treasury programs and policies, while continuing to provide OIG offices with required administrative support.

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

For the Budget and Finance function, OIG has a working agreement with ARC for budget execution and accounting services. The function oversees the use of the Oracle financial system for the OIG, which increases the timeliness of financial information and provides for reconciling transactions more efficiently and effectively.

For the Human Resources function, OIG has a working agreement with ARC for time and attendance coordination, which ensures the efficient and effective processing of payroll and routine personnel actions. In addition, OIG uses the Quick Hire Automated Staffing System, which facilitates the hiring of employees within 30 days after the closing of vacancy announcements.

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

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Introduction, Management Challenges, and Administration Initiatives

Introduction

This section provides general background information on our overall assessment of significant management challenges facing the Department and a summary of progress in meeting certain Administration initiatives. Following this background are brief descriptions of each OIG Issue Area, including: (1) a description of significant risks to Treasury programs and operations, (2) in-progress audit projects and new audit projects to be started during fiscal year 2005, and (3) audit projects that have been identified through our planning process but will not be undertaken this fiscal year because of our resources. Our discussion of risks is based principally on (1) prior audit work, (2) the initiation of a new program or operation, and/or (3) increased funding initiatives in mature programs or operations.

Management Challenges

We are required by the Reports Consolidation Act of 2000 to annually provide the Secretary of the Treasury with our perspective on the most serious management and performance challenges facing the Department. In this regard, we identified the following six challenges in an October 2004 letter to the Secretary.

- Corporate Management With nine bureaus and many program offices, Treasury is a highly decentralized organization. Treasury needs to provide effective corporate leadership in resolving serious deficiencies at the bureau level that adversely impact the performance of Treasury as a whole. In particular, Treasury needs to assert strong leadership and supervision over the IRS to resolve longstanding material weaknesses and system deficiencies. Treasury also needs to ensure consistency, cohesiveness, and economy among all bureaus in achieving Treasury's goals and objectives. Specific challenges in this area include establishing clear lines of accountability between corporate and bureau level management, providing enterprise solutions for core business activities, ensuring consistent application of accounting principles, and providing effective oversight of information technology investments and security.
- Management of Capital Investments Treasury needs to better manage large, multiyear acquisitions of systems and other capital investments. The Department has incurred significant cost escalations in its HR Connect system and a program to repair and restore the Main Treasury building. Another major capital investment that we plan to focus on in the coming years is the Department's transition from the Treasury Communications System to the Treasury Communications Enterprise.

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Introduction, Management Challenges, and Administration Initiatives

- Information Security The Department continues to face serious challenges in bringing its systems into compliance with information technology security policies, procedures, standards, and guidelines. Effective management of Treasury's information security program also requires clear lines of authority and reporting requirements between the Treasury bureaus and offices and Treasury's Chief Information Officer (CIO). Treasury has taken a positive step in strengthening the role of the CIO by having him report directly to the Deputy Secretary.
- Linking Resources to Results The Department has not developed and incorporated managerial cost accounting into its business activities. Thus, financial resources cannot be linked to operating results. Very little progress has been made in this area since the Government Performance and Results Act was passed in 1993.
- Management of Classified and Other Sensitive Information Work by our office during the past year disclosed several weaknesses in Treasury's handling and safeguarding of national security and other sensitive information. Taken together, these weaknesses constitute a serious deficiency in the operations of the Department that have resulted in unauthorized disclosure of classified information. The Department has developed a plan to address these weaknesses. However, continued attention is needed to address the fragmented authority and accountability for management of such information.
- Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement FinCEN is responsible for administering the Bank Secrecy Act (BSA), but largely relies on other Treasury and non-Treasury regulatory agencies to enforce the requirements of the BSA, including the enhanced terrorist financing provisions in the USA PATRIOT Act. Past audits and a series of Congressional hearings have surfaced regulatory gaps in either the detection of BSA violations or its timely enforcement. Recognizing this, the Department has recently taken several measures to strengthen BSA administration, as well as confront terrorist financing. This challenge area will be a major focus of our audit program during fiscal years 2005 and 2006.

Administration Initiatives

The **President's Management Agenda** (PMA) consists of five government-wide management initiatives on which each department and major agency is to be measured annually. These initiatives are: (1) Strategic Management of Human Capital, (2) Competitive Sourcing, (3) Improved Financial Performance, (4) Expanded Electronic

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Introduction, Management Challenges, and Administration Initiatives

Government, and (5) Budget and Performance Integration. The Executive Branch Management Scorecard tracks how well these five initiatives are being executed, using a traffic signal scoring system. An agency's status is given a green light for success, yellow for mixed results, and red for unsatisfactory. Similarly, progress ratings are given using a color-coded system; with green indicating implementation is proceeding as planned, yellow indicating that there is slippage in the implementation schedule, and red indicating that the initiative is in serious jeopardy. During fiscal year 2004, Treasury improved its Scorecard overall, going from receiving "red" status marks for all 5 initiatives in fiscal year 2003 to receiving "yellow" status marks in fiscal year 2004 for 3 initiatives (Strategic Management of Human Capital, Competitive Sourcing, and Budget and Performance Integration). For the other 2 initiatives—Financial Performance and E-Government—Treasury still scored "red." For 2004, Treasury received "green" marks for its progress in addressing 3 initiatives and "yellow" marks for the other 2 initiatives (Competitive Sourcing and Improved Financial Management).

In conjunction with the Budget and Performance Integration initiative, OMB developed the **Program Assessment Rating Tool (PART)** in 2002 to assess agency programs. Fiscal year 2006 will mark the third year the PART will be used to assess program performance, help link performance to budget decisions, and make recommendations to improve program results. Together in the fiscal year 2004 and 2005 Budgets, approximately 40 percent of federal programs were assessed using the PART. For the 2006 Budget, an additional 20 percent of programs will be assessed.

The following table summarizes the results of PART assessments during the fiscal years 2004 and 2005 Budget cycles for Treasury programs that are subject to our oversight:

Program	Budget Year of Assessment	Rating
Administering the Public Debt (BPD)	2005	Effective
African Development Fund (OIA)	2005	Results Not Demonstrated
ATF Consumer Product Safety Activities (TTB)	2004	Adequate
Bank Enterprise Award (CDFI Fund)	2004	Results Not Demonstrated
Coin Production (Mint)	2004	Effective
Debt Collection (FMS)	2005	Effective
International Development Association (OIA)	2004	Adequate
New Currency Manufacturing (BEP)	2005	Effective
OCC Bank Supervision	2004	Effective
Office of Foreign Assets Control	2004	Results Not Demonstrated
OTS Thrift Supervision	2004	Effective
Treasury Technical Assistance (OIA)	2005	Adequate

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Treasury General Management and Infrastructure Support - Financial Management
OIG Contact: Mike Fitzgerald, Director of Audit (202) 927-5789

Issue Area Discussion

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

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

Independent Public Accountants (IPA), GAO, and the OIG perform the financial statement audits. IPAs, under OIG supervision, audit the Department's consolidated financial statements and the financial statements of component entities except for: (1) IRS's financial statements and BPD's Schedule of Federal Debt, which are audited by GAO; and (2) the Mint's Schedule of Custodial Gold and Silver Reserves, which are audited by OIG staff.

We are also required by the Consolidated Appropriation Act of 2001 (P.L. 106-554) to report quarterly to the Congress on whether the Department is promptly paying for water and sewer services received by Treasury offices or bureaus from the District of Columbia.

Program Responsibilities The Department has responsibility for certain recently implemented government programs. These programs may create complex accounting and auditing issues that must be closely monitored and ultimately resolved as part of the audit of the Department-wide financial statements. Recent programs that will need to be reviewed as part of the audit of the fiscal year 2005 Department-wide financial statements include:

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Treasury General Management and Infrastructure Support - Financial Management

- Terrorism Risk Insurance Act of 2002 (P.L. 107-297) The purpose of this program is to stabilize market disruptions due to acts of terrorism. The program provides funding for a temporary federal program that will pay 90 percent of the insured losses arising from acts of terrorism above insurers' deductibles. The program has a \$100 billion cap.
- Financial Assistance to Turkey The Emergency Wartime Supplemental Appropriations Act (P.L. 108-11) included an appropriation of up to \$1 billion as the loan subsidy cost for Turkey that the U.S. Government could convert into up to \$8.5 billion in loans for Turkey. In September 2003, the State Department submitted a Congressional Notification (CN) on use of the \$1 billion, including the possibility of an \$8.5 billion loan. During September 2003, the Secretary of the Treasury and the Turkish Economy Minister signed the Financial Agreement (FA) governing this loan. Under the terms of the FA, the agreement does not become legally effective until both parties complete their internal legal procedures for the ratification of this agreement. Under Turkish law, the Turkish Council of Ministers must ratify the FA to make it effective. (Under U.S. law, after the CN process and FA signature, there are no other legal requirements for ratifying the FA.) As of November 12, 2004, the Turkish government had not yet ratified the FA.
- Seized Iraqi Property Under the Executive Order *Confiscating and Vesting Certain Iraqi Property*, the United States is authorized to confiscate certain property of the government of Iraq and its agencies, instrumentalities, or controlled entities, and that all rights, title, and interest in any confiscated property be vested in the Department of the Treasury. The intention is to use the vested property to assist the Iraqi people and reconstruction of Iraq. The Department, at the direction of OMB, has been transferring the vested funds to other agencies such as the Department of Defense for use in the reconstruction of Iraq. Approximately \$1.76 billion in seized Iraqi property has been confiscated, vested in the Department, and transferred.
- Air Transportation Stabilization Program The Air Transportation Safety and System Stabilization Act of 2001 established this program to compensate air carriers for losses incurred as a result of the terrorist attacks on the United States on September 11, 2001. ATSB was authorized to issue loan guarantees on commercial loans to air carriers up to \$10 billion. ATSB approved and closed on 6 loan guarantees of which 1 air carrier has subsequently repaid in full. As of September 30, 2004, ATSB loan guarantees totaled approximately \$1.1 billion for \$1.2 billion in gross loans outstanding.

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Treasury General Management and Infrastructure Support - Financial Management

Known Weaknesses The Department received an unqualified audit opinion on its fiscal year 2004 financial statements. However, this was achieved in some cases by utilizing costly labor-intensive procedures. Limited progress has been made in addressing the long-standing material weaknesses that continue to exist at key bureaus. The IPA's audit report on the Department's fiscal year 2004 consolidated financial statements disclosed 1 material weakness, 1 other reportable condition (both are repeat conditions from prior years), and 2 instances of noncompliance with laws and regulations exclusive of FFMIA. The IPA also reported that the Department's financial management systems did not substantially comply with the requirements of FFMIA. The following material weakness in internal control and other reportable condition at the Department-wide level were identified in the audit report:

Material Weakness

- Financial Management and Reporting at IRS Needs Improvement.

Reportable Condition

- Electronic Data Processing Controls Over Financial Systems at FMS Should be Strengthened.

This material weakness and the other reportable condition at the Department-wide level are included in the total of 5 material weaknesses and 6 other reportable conditions identified during our component level audits.

In Progress and Planned Fiscal Year 2005 Audit Projects

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

Objective To determine whether the financial statements and schedules are fairly presented in all material respects. The audits will also report on internal control, compliance with laws and regulations, and compliance with FFMIA. During fiscal year 2005, we completed audit work for the fiscal year 2004 financial statements and schedules. We will also begin audit work for the fiscal year 2005 financial statements and schedules. We anticipate that these projects will require 10,250 hours by OIG staff during the fiscal year. (PMA Initiative Supported: Improved Financial Performance)

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Treasury General Management and Infrastructure Support - Financial Management

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

Objective To determine whether Treasury bureaus have promptly paid for water and sewer services received from the District of Columbia. As required by law, we will perform this work each quarter during the fiscal year. We anticipate that this work will require a total of 200 hours during the fiscal year. (PMA Initiative Supported: Improved Financial Management)

Treasury's Working Capital Fund

Objective To determine if the costs that the Department's Working Capital Fund (WCF) charges to the bureaus are consistent with the costs the WCF incurs for projects it performs on their behalf. Specifically, we plan to review: (1) the existence, timeliness, and consistency of reconciliations between the actual costs incurred by the WCF and costs billed to bureaus; (2) whether costs charged by the WCF are appropriate; (3) whether costs charged by the WCF to specific bureaus are supported by appropriate documentation; and (4) the reasonableness of assumptions, data, processes, or models used by the WCF to estimate its annual costs. We anticipate that this project will require 2,000 hours. (PMA Initiative Supported: Improved Financial Management)

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Treasury General Management and Infrastructure Support - Information Systems Security
OIG Contact: Louis King, Director of Audit (202) 927-5774

Issue Area Discussion

Threats to Treasury's information security systems include terrorists, criminals, and computer hackers. Such external threats are likely to increase given that hacking tools are becoming more readily available and relatively easy to use. In addition, information security systems face potential threats from insiders (e.g., authorized users) who have a significant knowledge of Treasury's systems and their operation. Because of the nature of Treasury's missions, top-notch information security is paramount to prevent malicious outsiders or insiders from:

- Disrupting key Treasury functions (e.g., collecting revenue, issuing payments, managing the government's cash, making money, preventing financial crimes, etc.),
- Compromising classified or confidential Treasury information,
- Obtaining or disclosing sensitive or private citizen information,
- Destroying or altering information needed to accomplish Treasury's missions,
- Stealing valuable equipment or technology, and
- Inappropriately using Treasury resources.

In addition, recent and new technologies (e.g., wireless networks) have provided greater convenience and accessibility to the honest Treasury user, but at the same time have increased the vulnerability of Treasury information and its resources. Because information technology plays a crucial role in accomplishing all of Treasury's strategic objectives and activities, it is indispensable that Treasury has an information security program that ensures the integrity of Treasury's information systems, and the reliability and confidentiality of its data.

Legislative Mandate The Federal Information Security Management Act (FISMA) requires Treasury to have an annual independent evaluation of its information security program and practices to determine the effectiveness of such program and practices. As required by law, TIGTA conducts the annual independent evaluation as it pertains to IRS while our office conducts the annual independent evaluation as it pertains to the remainder of Treasury. The results of the evaluations are to be provided to OMB by the date set by OMB. In addition, FISMA requires that agencies with national security systems include such systems in the annual evaluation process.

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Treasury General Management and Infrastructure Support - Information Systems Security

Known Weaknesses Based on the results of the OIG's fiscal year 2004 FISMA independent evaluation of the Department's unclassified systems and TIGTA's evaluation of IRS systems, we reported that despite notable progress, Treasury had significant deficiencies that constitute substantial noncompliance with FISMA. The most important of these deficiencies are as follows:

- Treasury's system inventory was not accurate, complete, or consistently reported. There have been major variances in the number of systems reported year-to-year, without adequate reconciliation. The number of systems reported in FISMA changed from 708 in fiscal year 2003 to 237 in fiscal year 2004. The change was largely due to IRS, which re-categorized its systems in 2004.
- The role and reporting structure of Treasury's Chief Information Officer have not been clearly defined.
- Significant deficiencies at the IRS, as identified in TIGTA's fiscal year 2004 FISMA report, continue to exist.

Our fiscal year 2004 FISMA independent evaluation of the Department's classified system also noted weaknesses.

In Progress and Planned Fiscal Year 2005 Audit Projects

Unclassified Systems – Fiscal Year 2005 FISMA Independent Evaluation

Objective A contractor under our supervision will determine if Treasury's information security program and practices, as they relate to Treasury's unclassified systems, are adequate. In addition, the contractor will determine the progress made in resolving previously reported FISMA weaknesses. We anticipate that 600 hours by OIG staff will be need needed to supervise the contractor. (PMA Initiative Supported: Expanded Electronic Government)

National Security Systems – Fiscal Year 2005 FISMA Independent Evaluation

Objective To determine if Treasury's information security program and practices, as they relate to Treasury's national security systems, are adequate. In addition, we will determine the progress made in resolving previously reported FISMA weaknesses. We anticipate that this evaluation will require 400 hours. (PMA Initiative Supported: Expanded Electronic Government)

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Treasury General Management and Infrastructure Support - Information Systems Security

Network and System Vulnerabilities Assessment (In Progress at BEP and DO)

Objective To identify potential security vulnerabilities that may compromise Treasury bureaus' networks and systems leaving them open to misuse and malicious attacks. We anticipate each Treasury bureau review will require 1,700 hours. (PMA Initiative Supported: Expanded Electronic Government)

Disaster Recovery Exercises (On-Going) (In Progress for the Treasury Communications System)

Objective To determine if Treasury and its components can recover its operations in the event of a disaster (e.g., terrorist attacks, severe weather events, etc.). We will observe scheduled disaster recovery exercises on a selective basis. We anticipate each observation and evaluation of the exercise will require 600 hours. (PMA Initiative Supported: Expanded Electronic Government)

Treasury's Computer Security Incident Response (In Progress)

Objective To determine whether Treasury has established an adequate computer security incident response capability. We selected DO, FMS, BEP, and the Mint as the sites to be reviewed. We anticipate that 500 hours will be required during fiscal year 2005 to complete this project. (PMA Initiative Supported: Expanded Electronic Government)

System Certification and Accreditation Processes

Objective To determine whether Treasury's processes to certify and accredit systems are adequate to: (1) identify risks to Treasury's assets, information, and personnel associated with the implementation of systems; (2) allow accrediting officials to properly evaluate and assume responsibility for such risks; and (3) provide a documented basis for management's determinations to accredit systems. We anticipate that this project will require 1,000 hours. (PMA Initiative Supported: Expanded Electronic Government)

System Reviews and Methodologies Used to Identify Systems

Objective To determine whether Treasury's (1) processes for conducting reviews of systems installed at Treasury and contractor facilities are adequate and compliant with applicable requirements, and (2) system inventory methods can be relied on to accurately and completely identify all systems at Treasury. We anticipate that this

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Treasury General Management and Infrastructure Support - Information Systems Security

project will require 1,000 hours. (PMA Initiative Supported: Expanded Electronic Government)

Audit Projects Under Consideration for Future OIG Annual Plans

Wireless Network Security

Objective To determine whether: (1) the use of wireless networks at Treasury and its bureaus is exposing sensitive information to increased security risks (e.g., unauthorized disclosure), (2) there are any unauthorized wireless networks on Treasury premises, and (3) Treasury has established adequate policy and oversight regarding wireless networking. We anticipate that this project will require 800 hours. (PMA Initiative Supported: Expanded Electronic Government)

Treasury Communications Enterprise Implementation

Objective To determine if Treasury is managing the transition to the Treasury Communications Enterprise (TCE) in a manner that (1) ensures that users will have the services they require without disruption, (2) provides adequate security for sensitive Treasury information, (3) results in volume discounts, and (4) improves the integration of Treasury systems. We anticipate that this project will require 1,200 hours. (PMA Initiative Supported: Expanded Electronic Government)

Cyber-Based Systems – Critical Infrastructure Protection Program

Objective To determine: (1) what progress Treasury has made in identifying and prioritizing its critical infrastructure, (2) if Treasury is adequately protecting this infrastructure from terrorist attacks, and (3) if Treasury is in compliance with other requirements of Homeland Security Presidential Directive 7. We anticipate that this audit project will require 1,000 hours. (PMA Initiative Supported: Expanded Electronic Government)

Web Servers – Controls and Security

Objective To determine if Treasury and its bureaus have adequate security controls over its web servers, which provide internet users access to Treasury information and services, to protect against unauthorized access or malicious attacks from outside users. We anticipate that this project will require 2,000 hours. (PMA Initiative Supported: Expanded Electronic Government)

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Treasury General Management and Infrastructure Support - Information Systems Security

Data Centers – Security Reviews

Objective To determine if physical and logical controls are implemented to protect bureau data centers from malicious intrusions, destruction or disclosure of sensitive data, and theft or damage. Specifically, we plan to review: (1) organization and management, (2) computer operations, (3) physical security, (4) environmental controls, (5) hardware and software inventory management, and (6) continuity of operations. We anticipate that this project will require 1,600 hours. (PMA Initiative Supported: Expanded Electronic Government)

Penetration Testing

Objective To determine whether: (1) computer hackers can use common or specialized tools to gain unauthorized and illegal access to Treasury's networks, (2) malicious internal users can use these same tools or other techniques to gain unauthorized access to systems, and (3) unauthorized outsiders or personnel can gain access to sensitive computer equipment. We anticipate that this project will require 2,000 hours. (PMA Initiative Supported: Expanded Electronic Government)

Treasury's Enterprise Environment

Objective To determine if Treasury and bureau chief information officers have implemented an enterprise environment framework that eliminates redundancy, reduces cost, improves quality and timeliness of information, enhances system integration, and properly secures information. We anticipate that this project will require 1,600 hours. (PMA Initiative Supported: Expanded Electronic Government)

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Treasury General Management and Infrastructure Support – General Management
OIG Contact: Thomas Byrnes, Director of Audit (202) 927-5904

Issue Area Discussion

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

Repair and Renovation of the Treasury Building After a June 1996 roof fire resulted in major damage to the Main Treasury building, Treasury decided to modernize the building. The Treasury Building and Annex Repair and Restoration (TBARR) Program was established in August 1998 for the purpose of (1) repairing and restoring the Main Treasury building to correct the damage caused by the roof fire, (2) restoring the historic fabric of the building, and (3) modernizing the building and its systems to comply with current codes and standards. Starting with emergency funding received in fiscal year 1996 for the fire damage, Treasury has received funding each year since, in accordance with no-year and multi-year spending plans. Through fiscal year 2004, the Congress has appropriated a total of \$225 million for the TBARR Program.

Information Technology Capital Investments Sound business practices for the acquisition and maintenance of information systems (including hardware and software) are necessary to support Treasury's mission to manage resources effectively. Absent such practices, Treasury may:

- Develop or inadvertently acquire duplicative systems,
- Pay higher prices for commercial off-the-shelf products by not obtaining volume discounts,
- Develop systems that do not adequately or fully address Treasury's needs or provide management with information needed to accomplish Treasury's key missions,
- Exceed projected or reasonable costs to develop, acquire, or maintain systems,
- Acquire or develop systems that do not adequately secure and protect Treasury's classified, confidential, or sensitive information; and
- Implement systems that do not readily integrate with existing systems.

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Treasury General Management and Infrastructure Support – General Management

Human Capital In the area of human capital management, the Federal Activities Inventory Reform (FAIR) Act of 1998 has major implications for Treasury. According to recent data, Treasury is the fifth agency in Government in terms of positions classified as commercial in nature.

The Department is also engaged in implementing a multi-year automated, integrated Human Resources (HR) system called “HR Connect.” This Department-wide system is intended to bring about significant changes in HR practices through the year 2012. Appropriated funding to support this initiative is maintained at the Department and managed by the HR Connect Program Office. Over its 15-year operational life cycle, Treasury estimates that it will invest \$181 million and expend \$322 million for operations and maintenance (including federal staff), for an expected total program cost of \$503 million. Treasury has also claimed that savings have already been realized with HR Connect. Through fiscal year 2004, Treasury has captured benefits in three categories: \$29.7 million in reduction of 370 staff from HR organizations, \$6.5 million annual operational savings through legacy systems retirement, and \$14.9 million in productivity increases. In subsequent years, additional savings are also anticipated. These estimates of costs and savings have not been audited.

Improper Payments As a recent requirement, the Improper Payments Information Act of 2002 requires agencies to review all programs vulnerable to improper payments, which can result from payments to ineligible program beneficiaries, over or underpayments to beneficiaries, or duplicative payments. Agencies must also estimate the extent of improper payments. The law requires agencies estimating more than \$10 million in erroneous payments to send a report to Congress and to develop a plan for reducing those payments. In this regard, GAO and OMB estimated that improper payments cost the federal government at least \$30 billion a year, and there is strong evidence that the costs actually exceed this level. The reduction of improper and erroneous payments is a focus of the President’s Management Agenda.

Procurement Contract activity involving major procurements by the Department and its bureaus totals approximately \$1.3 billion annually. Use of government credit cards for micro-purchases (generally for goods and services under \$2,500) is also extensive, and a strong control environment over this activity is essential to prevent abuse. The OIG is the Department’s focal point for obtaining pre-award, costs incurred, and other contract audits requested by Departmental Offices and the bureaus. These audits are typically performed by the Defense Contract Audit Agency (DCAA) under OIG oversight. During fiscal year 2004, approximately \$102 million of incurred contract costs for Treasury bureaus were audited.

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Treasury General Management and Infrastructure Support – General Management

Non-Appropriated Activities Four Treasury bureaus (BEP, the Mint, OCC, and OTS) do not receive appropriated funds; instead, they operate with revolving funds. In this regard, BEP and the Mint assess charges for manufactured goods while OCC and OTS assess fees for regulatory activities. These bureaus generally have greater latitude in the manner in which they conduct their operations compared to Treasury's appropriated bureaus.

In Progress and Planned Fiscal Year 2005 Audit Projects

Contract Audit Oversight Activities (On-Going)

Objective To oversee and coordinate DCAA contract audit services requested by procurement officers. We anticipate that 500 hours will be required for this activity during fiscal year 2005. (PMA Initiative Supported: Improved Financial Performance)

Treasury Building and Annex Repair and Restoration (TBARR) Program (In Progress)

Discussion The Conference Report (H.R. 108-401) for the Consolidated Appropriations Act, 2004, directed our office to audit all TBARR Program contracts since fiscal year 1998. The audit is to include: (1) a review of compliance with all applicable procurement laws, rules, and regulations, and the Architectural Barriers Act (ABA) of 1968, as amended; (2) a review of the scope, requirements, and cost reasonableness of the project, as well as the process for managing change orders to the original scope and design; and (3) a review of the effectiveness, efficiency, and economy of contractor operations. These objectives are being addressed in a series of audit reports. During fiscal year 2004, we issued two Interim Audit Reports on TBARR related to project planning and contract award and administration. The Conference Report (108-792) for the Consolidated Appropriations Act, 2005, directs our office to complete the audit work on the TBARR Program, including building code compliance, and issue a final report by April 4, 2005. As part of this work, the Report requests that we identify costs associated with employee delays on planned moves into alternative space during restoration phases.

Objective As specific work to be undertaken in fiscal year 2005, we plan to: (1) inspect, using a contractor, the repair and renovation work in the Main Treasury building for conformance with contract specifications, building code, and other requirements; (2) assess contract and other costs charged to the TBARR appropriations accounts; (3) determine the costs associated with employee delays on planned moves into alternative space during the TBARR restoration phases; and (4) follow up on the

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Treasury General Management and Infrastructure Support – General Management

findings in our Interim Audit Reports. We anticipate that these projects will require a total of 6,000 hours.

Treasury Communications Enterprise Investment

Objective To determine whether the Department’s business case for TCE is based on appropriate and supportable assumptions and cost/benefit estimates. We anticipate that this project will require 2,000 hours. (PMA Initiative Supported: Performance and Budget Integration)

HR Connect Controls

Objective To determine if HR Connect has appropriate controls over the processing of personnel actions and access to employee information. We anticipate that this project will require 2,000 hours. (PMA Initiative Supported: Strategic Management of Human Capital)

Employee Bonus Policies at Non-Appropriated Bureaus

Objective To determine whether (1) policies for employee bonuses at the non-appropriated bureaus are in accordance with the law and (2) bonuses paid conform with the established policies. Separate audits will be performed at each bureau, beginning with a pilot audit at the Mint. We anticipate each audit will require 1,200 hours. (PMA Initiative Supported: Strategic Management of Human Capital)

Audit Projects Under Consideration for Future OIG Annual Plans

Analysis of Procurement Methods Used Within the Department

Objective To determine whether Treasury offices and bureaus could benefit from employing a strategic approach to procurement. As part of this project, we plan to use “spend analysis” to identify opportunities for taking an enterprise-wide approach to buying goods and services. We anticipate that this project will require 2,400 hours. (PMA Initiative Supported: Improved Financial Performance)

Treasury’s Implementation of the Terrorism Risk Insurance Program

Discussion The Terrorism Risk Insurance Program is a temporary federal reinsurance program designed to encourage the development of private sector resources and

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Treasury General Management and Infrastructure Support – General Management

arrangements for managing risk of loss due to acts of international terrorism. The authority for the Program expires on December 31, 2005.

Objective To evaluate the Department's financial controls for processing claims under this re-insurance program in the event of terrorist acts. We anticipate that this project will require 600 hours. (PMA Initiative Supported: Improved Financial Performance)

Bureau Controls Over Government Issued Travel Cards

Objectives To determine whether bureau controls over the use of travel cards are adequate. Separate audits are planned for selected bureaus, beginning with a pilot audit of OTS. We anticipate that each audit will require 1,200 hours. (PMA Initiative Supported: Improved Financial Performance)

Treasury's Implementation of the Improper Payments Information Act

Objective To determine if the Department has implemented an effective process to assess the risks of improper payments by its offices and bureaus that could be subject to reporting under the Improper Payments Act of 2002. We anticipate that this project will require 800 hours. (PMA Initiative Supported: Improved Financial Performance)

Budgeting for Information Technology IT Life-Cycle Security Costs

Objective To determine whether the Department is appropriately budgeting for IT life-cycle security costs in its capital planning and investment process. We anticipate that this project will require 2,000 hours. (PMA Initiative Supported: Expanded Electronic Government)

FAIR Act Implementation

Objective To determine if Treasury has identified government activities that are "commercial in nature" in accordance with the FAIR Act and taken action in a timely manner to meet OMB requirements to compete or outsource the commercial activities. We anticipate that this project will require 800 hours. (PMA Initiative Supported: Competitive Sourcing)

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Terrorist Financing, Money Laundering, and Foreign Assets Control

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

Issue Area Discussion

Treasury's Strategic Goal to preserve the integrity of financial systems is multi-faceted, and includes several key objectives covered under this audit issue area. First, Treasury aims to ensure that the U.S. financial systems continue to operate without disruption from natural disasters or human attacks. Second, Treasury seeks to keep the financial systems free and open, and safe from illegal uses. Third, Treasury strives to ensure that access to the U.S. financial systems is closed to the individuals, groups, and nations that threaten U.S. vital interests. The September 11, 2001, terrorist attacks reinforced the need to block the money flow purported to finance terrorist activities and in that regard, Treasury takes the lead in global combat against terrorist financing and other financial crimes.

During 2004, Treasury took several measures to strengthen its efforts to combat terrorist financing and other financial crimes. It was also criticized during the period for a regulatory failure involving Riggs Bank. These events are described below:

- In March 2004, Treasury created the Office of Terrorism and Financial Intelligence (TFI). TFI is led by the Under Secretary for Enforcement and two Assistant Secretaries – one for the Office of Terrorist Financing (OTF) and one for the Office of Intelligence and Analysis, a position that has not yet been filled. FinCEN, the Office of Foreign Assets Control (OFAC), and the Treasury Executive Office for Asset Forfeiture (TEOAF) are now within TFI.

The functions of TFI include providing policy, strategic, and operational direction to the Department on issues relating to: terrorist financing; financial crimes, including money laundering, counterfeiting and other offenses threatening the integrity of the financial system; U.S. economic sanctions programs; implementation of Titles I and II of the Bank Secrecy Act (BSA), as amended; other enforcement matters; and the Department's security functions and programs.

The Office of Intelligence and Analysis is responsible for the receipt, analysis, collation, and dissemination of intelligence and counterintelligence information related to the operations and responsibilities of the entire Department, including all components and bureaus of the Department. The office has two primary functions. The first is to build a robust analytical capability on terrorist finance by coordinating and overseeing work involving intelligence analysts in all Treasury components. In this regard, the Office of Intelligence and Analysis is to focus on the Department's highest priorities, as well as ensuring that the existing intelligence needs of OFAC and FinCEN are met. The second is to

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Terrorist Financing, Money Laundering, and Foreign Assets Control

provide intelligence support to senior Treasury officials on a wide range of international economic and other relevant issues. This office also serves in a liaison capacity with the intelligence community, and represents the Department in various intelligence-related activities.

- In July 2004, the Permanent Subcommittee on Investigations (PSI) of the Senate Committee on Governmental Affairs issued a report on serious BSA violations at Riggs Bank. PSI also reported that the federal regulators (OCC and the Federal Reserve) did a poor job of compelling Riggs Bank to comply with statutory and regulatory anti-money laundering requirements. Specifically, the regulators were tolerant of the bank's weak anti-money laundering program, too slow in reacting to repeat deficiencies, and failed to make prompt use of available enforcement tools.
- In response to a number of events, including Riggs Bank, FinCEN took steps to establish a more aggressive and coordinated administration of the regulatory implementation of the BSA. For example, it created an Office of Compliance to oversee the implementation of the BSA regulatory regime by those agencies with delegated examination authority such as OCC and OTS. It also created a new Office of Regulatory Support to provide analytic capability to its regulatory programs. FinCEN also finalized a Memorandum of Understanding with the five federal bank regulators to provide information in both specific and aggregate fashion, as an effort to prevent another situation such as the Riggs Bank and to give a better understanding of the overall health of the BSA regulatory regime. In that agreement, FinCEN committed to direct involvement and support of these regulators in helping them discharge their BSA regulatory plans. FinCEN is also working to obtain similar agreements with the IRS, the Securities and Exchange Commission, and the Commodities Futures Trading Commission to enhance BSA compliance oversight in the non-bank financial sectors.

Known Weaknesses Prior OIG audits have identified gaps and deficiencies in the administering the BSA and foreign sanctions programs. For example, with respect to Treasury's banking regulators, we reported in January 2000 that OCC needed to improve its BSA compliance examinations. Specifically, we found that many of the examinations in our sample lacked sufficient depth to adequately assess a bank's compliance, OCC rarely referred BSA violations to FinCEN, and OCC procedures did not require examiners to review Suspicious Activity Reports (SAR) filed by examined banks. In an audit of OCC's oversight of BSA compliance in private banking and trust operations completed in November 2001, we found that OCC needed to focus greater attention on private banking and trust operations when conducting BSA compliance examinations. Similar to our earlier audit, where OCC did include private banking or

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Terrorist Financing, Money Laundering, and Foreign Assets Control

trust operations in its BSA compliance examinations, the examinations often lacked sufficient testing of high risk transactions. In another audit, completed in September 2003, we found that OTS was not aggressive in taking enforcement actions against thrifts in substantial non-compliance with BSA requirements.

We completed two audits on the accuracy and reliability of the FinCEN BSA database for SARs, and we have one in process. These audits have consistently shown that the SAR database lacked critical information, included inaccurate information, and contained duplicate SARs.

In April 2002, we reported that OFAC was limited in its ability to directly monitor financial institution compliance with foreign sanction requirements due to legislative impairments. Like FinCEN, OFAC is dependent on other regulators to examine for compliance, and our testing found gaps in the regulators' examination coverage.

In Progress and Planned Fiscal Year 2005 Audit Projects

FinCEN Suspicious Activity Reporting System (Follow-Up) (In Progress)

Objective To assess the corrective action taken by FinCEN in response to the recommendations in our prior report *FinCEN: Reliability of Suspicious Activity Reports* (OIG-03-035). As part of the project, we are determining the extent to which FinCEN's SAR System provided reliable information to law enforcement and regulatory agencies. We anticipate that 800 hours will be required to complete this project during fiscal year 2005.

FinCEN Registration of Money Services Businesses (In Progress)

Objective To assess whether FinCEN has adequate controls to ensure that money services businesses have registered as required by 31 U.S.C. 5330. We anticipate that 800 hours will be required to complete this project during fiscal year 2005.

FinCEN Patriot Act Communications System (In Progress)

Objective To assess the operational effectiveness of PACS, the Internet-based BSA report filing system mandated under the USA PATRIOT Act. As part of this project, we administered a survey, developed in corroboration with FinCEN, to a sample of PACS users and non-users. We anticipate that 800 hours will be required to complete this project during fiscal year 2005.

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Terrorist Financing, Money Laundering, and Foreign Assets Control

FinCEN Efforts to Analyze and Disseminate BSA and Criminal Data (In Progress)

Objective To determine if FinCEN is providing timely and complete research, analytical, and informational services regarding trends, patterns, and issues from BSA data and financial crimes pursuant to Section 361 of the USA PATRIOT Act. We anticipate that 2,400 hours will be required to complete this project during fiscal year 2005.

Performance Measures for Anti-Terrorist Financing and Financial Crimes Programs (In Progress at OTF)

Objective To determine if adequate and useful performance indicators and reliable performance data reporting systems have been developed for Treasury's anti-terrorist financing and financial crimes programs. At the end of fiscal year 2004, we had an audit on this subject in progress at the Executive Office for Terrorist Financing and Financial Crimes, the predecessor office to OTF, which we anticipate will require 200 hours to complete during fiscal year 2005. In future fiscal years, we plan similar audits of TFI, FinCEN, and OFAC. We anticipate that these future projects will require 1,000 hours each, for a total of 3,000 hours. (PMA Initiative Supported: Budget and Performance Integration)

FinCEN Office of Compliance

Discussion House Report 108-671 for the Consolidated Appropriations Act, 2005, includes a requirement that our office provide the Committee on Appropriations with a status report detailing FinCEN's progress in establishing the Office of Compliance. Our report is to include an assessment of full-time equivalent sufficiency to conduct an effective BSA compliance program as well as the level of cooperation being achieved in implementing the planned memoranda of agreements with the federal regulatory agencies charged with examination and enforcement responsibilities for BSA compliance. The related Conference Report (108-792) established a reporting date of March 11, 2005, for our assessment.

Objectives To determine the status of the FinCEN Office of Compliance and the level of cooperation being achieved between FinCEN and the federal regulatory agencies. We anticipate that this project will require 2,400 hours.

FinCEN Use of Civil Penalties

Objective To determine if the process to impose and collect civil penalties for BSA violations is effective. We anticipate that this project will require 2,000 hours.

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Terrorist Financing, Money Laundering, and Foreign Assets Control

OFAC Monitoring of Compliance Examination Coverage by Regulators

Objective To determine if OFAC has an effective monitoring program to ensure that regulators adequately examine and enforce compliance by financial institutions with sanction programs. We will follow up on management corrective actions taken for our prior report *FOREIGN ASSETS CONTROL: OFAC's Ability To Monitor Financial Institution Compliance Can Be Enhanced* (OIG-02-082) and review a sample of OFAC compliance examinations by OCC and OTS. We anticipate that the project will require 3,000 hours.

FinCEN BSA Direct System

Discussion FinCEN has contracted for the design, development, implementation, web hosting, and support services for the BSA Direct system. This information and delivery system is intended to streamline and enhance how BSA data is stored, accessed, and utilized. Through BSA Direct, FinCEN expects to provide authorized law enforcement and financial regulatory organizations with web-based access to BSA data and improved analytical tools to ensure that data collected under the BSA is utilized fully and appropriately while preserving the security of this sensitive information. The system is expected to be fully operational by October 2005.

Objective To determine whether BSA Direct system is being developed on schedule and within budget. We anticipate that this project will require 2,000 hours.

Treasury's Administration of the Bank Secrecy Act

Objective To determine whether Treasury's current structure (authority, delegations, resources, and competencies) is consistent with its responsibilities under the BSA and USA PATRIOT Act. We anticipate that this project will require 2,400 hours.

Audit Projects Under Consideration for Future OIG Annual Plans

Office of Intelligence and Analysis Information Systems (Follow-Up)

Objective To assess the actions taken in response to a prior OIG classified report (OIG-CA-04-003) on the Office of Intelligence Support, the predecessor office to the Office of Intelligence and Analysis. We anticipate that this project will require 800 hours.

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Terrorist Financing, Money Laundering, and Foreign Assets Control

Background Checks Over Individuals Handling Sensitive BSA Reports

Objective To determine if controls are adequate to ensure that Treasury employees and contractors handling sensitive BSA reports have current security clearances. We anticipate that this project will require 2,000 hours.

OCC Enforcement Actions for Substantive BSA Violations

Objective To determine whether OCC is taking timely, forceful, and effective enforcement actions when its examinations of banks find substantive BSA violations. As part of this project, we will assess changes to its BSA enforcement policies and procedures as a result of problems noted in the July 2004 PSI report related to Riggs Bank. We anticipate that this project will require 2,400 hours.

OCC BSA Examinations (Follow-Up)

Discussion Our office has issued a series of reports addressing various aspects of OCC BSA examinations. These have ranged from general coverage to specialty areas such as private banking, trusts, and foreign branches.

Objective To determine whether OCC has implemented effective corrective actions to prior OIG reports of its BSA examination program. With the added risk associated with terrorist financing through commercial banks, this project will revisit the money laundering aspects and look at examination coverage of the requirements provided under the USA PATRIOT Act such as customer identification, minimum anti-money laundering programs, and prohibitions against shell bank correspondent banking relationships. We anticipate that this project will require 2,400 hours.

OTS Enforcement Actions for Substantive BSA Violations (Follow-Up)

Objective To determine whether OTS implemented its planned corrective actions to our prior report *OTS: Enforcement Actions Taken for Bank Secrecy Act Violations* (OIG-03-095). We anticipate that this project will require 1,200 hours.

FinCEN Coordination of BSA Database Responsibilities with IRS

Objective To determine whether FinCEN is working effectively with the IRS to ensure timely and complete BSA data is available for such parties as law enforcement, state and local agencies, and regulatory agencies. As part of this project, we will assess whether the planned comprehensive Memorandum of Understanding between FinCEN

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and IRS supports effective processing of BSA data by the IRS's Detroit Computing Center. We anticipate that this project will require 2,000 hours.

FinCEN Efforts to Ensure Casinos Comply with BSA Requirements (Follow-Up)

Objective To determine if FinCEN has taken appropriate corrective action in response to our prior report *MONEY LAUNDERING/BANK SECRECY ACT: FinCEN Needs to Strengthen Its Efforts to Deter and Detect Money Laundering in Casinos* (OIG-03-001). We anticipate that this project will require 1,600 hours.

OFAC Use of Civil Penalties and Other Sanctions

Objective To determine if OFAC is effectively using civil penalties and other sanctions against those who are a threat to national security. We anticipate that this project will require 2,000 hours.

OFAC Proactive Efforts to Ensure Compliance with Sanction Programs

Objective To determine and assess the effectiveness of OFAC controls to detect financial institution non-compliance with sanction programs. We anticipate that this project will require 2,000 hours.

TFI Controls Over Information Sharing Across Treasury Bureaus

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

OFAC Efforts to Ensure Compliance by Money Services Businesses with Foreign Sanctions Programs

Objective To assess efforts to ensure compliance by the money services business industry with OFAC sanctions and prohibitions. We anticipate that this project will require 2,000 hours.

TEOAF Distribution of Treasury Forfeiture Fund Receipts to Disrupt and Dismantle Criminal Infrastructures

Objective To determine whether TEOAF distributes funds to recipient agencies in accordance with applicable laws, regulations, and policies and has adequate controls to

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ensure the distributed receipts are used for intended purposes. We estimate that this project will require 2,400 hours.

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Government-wide Financial Services and Debt Management
OIG Contact: Donald Kassel, Director of Audit (202) 927-6512

Issue Area Discussion

Acting as the federal government's money manager, FMS provides centralized payment, collection, and reporting services for the government. BPD borrows the money needed to operate the federal government and accounts for the resulting debt.

Disbursement and Collections FMS's goal is to provide reliable and accurate processing of federal payments which is an essential part of supporting the U.S. economy. These payments total more than \$1.7 trillion annually. Accurate, on-time payments are of considerable financial importance to American citizens receiving Social Security or Veterans' benefits, income tax refunds, or other federal payments. During fiscal year 2003, FMS issued approximately 920 million payments via paper check and electronically transferred funds to more than 100 million individuals and businesses.

FMS also collects more than \$2.2 trillion annually in payments to the government through 10,000 financial institutions. Nearly \$1.8 trillion of this amount is collected electronically.

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

Public Debt The United States' public debt has two major components: (1) Debt Held by the Public and (2) Intra-governmental Holdings. Debt Held by the Public is the federal debt held by individuals, corporations, state or local governments, foreign governments, and other entities outside of the U.S. government. Types of securities held by the public include Treasury Bills, Treasury Notes, Treasury Bonds, U.S. Savings Bonds, State and Local Government Series, Foreign Series, and Domestic Series. Intra-governmental Holdings are Government Account Series securities held by Government trust funds, revolving funds, and special funds. As of September 30, 2004, the total public debt outstanding was \$7.38 trillion, of which \$4.31 trillion was Debt Held by the Public, and \$3.07 trillion was Intra-governmental Holdings. During fiscal year 2004, the interest expense on the Debt was approximately \$322 billion.

Like FMS, BPD's operations demand modernized electronic, and information system technology. BPD implemented the TreasuryDirect system in October 2002. According

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Government-wide Financial Services and Debt Management

to BPD, additional functionality has been added through periodic releases. Additionally, by the end of 2004, BPD expected to have in place the systems and operational capacity to begin, in a controlled manner, to offer holders of more than 700 million paper savings bonds the opportunity to convert their bonds to electronic form.

Potential Risks Due to the many competing priorities of our office, FMS programs have received little performance audit coverage during recent years. In this regard, our most recent work included a 2003 audit of FMS Plastic Card Network, a system established on behalf of federal agencies to collect fees and other revenues through credit cards. That audit identified several opportunities to better use funds totaling in the billions of dollars. Another 2003 audit, performed in connection with a President's Council on Integrity and Efficiency multi-agency review, examined FMS's controls over the use of Social Security Numbers (SSN). We found that although FMS was taking steps to safeguard SSNs, opportunities existed to improve controls to ensure sensitive information is better protected. For example, FMS needed to better document, maintain, and monitor third party agreements to ensure that security requirements are met. FMS also needed to strengthen its general security controls over information technology applications and systems. The last time we reviewed FMS's DCIA activities was in 1999. Since we last substantively reviewed FMS payment and collection systems, federal payments and collections have grown substantially, and become increasingly electronic.

Likewise, we have not performed any recent performance audit of BPD's programs for managing the public debt.

In Progress and Planned Fiscal Year 2005 Audit Projects

FMS Controls Over Social Security Account Numbers (Follow-Up)

Objective To determine the status of FMS corrective actions to our prior report *FMS Continues to Improve Its Controls Over the Access, Disclosure, and Use of Social Security Numbers by Third Parties* (OIG-03-083). We anticipate that this project will require 200 hours.

FMS Controls Over Disbursements

Objective To determine, through a series of audits involving both electronic funds transfers and check payments, whether FMS has adequate internal controls over its disbursement process to ensure the integrity of payments is appropriate. We anticipate performing separate audits at FMS's four Regional Finance Centers (RFC)

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Government-wide Financial Services and Debt Management

that process payments, beginning the Philadelphia RFC during fiscal year 2005. We anticipate that this first audit will require 2,000 hours. (PMA Initiative Supported: Improved Financial Performance)

FMS Acquisition of Banking Services (Follow-Up)

Discussion The Consolidated Appropriations Act, 2004, authorized a permanent, indefinite appropriation for FMS to use to acquire banking services. In the past, these services were paid for through compensating balances maintained with certain financial institutions. A fiscal year 2003 OIG audit of FMS's Plastic Card Network (OIG-03-088) found that the use of compensating balances was expensive and FMS did not have adequate controls to ensure that the costs of banking services acquired through compensating balances were appropriate.

Objective To determine whether FMS is contracting for banking services in an appropriate and cost effective manner. We anticipate that this audit will require 1,600 hours. (PMA Initiative Supported: Improved Financial Performance)

Audit Projects Under Consideration for Future OIG Annual Plans

FMS Debt Check Program

Discussion FMS has developed a new debt management program, called Debt Check, which allows agencies and outside lenders to determine whether applicants for federal loans, loan insurance, or loan guarantees owe delinquent child support or delinquent non-tax debt to the federal government. Federal agencies are required to deny loans, loan insurance, or loan guarantees to entities that owe delinquent, non-tax debt to the federal government. By Executive Order, this prohibition has been extended to delinquent child-support debtors whose debts have been referred to the Treasury Offset Program for administrative offset.

Initial rollout of the program began with the Small Business Administration in February 2003. The current process is web-based; batch application processing is expected to be available in 2004. Agencies are being phased in gradually.

Objective To assess FMS's progress in implementing the Debt Check program. We anticipate that this project will require 2,000 hours. (PMA Initiative: Improved Financial Performance)

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Government-wide Financial Services and Debt Management

FMS Plastic Card Network - Assigning/Charging Costs to Benefiting Agencies (Follow-Up)

Discussion Our fiscal year 2003 audit of the Plastic Card Network (PCN) identified an opportunity for FMS to save approximately \$797 million over a 5-year period if the costs associated with operating the PCN were passed on to the benefiting federal agencies. Previously, these costs were paid for through compensating balances maintained with the banks that operated the PCN.

Objective To determine whether FMS has taken action to charge benefiting federal agencies for the costs of operating the PCN. We anticipate that this audit will require 800 hours. (PMA Initiative Supported: Improved Financial Performance)

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

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

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

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

FMS Offset Programs to Collect Non-Tax Delinquent Debt

Objective To determine the effectiveness of FMS programs to collect non-tax delinquent debt through offset from federal payments as required by the DCIA. We anticipate that this project will require 2,000 hours. (PMA Initiative Supported: Improved Financial Performance)

Irregularities in the Accounts of Accountable Officers

Discussion Accountable officers in the federal government are expected to ensure the legality, propriety, and correctness of collections and disbursements of public funds. In the event of an irregularity in an account of an accountable officer, Treasury Directive (TD) 32-04, *Settlement of Accounts and Relief of Accountable Officers*, prescribes how the irregularity is to be resolved.

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Government-wide Financial Services and Debt Management

Objective To determine whether irregularities in the accounts of Treasury accountable officers are reported and resolved as required by TD 32-04. We anticipate that this audit will require 1,200 hours. (PMA Initiative Supported: Improved Financial Performance)

Survey of Treasury's Debt Issuance Process

Objective To determine if Treasury's debt-issuance process is documented and accountability is defined. We anticipate that this project will require 800 hours. (PMA Initiative Supported: Improved Financial Performance)

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Safety, Soundness, and Accessibility of Financial Services

OIG Contact: Benny Lee, Director - Western Field Audit Office (415) 977-8810, ext. 222

Issue Area Discussion

A primary goal of Treasury is to ensure the sustained strength and resilience of U.S. financial markets and institutions. Two important components of these financial markets have been the nation's banking and thrift industries with over \$9.3 trillion in combined assets.

OCC is responsible for licensing, regulating, and supervising approximately 2,060 nationally chartered banks and 51 federal branches or agencies of foreign banks. Although only accounting for 23 percent of the nation's commercial banks, national banks hold 57 percent (\$4.4 trillion) of the total commercial banking assets. OCC has approximately 2,800 employees located throughout the U.S., and funds its operations largely through assessments levied on national banks and from various licensing fees.

OTS charters the vast majority of the nation's federally insured savings associations, commonly referred to as "thrifts", but regulates and supervises all of them. There are approximately 923 thrifts with total assets exceeding \$1.1 trillion. In addition, OTS also supervises over 1,000 savings and loan holding companies in 520 corporate structures, collectively controlling over \$6 trillion in assets. These holding companies are engaged in business lines other than banking such as insurance, retailing, and manufacturing. OTS has over 900 employees located in Washington, D.C., and across four regional offices. OTS supervises an industry that is viewed as a key part to fulfilling the American dream of home ownership. Indeed, housing finance accounts for more than 20 percent of annual gross domestic product.

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

Despite the sluggish economy following the recession in 2001, the banking and thrift industries have sustained strong growth marked by record earnings, profits, and capitalization. National bank earnings have remained at historically high levels for a decade. Beginning in 2002, national banks have exceeded both earnings milestones in every quarter but one. In 2003, national banks set new records for both return on equity and return on assets. Although the slow economy led to weakness in some areas, including business lending, the contractions in these areas were more than offset by growth elsewhere, notably in mortgage-related lending. The thrift industry exhibited similar financial results with first quarter 2004 earnings marking the fifth

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Safety, Soundness, and Accessibility of Financial Services

consecutive quarter that income exceeded the \$3 billion mark, and the industry's capital position also reached a record level of \$106.3 billion.

Aside from financial performance, traditional measures and indicators of safety and soundness have also reflected the industries' continued healthy performance. The number of problem national banks has remained level at under 27 since 2001, whereas problem thrifts have largely declined by more than half – to 11 as of March 2004. The number of failing institutions has also declined since 2002 from a high of 11 to 3 in 2003.

Potential Risks Recent banking and thrift industry's financial performance would not suggest increased systemic safety and soundness concerns for either OCC or OTS. While this traditional supervisory focus remains under OIG oversight, developments since 2001 and other events suggest there may well have been a shift in the nature and type of risks for which the OIG's annual audit plan has turned its audit focus in the near term. For example, reputation risk has seemingly increased for OCC and OTS in the areas of Bank Secrecy Act (BSA) compliance and general management areas such as examiner post-employment with their previously examined banks.

Accordingly, the OIG's annual audit plan has placed a greater emphasis on compliance issues, an area that would encompass consumer protections and general management stewardship issues. As the industry's risks continue to change, the OIG's fundamental focus on regulators strategic goals and ability to respond will similarly change, as reflected by the following reviews and audits.

Regulatory and supervisory challenges also continue to arise from the Gramm-Leach-Bliley Financial Services Modernization Act (GLBA) of 1999. Although GLBA accorded the banking and thrift industries great flexibility to respond more efficiently to market forces and competition, GLBA presents regulators with increased supervisory responsibilities in several areas such as money laundering, financial privacy, and coordinating supervisory efforts with functional regulators.

Another key OIG concern deals with Treasury's role in ensuring that our nation's financial infrastructure is able to maintain continuity of operations and avoid disruptions due to national disasters or terrorist attacks. The OIG will continue audit oversight of critical infrastructure protection issues as provided under Homeland Security Presidential Directive 7, *Critical Infrastructure Identification, Prioritization and Protection*.

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Safety, Soundness, and Accessibility of Financial Services

Planned Year 2005 Audit Projects

Material Loss Reviews of Failed Financial Institutions

Discussion The Federal Deposit Insurance Corporation Improvement Act (FDICIA) of 1991 requires our office to review a failed financial institution supervised by OCC or OTS if the loss to the Federal Deposit Insurance Corporation insurance fund exceeds the greater of \$25 million or 2 percent of the institution's total assets.

Objective In the event an OCC or OTS regulated institution fails during fiscal year 2005 that results in a material loss, we will conduct a Material Loss Review (MLR) to: (1) determine the cause(s) of the failure; (2) assess the supervision exercised over the institution, including the use of the Prompt Corrective Action provisions of FDICIA; and (3) as applicable, make recommendations to prevent similar losses in the future. An MLR typically requires 5,000 staff hours.

Protecting the Financial Services Sector Critical Infrastructure

Objective To determine the effectiveness of the coordination efforts upon which Treasury, as the agency responsibility for the banking and finance sector, has embarked with other federal agencies and private sector entities to protect this part of the nation's critical infrastructure. We anticipate that this project will require 1,600 hours.

OCC/OTS Examination Coverage of Financial Institution Off-Shore Outsourcing Functions

Objective To determine if regulator examinations adequately cover banks' and thrifts' use of third party service providers located outside the U.S. One focus of this project is to determine the examination coverage over controls to ensure privacy is maintained over customer financial information. Separate audits are planned for OCC and OTS. We anticipate each audit will require 1,200 hours.

Fraud Affecting Supervised Institutions

Objective To determine the adequacy and effectiveness of OCC and OTS examinations in addressing fraud. This objective will be accomplished through a series of audits. The first audit aims to profile Suspicious Activity Reports filed by OCC- and OTS-supervised institutions to identify the extent and types of suspected financial crimes, and any trends, patterns, or emerging crimes. This initial profiling will then be used as the basis for future audits looking at the adequacy and effectiveness of OCC and OTS

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Safety, Soundness, and Accessibility of Financial Services

examination policies and procedures in addressing fraud. We anticipate that this first audit will require 1,600 hours.

OTS Examination of Holding Companies with Consolidated Assets

Objective To assess the effectiveness of OTS holding company examinations policies, procedures, and practices. We anticipate that this project will require 2,000 hours.

Audit Projects Under Consideration for Future OIG Annual Plans

OCC/OTS Examinations of Financial Institution On-line Banking Activities

Objective To determine whether examination coverage of bank security controls over on-line banking activities is adequate. As part of this review, we will assess whether examiners are appropriately assessing controls by banks and thrifts to address “phishing” and other threats against customer account information through their web sites. We anticipate performing separate audits, requiring an estimated 2,000 hours each, at OCC and OTS.

OCC Examination of National Banks’ Non-Banking Activities

Objective To assess the adequacy of OCC examinations of bank operating subsidiaries engaged in non-bank activities such as securities, insurance, and similar financial services authorized under GLBA. As part of this project, we will follow up on OCC’s corrective actions to our 2000 report *Office of the Comptroller of the Currency’s Supervision of Banks Selling Insurance* (OIG-00-098). We anticipate that this project will require 2,400 hours.

OCC/OTS Safeguarding of Sensitive Information

Objective To determine whether examiners adhere to safeguarding policies and procedures over financial institution and customer sensitive information. This objective will include assessing the adequacy of controls when downloading information on-line, over information obtained during the on-site examination, and the sufficiency of periodic testing and oversight. Separate audits are planned at OCC and OTS. We anticipate each audit will require 2,000 hours.

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Safety, Soundness, and Accessibility of Financial Services

OCC and OTS Processes for Reviewing Change of Control Applications

Objective To compare and evaluate OCC's and OTS's respective procedures for reviewing applications by financial institutions for changes in control. We anticipate that this audit will require 1,600 hours.

OCC/OTS Use of Prompt Corrective Action

Objective To determine whether OCC and OTS have adequate controls to invoke and monitor required actions under the Prompt Corrective Action provisions of FDICIA. Separate audits will be performed at OCC and OTS. We anticipate each audit will require 1,600 hours.

OCC Examinations of Large Banks

Objective To assess OCC's examination approach to banks with assets exceeding \$100 billion relative to OCC's 4-pronged strategic goals. This would include areas such as staffing, subject matter expertise, aggregate and unit risk assessments, compliance, fraud, examiner rotation, reliance placed on internal/external auditors work, and the impact of mergers in the industry. We anticipate that this project will require 2,000 hours.

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Revenue Collection and Industry Regulation

OIG Contact: Donald Benson, Director - Eastern Field Audit Office (617) 223-8640

Issue Area Discussion

Treasury expected to collect \$2.2 trillion in revenue and process 220 million tax-related documents during fiscal year 2004. Most of Treasury's revenue collection is accomplished through the IRS. However, Treasury also collects significant revenue through the Alcohol and Tobacco Tax and Trade Bureau (TTB) and oversees certain customs revenue functions. TTB is the primary focus of our office in the issue area of revenue collection and industry regulation.

Alcohol and Tobacco TTB was created by the Homeland Security Act (HSA) of 2002, which divided the former Bureau of Alcohol, Tobacco and Firearms into two agencies: (1) the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATFE), which transferred to the Department of Justice in January 2003; and (2) TTB, which remained with the Treasury. TTB is responsible for the administration and enforcement of: (1) the Internal Revenue Code pertaining to the excise taxation and authorized operations of alcohol and tobacco producers and related industries; (2) the Federal Alcohol Administration Act; (3) the Alcohol Beverage Labeling Act; and (4) the Webb-Kenyon Act, which prohibits the shipment of alcoholic beverages into a state in violation of the state's laws.

TTB collects excise taxes from the alcohol, tobacco, firearms, and ammunition industries, as well as permit and license fees. TTB also collects taxes from businesses, including producers, distributors and retailers of liquor and dealers in industrial alcohol. These collections amount to approximately \$15 billion annually.

In addition to its headquarters operation, TTB has an Office of Field Operations comprised of four units: (1) National Revenue Center (NRC) in Cincinnati, Ohio; (2) Risk Management Staff; (3) Trade Investigations Division; and (4) Tax Audit Division.

Customs Revenue Functions The HSA transferred the former U.S. Customs Service from Treasury to the Department of Homeland Security in March 2003. However, as provided by HSA, Treasury retained the sole authority to approve any regulations concerning import quotas or trade bans, user fees, marking, labeling, copyright and trademark enforcement, and the completion of entry or substance of entry summary including duty assessment and collection, classification, valuation, application of the U.S. Harmonized Tariff Schedules, eligibility or requirements for preferential trade programs, and the establishment of related recordkeeping requirements.

Potential Risks Failure by industry members to pay all taxes due can result in significant dollars not being collected. Failure to comply with industry regulations can

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Revenue Collection and Industry Regulation

also impact consumers if unsafe or deceptively advertised products reach the marketplace. We have done little auditing of this area in the last 3 years.

With respect to revenue collection, our most recent audit work found that significant vulnerabilities existed in the controls over excise tax waivers associated with exported alcohol and tobacco products. Specifically, audits conducted in fiscal years 1999 and 2000 found missing documentary support at the NRC for these waivers that raised questions about whether the products were actually exported and the waivers appropriate. The waivers provided tax exemptions in the hundreds of millions of dollars. During a follow-up audit of this area, completed in fiscal year 2004, we found that despite improvements in controls, there were continuing problems with documentation not being available at the NRC to support the exportation of these products. In response, TTB decided to modify the process of having all supporting documentation submitted to NRC for administrative review. TTB now requires the manufacturers and importers to maintain documentary support at their premises and will rely on the Tax Audit Division to review these documents during on-site audits. We have not audited this new process.

Our most recent audit work in the area of industry regulation, most of it conducted in the years 1999 through 2001, found control weaknesses in a number of areas. For example, a program to sample beverages for product compliance lacked clear and measurable goals and did not conduct statistically valid sampling that would allow the bureau to make better use of the results. An audit of the alcohol and tobacco laboratory found many of the test results were unused by requesting managers. Another audit found inconsistent handling of applications for approval of product labels.

In Progress and Planned Fiscal Year 2005 Audit Projects

Treasury Oversight of Customs Revenue Functions (In Progress)

Objective To determine how Treasury has carried out its retained authority over the customs revenue function. We anticipate that this project will require 50 hours to complete in fiscal year 2005.

TTB Tax Audit Division Targeting Program

Objective To determine the effectiveness of the Tax Audit Division's targeting and auditing programs designed to assess excise tax and regulatory compliance by industry members. The audit will review the risk factors the Tax Audit Division considers in

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Revenue Collection and Industry Regulation

selecting its audit targets. We anticipate that this project will require 2,400 hours. (PMA Initiative Supported: Improved Financial Performance)

TTB Transition from ATFE Information Technology Systems

Objective To determine whether TTB is adequately planning for the transition of its financial and other systems from ATFE. We anticipate that this project will require 1,600 hours.

Audit Projects Under Consideration for Future OIG Annual Plans

TTB Alcohol and Tobacco Permit Program

Objective To determine if effective controls are in place to ensure that alcohol and tobacco permits are only issued to qualified persons and businesses. The audit will review the types of controls in place and whether these controls consider the implications of possible terrorist involvement in the marketplace. We estimate this project will require 2,000 hours.

TTB Collection Procedures

Objective To determine whether TTB has effective collection procedures for delinquent accounts, and is using these procedures to ensure prompt payment. We estimate this project will require 1,600 hours. (PMA Initiative Supported: Improved Financial Performance)

TTB Safeguards Over Taxpayer Information

Objective To determine whether TTB has adequate safeguards over the security of taxpayer returns and return information. We anticipate that this project will require 1,600 hours.

TTB Surety Bonds to Cover Excise Tax Liability

Objective To determine whether TTB has established sufficient bond amounts to protect against loss of excise tax revenue. We estimate this audit will require 800 hours. (PMA Initiative Supported: Improved Financial Performance)

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Revenue Collection and Industry Regulation

OIG Contact: Donald Benson, Director - Eastern Field Audit Office (617) 223-8640

TTB Designation of American Viticultural Areas

Discussion An American Viticultural Area is a delimited grape-growing region recognized by TTB that is distinguishable by geographical features. A viticultural area designation should be based on features that affect the growing conditions of the area (climate, soil, elevation, physical features) and may extend across political boundaries. However, the entire area should possess a unifying feature that distinguishes it from surrounding areas, and evidence must be provided to TTB that shows this contrast.

Objective To determine if adequate controls are in place over TTB's program to designate American Viticultural Areas. We anticipate that this project will require 1,600 hours.

TTB Approval to Share Winemaking Facilities and Obtain Wine Tax Credits

Discussion TTB has established requirements for the sharing of wine making facilities known as "alternating proprietorships" and for the small domestic producers' wine tax credit (a reduced effective excise tax rate to producers of less than 250,000 gallons of wine a year) for which certain alternating proprietors may be eligible. An "alternating proprietorship" is an arrangement whereby two or more persons take turns using the physical premises of a winemaking facility. In most situations, the "host" proprietor agrees to rent space and equipment to a new "tenant" proprietor. This allows existing wineries to use excess capacity and gives new entrants to the wine business an opportunity to begin on a small scale without investing in equipment.

Objective To determine whether TTB has adequate controls to ensure that applicants for these arrangements are legitimate, qualified, and eligible for wine credits. We anticipate that this project will require 1,600 hours. (PMA Initiative Supported: Improved Financial Performance)

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Bill and Coin Manufacturing, Marketing, and Distribution Operations

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

Issue Area Discussion

One of the most recognized functions of the Treasury is the printing of U.S. currency by BEP and the manufacturing of coins by the Mint.

In addition to currency, BEP manufactures a large variety of other security products such as U.S. postage stamps, Treasury securities, identification cards, naturalization certificates, and other special security documents. All products are designed and manufactured with advanced counterfeit deterrence features to ensure product integrity. The operations of the BEP are currently financed by means of a revolving fund established in accordance with the provisions of P.L. 81-656, which requires the BEP to be reimbursed by customer agencies for all costs of manufacturing products and services performed. BEP is also authorized to assess amounts to acquire capital equipment and provide for working capital needs.

In 2003, BEP delivered 8.3 billion Federal Reserve Notes to the Federal Reserve System and 9.96 billion postage stamps to the U.S. Postal Service. This resulted in revenue of \$518 million and an excess of expenses over revenue of \$12.1 million. Rather than increasing currency prices in 2003, BEP funded the additional costs for the production of next generation currency through working capital and productivity improvements.

Since its creation in 1792, the Mint has grown to a Fortune 500-sized manufacturing and international marketing enterprise with about 2,500 employees. In fulfilling its mission to produce the nation's circulation coinage for trade and commerce, the Mint produced over 11 billion circulating coins in fiscal year 2003.

In fiscal year 1996, the Mint Public Enterprise Fund (PEF) was created to enable the Mint to operate as a revolving fund. The operations of the Mint are divided into three major activities: Circulating Coinage, Numismatic and Investment Products, and Protection. The Mint is credited with receipts from its circulating coinage operations, equal to the full cost of producing and distributing coins that are put into circulation, including depreciation of the Mint's plant and equipment on the basis of current replacement value. Those receipts pay for the cost of the Mint's operations, which includes the costs of production and distribution. The difference between the face value of the coins and these costs are profit, which is deposited as seigniorage to the Treasury General Fund. Even though the Mint is not dependent on appropriated funds, its spending authority is approved each fiscal year. With more than \$1.4 billion in revenues in fiscal year 2003, the Mint purchased approximately \$867 million worth of goods and services and deposited \$600 million to the Treasury General Fund.

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Bill And Coin Manufacturing, Marketing, And Distribution Operations

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

In October 2003, the Mint announced a standard competition study under OMB Circular A-76, *Performance of Commercial Activities*, for the preparation of ready-to-coin planchets. The study was to be completed within 12 months.

Potential Risks Because their operations are financed through revolving funds, BEP and the Mint are subject to less congressional oversight scrutiny through the federal budget process than appropriated agencies. The PEF legislation specifically exempted the Mint from federal procurement law.

Two recent OIG audits noted various weaknesses in BEP security matters. In fiscal year 2003, we reported that among other things, employees did not always have the level of security clearance commensurate with their work assignments (OIG-03-004). In fiscal year 2004, we reported that the dual reporting structure for security operations at its two currency facilities have resulted in inconsistent policies and practices. We also reported weaknesses with BEP police officer training and firearms re-qualifications and security system (OIG-04-025).

The last time the OIG audited COINS was during fiscal year 1999, in its early implementation phase. At that time it was noted that although COINS may eventually be capable of providing the necessary data for performance reporting, at that particular time it was not able to fully support the performance reporting requirements of the Mint. The audit also found that COINS production data contained errors and could not always be relied upon, and management controls over data input needed improvement.

In a 2002 audit, we noted weaknesses in the Mint's use of the PEF authority to acquire leased space for its headquarters operations, including acquiring space in excess of its needs (OIG-02-074). In 2001, the Department reviewed the Mint's procurement operations, also noting significant weaknesses.

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Bill And Coin Manufacturing, Marketing, And Distribution Operations

In Progress and Planned Fiscal Year 2005 Audit Projects

Mint Private/Public Competition for the Production of Coin Blanks (In Progress)

Objective To determine, pursuant to a congressional mandate in House Report 108-401, whether the Mint followed OMB A-76 requirements and its procurement policies in conducting the competitive sourcing study for the production of coin blanks. On October 29, 2004, we issued an Interim Audit Report in which we reported that the competitive sourcing study has already exceeded the 12-month timeframe established by OMB and significant actions were needed to complete the study. We anticipate that 2,400 hours are needed to complete this project during fiscal year 2005. (PMA Initiative Supported: Competitive Sourcing)

BEP Pricing of Currency (In Progress)

Objective To evaluate BEP's methodology for pricing its currency and other products. We estimate that it will take 200 hours to complete this review during fiscal year 2005. (PMA Initiative Supported: Improved Financial Performance)

Mint Procurement Operations

Objective To determine whether the Mint established and is following logical procedures and prudent business practices when procuring goods and services, including leased space. We anticipate that this project will require 2,000 hours. (PMA Initiative Supported: Improved Financial Performance)

Mint Production Scheduling

Objective To determine whether the Mint identifies its production requirements to meet customer needs in an effective manner. We anticipate that this project will require 2,000 hours. (PMA Initiative Supported: Improved Financial Performance)

Audit Projects Under Consideration for Future OIG Annual Plans

Mint Consolidated Information System (COINS)

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

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Bill And Coin Manufacturing, Marketing, And Distribution Operations

Mint Leasing Practices – Headquarters (Follow-Up)

Objective To determine whether the Mint took corrective action in response to our March 2002 report to comprehensively analyze its space needs and eliminate unneeded space in the two buildings leased for its headquarters operations. We anticipate that this project will require 1,000 hours. (PMA Initiative Supported: Improved Financial Performance)

BEP Capital Investment Planning

Objective To determine if the BEP's capital investment program ensures that all capital needs are being identified and sufficient funds are being allocated to meet current and future capital needs in the areas of production, security, and other matters affecting the health and welfare of its workforce. We anticipate that this project will require 1,600 hours. (PMA Initiative Supported: Improved Financial Performance)

BEP Controls Over Background Investigations (Follow-Up)

Objective To determine if BEP has implemented recommendations from our October 2002 report. We anticipate that this project will require 800 hours.

BEP Controls Over Security (Follow-Up)

Objective To determine what actions BEP has taken in response to our 2004 report to ensure consistent security, training, and firearms re-qualification policies are followed at its two production facilities. We anticipate that this project will require 800 hours.

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Domestic and International Assistance Programs
OIG Contact: Donald Kassel, Director of Audit (202) 927-6512

Issue Area Discussion

Treasury plays an important role in a number of domestic and international assistance programs that have a significant impact on the economy. Domestic programs range from those that enhance the availability of financial education and of credit, investment capital, and financial services to communities around the U.S., to programs that assist in coping with the after effects of the September 11th terrorist attacks. International programs address the role of international financial institutions and promote economic stability and growth in other countries.

Domestic Assistance Treasury provides assistance to promote economic growth and raise the standard of living in distressed communities in the U.S. by increasing the availability of business capital and financial services. The CDFI Fund, for example, works to increase economic growth and create jobs in distressed urban and rural communities by providing an array of community development financial services through CDFIs and Community Development Entities. The New Markets Tax Credit (NMTC) Program, one of the more recent initiatives in this arena, provides for a total of \$15 billion in tax incentives to help spur investments in low-income communities. During the first two award cycles, the CDFI Fund made 129 NMTC awards totaling \$6 billion in tax credit allocation authority. Other CDFI Fund programs and related fiscal year 2004 awards include: (1) Bank Enterprise Awards to FDIC-insured depositaries (49 awards totaling approximately \$17 million), (2) Financial Assistance to CDFIs (68 awards totaling \$46.7 million), (3) Technical Assistance to CDFIs and prospective CDFIs (80 awards totaling \$3.6 million), and (4) Native American Communities Initiatives (41 awards totaling \$8.5 million).

In the aftermath of September 11th, the Air Transportation Stabilization Board (ATSB) was established to assist the airline industry and was authorized to issue up to \$10 billion in loan guarantees to compensate air carriers for losses incurred as a result of the attacks. Treasury's Under Secretary for Domestic Finance is 1 of 3 voting members of the ATSB. Of the 16 air carriers that applied, 6 were either approved or conditionally approved for loan guarantees totaling \$1.7 billion; the other 10 were denied.

In other areas of domestic assistance, payments totaling \$10 billion (\$5 billion each for fiscal years 2003 and 2004) was provided to the States under the *Jobs and Growth Tax Relief Reconciliation Act of 2003*. These funds offered temporary fiscal relief in providing essential government services or in complying with federal mandates.

Treasury strives to ensure that consumers are protected from fraud and deception, personal information used in financial transactions is safeguarded, and financial

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Domestic and International Assistance Programs

education is broadly available. One Treasury program was created to move “unbanked” individuals with low to moderate incomes to “banked” status through the development of financial products and services. To date, 15 pilot programs have received grants totaling \$8.35 million.

Educational efforts involve working with other federal entities to raise awareness about the need for financial education and to find ways to improve financial literacy levels throughout the U.S. and by integrating financial education into core curricula in elementary and secondary schools. This core curriculum concentrates on four key areas: basic savings, credit management, homeownership, and retirement planning.

International Assistance A prosperous world economy serves the U.S. in many ways, including creating markets for U.S. goods and services, and promoting stability and cooperation among nations. Treasury focuses on preventing crises and minimizing the impact of those that do occur. International financial institutions (IFI), such as the International Monetary Fund (IMF) and the multilateral development banks (MDB), such as the World Bank, play a key role in enabling global economic growth and stability.

Treasury’s Office of International Affairs (OIA) oversees U.S. interests in IFIs. The U.S. participates in the IFIs to support poverty reduction, private sector development, the transition to market economies, and sustainable economic growth and development; and thereby to advance U.S. economic, political, and commercial interests abroad. Treasury has the responsibility for ensuring that these institutions appropriately use the resources the U.S. contributes, and for this reason systematically reviews how the IFIs use the money the U.S. government has invested in them.

Improving the effectiveness of the MDBs has been a high priority for the Administration. Accordingly, Treasury has been pursuing a reform agenda that emphasizes raising living standards and reducing poverty; measuring the results of U.S. contributions; and strengthening efforts to stimulate private-sector investment, promote good government and the rule of law, and fight corruption.

Treasury also plays a key role in the financial and economic reconstruction of Iraq, through activities such as uncovering and transferring to the Development Fund for Iraq the assets controlled by the former Iraqi regime’s officials, stabilizing the new currency, and restoring and revitalizing the banking sector.

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Domestic and International Assistance Programs

In Progress and Planned Fiscal Year 2005 Audit Projects

Single Audit Act Activities (On-Going)

Objective To ensure action is taken on findings related to Treasury programs identified by Single Audits of state and local governments. We anticipate this project will require 200 hours during fiscal year 2005.

CDFI Fund New Markets Tax Credit Program

Discussion The legislation authorizing the New Markets Tax Credit (NMTC) program requires GAO to report to Congress on the program by January 31, 2004, 2007, and 2010. In January 2004, GAO reported that, according to CDFI Fund officials, not many NMTC projects were started by the end of 2003 and that they were unlikely to know the status of projects until early 2005. GAO also reported that the CDFI Fund and IRS have made progress in identifying data to use in monitoring NMTC compliance with allocation agreements and tax laws, respectively, and in developing and implementing systems to collect these data. However, many details remain to be settled on how these data will actually be used to monitor compliance. Additionally, in terms of evaluating the NMTC program, the CDFI Fund has decided to contract for an evaluation. GAO recommended that the CDFI Fund and IRS develop plans, including milestones, to ensure that compliance-monitoring processes are in place when needed (*NEW MARKETS TAX CREDIT PROGRAM: Progress Made in Implementation, but Further Actions Needed to Monitor Compliance*; GAO-04-326).

Objective To determine whether (1) the CDFI Fund has implemented GAO's recommendation and (2) the methodology to be performed by a contractor for evaluating the NMTC program is reasonable. We anticipate that this project will require 2,000 hours. (PMA Initiative Supported: Improved Financial Performance)

OIA Transfer of Funds for Tropical Forest Conservation Act Activities

Discussion The purpose of the Tropical Forest Conservation Act (TFCA) program is to facilitate greater protection of tropical forests by providing for the alleviation of debt in countries where tropical forests are located, thus allowing the use of additional resources to protect these critical resources and reduce economic pressures that have led to deforestation. Assistance is provided to selected countries through negotiated agreements in the form of debt reduction, debt swap, or debt buy back. Beginning with fiscal year 2003, this assistance (\$20 million for fiscal year 2003) is initially allocated to the U.S. Agency for International Development (USAID) and transferred to

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Domestic and International Assistance Programs

Treasury. Once the agreements with the selected countries are negotiated, Treasury transfers the funds back to USAID for execution. By virtue of the transfer of the funds to Treasury, our office is responsible for conducting periodic program and financial audits of the use of the funds pursuant to the TFCA and the Foreign Assistance Act of 1961, as amended. P.L. 108-323 reauthorized TFCA through fiscal year 2007, with \$20 million authorized for fiscal year 2005. The reauthorization also included a provision authorizing \$200,000 each year to carry out audits and evaluations of the TFCA programs.

Objective To determine whether Treasury has administered its responsibilities for TFCA funds in accordance with the Act. We anticipate that this project will require 800 hours.

Audit Projects Under Consideration for Future OIG Annual Plans

OIA Oversight of Multilateral Development Banks' Anti-Corruption Programs

Objective To determine the effectiveness of OIA's efforts to promote and monitor anti-corruption programs at MDBs. We anticipate that this project will require 2,000 hours.

ATSB Monitoring of Air Carrier Loan Guarantees

Objective To determine whether the ATSB has monitored the six air carriers in an effective manner to ensure that the conditions of their loan guarantees are being met. We anticipate that this project will require 800 hours.

CDFI Fund Post Award Administration (Follow-Up)

Objective To determine the effectiveness of the CDFI Fund's post-award administration of Bank Enterprise Award, Financial Assistance, Technical Assistance, and Native American Communities programs to ensure funds are used for the intended purpose and program objectives are achieved. The audit will follow up on the findings and recommendations in our prior report *Community Development Financial Institutions Fund Post-Award Administration Process* (OIG-02-122). We anticipate that this project will require 2,400 hours. (PMA Initiative Supported: Budget and Performance Integration)

OIG ISSUE AREAS AND PLANNED AUDIT PROJECTS

Domestic and International Assistance Programs

Treasury First Accounts Program Results

Discussion In May 2002, Treasury announced that award of \$8.4 million in grants to 15 projects designed to help unbanked Americans open accounts at insured financial depository institutions.

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

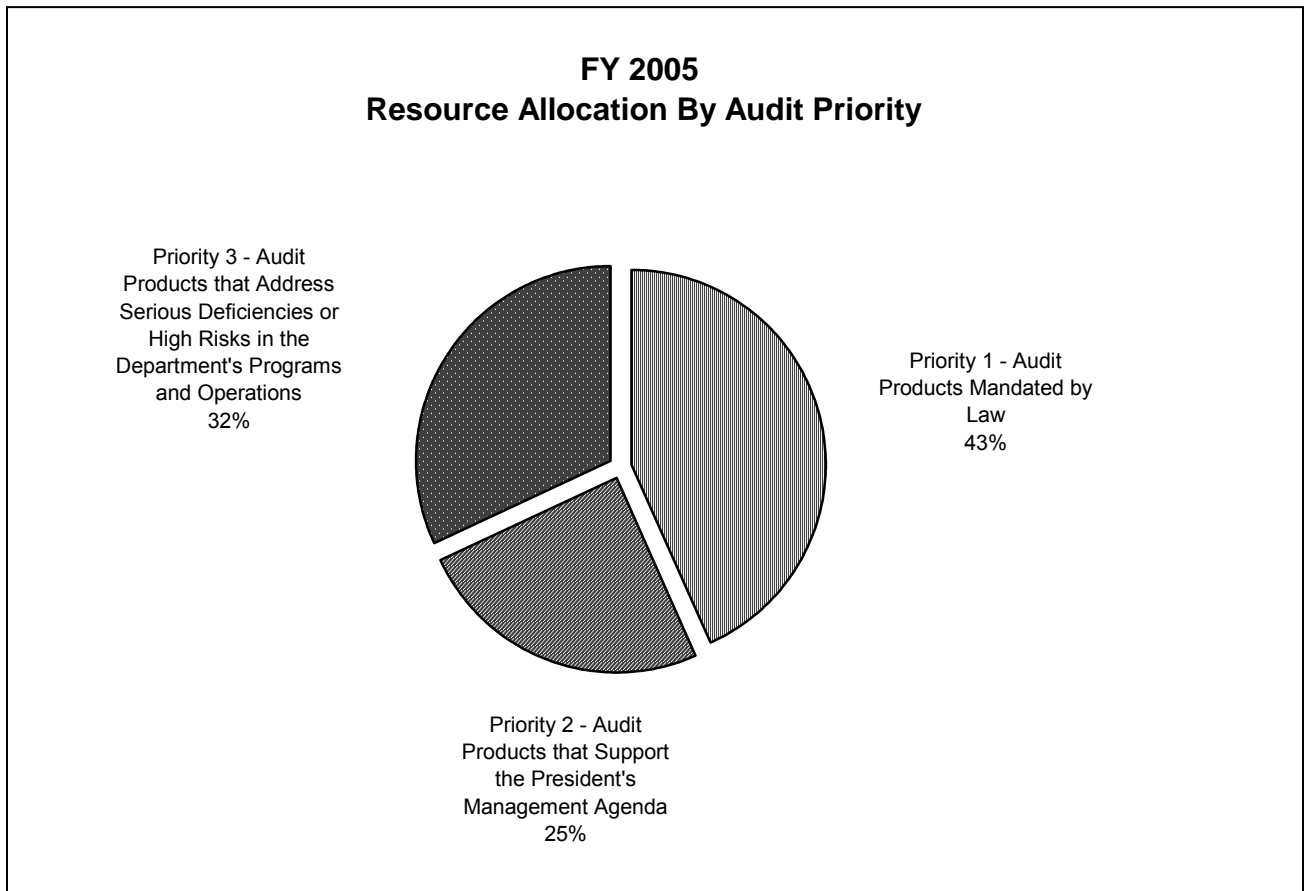
Office of Financial Education Performance Measures

Objective To determine whether reasonable performance goals and measures have been established to monitor the success of Treasury's financial education efforts. We anticipate that this project will require 800 hours.

APPENDIX A:

OFFICE OF AUDIT FISCAL YEAR 2005 RESOURCE ALLOCATION

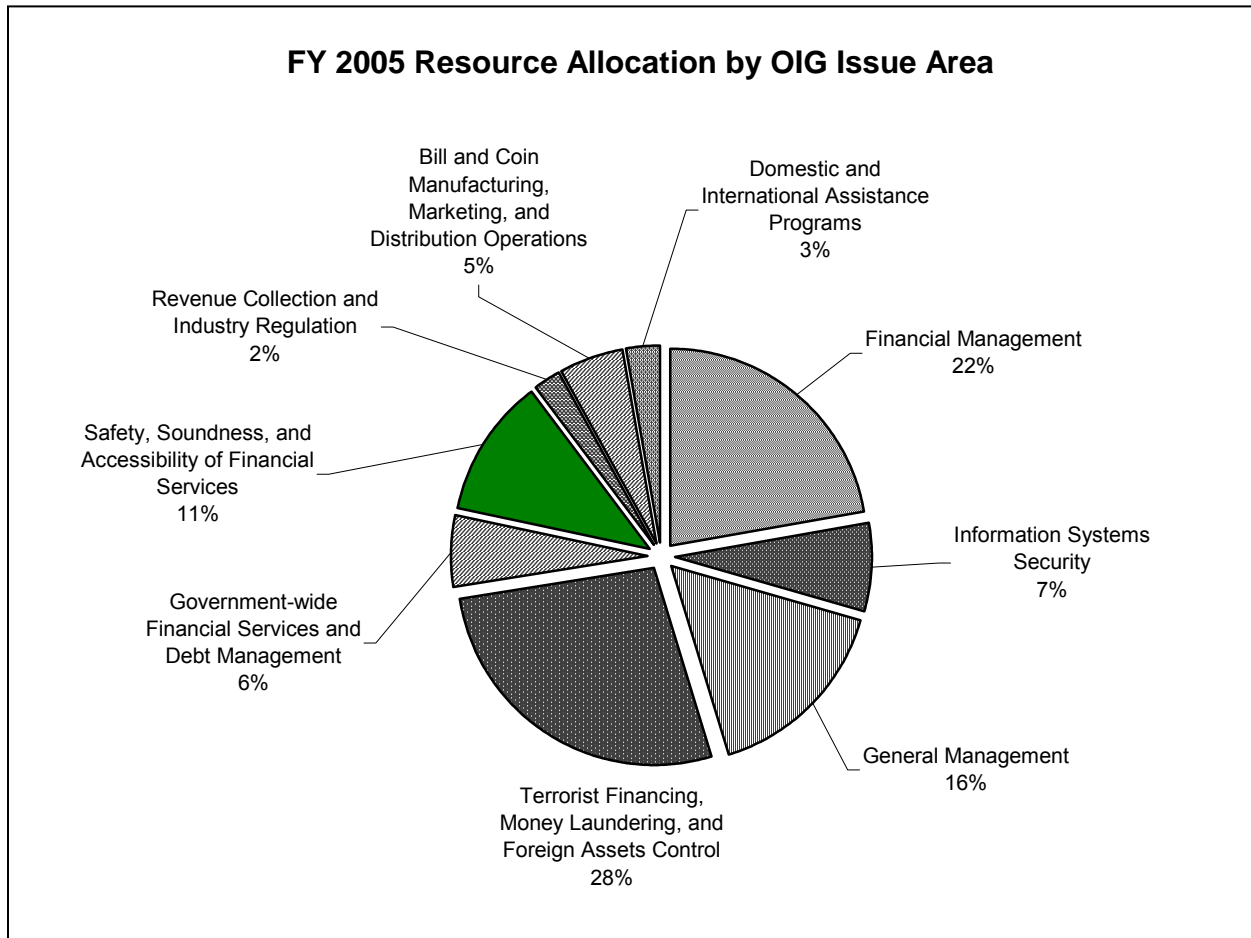
Our planned OIG audit staff resource utilization by the three priority areas for FY 2005 is shown in the following chart:



APPENDIX A:

OFFICE OF AUDIT FISCAL YEAR 2005 RESOURCE ALLOCATION

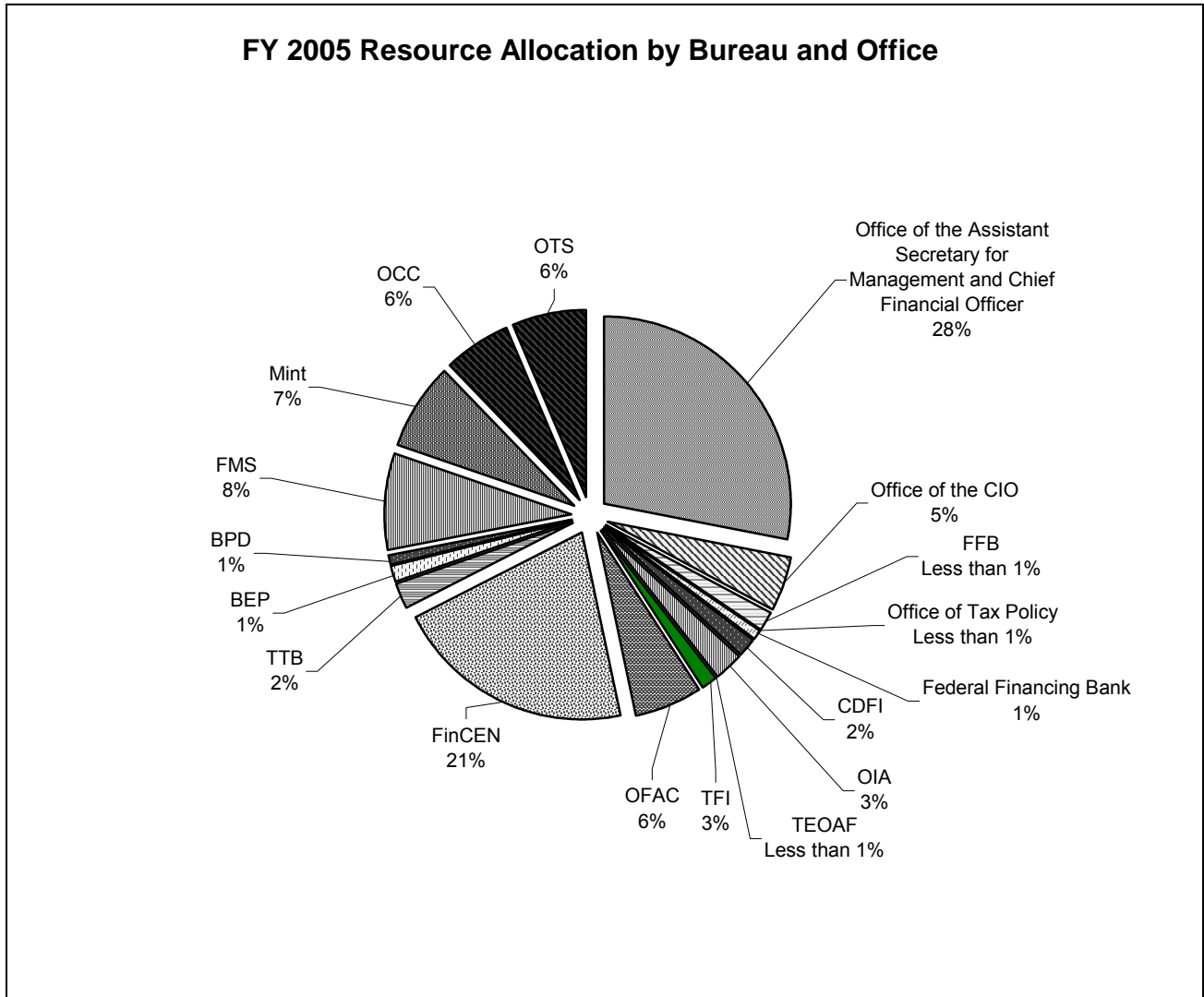
Our planned OIG audit staff resource allocation by OIG Issue Area is depicted below:



APPENDIX A:

OFFICE OF AUDIT FISCAL YEAR 2005 RESOURCE ALLOCATION

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



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ABBREVIATIONS

ABA	Architectural Barriers Act of 1968
ATFE	Bureau of Alcohol, Tobacco, Firearms and Explosives
AIGA	Assistant Inspector General for Audit
AIGI	Assistant Inspector General for Investigations
ATSB	Air Transportation Stabilization Board
BEP	Bureau of Engraving and Printing
BPD	Bureau of the Public Debt
ARC	Bureau of the Public Debt Administrative Resource Center
BSA	Bank Secrecy Act
CDE	Community Development Entities
CDFI	Community Development Financial Institutions Fund
CFO	Chief Financial Officer
CIO	Chief Information Officer
COINS	Consolidated Information System
D.C.	District of Columbia
DCAA	Defense Contract Audit Agency
DCIA	Debt Collection Improvement Act of 1996
DC Pensions Department	Office of the District of Columbia Pensions Department of the Treasury
DO	Departmental Offices
DOJ	Department of Justice
EEOC	Equal Employment Opportunity Commission
ESF	Exchange Stabilization Fund
FA	Financial Agreement
FAIR Act	Federal Activities Inventory Reform Act
FBI	Federal Bureau of Investigation
FDIC	Federal Deposit Insurance Corporation
FFB	Federal Financing Bank
FFMIA	Federal Financial Management Improvement Act of 1996
FinCEN	Financial Crimes Enforcement Network
FISMA	Federal Information Security Management Act
FMS	Financial Management Service
FOIA	Freedom of Information Act
FTE	Full-Time Equivalents
FY	Fiscal Year
GAO	U.S. Government Accountability Office
GLBA	Gramm-Leach-Bliley Financial Services Modernization Act
GMRA	Government Management Reform Act
HR	Human Resources
HSA	Homeland Security Act of 2002
IFI	International Financial Institution

ABBREVIATIONS

IG	Inspector General
IMF	International Monetary Fund
IPA	Independent Public Accountant
IRS	Internal Revenue Service
IT	Information technology
MDB	Multilateral Development Bank
Mint	U.S. Mint
MLR	Material Loss Review
MSPB	Merit Systems Protection Board
NMTC	New Markets Tax Credit
NRC	National Revenue Center
OCC	Office of the Comptroller of Currency
OFAC	Office of Foreign Assets Control
OI	Office of Investigations
OIA	Office of International Affairs
OIG	Office of Inspector General
OMB	Office of Management and Budget
OTF	Office of Terrorist Financing
OTS	Office of Thrift Supervision
PART	Program Assessment Rating Tool
PCIE	President's Council on Integrity and Efficiency
PCN	Plastic Card Network
FDICIA	Federal Deposit Insurance Corporation Improvement Act of 1991
PEF	Public Enterprise Fund
PMA	President's Management Agenda
PSI	Permanent Subcommittee on Investigations
SSN	Social Security Number
RFC	Regional Finance Center
SAR	Suspicious Activity Report
TBARR	Treasury Building and Annex Repair and Restoration
TCE	Treasury Communications Enterprise
TEOAF	Treasury Executive Office for Asset Forfeiture
TFCA	Tropical Forest Conservation Act
TFI	Office for Terrorism and Financial Intelligence
TIGTA	Treasury Inspector General for Tax Administration
Treasury	Department of the Treasury
TTB	Alcohol and Tobacco Tax and Trade Bureau
USA PATRIOT Act	Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act
USAID	U.S. Agency for International Development
WCF	Working Capital Fund

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