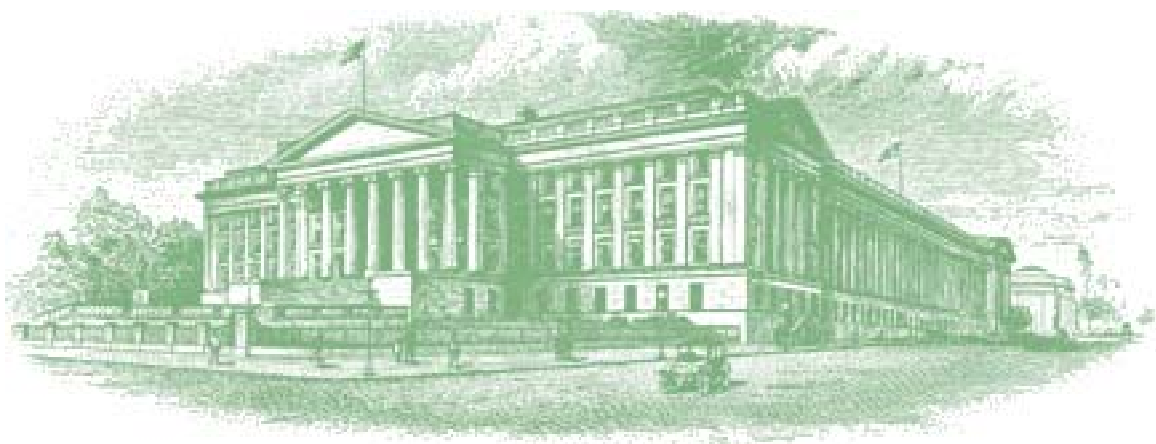
Semiannual Report To The Congress



October 1, 2005 – March 31, 2006

Office of Inspector General

Department of the Treasury

Highlights In Brief

During this semiannual reporting period, our **Office of Audit** issued 31 audit, attestation, and evaluation reports which identified, in total, $29.4 million in monetary benefits. Work by our **Office of Investigations** resulted in 2 convictions by plea agreement, 1 federal indictment, 1 state charge, and 10 referrals accepted for prosecution. Investigative activities also resulted in approximately $583,000 in court-ordered fines, restitution, and civil settlements, as well as 5 personnel actions and 1 debarment. Some of our significant results for this period are described below:

- In an October 2005 memorandum to the Secretary of the Treasury, the Inspector General identified the following as the most serious management and performance challenges facing the Department, all repeat challenges: (1) corporate management, (2) management of capital investments, (3) information security, (4) linking resources to results, and (5) anti-money laundering and terrorist financing/Bank Secrecy Act enforcement. Based on actions taken, a previous challenge—management of classified and other sensitive information—was removed, but still requires continued attention.

- An Independent Public Accountant, working under our supervision, issued an unqualified opinion on the Department's fiscal year 2005 consolidated financial statements. The audit identified two reportable conditions, both repeat, related to: (1) financial management and reporting at the Internal Revenue Service, a material weakness, and (2) electronic data processing controls and information security programs over financial systems. The audit also found that Treasury was not in substantial compliance with the Federal Financial Management Improvement Act, a longstanding condition attributable to deficiencies at the Internal Revenue Service.

- We determined that Treasury's poor planning and execution of the Treasury Communications Enterprise (TCE) procurement led to delays and increased costs. Specifically, we found that Treasury's consideration of General Service Administration contract vehicles, both at the outset and following a successful bid protest of the TCE contract award, was incomplete and that the business case documentation provided by Treasury was deficient. The contract files for the TCE project lacked adequate documentation of senior management approval of the TCE acquisition plan and failed to adequately detail how Treasury had arrived at its $1 billion cost estimate for TCE.

- As part of an executive branch initiative to combat Federal Employees' Compensation Act (FECA) fraud, the Offices of Investigations and Audit launched a proactive project to identify instances of fraud within the Department's program. During this reporting period, a former Treasury employee was indicted and subsequently arrested on three felony offenses related to over $270,000 in fraudulent FECA claims. This case is currently pending further judicial action.

- At the request of the Secretary of the Treasury, the Treasury OIG conducted an investigation into whether he had a conflict of interest by owning approximately $10.8 million worth of government-sponsored enterprises (GSE) debt instruments. The investigation determined that prior to being sworn in as Secretary of the Treasury, the Secretary purchased through his investment broker what he believed to be U.S. Treasury securities, when in fact he had purchased GSEs. No evidence was developed during the investigation which suggested that the Secretary knowingly held the GSE securities.

A MESSAGE FROM THE INSPECTOR GENERAL

I am pleased to present the Department of the Treasury (Treasury), Office of Inspector General (OIG) Semiannual Report summarizing the activities of our office for the 6-month period from October 1, 2005, through March 31, 2006.

This Semiannual Report is being dedicated to the memory of William H. Pugh, our Deputy Assistant Inspector General for Financial Management and Information Technology Audit, who I am sad to report passed away after a brief illness in February 2006. As a senior executive, Mr. Pugh led our financial and information technology audit work for the past 10 years. It is a fitting tribute that he supervised much of the audit work that is highlighted in this Report.

Among his many accomplishments, Mr. Pugh, who had over 33 years of diversified audit experience with both the Federal Government and private industry, worked tirelessly with Treasury management to enable the Department to achieve its first ever unqualified audit opinion on its fiscal year 2000 financial statements, and the unprecedented acceleration of the Department's financial reporting 2 years later. Mr. Pugh also served on a number of interagency and professional task forces that addressed accounting and auditing issues, and promoted excellence in financial management government-wide.

In recognition of his outstanding service to government, including a distinguished 30-year career as an active duty and reserve Army Officer, Secretary Snow awarded Treasury's Distinguished Service Medal posthumously to Mr. Pugh. The Medal was presented to Mr. Pugh's wife at his funeral service. The Secretary's citation for this high honor is included on the inside back cover.

Mr. Pugh was a valued colleague and friend and will be sorely missed by all of us here at the Treasury OIG.

Harold Damelin
Inspector General

This Page Intentionally Left Blank

Table Of Contents

This Page Intentionally Left Blank

Overview of the OIG and the Treasury

The Department of the Treasury's (Treasury) Office of Inspector General (OIG) was established pursuant to the 1988 amendment to the Inspector General Act of 1978, 5 United States Code (U.S.C.) Appendix 3. The OIG is headed by an Inspector General (IG) who is appointed by the President of the United States, with the advice and consent of the United States Senate. Serving with the IG in the immediate office is a Deputy Inspector General. OIG performs independent and objective reviews of Treasury programs and operations, except for those of the Internal Revenue Service (IRS), and keeps the Secretary of the Treasury and Congress fully informed of problems, deficiencies, and the need for corrective action. The Treasury Inspector General for Tax Administration (TIGTA) performs audit and investigative oversight related to IRS.

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

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

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

The **Office of Counsel to the Inspector General** (1) processes all Freedom of Information Act/Privacy Act requests and administrative appeals; (2) processes all discovery requests; (3) represents OIG in administrative Equal Employment Opportunity and Merit Systems Protection Board proceedings; (4) conducts ethics training, provides ethics advice, and ensures compliance with financial disclosure requirements; (5) reviews proposed legislation and regulations; (6) reviews and issues IG subpoenas; (7) reviews and responds to all Giglio requests for information about Treasury personnel who may testify in trials; and (8) provides advice on procurement, personnel, and other management matters and on pending audits and investigations.

The **Office of Management** provides a range of services designed to maintain the OIG administrative infrastructure. These services include: asset management; budget formulation and execution; financial management; information technology; and office wide policy preparation, planning, emergency preparedness, and reporting for OIG. The Assistant Inspector General for Management is in charge of these functions.

As of March 31, 2006, OIG had 115 full-time staff. OIG's fiscal year 2006 appropriation is $16.8 million.

OIG Values

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

About Treasury

The mission of Treasury is to promote the conditions for prosperity and stability in the United States and encourage prosperity and stability in the rest of the world. Organized into bureaus and offices, Treasury encompasses a wide range of programmatic and operational activities. Currently, Treasury consists of approximately 112,500 full-time equivalent (FTE) staff. Of these FTEs, approximately 97,500 staff IRS and the other 15,000 staff Treasury's other bureaus and offices.

Treasury Bureaus

Alcohol and Tobacco Tax and Trade Bureau (TTB) is responsible for enforcing and administering laws covering the production, use, and distribution of alcohol and tobacco products. It collects alcohol, tobacco, firearms, and ammunition excise taxes totaling approximately $17 billion annually.

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

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

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

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

Internal Revenue Service (IRS) is the nation's tax collection agency and administers the Internal Revenue Code.

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

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

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

Treasury Offices

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

Office of Terrorism and Financial Intelligence (TFI) marshals the department's intelligence and enforcement functions with the twin aims of safeguarding the financial system against illicit use and combating rogue nations, terrorist facilitators, money launderers, drug kingpins, and other national security threats.

- TFI is headed by an Under Secretary and includes two major components: the **Office of Terrorist Financing and Financial Crime (TFFC)**, responsible for TFI's enforcement functions, and the **Office of Intelligence and Analysis (OIA)**, responsible for TFI's intelligence functions. An Assistant Secretary oversees each of these offices. TFFC is responsible for integrating **FinCEN**, the **Office of Foreign Assets Control (OFAC)**, and the **Treasury Executive Office of Asset Forfeiture (TEOAF)**. TFFC also works in close partnership with **IRS Criminal Investigation (IRS-CI)** to enforce laws against terrorist financing and money laundering, including the Bank Secrecy Act (BSA). OIA supports the formulation of policy and execution of Treasury authorities by providing (1) analysis and intelligence production on financial and other support networks for terrorist groups, proliferators, and other key national security threats and (2) intelligence support on the full range of economic, political, and security issues. OIA is a member of the United States Intelligence Community.

- **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. OFAC acts under presidential wartime and national emergency powers, as well as authority granted by specific legislation, to impose controls on transactions and freeze foreign assets under U.S. jurisdiction.

- **TEOAF** administers the **Treasury Forfeiture Fund (TFF).** TFF is the receipt account for the deposit of nontax forfeitures made by IRS-CI and the Department of Homeland Security, including U.S. Immigration and Customs Enforcement, U.S. Customs and Border Protection, U.S. Secret Service, and U.S. Coast Guard. Funding for participating law enforcement agencies is provided through TFF to enhance their capabilities to conduct successful investigations and forfeitures. TFF's mission is to affirmatively influence the consistent and strategic use of asset forfeiture by participating agencies to disrupt and dismantle criminal enterprises.

Office of International Affairs advises on and assists in the formulation and execution of U.S. international economic and financial policy. Responsibilities of the Office of International Affairs include developing policies and guidance in the areas of international financial, economic, monetary, trade, investment, bilateral aid, environment, debt, development, and energy programs, including U.S. participation in international financial institutions.

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

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

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

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

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

MANAGEMENT AND PERFORMANCE CHALLENGES FACING TREASURY

In accordance with the Reports Consolidation Act of 2000, the IG annually provides the Secretary of the Treasury with OIG's perspective on the most serious management and performance challenges facing the Department. Among other things, the Secretary must include these challenges in the Department's annual Performance and Accountability Report. In 2004, we identified six challenges that we believed seriously impeded the Department's ability to conduct its program responsibilities and ensure the integrity of its operations. In October 2005, we reported five challenges to the Secretary, all of which were repeat challenges. We removed one challenge previously reported—Management of Classified and Other Sensitive Information—based on the Department's actions to strengthen policies, controls, and training on the proper handling of sensitive information. However, we pointed out that continued management attention to this area is needed. We also reported that while some progress on the other five challenges has been made, we continued to believe that they represent significant risks to the Department.

The five challenges reported in October 2005 are summarized below:

- 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 affect the performance of Treasury as a whole. In particular, Treasury needs to assert strong leadership and supervision over IRS to resolve longstanding material weaknesses and system deficiencies that continue to inhibit IRS's ability to produce the timely and reliable information necessary to effectively manage IRS operations. 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. We reported that there has been little progress in corporate management during the past year, due in part to the fact that several key executive positions were vacant for a significant part of the year and were only recently filled.

- Management of Capital Investments Treasury needs to better manage large, multiyear acquisitions of systems and other capital investments. For example, the Department incurred significant cost escalations in its HR Connect system and the Treasury Building and Annex Repair and Restoration project. Another current major capital investment activity is the Department's transition from the Treasury Communication System to the Treasury Communications Enterprise (TCE). The transition to TCE has been delayed due in part to a successful protest of the bid award and the Department's changing course on how it would address the bid protest decision. During this semiannual reporting period, we completed an audit of TCE and found that this major acquisition was poorly planned, executed, and documented. A more detailed description of our audit is on page 12.

- Information Security The Department faces serious challenges in bringing its systems into compliance with information technology security policies, procedures, standards, and guidelines. A core issue continues to be the need to establish and maintain a system inventory. In fiscal year 2004, we reported that Treasury's system inventory was not accurate, complete, or consistently reported. Treasury is still in the process of gathering data to develop its system inventory. Deficiencies also exist in certification and accreditation, contractor oversight, plans of action and milestones, tracking corrective actions, training, and security configuration policies. Our 2005 independent evaluation pursuant to the Federal Information Security Management Act found that while the Department made some progress in addressing information security issues during the past year, major improvements are still needed. These matters are discussed in more detail on page 10.

- Linking Resources to Results The Department generally has not developed and incorporated managerial cost accounting into its business activities; therefore, financial resources cannot be adequately linked to operating results. This inhibits comprehensive program performance reporting and meaningful cost-benefit analyses of the Department's programs and operations. It could also result in inaccurate or incomplete cost information in evaluating competitive sourcing activities. The Department has made progress during the past year by introducing more efficiency measures in its performance reporting; however, it needs to make underlying systemic changes to integrate cost accounting with financial and performance reporting.

- Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act (BSA) Enforcement FinCEN is responsible for administering BSA, but largely relies on other Treasury and non-Treasury regulatory agencies to enforce the requirements of the act, including the enhanced terrorist financing provisions in the USA PATRIOT Act. Past audits and a series of congressional hearings have revealed regulatory gaps in either the detection of violations of BSA or its timely enforcement. The Department continued efforts to strengthen BSA administration and has taken significant enforcement actions against several financial institutions. This management challenge has been and remains a major focus of our audit program, and we had audit work ongoing at TFI, FinCEN, OFAC, OCC, and OTS at the end of this semiannual reporting period.

In addition to our audits and evaluations focused on these management challenges, where appropriate we are working with Department management in an advisory capacity to assist in its efforts to address these challenges.

FINANCIAL MANAGEMENT

Financial Audits

Consolidated Financial Statements

An Independent Public Accountant (IPA), working under OIG supervision, issued an unqualified opinion on Treasury's fiscal years 2005 and 2004 consolidated financial statements. The audit identified two reportable conditions, related to (1) financial management and reporting at IRS and (2) electronic data processing controls and information security programs over financial systems. The reportable condition related to financial management and reporting at IRS is considered a material weakness. The IPA also reported that the Department's financial management systems are not in substantial compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA). In addition, the audit identified two other instances of reportable noncompliance with laws and regulations. **(OIG-06-007)**

Also in connection with its audit of Treasury's consolidated financial statements, the IPA issued a management letter that identified the following other matters, not required to be included in its report on the financial statements, where Treasury could take action to improve the quality and efficiency of financial reporting: (1) succession planning must be implemented immediately; (2) financial reporting standards for Department component entities should be consistent; (3) the ESF budgetary accounting methodology should be clarified; (4) annual reconciliation procedures to the President's budget should be improved; (5) a formal process is needed to monitor the use of sensitive system software utilities; (6) access controls should be strengthened for the Financial Analysis and Reporting System, which includes the Treasury Information Executive Repository (TIER), the financial management system that collects monthly bureau and program office financial data, and CFO Vision, the financial management system that produces the consolidated financial statements; (7) configuration management processes over CFO Vision need improvement; (8) backup tapes for the TIER system and CFO Vision Production Servers should be protected; and (9) formal continuity of operations plan and disaster recovery procedures for TIER and CFO Vision should be established. **(OIG-06-021)**

Federal Financial Management Improvement Act of 1996

The following instances of FFMIA noncompliance were reported in connection with the audit of the Department's fiscal year 2005 consolidated financial statements. All instances relate to IRS. The current status of these FFMIA noncompliances, including progress in implementing remediation plans, will be evaluated as part of the audit of Treasury's fiscal year 2006 financial statements.

Entity	Condition	Fiscal Year First Reported for FFMIA Purposes	Type of Noncompliance
IRS	Financial management systems do not provide timely and reliable information for financial reporting and preparation of financial statements. IRS had to rely extensively on resource-intensive compensating procedures to generate reliable financial statements. IRS also lacks a subsidiary ledger for its unpaid assessments and lacks an effective audit trail from its general ledger back to subsidiary detailed records and transaction source documents for material balances such as tax revenues and tax refunds.	1997	Federal Financial Management Systems Requirements
IRS	Deficiencies identified in information security controls, resulting in increased risk of unauthorized individuals being allowed to access, alter, or abuse proprietary IRS programs and electronic data and taxpayer information.	1997	Federal Financial Management Systems Requirements
IRS	Material weaknesses related to controls over unpaid tax assessments and tax revenue and refunds.	1997	Federal Accounting Standards
IRS	Financial management system cannot routinely accumulate and report the full costs of its activities.	1998	Federal Accounting Standards
IRS	General ledger system is not supported by adequate audit trails and is not integrated with its supporting records for material balances such as tax revenues and tax refunds.	1997	Standard General Ledger

Other Financial Audits

The Chief Financial Officers (CFO) Act, as amended by the Government Management Reform Act of 1994 (GMRA), requires annual financial statement audits of Treasury and Office of Management and Budget (OMB)-designated entities. In this regard, OMB has designated IRS for annual financial statement audits. The financial statements of certain other Treasury component entities are audited pursuant to other requirements, or due to their materiality to Treasury's consolidated financial statements. The following table shows audit results for fiscal years 2005 and 2004.

Treasury Audited Financial Statements and Related Audits

	Fiscal Year 2005 Audit Results			Fiscal Year 2004 Audit Results		
Entity	**Opinion**	**Material Weakness**	**Other Reportable Conditions**	**Opinion**	**Material Weakness**	**Other Reportable Conditions**
GMRA/CFO Act Requirements						
Treasury Department	UQ	1	1	UQ	1	1
IRS (A)	UQ	4	2	UQ	4	2
Other Required Audits						
BEP	UQ	0	1	UQ	0	0
CDFI Fund	UQ	0	0	UQ	0	0
Office of DC Pensions	UQ	0	0	UQ	0	0
ESF	UQ	0	0	UQ	0	0
FFB	UQ	0	0	UQ	1	0
OCC	UQ	0	0	UQ	0	1
OTS	UQ	0	0	UQ	0	0
TFF	UQ	1	1	UQ	0	1
Mint						
Financial Statements	UQ	(B)	(B)	UQ	0	0
Custodial Gold and Silver Reserves	UQ	0	0	UQ	0	0
Material to Treasury Department Financial Statements						
BPD						
Schedule of Federal Debt (A)	UQ	0	0	UQ	0	0
Government Trust Funds	UQ	0	0	UQ	0	1
FMS						
Treasury Managed Accounts	UQ	0	0	UQ	0	0
Operating Cash of the Federal Government	UQ	0	1	UQ	0	1
Other						
FinCEN	UQ	1	0	N/A	N/A	N/A

UQ Unqualified opinion
N/A Bureau was not audited before fiscal year 2005
(A) Audited by the U.S. Government Accountability Office.
(B) Audit was in progress as of March 31, 2006.

The fiscal year 2005 IPA audits of Treasury entities, performed under our supervision, noted reportable conditions related to (1) effectiveness of computer controls at FMS pertaining to the Operating Cash of the Federal Government **(OIG-06-009)**, (2) the organizational structure of TFF not providing for effective CFO function and responsibilities **(OIG-06-023),** (3) accounting for indirect overhead expenses of the national seized property contractor by TFF **(OIG-06-023)**, (4) BEP's financial reporting of a depository account for public sales **(OIG-06-018)**, and (5) FinCEN's accounting for internal use software and accrued liabilities **(OIG-06-027).** The reportable conditions related to TFF's organizational structure and FinCEN's accounting for internal use software and accrued liabilities are considered material weaknesses. We also issued management letters in connection with the IPA fiscal year 2005 audits of the FFB **(OIG-06-020)**, TFF **(OIG-06-024),** FMS' Treasury Managed Accounts **(OIG-06-006**), and FMS' Schedule of the Non-Entity Government-Wide Cash **(OIG-06-014**).

Attestation Engagement

The attestation examination did not identify any deficiencies in internal control or instances of reportable noncompliance with laws and regulations.

An IPA, working under OIG supervision, issued an unqualified opinion that the assertions pertaining to the BPD Trust Fund Management Branch (TFMB) Schedules for Selected Trust Funds for the Period October 1, 2004, to September 30, 2005, are fairly stated. These schedules relate to the functions performed by TFMB as custodian of the following monies and investments: Federal Supplementary Medical Insurance Trust Fund, Federal Hospital Insurance Trust Fund, Highway Trust Fund, Airport and Airway Trust Fund, Hazardous Substance Superfund Trust Fund, Leaking Underground Storage Tank Trust Fund, Oil Spill Liability Trust Fund, Harbor Maintenance Trust Fund, Inland Waterways Trust Fund, and the South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund. The attestation examination did not identify any deficiencies in internal control or instances of reportable noncompliance with laws and regulations. **(OIG-06-004)**

INFORMATION TECHNOLOGY

Evaluation of Treasury's FISMA Implementation for Fiscal Year 2005

… we believe that despite some progress, Treasury has significant deficiencies that constitute substantial noncompliance with FISMA.

The Federal Information Security Management Act 0f 2002 (FISMA) requires an annual evaluation of Treasury's information security program and practices. An IPA, under OIG supervision, performed the fiscal year 2005 evaluation of Treasury's non-national security systems, except for those of IRS. TIGTA performed the FISMA evaluation for the IRS systems. Based on the results of these evaluations, we believe that despite some progress, Treasury has significant deficiencies that constitute substantial noncompliance with FISMA. The most important of these deficiencies follow:

- In 2004, the Treasury Chief Information Officer's (CIO) system inventory was found to be inaccurate and incomplete. In addition, the CIO's office had not assessed the consistency of the methodologies used by certain bureaus to re-categorize their inventories, nor had it assessed the impact of the inventory changes on the remainder of Treasury. In September 2005, the Treasury CIO issued a memo to bureau CIOs containing guidance on developing a FISMA inventory and a data call for an updated system inventory, including national security systems. The memo required the bureaus to update their inventories by October 10, 2005. Because the results of this effort were not available as of the issuance of our report, we were unable to assess the accuracy, completeness, and consistency of the Treasury system inventory.

- Treasury was not fully in compliance with OMB's requirement to include all systems in the FISMA report and to categorize these systems according to certain criteria. In particular, we noted that the bureaus had inconsistent treatments for nonmajor applications. In many cases, nonmajor applications were not reported or were reported as part of a general support system or a major application.

- IRS continues to have significant deficiencies in its information security program and practices. In its fiscal year 2005 FISMA evaluation for IRS, TIGTA reported concerns in the following areas: system inventory categorization, certification and accreditation, continuous monitoring of systems, tracking corrective actions, training employees with key security responsibilities, contractor oversight, and security configuration policies.

- Other bureaus within Treasury also have significant deficiencies in their information security program and practices. The IPA reported concerns in the following areas at various bureaus: certification and accreditation, training, plans of actions and milestones, security self-assessments, and system inventory categorization. **(OIG-CA-06-001)**

A Treasury Communications System Disaster Recovery Exercise Was Not Successful

Treasury was unable to successfully transfer and sustain the processing of TCS services at the backup facility for all of the Treasury bureaus and the related component agencies.

The Treasury Communications System (TCS) is a nationwide data network whose mission is to provide best-cost, secure, robust, and reliable telecommunications services to Treasury and its associated bureaus and business partners. We conducted a follow-up audit to determine if Treasury could successfully perform its disaster recovery capability for TCS operations. As part of the audit, we observed a TCS disaster recovery exercise conducted in August 2005 to determine if deficiencies identified in prior audits were corrected.

For the observed exercise, Treasury attempted to address the following two recommendations from our May 2005 report entitled *INFORMATION TECHNOLOGY: The Treasury Communications System's Disaster Recovery Capability Has Improved* (OIG-05-038): (1) Treasury should conduct an exercise during a peak utilization period including all components requiring connection to TCS, and (2) Treasury should establish a prioritization plan that provides guidance for shutting down low-priority bureaus or systems. Although the exercise did include all of the components, it was unsuccessful. Treasury was unable to successfully transfer and sustain the processing of TCS services at the backup facility for all of the Treasury bureaus and the related component agencies. In addition, the prioritization plan developed was still in draft. As a result, we reaffirmed these two recommendations. Based on our work for the August 2005 exercise, we further recommended that Treasury (1) determine the cause(s) of the inability to complete the exercise and implement necessary corrections or upgrades to ensure that the backup facility will operate adequately during future exercises or during actual disasters and (2) establish a policy that identifies how a system overload at the backup facility would be managed over longer periods of time.

Management agreed with our recommendations and established corrective measures with target completion dates ranging from September 2005 through September 2006. **(OIG-06-001)**

PROGRAMS AND OPERATIONS

Treasury Communications Enterprise Procurement Was Poorly Planned, Executed, and Documented

We determined Treasury's poor planning and execution of the TCE procurement led to delays and increased costs.

Treasury's current telecommunication services are being provided through TCS. Treasury issued a request for proposals to replace TCS. The new telecommunications services procurement, Treasury Communications Enterprise (TCE), was estimated to be potentially worth $1 billion over its expected 10-year life.

We performed an audit to determine whether Treasury's business case for the TCE procurement was based on appropriate and supportable assumptions and cost/benefit estimates. In December 2004, Treasury awarded the TCE contract to AT&T. The award was subsequently protested and the protest was sustained by the U.S. Government Accountability Office (GAO). In response, Treasury informed GAO in May 2005 that the Department would terminate the TCE contract with AT&T and acquire TCE services through GSA contracting vehicles.

Since this initial response, Treasury reversed its course. In short, Treasury informed GAO that it now fully intends to acquire its wide-area network requirements through the TCE solicitation pursuant to the recommendations in the GAO protest decision. Treasury amended and reopened the TCE solicitation in October 2005. Extended several times, the deadline for bids was December 8, 2005.

We determined that Treasury's poor planning and execution of the TCE procurement led to delays and increased costs. Specifically, we found that Treasury's consideration of GSA contract vehicles, both at the outset and following the TCE bid protest decision, was incomplete and that the business case documentation provided by Treasury, both during and after completion of our fieldwork, was deficient. Further, Treasury was not able to provide an adequate business case supporting this major acquisition. The contract files for the TCE project also lacked evidence of senior management approval of the TCE acquisition plan and failed to adequately detail how Treasury arrived at its $1 billion cost estimate for TCE.

We recommended that Treasury consider all options before awarding the TCE contract, including the option of canceling the solicitation. We also recommended that if Treasury awards a contract under the TCE solicitation that provides for option periods, the contracting officer should conduct a rigorous, defendable, and documented analysis before the options are exercised. Furthermore, we recommended that for future major procurements, all relevant planning and decision documents be maintained in a manner to be readily available for management reference and review as well as audit.

Management concurred with the recommendations and has undertaken actions to assemble a cohesive and complete set of TCE-related project management files in a single repository. Although the supporting documentation did not reflect senior management decisions to the extent necessary for management review and audit, management's response asserted that the TCE contract files complied with all requirements and had the full support of senior officials. **(OIG-06-028)**

As of the end of this semiannual reporting period, the Department had not yet awarded a contract under the amended TCE solicitation.

BEP Should Ensure That Its Currency Billing Rates Include All Costs

…BEP's practice of using excess working capital to reduce currency billing rates should be revisited.

BEP operations are financed through a revolving fund that is reimbursed from product sales. BEP is also authorized to include in the prices charged for products an amount sufficient to fund future capital investment and to meet working capital requirements, thus eliminating the need for appropriations from Congress. Sales of currency to the Federal Reserve System represented more than 90 percent of BEP's revenue, with sales of postage stamps to the U.S. Postal Service representing the majority of the balance. During this semiannual period, we completed an audit to determine the adequacy of BEP's pricing methodology for currency to (1) cover all costs of manufacturing products and services performed, (2) provide for acquisition of capital equipment, and (3) provide for working capital needs.

Our review noted that BEP was accumulating working capital in excess of its needs. Rather than return the excess as a miscellaneous receipt to the general fund of the Treasury, BEP used the excess to (1) reduce currency billing rates and (2) issue refunds directly to the Federal Reserve. We concluded that BEP's practice of using excess working capital to reduce currency billing rates should be revisited. There was a general lack of explanation regarding the underlying rationale for this practice and the methodology used. We recommended that the BEP Director ensure that excess working capital is returned to the Treasury general fund and better explain BEP's rationale and methodology for setting currency rates in its annual report.

We also found that the full cost of BEP's currency operations is not reflected in the currency billing rates. The rates did not include post-retirement benefit costs paid by the appropriated funds of the Office of Personnel Management (OPM). These costs amounted to $9.8 million for fiscal year 2004. We recommended that currency billing rates consider the full cost of operations, including imputed costs, such as those for employee benefits paid by OPM. To the extent the currency rates result in excess monies to the BEP revolving fund, these should be deposited to the Treasury general fund. Over a 3-year period, we projected that implementation of this recommendation would result in $29.4 million in funds put to better use.

In addition, BEP's currency billing process lacks written policies and procedures as well as documentation of sufficient internal controls over the establishment of billing rates, and the funding of capital projects in the calculation of working capital.

In its response, BEP management stated that it would continue its practice to reduce currency rates for excess working capital instead of returning the excess directly to the Treasury general fund but would include additional discussion related to its pricing methodology in future annual reports. BEP management did not concur with our recommendation to include post-retirement benefit costs paid by OPM as part of the billing rate. We believe the recommendation should be implemented. We are currently working with the Department to resolve this matter in accordance with Treasury's audit resolution process. BEP management concurred with our other recommendations. **(OIG-06-010)**

Control Issues Identified at BEP's Western Currency Facility

… WCF did not have a contingency plan for destroying mutilated currency when its destruction equipment was not functioning.

We issued an interim audit report as part of a broader, ongoing audit of internal controls at BEP's Western Currency Facility (WCF), located in Fort Worth, Texas. In this report, we identified two internal control issues. First, we found that WCF did not have a contingency plan for destroying mutilated currency when its destruction equipment was not functioning. As a result, mutilated currency designated for destruction was accumulating until the destruction equipment could be replaced. We recommended that BEP develop and implement a contingency plan for this situation.

Second, we found that mutilated currency was being stored in clear tanks and later transferred to cardboard boxes. While these transfers were made under supervision, providing some measure of control, we believe that once the mutilated currency was verified, it should not have been rehandled without another verification process. We recommended that BEP ensure proper accountability was maintained and require that the stored mutilated currency be verified before it is destroyed.

In its response, BEP management concurred with our recommendation to develop a contingency plan. For the second internal control issue, management stated that BEP had verified 36 percent of the mutilated currency straps and then destroyed all the straps. **(OIG-06-015)**

Treasury Activities for Iraq Reconstruction

…Treasury provides technical assistance and support to modernize the Iraqi banking system and establish a nationwide payment system among local banks and the central bank….

We conducted an audit at Treasury's Office of Technical Assistance (OTA) to (1) identify Treasury activities and funding involving Iraq relief and reconstruction and (2) determine the completeness and accuracy of OTA's quarterly financial reporting to the Special Inspector General for Iraq Reconstruction (SIGIR) regarding these activities. We found that (1) Treasury provides technical assistance and support to modernize the Iraqi banking system and establish a nationwide payment system among local banks and the central bank and (2) the financial information provided by OTA to SIGIR was accurate. As of February 28, 2006, Treasury had obligated $32.9 million out of $35.1 million apportioned to the Iraqi reconstruction programs and disbursed $26.3 million. **(OIG-06-029)**

Former BEP Employee Indicted and Arrested for Workers' Compensation Fraud

The investigation determined that the former employee, who has been receiving workers' compensation since approximately March 1992, submitted fraudulent documentation…in order to…receive over $270,000 in workers' compensation.

Treasury OIG, in conjunction with the Department of Labor (DOL) OIG, the Federal Bureau of Investigation (FBI), and the United States Attorney's Office (USAO) for the District of Columbia, conducted a joint investigation regarding the fraudulent receipt of workers' compensation by a former BEP employee.

The investigation determined that the former employee, who has been receiving workers' compensation since approximately March 1992, submitted fraudulent documentation executed in the name of fictitious doctors in support of his claim. This documentation included attending physician reports, medical narratives, interim medical reports, reemployment reports as well as false annual certifications and other false statements to the DOL Office of Workers' Compensation Program in order to fraudulently receive over $270,000 in workers' compensation.

On February 23, 2006, the former employee was indicted on three counts of violating 18 U.S.C. 1920 (false statements to obtain federal employees' compensation), three counts of violating 18 U.S.C. 1343 (wire fraud), and one count of violating 18 U.S.C. 1001 (false statements). Pursuant to an arrest warrant issued by the United States District Court for the District of Columbia, the former BEP employee was arrested on February 24, 2006. This case is pending further judicial action.

Secretary of The Treasury Cleared of Conflict of Interest

At the request of the Secretary of the Treasury, OIG conducted an investigation of a possible violation by the Secretary of 18 U.S.C. 208 (conflict of interest). The potential conflict of interest concerned the purchase and subsequent retention of approximately $10.8 million worth of government sponsored enterprises (GSE) debt instruments of the three housing GSEs – the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Federal Home Loan Banks – while he was acting in his official capacity as Secretary of the Treasury, which would be prohibited by 31 U.S.C. § 329(a)(1)(D).

The potential conflict concerned the purchase and subsequent retention of approximately $10.8 million of government sponsored enterprises (GSE) debt instruments of the three housing GSEs….

The investigation determined that prior to his being sworn in as Secretary of the Treasury, the Secretary purchased, through his investment broker, what he believed to be U.S. Treasury securities when, in fact, he had purchased GSEs. No evidence was developed which suggested that the Secretary knowingly held GSEs while serving as Secretary of the Treasury.

The results of the investigation were presented to the U.S. Department of Justice (DOJ), Public Integrity Section, Criminal Division, which concluded that federal criminal prosecution was not warranted. Similarly, the DOJ Civil Division also declined to seek any civil remedies.

Former OCC Examiner-in-Charge Cleared of Wrongdoing

The investigation disclosed no evidence to suggest that during pre-employment activities with Riggs Bank, the EIC received anything of value from Riggs Bank….

At the request of the Chairman of the Senate Committee on Banking, Housing and Urban Affairs and the Chairwoman of the Oversight and Investigations Subcommittee of the House Committee on Financial Services, OIG conducted a joint investigation with the FBI, under the direction of the USAO for the District of Columbia, into the activities of the former OCC Examiner-in-Charge (EIC), and then Vice President, of Riggs Bank.

The investigation disclosed no evidence to suggest that during pre-employment activities with Riggs Bank, the EIC received anything of value from Riggs Bank that would have resulted in a violation of 18 U.S.C. 208 (acts affecting personal financial interest), 18 U.S.C. 209 (supplementation of government salary), or 18 U.S.C. 213 (acceptance of a gratuity by a bank examiner); nor was any evidence developed to suggest any post-employment violation by the EIC (i.e., an attempt to influence an OCC proceeding or action) that would have resulted in a violation of 18 U.S.C. 207 (restrictions on former officers, employees and elected officials of the executive and legislative branches). Prosecution was declined by the USAO. As a consequence of the Senate's inquiry, Congress subsequently passed legislation reforming post employment restrictions on bank examiners.

FinCEN Employee Resigns Following Proposed Suspension for Installing Sexually Explicit Software Programs On Government Computer

An OIG investigation disclosed that a FinCEN employee downloaded and installed sexually explicit software programs onto his government computer as well as viewed pornographic sites from his computer. Following proposed administrative action of suspension, the employee resigned effective October 5, 2005.

OFAC Employee Suspended 14 Days for Viewing Pornography on Government Computer

An OIG investigation determined that an OFAC employee verbally harassed and intimidated a co-worker, misused a government issued computer by viewing and sending sexually explicit images, and misused government time by willfully spending a significant portion of the work day engaged in non-work-related activities. The employee received a 14-day suspension.

FinCEN Employee Suspended 14 Days for Viewing Sexually Explicit Images on Government Computer

An OIG investigation determined that during August and September 2004, a FinCEN employee viewed, downloaded, and saved sexually explicit photographs onto a FinCEN network computer. FinCEN's computer network maintains highly sensitive financial information pertaining to BSA. A forensic analysis of the computer's hard drive disclosed over 80 e-mails with sexual innuendos and over 600 sexually-explicit images. The bureau proposed a 30-day suspension for the employee, which was reduced to 14 days following the employee's oral response to the proposal.

…a FinCEN employee viewed, downloaded, and saved sexually explicit photographs onto a FinCEN network computer.

BEP Supervisory Police Officer Misused Government Computer

An OIG investigation determined that a BEP supervisory police officer utilized his assigned government computer to access pornographic websites on an almost daily basis and transmit pornographic e-mails while on duty. A Report of Investigation was recently sent to BEP for purposes of taking appropriate administrative action.

FinCEN Program Manager Misuses Government Travel Card

An OIG investigation disclosed that a FinCEN program manager used a government-issued travel card for personal charges of $2,635 between April and August 2004. The personal charges were reflected in the employee's billing statements, and were paid. FinCEN has proposed that the employee receive a 10-day suspension for misusing the travel card.

BEP Specimen Notes and Engravers' Proofs Recovered

Upon receiving information from the BEP Office of Security, OIG conducted an investigation regarding misappropriated BEP specimen notes and engravers' proofs. The investigation disclosed that two individuals were in possession of 13 individual specimens and proofs. These specimens and proofs are the exclusive property of the U.S. government and are not intended for public use. The individuals were attempting to sell these items for profit over the internet. The notes and proofs were seized by the U.S. Secret Service as possible contraband and were subsequently turned over to BEP through our office for entry into BEP's historical records vault.

The individuals were attempting to sell these items for profit over the internet.

The following are updated cases of investigative activities from previous semiannual reports.

Contractors Agree To Settle False Claim Allegations

As previously reported, the DOJ Civil Division and the USAO for the Central District of California headed an investigation, assisted by various agencies including the Treasury OIG, into allegations that PricewaterhouseCoopers LLP (PwC) submitted false claims to the government relating to travel reimbursements. In July 2005, PwC agreed to a financial settlement of $41.9 million with the DOJ Civil Division. The settlement share for Treasury was estimated at approximately $567,000.

Update: Following the PwC settlement, the contractors Ernst & Young (E&Y), Bearing Point, Inc., (Bearing Point), KPMG, and Booz Allen Hamilton also agreed to enter into settlement agreements relating to false claims for travel reimbursements. In December 2005, the firms agreed to the following financial settlements with the DOJ Civil Division: E&Y for $4,471,980; Bearing Point for $15,000,000; KPMG for $2,770,000; and Booz Allen Hamilton for $3,365,664. According to the Defense Contract Audit Agency, the estimated Treasury portion of the settlement is $380,523 from Booz Allen Hamilton; $2,460 from E&Y; $1,130 from KPMG; and $682 from Bearing Point.

BEP Employees Misused Government Computers

As reported in the last semiannual report, an OIG investigation determined that while on duty, 12 employees within one section of BEP viewed, sent, and/or saved sexually explicit or inappropriate images on a government computer. It was also determined that managers within the section knew and participated in the viewing, sending, and saving of sexually explicit material on government computers, and initially withheld this information from OIG investigators. As we reported, BEP's Labor Management Relations Division had recommended that these employees receive suspensions varying from 1 to 14 days and/or oral counseling.

Update: All 12 employees received suspensions and/or oral counseling. Specifically, 1 manager received a 14-day suspension, 6 managers received 10-day suspensions, 1 employee received a 5-day suspension, 1 employee received a 1-day suspension, and 3 employees received oral counseling.

DC Resident Sentenced For Thefts from Treasury and Other Tenants in an Office Building

As reported in the last semiannual report, District of Columbia resident Ameenah Franks was arrested and pled guilty as a result of an OIG investigation into thefts from Treasury and other tenants at an office building in Washington, DC, in September 2004.

Update: On October 20, 2005, Franks was sentenced to 36 months incarceration, 36 months of probation and was fined a $100 special assessment. She was also ordered to undergo drug testing and treatment, undergo psychiatric evaluation and treatment, and attend anger management counseling.

Other OIG Accomplishments and Activities

Treasury OIG Hosts International Delegations

In March 2006, Inspector General Damelin and OIG executives met separately with governmental and other representatives from Turkmenistan and Pakistan. We discussed the mission of U.S. government Inspectors General and the Treasury OIG. Visiting from **Turkmenistan** were Messrs. Sapargeldi Annarejepov, Head of Analysis and Risk Management Department, Central Bank of Turkmenistan; Annamuhamed Gochiyev, Head of Accountability Department, Ministry of Economics and Finances; and Pelvan Taganov. Director, Bureau of Technical Assistance Coordination, Cabinet of Ministers of Turkmenistan. Visiting from **Pakistan** were: Messrs. Aamir Aziz Khan, Partner, Aziz Law Associates; Ghulam Akbar Laghari, District Officer, Revenue, District Dadu; Amjad Mahmood, Additional Director, Restructuring, National Accountability Bureau, Ministry of Finance; Mohammad Zahid, Deputy Director (Rehabilitation), Directorate of Lands and Rehabilitation, Capital Development Authority, Islamabad. The meetings were arranged by the Department of State.

IG Damelin (center front) and OIG staff meet with Turkmenistan government officials to discuss the OIG mission.

Treasury OIG Lends Assistance in Response to Hurricane Katrina

Hurricane Katrina caused catastrophic damage along the coastlines of Louisiana, Mississippi, and Alabama. The Federal Emergency Management Agency (FEMA), along with a cadre of Inspector General Offices responded to combat fraud and other crimes related to this natural disaster. In this regard, Treasury OIG participated in the Katrina Fraud Hotline operation by assigning four of our agents to answer calls over a 4-month period. Examples of hotline call topics included the following:

- Use of incorrect addresses and social security numbers by individuals to obtain FEMA benefits under fraudulent pretenses

- Collection of donations or benefits from nonprofit organizations by individuals using fraudulent addresses and false or fictitious personal data

- Erroneously alleging/claiming personal property damage post storm that, in all likelihood, existed prior to Hurricane Katrina.

Dates of Katrina Fraud Hotline Coverage	Referred Cases	Other	Total Calls Handled
10/30/2005 – 2/17/2006	427	414	**841**

OIG Launches Proactive Initiative to Combat Fraud Associated with FECA

A longtime area of concern in the federal government is the potential for fraud associated with benefits paid under the Federal Employees' Compensation Act (FECA). To illustrate the size of the FECA program, in 2000 $2.1 billion in benefits were paid under the direction of DOL's Office of Workers' Compensation, the agency charged with administering the FECA program. At the same time, the Office of Workers' Compensation initiated 174,000 new claims under the FECA program. In fiscal year 2005, Treasury paid $10 million in FECA-related claims.

OIG initiated a proactive project, which is being conducted jointly by OI and OA, in an effort to identify instances of fraud in the FECA program within Treasury. This project is part of a much larger initiative throughout the executive branch. Treasury OIG is a member of the Federal Workers' Compensation Forum hosted by the Postal Service OIG and participates in the DOL FECA working group.

OI Continues Its Participation in Multi-Jurisdiction Federal Task Forces to Combat Fraud

Over the past year, OIG has continued to work closely with the USAOs in Washington, DC, Richmond, VA, and Baltimore, MD, to coordinate and integrate the ongoing efforts of various agencies and task forces throughout the United States to fight the emerging problem of fraud and identity theft crimes, which threatens the nation's financial infrastructure and the general public. By functioning as a repository of expertise and intelligence, the task forces will improve the speed, quality, and effectiveness of law enforcement's response to these types of crimes.

Baltimore Area Metropolitan Fraud Task Force

OIG, participating as member of the Baltimore Area Metropolitan Fraud Task Force, successfully investigated a complex bank fraud and aggravated identity theft case, resulting in a 10-count indictment on one individual. The defendant in this case initiated a scheme to defraud the Bank of America (BOA) through the unauthorized use and theft of the personal information of numerous BOA account holders in California from September 2004 through March 2005. The indictment alleges that the defendant obtained account holders' bank account numbers and balances, names and addresses, and driver's license numbers. Using that stolen information, it is alleged that the defendant manufactured identification documents bearing the names and addresses of BOA account holders but portraying the photographs of the defendant and his associates. The defendant is alleged to have obtained approximately $274,000 in stolen proceeds from numerous branches of BOA located in Maryland, Virginia, North Carolina, and Florida.

IGATI Curriculum Review Board Update

The Inspectors General Auditor Training Institute (IGATI) was created by the President's Council on Integrity and Efficiency (PCIE) in December 1990 as a reimbursable program within Treasury OIG. IGATI provides training to enhance the skills, abilities, and knowledge of auditors in the federal OIG community. Under the leadership of Assistant Inspector General for Audit Marla Freedman, the IGATI Curriculum Review Board (Board) was formed in fiscal year 2005 to assist the PCIE Audit Committee in achieving its strategic goal to identify and provide useful, relevant, and cost-effective auditor training.

During this semiannual reporting period, the Board provided the PCIE Audit Committee with a summary report of the seven IGATI courses reviewed during fiscal year 2005, about a fourth of IGATI's course offerings. In brief, the Board reported that 5 of the reviewed courses provided valuable training and, with certain modifications, should continue to be offered. For the other 2 reviewed courses, the Board reported that significant modifications to the courses were needed if they are to be useful to federal auditors. The IGATI Director generally agreed with the Board's recommendations.

Effective March 7, 2006, IGATI, the Inspector General Criminal Investigator Academy, and the Inspector General Management Institute consolidated to become the Inspector General Institute (IG Institute). Under this new structure, IGATI is now known as the IG Institute School of Audit and Inspections. The Board met in January 2006 to finalize the schedule for courses to be reviewed during fiscal year 2006. In total, 20 courses were targeted for review.

Participating in the course reviews in fiscal year 2005 were the OIGs of the Departments of Defense, Education, Interior, and Commerce; U.S. Agency for International Development; GSA; Social Security Administration; and Environmental Protection Agency. These OIGs plan to participate again in fiscal year 2006, along with the Naval Audit Service and the OIGs of the Departments of Commerce and Housing and Urban Development.

OIG Combined Federal Campaign Efforts Lauded by the Department and CFC Executives

OIG's Combined Federal Campaign (CFC) efforts were lauded by Treasury departmental representatives and CFC executives. Led by OI, key workers within OIG worked diligently to ensure that the 2005 campaign was a success. OIG far exceeded its goals for individual participation and dollars collected. In recognition, Treasury OIG received a number of awards, including the prestigious Secretary's Cup.

Statistical Summary

Summary of OIG Activity

For the 12 Months Ended March 31, 2006 (Dollars in Thousands)

OIG Activity	4/1/2005 – 9/30/2005	10/01/05-03/31/06	Period Totals
Office of Counsel Activities			
Legislation and Regulation Reviews	7	3	10
Instances Where Information was Refused	0	0	0
Office of Audit Activities			
Reports Issued	18	31	49
Audit Reports with Recommendations Pending Management Decision	0	0	0
Significant Revised Management Decisions	0	0	0
Management Decision With Which the IG Disagrees	0	0	0
Monetary Benefits (Audit)			
a) Questioned Costs	$2,843	$0	$2,843
b) Funds Put to Better Use	$0	$0	$0
c) Revenue Enhancements	$0	$29,400	$29,400
Total Monetary Benefits	$2,843	$29,400	$32,243
Office of Investigations Activities			
Reports of Investigation	14	16	30
Preliminary Inquiry Closing Memorandums	18	62	80
Number of OIG Hotline Calls Processed	279	149	428
Allegations – Total Number Processed	182	210	392
Referrals Made During the Period	101	123	224
Cases Open at Start of Period	150	183	150 Start
Cases Opened in the Reporting Period	40	38	78
Cases Closed in the Reporting Period	7	45	52
Cases Open at the End of the Period	183	176	176 End

Statistical Summary

OIG Activity	4/1/2005 – 9/30/2005	10/01/05-03/31/06	Period Totals
Inquiries Open at Start of Period	59	76	59 Start
Inquiries Opened in the Reporting Period	43	34	77
Inquiries Closed in the Reporting Period	26	46	72
Inquiries Open at the End of the Period	76	64	64 End
Judicial Actions			
Cases Referred for Prosecution	53*	34	87
Cases Accepted for Prosecution	32	10	42
Arrests	26	13	39
Search Warrants	10*	18	28
Indictments/Information	20	1	21
Pleas	9	2	11
Conviction by Trial	1	0	1
Imprisonment (Months)	26	83	109
Home Detention (Months)	0	0	0
Probation (Months)	204	72	276
Community Service (Hours)	1040	0	1040
Administrative Sanctions			
Adverse Personnel Actions	17	5	22
Contractor Suspensions/Debarments	0	0	0
Individual Suspensions/Debarments	2	1	3
Oversight Activities			
Quality Assessment Reviews	1	0	1
Management Implication Reports	0	0	0
Fraud and Integrity Briefings	7	11	18
Monetary Benefits			
Fines	$2**	$10	$12
Restitution	$92	$188	$281
Recoveries	$39**	$0	$39
Settlements	$569	$385	$953
Savings/Cost Avoidance	$0	$0	$0
Actual Losses Identified	$744	$0	$744

*Number of cases referred for prosecution and executed search warrants amended from the last reporting period, reflecting increase in data counts, due to receipt after reporting deadline.

**Monetary amounts for fines and recoveries amended from last reporting period, which erroneously included amounts reflecting potential losses rather than actual damages and civil penalties. Both corrected fields are for the same case, which is pending final resolution.

Significant Unimplemented Recommendations

For Reports Issued Prior to March 31, 2006

Number	Date	Report Title and Recommendation Summary
OIG-02-115	9/02	*INFORMATION TECHNOLOGY: Treasury's Planning, Management, and Implementation of a Smart Card and Public Key Infrastructure (PKI) Needs Improvement* The CIO should ensure that Treasury (1) establishes a Treasury program to effectively manage smart cards and PKI; (2) develops a program plan defining roles and responsibilities, and milestones and resources needed for smart card and PKI initiatives; (3) plans for adequate staffing of employees to support smart card and PKI infrastructure as enterprise architecture; (4) uses another hard token as an interim security measure along with smart cards to provide strong two-factor authentication for digital certificates; and (5) establishes appropriate record management controls for general, sensitive, and secret information related to the Treasury smart card and PKI infrastructure. (5 recommendations)
OIG-02-122	9/02	*Community Development Financial Institution Fund Post Award Administration Process* The CDFI Fund Director should initiate action to amend the OMB Circular A-133 Compliance Supplement to reflect revised accountability requirements for financial assistance funds. (1 recommendation)
OIG-03-007	10/02	*INFORMATION TECHNOLOGY: Controls Over FinCEN's Law Enforcement Data Need Improvement* The FinCEN Director should establish a formal process for approving, transmitting, and maintaining system access authorization forms to reduce the risks associated with granting excessive or unauthorized access privileges, alterations, misunderstandings, and mishandled forms. (1 recommendation)
OIG-03-038	12/02	*PROTECTING THE PUBLIC: Treasury Departmental Offices' Control Over Computers Needs To Be Improved* DO should re-evaluate the method for reporting lost or stolen computers to ensure all losses are reported to the proper authorities. This should include periodic reconciliations between the CIO, Treasury Office of Security and Critical Infrastructure Protection, and OIG OI. (1 recommendation)
OIG-04-003	11/03	*Audit of the Department of the Treasury's Fiscal Years 2003 and 2002 Financial Statement* The Assistant Secretary for Management and Chief Financial Officer should oversee efforts to ensure effective financial management structures are established at TTB and International Assistance Programs. (1 recommendation)

OIG-04-022	2/04	*Management Letter for Fiscal Year 2003 Audit of the Department of the Treasury Financial Statements* The Department should: research and determine whether component reporting entities reporting on a basis other than federal generally accepted accounting principles (GAAP) are required to do so by statute; that all reporting entities within the Department prepare their financial statements in accordance with federal GAAP; and entities that are statutorily required to report on a basis of accounting other than federal GAAP provide supplemental information in their annual reports that meets the reporting requirements of federal GAAP, to include a Management Discussion and Analysis. (1 recommendation)
OIG-04-035	6/04	*GENERAL MANAGEMENT: Controls Over Security Need to be Improved at the Bureau of Engraving and Printing* The BEP Director should complete plans for BEP's Integrated Security Systems and install its security upgrade systems expeditiously. (1 recommendation)
OIG-05-002	10/04	*MANUFACTURING OPERATIONS: Mint's Standard A-76 Competition Study for the Preparation of Ready-to-Coin Planchets Is Delayed and Requires Significant Action to Complete* The Mint Director should ensure that the required justification is prepared and the determination to provide or not provide Government Furnished Property is approved by the Assistant Secretary of Management and Chief Financial Officer. This should be accomplished before any future drafts of the performance work statement and the final solicitation are published. (1 recommendation)
OIG-05-017	12/04	*Management Letter for Fiscal Year 2004 Audit of the Department of the Treasury's Financial Statements* The Department should implement analytical review procedures as an integral part of interim financial reporting at the individual bureau level as well as the Department level. The results of these analytical reviews should be documented in brief narratives accompanying the financial reports. (1 recommendation)
OIG-05-032	3/05	*TERRORIST FINANCING/MONEY LAUNDERING: Office of Terrorist Financing and Financial Crimes Needs to Refine Measures for Its Performance Budget and Implement a Data Collection and Reporting System* The Assistant Secretary for Terrorist Financing should ensure that TFFC (1) implements the recently proposed performance measures, adjusted as appropriate based on planned discussions with OMB, and include the measures in the Department's fiscal year 2006 budget submission; (2) implements routine data collection and reporting procedures to help manage its operation and report on its performance measures; (3) creates a mechanism that will allow the office to regularly gather reliable data for organizations outside of Treasury; and (4) develops methods to assess the

		completeness and reliability of its performance measurement data. (4 recommendations)
OIG-05-033	3/05	*FinCEN: Heightened Management Attention Needed Over Longstanding SAR Data Quality Problems* FinCEN should assess the need to identify the specific data fields associated with 15,000 duplicate suspicious activity reports (SAR) and advise law enforcement so that they may better gauge the potential impact of duplicates. Duplicate SARs involving certain crimes may be of more importance to certain law enforcement agencies given their differing authorities over certain crimes such as credit card fraud versus mortgage loan fraud. (1 recommendation)
OIG-05-034	3/05	*TERRORIST FINANCING/MONEY LAUNDERING: Additional Outreach and System Enhancements Are Needed to Encourage Greater Use of FinCEN's BSA E-Filing* FinCEN should assess the feasibility and advisability of mandating electronic filing of BSA reports, including analyzing the types of filers for which mandating electronic filing would be most appropriate and practical. Based on this analysis, FinCEN should establish a timeframe for amending, as appropriate, corresponding BSA regulations. (1 recommendation)

This list of OIG audit reports with unimplemented recommendations is based on information in Treasury's automated audit recommendation tracking system, which is maintained by Treasury management officials.

Summary of Instances Where Information Was Refused
October 1, 2005, through March 31, 2006

There were no such instances during this period.

Statistical Summary

Listing of Audit and Evaluation Reports Issued
October 1, 2005, through March 31, 2006

Financial Audits and Attestation Engagements

Management Letter for Fiscal Year 2004 Audit of the Federal Financing Bank's Financial Statements, OIG-06-002, 10/4/05

United States Mint's Schedule of Custodial Gold and Silver Reserves as of September 30, 2005 and 2004, OIG-06-003, 10/31/05

FINANCIAL MANAGEMENT: Report on the Bureau of the Public Debt Trust Fund Management Branch Schedules for Selected Trust Funds as of and for the Year Ended September 30, 2005, OIG-06-004, 10/4/05

Audit of the Financial Management Service's Fiscal Years 2005 and 2004 Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue, OIG-06-005, 11/14/05

Management Letter for Fiscal Year 2005 Audit of the Financial Management Service's Schedule of Non-Entity Assets, Non-Entity Costs and Custodial Revenue, OIG-06-006, 11/14/05

Audit of the Department of the Treasury's Fiscal Years 2005 and 2004 Financial Statements, OIG-06-007, 11/15/05

Audit of the Department of the Treasury's Special-Purpose Financial Statements for Fiscal Years 2005 and 2004, OIG-06-008, 11/18/05

Audit of the Financial Management Service's Fiscal Years 2005 and 2004 Schedules of Non-Entity Government-Wide Cash, OIG-06-009, 11/30/05

Agreed-Upon Procedures for the Department of the Treasury's Fiscal Year 2005 Intragovernmental Activity and Balances, OIG-06-011, 12/2/2005

Audit of the Exchange Stabilization Fund's Fiscal Years 2005 and 2004 Financial Statements, OIG-06-012, 12/5/05

Audit of the Office of D.C. Pensions' Fiscal Years 2005 and 2004 Financial Statements, OIG-06-013, 12/7/05

Management Letter for Fiscal Year 2005 Audit of the Financial Management Service's Schedule of Non-Entity Government-Wide Cash, OIG-06-014, 12/8/05, LOU

Audit of the Office of Thrift Supervision's Fiscal Years 2005 and 2004 Financial Statements, OIG-06-016, 12/13/05

Audit of the Office of the Comptroller of the Currency's Fiscal Years 2005 and 2004 Financial Statements, OIG-06-017, 12/15/05

Audit of the Bureau of Engraving and Printing's Fiscal Years 2005 and 2004 Financial Statements, OIG-06-018, 12/20/05

Audit of the Community Development Financial Institutions Fund's Fiscal Years 2005 and 2004 Financial Statements, OIG-06-019, 12/21/05

Management Letter for Fiscal Year 2005 Audit of the Federal Financing Bank's Financial Statements, OIG-06-020, 12/27/05

Management Letter for Fiscal Year 2005 Audit of the Department of the Treasury's Financial Statements, OIG-06-021, 1/3/06

Audit of the Federal Financial Bank's Fiscal Years 2005 and 2004 Financial Statements, OIG-06-022, 1/4/06

Audit of the Department of the Treasury Forfeiture Fund's for Fiscal Years 2005 and 2004 Financial Statements, OIG-06-023, 1/26/06

Management Letter for Fiscal Year 2005 Audit of the Treasury Forfeiture Fund's Financial Statements, OIG-06-024, 1/26/06

Audit of the Financial Crimes Enforcement Network's Fiscal Year 2005 Balance Sheet, OIG-06-027, 2/1/06

Information Technology Audits and Evaluations

INFORMATION TECHNOLOGY: The TCS Disaster Recovery Exercise Was Not Successful, OIG-06-001, 10/4/2005

INFORMATION TECHNOLOGY: Evaluation of Treasury's FISMA Implementation for Fiscal Year 2005, OIG-CA-06-001, 10/07/05

Performance Audits

BILL AND COIN MANUFACTURING: The Bureau of Engraving and Printing Should Ensure That Its Currency Billing Rates Include All Costs and That Excess Working Capital Is Deposited in the General Fund, OIG-06-010, 12/2/05, $29,400,000 RH

BILL AND COIN MANUFACTURING: Control Issues Identified at the Bureau of Engraving and Printing Western Currency Facility, OIG-06-015, 12/8/05

MAJOR ACQUISITIONS: Treasury Communications Enterprise Procurement was Poorly Planned, Executed, and Documented, OIG-06-028, 2/10/06

INTERNATIONAL ASSISTANCE PROGRAMS: Review of Treasury Activities for Iraq Reconstruction, OIG-06-029, 3/23/06

Supervised Contract Audits

CONTRACT AUDIT: Audit Report on Application of Agreed-Upon Procedures for Burson-Marsteller Task Order BEP-05-03, Contract Number TEP-02-015, Task Orders 1 – 15, and 29, OIG-06-025, 1/26/06

Statistical Summary

CONTRACT AUDIT: Audit Report on Application of Agreed-Upon Procedures for Burson-Marsteller Task Order BEP-05-03, Contract Number TEP-02-015, Task Orders 16 – 28, and 43, OIG-06-026, 1/26/06

Other

IGATI Curriculum Review Board Summary Report – IGATI Courses Reviewed During Fiscal Year 2005, OIG-CA-06-002, 3/30/06

Audit Reports Issued with Questioned Costs

October 1, 2005, through March 31, 2006 (Dollars in Thousands)

Category	Total		
	No. of Reports	Questioned Costs	Unsupported Costs
For which no management decision had been made by beginning of reporting period	4	2,885	0
Which were issued during the reporting period	0	0	0
Subtotals	4	2,885	0
For which a management decision was made during the reporting period	4	2,885	0
dollar value of disallowed costs	4[a]	2,801	0
dollar value of costs not disallowed	2[a]	84	0
For which no management decision had been made by the end of the reporting period	0	0	0
For which no management decision was made within 6 months of issuance	0	0	0

All audits were performed by the Defense Contract Audit Agency under our supervision. A "questioned cost" denotes that one or more of the following three situations exist: (1) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, other agreement, or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

[a]One report was partially agreed to and partially not agreed to.

Statistical Summary

Audit Reports Issued with Recommendations that Funds Be Put to Better Use

October 1, 2005, through March 31, 2006 (Dollars in Thousands)

Category	No. of Reports	Total	Savings	Revenue Enhancement
For which no management decision had been made by the beginning of the reporting period	0	0	0	0
Which were issued during the reporting period	1	29,400	0	29,400
Subtotals	1	29,400	0	29,400
For which a management decision was made during the reporting period	1	29,400	0	29,400
Dollar value of recommendations agreed to by management	1	29,400	0	29,400
based on proposed management action	1	29,400		29,400
based on proposed legislative action	0	0	0	0
Dollar value of recommendations not agreed to by management	0	0	0	0
For which no management decision had been made by the end of the reporting period	0	0	0	0
For which no management decision was made within 6 months of issuance	0	0	0	0

A recommendation that funds be put to better use denotes that funds could be used more efficiently if management took actions to implement and complete the recommendation, including the following: (1) reduction in outlays, (2) de-obligations of funds from programs or operations, (3) costs not incurred by implementing recommended improvements related to operations, (4) avoidance of unnecessary expenditures noted in pre-award review of contract agreements, (5) any other savings that are specifically identified, or (6) enhancements to revenues.

Previously Issued Audit Reports Pending Management Decisions (Over 6 Months)

As of March 31, 2006 (Dollars in Thousands)

There are no previously issued audit reports pending management decisions for this reporting period.

Significant Revised Management Decisions

October 1, 2005, through March 31, 2006

There were no significant revised management decisions during the period.

Significant Disagreed Management Decisions
October 1, 2005, through March 31, 2006

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

REFERENCE TO THE INSPECTOR GENERAL ACT

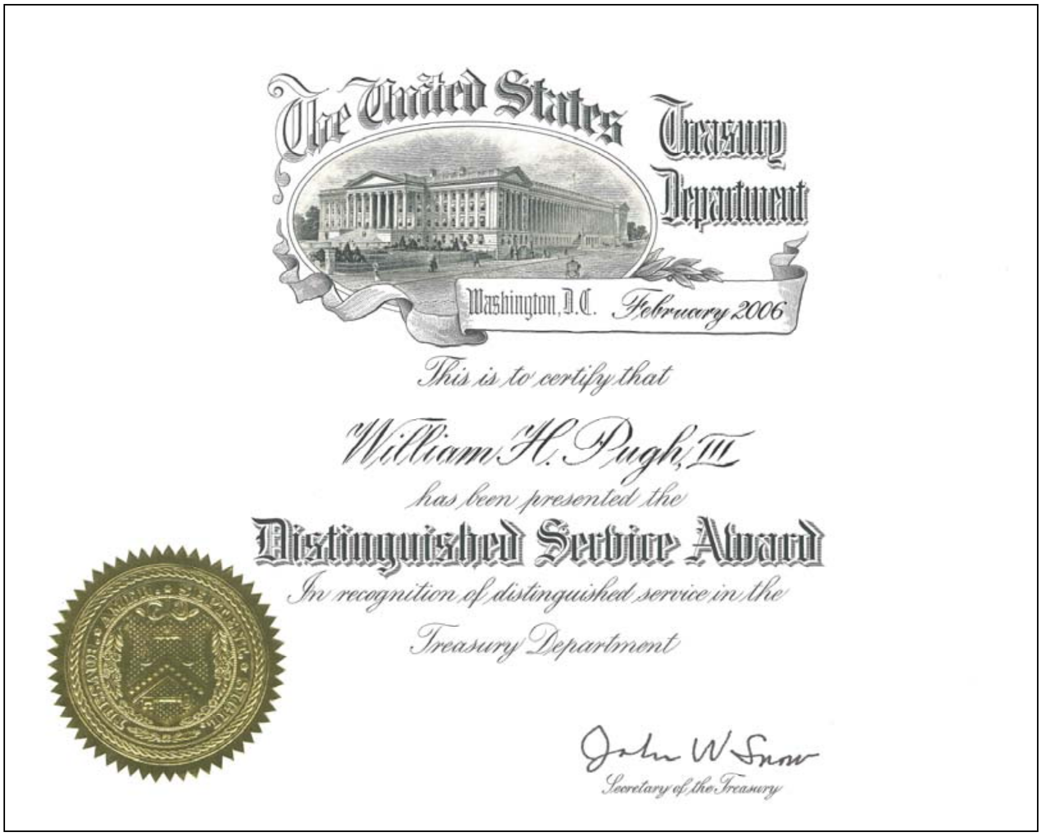
Reference	Requirement	Page
Section 4(a)(2)	Review of legislation and regulations	24
Section 5(a)(1)	Significant problems, abuses, and deficiencies	5-20
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies	5-20
Section 5(a)(3)	Significant unimplemented recommendations described in previous semi-annual reports	26-28
Section 5(a)(4)	Matters referred to prosecutive authorities	25
Section 5(a)(5)	Summary of instances where information was refused	28
Section 5(a)(6)	List of audit reports	29-31
Section 5(a)(7)	Summary of significant reports	5-15
Section 5(a)(8)	Audit reports with questioned costs	31
Section 5(a)(9)	Recommendations that funds be put to better use	32
Section 5(a)(10)	Summary of audit reports issued before the beginning of the reporting period for which no management decision has been made	32
Section 5(a)(11)	Significant revised management decisions made during the reporting period	32
Section 5(a)(12)	Management decisions with which the IG is in disagreement	33
Section 5(a)(13)	Instances of unresolved FFMIA noncompliance	8
Section 5(d)	Report to Secretary of particularly serious or flagrant problems, abuses, or deficiencies	N/A
Section 6(b)(2)	Report to Secretary when information or assistance is unreasonably refused or not provided	N/A

ACRONYMS

Bearing Point	Bearing Point, Inc.
BEP	Bureau of Engraving and Printing
Board	IGATI Curriculum Review Board
BOA	Bank of America
BPD	Bureau of the Public Debt
BSA	Bank Secrecy Act
CDFI Fund	Community Development Financial Institutions Fund
CFC	Combined Federal Campaign
CIO	Chief Information Officer
DC	District of Columbia
DO	Departmental Offices
DOJ	U.S. Department of Justice
DOL	Department of Labor
E&Y	Ernst & Young
ECIE	Executive Council on Integrity and Efficiency
EIC	Examiner-in-Charge
ESF	Exchange Stabilization Fund
FBI	Federal Bureau of Investigation
FECA	Federal Employees' Compensation Act
FEMA	Federal Emergency Management Agency
FFB	Federal Financing Bank
FFMIA	Federal Financial Management Improvement Act of 1996
FinCEN	Financial Crimes Enforcement Network
FMS	Financial Management Service
FTE	Full-time Equivalent
GAAP	Generally Accepted Accounting Principles
GAO	U.S. Government Accountability Officer
GMRA	Government Management Reform Act of 1994
GSA	General Services Administration
GSE	Government Sponsored Enterprises
IG	Inspector General
IGATI	Inspectors General Auditor Training Institute
IPA	Independent Public Accountant
IRS	Internal Revenue Service
IRS-CI	IRS Criminal Investigation
LOU	Limited Official Use
Mint	U.S. Mint
MSB	Money Service Business
PwC	Pricewaterhouse Coopers, LLP
OA	Office of Audit
OCC	Office of the Comptroller of the Currency
OFAC	Office of Foreign Assets Control
OI	Office of Investigations
OIA	Office of Intelligence and Analysis
OIG	Office of Inspector General

Acronyms

OMB	Office of Management and Budget
OPM	Office of Personnel Management
OTA	Office of Technical Assistance
OTS	Office of Thrift Supervision
PCIE	President's Council on Integrity and Efficiency
PKI	Public Key Infrastructure
SAR	Suspicious Activity Report
SIGIR	Special Inspector General for Iraq Reconstruction
TCE	Treasury Communications Enterprise
TCS	Treasury Communications System
TEOAF	Treasury Executive Office for Asset Forfeiture
TFF	Treasury Forfeiture Fund
TFFC	Office of Terrorist Financing and Financial Crime
TFI	Office of Terrorism and Financial Intelligence
TFMB	Trust Fund Management Branch, TFMB
TIGTA	Treasury Inspector General for Tax Administration
Treasury	Department of the Treasury
TTB	Alcohol and Tobacco Tax and Trade Bureau
USAO	United States Attorney's Office
U.S.C.	United States Code
WCF	Western Currency Facility, BEP



The United States Treasury Department

Washington, D.C. February 2006

This is to certify that

William H. Pugh, III

has been presented the

Distinguished Service Award

In recognition of distinguished service in the

Treasury Department

John W Snow

Secretary of the Treasury

During February 2006, Secretary of the Treasury Snow bestowed the Distinguished Service Award, Treasury's third highest honor, to William H. Pugh, Deputy Assistant Inspector General for Financial Management and Information Technology Audit. Reprinted on this page, Mr. Pugh's posthumous Award recognized his continuous and distinctive accomplishment and leadership evidencing the highest standards to public service.

CITATION

DISTINGUISHED SERVICE AWARD

William H. Pugh III

William H. Pugh III served with distinction and dedication in the Office of Inspector General at the Treasury Department for the past 10 years, demonstrating the highest level of integrity, professionalism, and dedication. During that period, he served as the Deputy Assistant Inspector General for Financial Management and Information Technology Audits.

Mr. Pugh's outstanding leadership was instrumental in enabling the Department to achieve its first ever unqualified audit opinion on its fiscal year 2000 financial statements. This was an historic accomplishment and represented the culmination of extensive efforts to identify and overcome the Department's major deficiencies in financial systems and controls. Furthermore, under his leadership, the audit of the fiscal year 2002 Treasury Department's financial statements was completed 45 days after the fiscal year-end. This represented a dramatic and unprecedented acceleration by a cabinet-level agency, and was two years ahead of the Office of Management and Budget's requirement. The importance of this accomplishment was so significant that the President's Counsel on Integrity and Efficiency bestowed its highest honor, the Hamilton Award, on the Treasury Office of Inspector General. The Hamilton Award recognizes "outstanding achievements in improving the integrity, efficiency or effectiveness of Executive Branch agency operations."

Mr. Pugh also served on a number of interagency and professional organization task forces that addressed accounting and auditing issues, and promoted excellence in Federal financial management. In addition to Mr. Pugh's significant contributions as a civilian Federal Government executive, he had a distinguished 30 year career as an active duty and reserve Army Officer, retiring at the rank of Colonel.

Mr. Pugh consistently demonstrated dedication, professionalism, outstanding technical skills and executive leadership and did so with great reliability, dedication, and humility. In recognition of his contributions to the Department of the Treasury and the entire Nation, William H. Pugh III is posthumously awarded the Distinguished Service Award.

contact us

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

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

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

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

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

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

Treasury OIG Hotline
Call Toll Free: 1.800.359.3898

Treasury OIG Web Page

OIG reports and other information are now available via the Internet. The address is http://www.treas.gov/offices/inspector-general