



Semiannual Report To The Congress



April 1, 2008 – September 30, 2008
OIG-CA-09-002

Office of Inspector General

DEPARTMENT OF THE TREASURY

HIGHLIGHTS

During this semiannual reporting period, the **Office of Audit** issued 21 reports. Work by the **Office of Investigations** resulted in 13 arrests, 1 case accepted for prosecution, 3 convictions by plea agreement, 2 federal indictments, and 1 federal information. Investigative activities also resulted in \$382,052 in court-ordered fines, restitution, and recoveries, as well as 15 personnel or administrative actions. Some of our significant results for this period are described below.

- We completed a mandated material loss review of the failure in September 2007 of NetBank, FSB, of Alpharetta, Georgia. The failure resulted in an estimated \$108 million loss to the Deposit Insurance Fund. We found that unfavorable economic conditions, combined with ineffective business strategies and controls, high expenses, and large losses related to a commercial lease portfolio and NetBank's mortgage banking operations, were significant causes of NetBank's failure. With respect to supervision of the thrift, we reported that the Office of Thrift Supervision (OTS) conducted timely and regular examinations of NetBank and provided oversight through its off-site monitoring. However, we noted that improvements are needed in (1) the use of internal OTS assessments, (2) the timing of formal enforcement actions, and (3) OTS's internal reviews of thrift failures. OTS agreed with our overall review results and recommendations.

At the end of this semiannual reporting period, we had an unprecedented 5 material loss reviews of failed financial institutions in progress, of which 3 are national banks that were supervised by the Office of the Comptroller of the Currency and 2 are thrifts that were supervised by OTS, including IndyMac Bank with an estimated loss of nearly \$9 billion.

- Based on an audit performed by KPMG under our supervision and work by the Treasury Inspector General for Tax Administration, we determined that Treasury's information security program was in place and was generally consistent with the Federal Information Security Management Act of 2002. However, KPMG's audit indicated that additional steps are required to ensure that Treasury's information security risk management program and practices fully comply with applicable National Institute of Standards and Technology standards and guidelines and the Act's requirements. The Treasury Inspector General for Tax Administration reported that the Internal Revenue Service had made significant improvements, noting that the most significant area of concern was the Internal Revenue Service's implementation of configuration management standards.
- A joint investigation resulted in the indictment of 13 individuals in an alleged scheme to steal Treasury checks from the mail and cash the checks using false identification documents. According to the 53-count indictment, from April 2006 to May 2007, a U.S. Postal Service employee stole Treasury checks from the post office where he worked in Baltimore, Maryland, and provided the stolen mail to other co-conspirators. The defendants are alleged to have fraudulently obtained over \$100,000.
- Since March 2008, joint investigations by the Treasury Office of Inspector General, Immigration and Customs Enforcement, and the Bureau of Engraving and Printing resulted in three seizures of mutilated currency with a total estimated value of more than \$6 million, due to suspected violations of federal law.
- A joint investigation resulted in the arrest and conviction of Daniel Money, a Treasury employee, on one count of bribery. Money agreed to provide bribe payments totaling \$55,000 to an officer of the U.S. Tax Court in exchange for the public official's awarding of two contracts to a company owned by Money. As part of the related plea agreement, Money also acknowledged that he stole 600 gallons of diesel fuel that was Treasury property.



A MESSAGE FROM THE INSPECTOR GENERAL

I am pleased to present the Department of the Treasury Office of Inspector General Semiannual Report summarizing activities for the 6-month period from April 1, 2008, through September 30, 2008.

I was sworn in as the 6th Treasury Inspector General on August 11, 2008. In the short time I have been here, I have been impressed with the talent and dedication of the employees who work within the Treasury Department, including my own office. I want to acknowledge the fine work of my Deputy Inspector General, Dennis Schindel, who was the acting Inspector General from April 2007 until my recent swearing in. The Treasury Office of Inspector General has faced some significant challenges over the past year and under Mr. Schindel's leadership the Office has continued to perform in an exemplary manner.

The events of the past few months have presented some very significant challenges for the leaders of this administration as they try to stabilize the turmoil in our financial markets and the impact on our overall economy. The Secretary of the Treasury has been at the forefront of those efforts. Now, with the passage of the Emergency Economic Stabilization Act of 2008 Treasury has taken on an enormous new challenge of trying to quickly and effectively execute this \$700 billion rescue plan. As Congress debated and reshaped this legislation, one theme that consistently came out was the need to have strong oversight of Treasury's implementation of the Act. The Act establishes a Special Inspector General for this program. It will be important to get that office up and running as quickly as possible. In the event that a Special Inspector General is not established quickly, the Secretary has asked that we assist in providing oversight. We are working with his staff to ensure that we can provide the degree of oversight needed to evaluate whether the program is executed effectively and in accordance with the law.

This will be a significant challenge for us with our growing material loss review workload. This work is mandated by the Federal Deposit Insurance Act and we currently have an unprecedented five reviews ongoing at the present time. We have redirected most of our audit resources to the review work. However, I consider oversight of the Act the highest priority and we will work with the Secretary and his team to provide the proper balance of that workload.

A handwritten signature in black ink, appearing to read "Eric M. Thorson", with a long horizontal flourish extending to the right.

Eric M. Thorson
Inspector General

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TABLE OF CONTENTS

Highlights

A Message From The Inspector General

Overview of the OIG and the Treasury	1
About Our Office	1
About Treasury	2
Treasury Management and Performance Challenges	5
Introduction	5
Management and Performance Challenges	5
Significant Audits and Evaluations	10
Financial Management	10
Information Technology	12
Programs and Operations	14
Significant Investigations	24
Other OIG Accomplishments and Activity	30
Statistical Summary	34
Summary of OIG Activity	34
Significant Unimplemented Recommendations	35
Summary of Instances Where Information Was Refused.....	36
Listing of Audit and Evaluation Reports Issued.....	36
Audit Reports Issued With Questioned Costs.....	38
Audit Reports Issued With Recommendations that Funds Be Put to Better Use	38
Previously Issued Audit Reports Pending Management Decisions (over Six Months)	38
Significant Revised Management Decisions	38
Significant Disagreed Management Decisions	38
References to the Inspector General Act	39
Abbreviations	40

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OVERVIEW OF OIG AND TREASURY

About Our Office

The Department of the Treasury's Office of Inspector General (OIG) was established pursuant to the 1988 amendment to the Inspector General Act of 1978.¹ OIG is headed by an Inspector General who is appointed by the President of the United States, with the advice and consent of the United States Senate. Serving with the Inspector General in the immediate office is a Deputy Inspector General. 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** performs and supervises audits, attestation engagements, and evaluations. The Assistant Inspector General for Audit has two deputies. One deputy is primarily responsible for performance audits, and the other deputy is primarily responsible for financial management and information technology audits. Office of Audit staff are located in Washington, DC, and Boston, Massachusetts.

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

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

¹ 5 U.S.C. app. 3.

OVERVIEW OF OIG AND TREASURY

officewide policy preparation, planning, emergency preparedness, and reporting for OIG. The Assistant Inspector General for Management is in charge of these functions.

As of September 30, 2008, OIG had 107 full-time staff. OIG's fiscal year 2008 appropriation was \$18.5 million.

About Treasury

Treasury's mission is to serve the American people and strengthen national security by managing the U.S. Government's finances effectively; promoting economic growth and stability; and ensuring the safety, soundness, and security of U.S. and international financial systems. Organized into bureaus and offices, Treasury encompasses a wide range of programs and operations. Currently, Treasury has approximately 107,900 full-time equivalent staff. Of those, IRS employs about 91,700 while the other Treasury bureaus and offices employ about 16,200.

Treasury Bureaus

The **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.

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

The **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.

The **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.

The **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.

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

The **U.S. 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 of and protects the nation's gold and silver assets.

OVERVIEW OF OIG AND TREASURY

The **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.

The **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

The **Departmental Offices (DO)** formulates policy and manages Treasury operations. Descriptions of certain component offices, relevant to this semiannual reporting period, appear below.

The **Office of Terrorism and Financial Intelligence (TFI)** uses Treasury's intelligence and enforcement functions to safeguard the financial system against illicit use and to combat rogue nations, terrorist facilitators, money launderers, drug kingpins, and other national security threats. This Office is also responsible for integrating FinCEN, the Office of Foreign Assets Control (OFAC), and the Treasury Executive Office for Asset Forfeiture.

- 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.
- The Treasury Executive Office for Asset Forfeiture administers the Treasury Forfeiture Fund, the receipt account for the deposit of nontax forfeitures made by IRS Criminal Investigation and the Department of Homeland Security.

The office is headed by an Under Secretary and includes two major components: the Office of Terrorist Financing and Financial Crimes and the Office of Intelligence and Analysis. An Assistant Secretary oversees each of these offices.

- The **Office of Terrorist Financing and Financial Crimes** works across all elements of the national security community – including the law enforcement, regulatory, policy, diplomatic and intelligence communities – and with the private sector and foreign governments to identify and address the threats presented by all forms of illicit finance to the international financial system.
- The **Office of Intelligence and Analysis** is responsible for the receipt, analysis, collation, and dissemination of foreign intelligence and foreign counterintelligence information related to the operation and responsibilities of Treasury. The Office of Intelligence and Analysis is a member of the U.S. Intelligence Community.

OVERVIEW OF OIG AND TREASURY

The **Office of Management** is responsible for Treasury's internal management and policy in the areas of budget, planning, human resources, information and technology management, financial management and accounting, procurement, and administrative services to DO. It is headed by the Assistant Secretary for Management and Chief Financial Officer. The Office of DC Pensions, which is within the Office of Management, makes federal benefit payments associated with District of Columbia retirement programs for police officers, firefighters, teachers, and judges.

The **Office of International Affairs** advises on and assists in formulating and executing U.S. international economic and financial policy. Its responsibilities 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.

The **Office of Tax Policy (OTP)** develops and implements tax policies and programs; reviews regulations and rulings to administer the Internal Revenue Code, negotiates tax treaties, provides economic and legal policy analysis for domestic and international tax policy decisions. It also provides estimates for the President's budget, fiscal policy decisions, and cash management decisions.

The **Exchange Stabilization Fund** is used to purchase or sell foreign currencies, hold U.S. foreign exchange and Special Drawing Rights assets, and provide financing to foreign governments.

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

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

(End of Overview of OIG and Treasury)

TREASURY MANAGEMENT AND PERFORMANCE CHALLENGES

Introduction

In accordance with the Reports Consolidation Act of 2000, the Inspector General annually provides the Secretary of the Treasury with his perspective on the most serious management and performance challenges facing the Department. The Secretary includes these challenges in the Department's annual performance and accountability report.

In a memorandum to Secretary Paulson dated October 30, 2008, Treasury Inspector General Thorson reported two new challenges:

- Management of Treasury's New Authorities Related to Distressed Financial Markets
- Regulation of National Banks and Thrifts

Both of these challenges relate to the crises that began in the subprime mortgage market and spread more broadly into the U.S. and global financial markets.

The Inspector General also continued to report four challenges from last year:

- Corporate Management
- Management of Capital Investments
- Information Security
- Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act (BSA) Enforcement

We removed one previously reported challenge, Linking Resources to Results, based on the progress the Department has made in implementing managerial cost accounting in its operations.

As we have pointed out in the past, management and performance challenges do not always represent a deficiency in management or performance. Instead, they can represent inherent risks associated with Treasury's mission, organizational structure, or the environment in which it operates. In this regard, the Department can and should take steps to mitigate these challenges but may not be able to entirely eliminate them. As such, they require ongoing management attention.

Management and Performance Challenges

Management of Treasury's New Authorities Related to Distressed Financial Markets Last year we reported as a matter of increasing concern the deterioration of the real estate market and its impact on the credit markets. With worsening conditions over the past year and the impact the subprime mortgage situation has had on the broader financial markets, we elevated this concern to the most serious management and performance challenge facing the Department.

Treasury, along with the Federal Reserve and the Federal Housing Finance Agency (FHFA), has been dealing with multiple financial crises requiring unprecedented actions through the latter half of fiscal year 2008. In July 2008, Congress passed the Housing and Economic

TREASURY MANAGEMENT AND PERFORMANCE CHALLENGES

Recovery Act which gave Treasury broad new authorities to address the distressed financial condition of Fannie Mae and Freddie Mac. While the hope at the time was that Treasury would not need to exercise those authorities, less than 6 weeks later, FHFA put the two mortgage giants into conservatorship and Treasury agreed to purchase senior preferred stock in the companies, established a new secured line of credit available to the companies, and initiated a temporary program to purchase new mortgage-backed securities issued by the companies.

As the turmoil in the financial markets increased, Treasury and the Federal Reserve took a number of additional unprecedented actions including the rescue of Bear Stearns and American International Group (AIG). It became evident that a more systemic, comprehensive plan was needed to stabilize the financial markets. Treasury sought and obtained additional authorities through passage of the Emergency Economic Stabilization Act (EESA), which gave the Treasury Secretary \$700 billion in authority to, among other things: (1) purchase capital in qualifying U.S. controlled financial institutions; and (2) buy, maintain, and sell toxic mortgage-related assets from financial institutions. These authorities are intended to bolster credit availability and address other serious problems in the U.S. and world financial markets.

As of this writing, the Department has aggressively moved forward to make capital infusions through the purchase of senior preferred stock in nine large banks in an effort to loosen up the credit market. A number of other banks have subsequently sought to participate in the Capital Purchase Program. The Department is also implementing the mechanisms to carry out its other authorities and responsibilities for the Troubled Assets Relief Program (TARP). It plans to rely extensively on the private sector, initially with a small cadre of Treasury staff to exercise managerial control over TARP. With the hundreds of billions of dollars involved, the need to move quickly, and with so much of the program to be managed by financial agents and contractors, the risk is high that Treasury objectives will not be achieved or taxpayer dollars will be wasted. Accordingly, Treasury needs to ensure strong controls are in place and that its managerial oversight is effective.

Additionally, the Act provides for the appointment of a Special Inspector General to provide oversight of this program. It also directs the U.S. Government Accountability Office (GAO) to conduct ongoing monitoring and report on the program every 60 days. Having said that, it is important to keep in mind that the presence of a Special Inspector General and the work by GAO are not a substitute for sound internal controls and appropriate management stewardship of this critical program.

Also, while the structure and execution of the EESA is still unfolding, it appears that Treasury will be relying to some extent on OCC and OTS to both evaluate their supervised institutions for participation in TARP and to monitor their compliance with the requirements for participation and the use of the capital that Treasury provides, including requirements related to limits on executive compensation. If this is to be effective, there will need to be close coordination between the Treasury team managing implementation of EESA, OCC, and OTS (as well as the other federal banking agencies).

TREASURY MANAGEMENT AND PERFORMANCE CHALLENGES

Going forward sound administration of the significant taxpayer dollars committed to this rescue effort will clearly be Treasury's most significant management challenge. Furthermore, given the rapidly changing conditions in the financial markets and the coming change in administrations, the importance of establishing a sustainable leadership team as quickly as possible to manage this program cannot be overstated.

Regulation of National Banks and Thrifts Since September 2007, nine Treasury-regulated financial institutions failed with estimated losses to the deposit insurance fund exceeding \$10 billion. Predictions are that many more will fail before the economy improves. This is in sharp contrast to the relatively few and much smaller Treasury-regulated financial institutions that failed during the previous 5 years.

While there are many factors that have contributed to the current turmoil in the financial markets, Treasury's regulators, OCC and OTS, did not identify early or force timely correction of the unsafe and unsound practices by institutions under their supervision. The irresponsible lending practices by many institutions that contributed to the current crisis are now well recognized—including degradation of underwriting standards, loan decisions based on factors other than the borrowers' ability to repay, and with the ready availability of investor financing, a mentality of "originate to sell" instead of the more prudent "originate to hold" permeated the industry. At the same time, financial institutions engaged in other high risk activities including high asset concentrations in areas such as commercial real estate, and over-reliance on unpredictable brokered deposits to fund rapid growth.

The banking industry will continue to be under pressure over the next several years. For example, OCC, OTS, and the other federal banking regulators recently reported that 2007 data for Shared National Credits (loan commitments of \$20 million or more that are shared by three or more federally supervised institutions) showed a large increase in volume during the year, with shared credits now totaling \$2.8 trillion (a 22.6 percent increase over 2006). The regulators also reported a significant deterioration in quality of these credits. It has also been reported that the next substantial stress to financial markets will come from troubled credit card debt and auto loans, and this may significantly impact those financial institutions that previously had limited exposure to the subprime mortgage crises.

Our office is mandated to look into Treasury-regulated bank failures that result in material losses to the deposit insurance fund. In this regard, during the last 6 months, we completed one review of the NetBank failure, which is discussed on page 14, and are currently engaged in five. These reviews are useful in identifying the causes for failures and assessing the supervision exercised over a particular failed institution. It should be noted that OCC and OTS have been responsive to our recommendations for improving supervision. However, these reviews do not address supervisory effectiveness overall. It is therefore essential that OCC and OTS take a critical look at their respective (and collective) supervisory processes to identify why those processes did not prevent or better mitigate the unsafe and unsound practices that led to the current crisis and what can be done to better protect the financial health of the banking industry going forward.

Recognizing that the focus of EESA is on the current crisis, another consideration is the need for Treasury to identify, monitor, and manage *emerging* domestic and global systemic

TREASURY MANAGEMENT AND PERFORMANCE CHALLENGES

economic risks. It should be noted that these emerging risks may go beyond the current U.S. regulatory structure. Treasury, in concert with its regulatory partners, needs to diligently monitor regulated as well as unregulated products and markets for new systemic risks that may require action.

Corporate Management Starting in 2004, we identified corporate management as an overarching management challenge. In short, Treasury needs to provide effective corporate leadership in order to improve performance as a whole. Inherent in this is the need for clear lines of accountability between corporate, bureau, and program office management; enterprise solutions for core business activities; and effective oversight of capital investments and information security. With nine bureaus and a number of program offices, Treasury is a highly decentralized organization. As we reported last year, the Department has made progress in building up a sustainable corporate control structure. The challenge continues to be maintaining emphasis on corporate governance, particularly as the Department develops the infrastructure to carry out its vastly expanded role in addressing the current economic crisis and as key management officials turnover with the change of administration.

Management of Capital Investments Managing large capital investments, particularly information technology (IT) investments, is a difficult challenge facing any organization whether in the public or private sector. In prior years we have reported on a number of capital investment projects that either failed or had serious problems. In light of this, with hundreds of millions of procurement dollars at risk, Treasury needs to exercise continuous vigilance in this area as it proceeds with its: (1) transition to a new telecommunications contract (TNet) under the General Services Administration's Networx program, a transition that has already experienced delays; (2) implementation of enhanced information security requirements; (3) the anticipated renovation of the Treasury Annex; and (4) other large capital investments.

During the last year, the Department reinstated a governance board consisting of senior management officials to provide executive decision-making on, and oversight of, IT investment planning and management and to ensure compliance with the related statutory and regulatory requirements.

Information Security While improvements have been made, by its very nature information security will continue to be a management challenge to the Department. Our Fiscal Year 2008 audit addressing the objectives of the Federal Information Security Management Act of 2002 (FISMA) and Office of Management and Budget (OMB) requirements found that Treasury's non-IRS bureaus made progress in improving information security controls and practices.

Notably, during the past year Treasury strengthened its inventory reporting and Plan of Action and Milestones (POA&M) processes for tracking and correcting security weaknesses. However, our audit found that (1) minimum security control baselines were not sufficiently documented, tested, and/or implemented as required; (2) computer security incidents were not consistently reported timely or correctly categorized; (3) common security configuration baselines were not fully compliant; and (4) federal desktop core

TREASURY MANAGEMENT AND PERFORMANCE CHALLENGES

configurations were not fully implemented. Treasury management has indicated its commitment to address these issues. It should be noted, however, that the annual FISMA review is not designed to detect all information security vulnerabilities.

Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement As reported in previous years, Treasury faces unique challenges in carrying out its responsibilities under the Bank Secrecy Act (BSA) and USA Patriot Act to prevent and detect money laundering and terrorist financing. While FinCEN is the Treasury bureau responsible for administering BSA, a large number of federal and State entities participate in efforts to ensure compliance with BSA. These entities include the five federal banking regulators, the IRS, the Securities and Exchange Commission, the Department of Justice, and State regulators. Many of these entities also participate in efforts to ensure compliance with U.S. foreign sanction programs administered by OFAC.

The dynamics and challenges for Treasury of coordinating the efforts of multiple entities, many external to Treasury, are difficult. In this regard, FinCEN and OFAC entered into memoranda of understanding (MOU) with many federal and State regulators in an attempt to build a consistent and effective process. However, these MOUs are non-binding (and without penalty) and their overall effectiveness have not been independently assessed.

Furthermore, the Patriot Act has increased the types of financial institutions required to file BSA reports. In fiscal year 2007, nearly 18 million BSA reports were filed. Although these reports are critical to law enforcement, past audits have shown that many contain incomplete or erroneous data. Additionally, past audits have also shown that examination coverage by regulators of financial institution compliance with BSA has been limited.

Given the criticality of this management challenge to the Department's mission, we continue to consider BSA and OFAC programs as inherently high-risk. Further adding to this risk in the current environment is the risk that financial regulators and examiners may lessen their attention on BSA compliance as they address safety and soundness concerns. It should also be understood that due to resource constraints and mandatory requirements, particularly with respect to failed banks, we do not anticipate providing significant audit coverage to this challenge area during fiscal year 2009.

(End of Treasury Management and Performance Challenges)

SIGNIFICANT AUDITS AND EVALUATIONS

Financial Management

Financial Audits

The Chief Financial Officers Act (CFO Act), as amended by the Government Management Reform Act of 1994 (GMRA), requires annual financial statement audits of Treasury and 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 2007 and 2006.

Treasury-audited financial statements and related audits						
Entity	Fiscal year 2007 audit results			Fiscal year 2006 audit results		
	Opinion	Material weakness	Other significant deficiencies	Opinion	Material weakness	Other significant deficiencies
GMRA/CFO Act requirements						
Department of the Treasury	UQ	1	2	UQ	1	2
Internal Revenue Service (A)	UQ	4	1	UQ	4	1
Other required audits						
Bureau of Engraving and Printing	UQ	0	0	UQ	0	1
Community Development Financial Institutions Fund	D	0	2	D	0	2
Office of DC Pensions	UQ	0	0	UQ	0	0
Exchange Stabilization Fund	UQ	0	0	UQ	0	0
Federal Financing Bank	UQ	0	0	UQ	0	0
Office of the Comptroller of the Currency	UQ	0	1	UQ	0	1
Office of Thrift Supervision	UQ	0	0	UQ	0	0
Treasury Forfeiture Fund	UQ	0	2	UQ	0	1
Mint						
Financial statements	UQ	1	0	UQ	0	1
Custodial gold and silver reserves	UQ	0	0	UQ	0	0
Other audited accounts that are material to Treasury financial statements						
Bureau of the Public Debt						
Schedule of Federal Debt (A)	UQ	0	0	UQ	0	0
Government trust funds	UQ	0	0	UQ	0	0
Financial Management Service						
Treasury-managed accounts	UQ	0	0	UQ	0	0
Operating cash of the federal government	UQ	0	1	UQ	0	1
Management-initiated						
FinCEN	UQ	1	0	UQ	0	0
UQ - Unqualified opinion D - Disclaimer of opinion (A) - Audited by the GAO						

SIGNIFICANT AUDITS AND EVALUATIONS

Audits of the fiscal year 2008 financial statements or schedules of the Department and component reporting entities were in progress at the end of this semiannual reporting period.

The following instances of noncompliance with the Federal Financial Management Improvement Act of 1996 were reported in connection with the audit of the Department’s fiscal year 2007 consolidated financial statements. All instances relate to IRS. The current status of these noncompliances, including progress in implementing remediation plans, will be evaluated as part of the audit of Treasury’s fiscal year 2008 financial statements.

Entity	Condition	Fiscal year first reported	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 tax-related balances such as tax revenues, tax receivables, and tax refunds.	1997	Federal financial management systems requirements
IRS	Deficiencies were identified in information security controls, resulting in increased risk of unauthorized individuals accessing, altering, or abusing 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, tax revenue, and refunds.	1997	Federal accounting standards
IRS	Financial management system cannot produce managerial cost information consistent with the requirements of Statement of Federal Financial Accounting Standards No. 4, <i>Managerial Cost Accounting Standards</i> .	1998	Federal accounting standards
IRS	IRS 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 tax-related balances such as tax revenues, tax receivables, and tax refunds.	1997	Standard general ledger

Attestation Engagements

Two attestation engagements related to BPD controls over processing transactions for other federal agencies were completed in support of the audit of Treasury’s fiscal year 2008 consolidated financial statements. These engagements also support the financial statement audits of certain other federal agencies. The engagements are described below.

An independent public accountant (IPA), under our supervision, examined the accounting processing and general computer controls related to financial management services provided to various federal agencies by BPD’s Administrative Resource Center. The IPA found that (1) BPD’s description of controls for these activities fairly presented, in all material respects, the controls that had been placed in operation as of June 30, 2008; (2) the controls were suitably designed; and (3) the controls tested by the IPA were effective during the period July 1, 2007, to

SIGNIFICANT AUDITS AND EVALUATIONS

June 30, 2008. The IPA noted no instances of reportable noncompliance with laws and regulations tested. **(OIG-08-042)**

The IPA also examined the general computer and investment/redemption processing controls related to BPD's transactions processing of investment accounts for various federal agencies. BPD's Federal Investments Branch maintained these accounts. The IPA found that (1) BPD's description of these controls fairly presented, in all material respects, the controls that had been placed in operation as of July 31, 2008; (2) the controls were suitably designed; and (3) the controls tested by the IPA were effective during the period August 1, 2007, to July 31, 2008. The IPA noted no instances of reportable noncompliance with the laws and regulations tested. **(OIG-08-045)**

Information Technology

Fiscal Year 2008 Federal Information Security Management Act Performance Audit

We determined that Treasury's information security program was in place and was generally consistent with FISMA.

FISMA requires Inspector Generals to perform an annual, independent evaluation of their agency's information security program and practices. OIG contracted with KPMG, LLP, to perform an audit of FISMA compliance for the Treasury's unclassified systems, with the exception of IRS. TIGTA

performed the annual evaluation for IRS. Based on the results reported by KPMG and TIGTA, we determined that Treasury's information security program was in place and was generally consistent with FISMA.

However, the KPMG audit indicated that additional steps are required to ensure that Treasury's information security risk management program and practices fully comply with applicable National Institute of Standards and Technology standards and guidelines and FISMA requirements. Specifically, KPMG reported that (1) The Institute's Federal Information Processing Standards 200 minimum security control baselines were not sufficiently documented, tested, and/or implemented; (2) computer security incidents were not consistently reported timely or correctly categorized; (3) common security configuration baselines were not fully compliant; and (4) federal desktop core configurations were not fully implemented.

TIGTA reported that IRS had made significant improvements in the areas of security identified as needing improvement in TIGTA's 2007 FISMA evaluation and had improved the efficiency of its certification and accreditation process. Additionally, TIGTA found that IRS had completed certification and accreditation for its remaining systems. TIGTA noted that the most significant area of concern was IRS's implementation of configuration management standards. **(OIG-08-046)**

SIGNIFICANT AUDITS AND EVALUATIONS

Fiscal Year 2008 Evaluation of Treasury's FISMA Implementation for Its Non-IRS Intelligence Systems (Classified Report)

FISMA requires an annual independent evaluation of the information security program and practices for Treasury's national security systems. During this semiannual period, we performed the FISMA evaluation of Treasury's non-IRS national security systems as they relate to Treasury's intelligence program. We noted that the program still needs improvement. Our report is classified. (OIG-CA-08-009)

Fiscal Year 2008 Evaluation of Treasury's FISMA Implementation for Its Non-IRS Non-Intelligence National Security Systems

We performed the fiscal year 2008 evaluation of Treasury's FISMA implementation for its non-IRS non-intelligence national security systems. We determined that Treasury has addressed the finding cited in our prior year report and implemented the recommendation. However, Treasury's information security program and practices, as they relate to non-IRS non-intelligence national security systems, need to be improved. We cited three findings and made three recommendations. Due to the sensitive nature of these systems, this report has been designated Sensitive But Unclassified. (OIG-CA-08-012)

Network Security at OCC Needs Improvement

We completed an evaluation of network security at OCC to identify any existing vulnerabilities in computer systems, servers, infrastructure devices, and users' awareness of information security threats. An unauthorized attack or system intrusion on OCC's network could be detrimental to its mission and banking oversight duties. We found vulnerabilities, including one that allowed us to gain full access to one OCC server, and we provided recommendations to address these vulnerabilities. OCC concurred with our recommendations and has implemented or planned corrective actions that are responsive to our recommendations. (OIG-08-035)

We found vulnerabilities, including one that allowed us to gain full access to one OCC server.

Treasury Successfully Demonstrated Its Treasury Communications System (TCS) Disaster Recovery Capability

Although the January 2008 disaster recover exercise was successful, we found one area that required improvement.

In January 2008, we observed a disaster recovery exercise of the TCS. Our overall objective was to determine whether Treasury could successfully demonstrate its TCS disaster recovery capability. In addition, we followed up on the finding from a previous disaster recovery exercise. We found that

Treasury successfully demonstrated its TCS disaster recovery capability. We also found that Treasury had addressed the finding identified in our 2007 TCS disaster recovery exercise report and implemented two of the three corresponding recommendations. Although the January 2008 disaster recover exercise was successful, we found one area that required improvement and made two recommendations. Treasury management concurred with our observations and

SIGNIFICANT AUDITS AND EVALUATIONS

responded to both recommendations. Because of the sensitivity of certain information in our report, we designated the report Sensitive But Unclassified. (OIG-CA-08-010)

BEP Management Information System Disaster Recovery Exercise Was Successful

In April 2008, we observed a disaster recovery exercise of the BEP Management Information System and followed up on the findings from our observation of a previous disaster recovery exercise. BEP successfully demonstrated its system's disaster recovery capability and had addressed our prior findings. Although the April 2008 exercise was successful, a secondary objective of the exercise—to restore encrypted backup tapes—failed. We made one recommendation related to this finding and BEP management concurred. (OIG-CA-08-011)

Programs and Operations

Material Loss Review of NetBank, FSB

Improvements are needed in (1) the use of internal OTS assessments, (2) the timing of formal enforcement actions, and (3) OTS's internal reviews of thrift failures.

We conducted a material loss review of the failure of NetBank, FSB, of Alpharetta, Georgia. Our review was mandated under section 38(k) of the Federal Deposit Insurance Act. OTS closed NetBank and appointed the Federal Deposit Insurance Corporation as receiver on September 28, 2007. At that time, the Federal Deposit Insurance Corporation estimated that NetBank's failure would cost the Deposit Insurance Fund \$108

million. The objectives of our review were to ascertain why NetBank's problems resulted in a material loss to the insurance fund, assess OTS's supervision of NetBank, and make recommendations to prevent future losses.

Unfavorable economic conditions, combined with ineffective business strategies and controls, high expenses, and large losses related to a commercial lease portfolio and NetBank's mortgage banking operations, were significant causes of NetBank's failure. OTS conducted timely and regular examinations of NetBank and provided oversight through its off-site monitoring. However, we noted that improvements are needed in (1) the use of internal OTS assessments, (2) the timing of formal enforcement actions, and (3) OTS's internal reviews of thrift failures. We recommended OTS (1) ensure that the recommendations/lessons learned from internal assessments of the NetBank failure are implemented; (2) re-emphasize to examiners that, formal enforcement action is presumed warranted for 3-rated thrifts² when certain circumstances exist

² OTS, like other bank regulatory agencies, uses the Uniform Financial Institutions Rating System, commonly called the CAMELS ratings. The CAMELS rating system provides a general framework for assimilating and evaluating all significant financial, operational, and compliance factors inherent in a bank or thrift. It enables the regulator to assign each banking organization individual CAMELS component ratings and an overall composite rating that indicates the institution's overall condition. CAMELS is an acronym for the performance rating components: Capital adequacy, Asset quality, Management administration, Earnings, Liquidity, and Sensitivity to market risk. Numerical values range from 1 to 5, with 1 being the highest rating and 5 representing the worst rated institutions.

SIGNIFICANT AUDITS AND EVALUATIONS

and, if such action is not taken, the requirement that they document the reasons for not taking action; and (3) establish in policy a process to assess the causes of thrift failures, supervision exercised over the institution, and appropriate actions taken to address any significant supervisory weaknesses or concerns identified.

In its response, OTS agreed with our overall review results and recommendations. OTS plans to implement responsive actions to the recommendations/lessons learned from its internal assessments of the NetBank failure. OTS also will issue an internal staff bulletin re-emphasizing the current enforcement action guidance in the OTS Examination Handbook for 3-rated institutions and emphasize the importance of documenting the reasons when a formal enforcement action is not pursued. OTS has begun drafting a policy that will require an assessment for any future thrift failures. (OIG-08-032)

Review of Treasury's Failure to Provide Congress With Required Quadrennial Reports in 1998 and 2002 on Foreign Acquisitions and Industrial Espionage Activity Involving U.S. Critical Technology Companies

Section 721(k) of the Defense Production Act of 1950, which was enacted in 1992, required that quadrennial reports on foreign acquisition strategies and industrial espionage activities be provided to Congress. We were mandated by the Foreign Investment and National Security Act of 2007 to determine why the quadrennial reports for 1998 and 2002 were not produced.

Controls did not exist within Treasury to ensure that officials were aware of the 1994 executive order.

Since the reporting mandate's establishment, only two reports have been produced—one in 1994 and one in 2006. The 1994 report was prepared by an interagency working group under the auspices of Treasury. It was transmitted to Congress by the National Economic Council, even though the President had assigned reporting responsibility to Treasury 2 months earlier. The report relied heavily on a commercial database on foreign investment to which the Central Intelligence Agency had subscribed. The 2006 report, which covered the 12-year period from 1994-2006, was also prepared by an interagency group under Treasury's direction, and transmitted by Treasury to Congress. Once again, the Central Intelligence Agency's subscription to a commercial database was a critical source of the needed information.

Office of International Affairs officials said they were unaware that the President had transferred these reporting responsibilities by executive order to Treasury in 1994. The officials explained that they had attempted to obtain information for a second report in 1998, even though they did not believe that Treasury had any formal responsibility to prepare the report. However, Treasury officials learned that the Central Intelligence Agency no longer subscribed to the commercial database that had been used for the 1994 report. Moreover, the espionage section of the quadrennial report was already being supplied to Congress in a report provided by the National Counterintelligence Executive's Office. A report for 1998 was not produced. Treasury did not pursue the reporting matter in 2002. In July 2007, the Foreign Investment and National Security Act became law, and now requires annual reporting by Treasury on foreign investment in the U.S. and related national security concerns.

SIGNIFICANT AUDITS AND EVALUATIONS

Controls did not exist within Treasury to ensure that officials were aware of the 1994 executive order. In late fiscal year 2007, Treasury's Executive Secretary began maintaining a master list of all departmental-mandated tasks, including the requirement to report information annually on foreign investments in the United States.

The Office of International Affairs concurred with our recommendations that (1) internal guidance for implementing the Foreign Investment and National Security Act is established and includes procedures for preparing and issuing the now annual report to Congress and (2) Treasury, consistent with the Secretary's authority under the executive order that implements the Act, designates participating agencies and specifies their responsibilities in preparing the annual report. **(OIG-08-031)**

Review of the Tax Guidance Process

We did not find any deficiencies in the tax guidance development process that require corrective actions by OTP.

We conducted an audit at the OTP concerning the tax guidance process. This was in response to a request from the Senate Finance Committee that TIGTA assess the tax guidance process at OTP and IRS. Because OTP is under the jurisdiction of our office, we and TIGTA coordinated audit

work to respond to the committee's request. The objective of this audit was to evaluate the process and related controls for developing tax guidance, including the pilot program described in IRS Notice 2007-17, *Modifications of Commercial Mortgage Loans Held by a Real Estate Mortgage Investment Conduit*. We focused our work on OTP, and TIGTA focused its work on IRS.

We determined that the pilot program process described in IRS Notice 2007-17 and the traditional guidance development process are consistent with each other, with the exception that notices to be issued under the pilot program would also request draft guidance language from the public. We did not find any deficiencies in the tax guidance development process that require corrective actions by OTP. Accordingly, our report did not contain recommendations. With respect to IRS, TIGTA noted in its March 2008 report that although IRS Counsel has increased the level of attention it places on the published guidance program, additional controls would further strengthen the process. In its response, IRS Counsel agreed with 6 of the 7 recommendations and partially agreed to the other recommendation. **(OIG-08-039)**

Responsibility for the BSA Is Spread Across Many Organizations

BSA, enacted in 1970 and administered by Treasury, requires that financial institutions file certain reports and maintain specified records to provide a paper trail of the activities of money launderers that can be used by law enforcement officials. In September 2002, by virtue of the USA PATRIOT Act, the Secretary of the Treasury delegated authority to implement and administer BSA to the Director of FinCEN. FinCEN reports to the Under Secretary for Terrorism and Financial Intelligence.

The purpose of our review was to identify and describe Treasury's authority and responsibility administering BSA. We identified 12 organizations with substantial BSA responsibilities. The organization with primary responsibility is FinCEN, which is supported by the IRS Enterprise

SIGNIFICANT AUDITS AND EVALUATIONS

Computing Center–Detroit to maintain BSA-related databases. IRS also examines certain financial institutions for BSA compliance. In addition to IRS, seven federal financial institution regulators (including the five federal banking agencies) and three self-regulatory organizations (e.g., the Securities and Exchange Commission) ensure compliance with BSA by their regulated institutions. Five of the financial institution regulators and the three self-regulatory organizations are outside of Treasury. We also identified nine federal law enforcement agencies—one within Treasury and eight others—that significantly use BSA data. While the Under Secretary for TFI has direct authority over FinCEN, the lines of authority over the other Treasury bureaus and all non-Treasury organizations are indirect. For example, OCC and OTS, which examine and enforce BSA compliance by national banks and thrifts, respectively, do not report directly to TFI. IRS also does not report directly to TFI. Other federal regulators, such as the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, and the National Credit Union Administration, oversee financial institution compliance with BSA but are independent of Treasury.

Without direct authority, Treasury (through FinCEN) provides overall support and coordinates efforts to ensure BSA compliance through regulations, guidance, and MOU with federal and state regulators. Because most of these MOUs are relatively recent and voluntary, it is difficult to say yet whether they are working. We found that communication between FinCEN and law enforcement agencies needs improvement. In addition, BSA-related costs and performance data of regulators and self-regulatory organizations involved in ensuring BSA compliance are not generally available.

Without direct authority, Treasury (through FinCEN) provides overall support and coordinates efforts to ensure BSA compliance through regulations, guidance, and MOU with federal and state regulators.

Challenged by these limitations, Treasury must manage the program within the range of its authority. To ensure effective management of BSA-related activities and provide a clearer picture of the results of these efforts, we recommended FinCEN (1) establish a plan for periodically assessing whether its compliance and information sharing MOUs with regulators are working as intended, (2) determine a means for ensuring that FinCEN and law enforcement agencies sufficiently communicate about the extent to which FinCEN should use its analytic capabilities to support the agencies in their investigations, and (3) work with Treasury and non-Treasury organizations to develop BSA-related performance measures or indicators to track results achieved. In its response, FinCEN concurred with the recommendations and cited a number of activities undertaken and planned.

We anticipate that our report will serve as a source of reference for Treasury policy makers and other stakeholders who contemplate this important subject. **(OIG-08-030)**

FinCEN Has Taken Action to Improve Its Program to Register Money Services Businesses (Corrective Action Verification on OIG-05-050)

We found that corrective actions taken by FinCEN addressed the intent of the recommendations in a previous Treasury OIG audit report on FinCEN's Money Services Businesses (MSB) registration program. Specifically, FinCEN developed a strategy to identify unregistered MSBs and coordinate regulatory actions, and issued guidance on MSB registration and deregistration that

SIGNIFICANT AUDITS AND EVALUATIONS

defines the dollar transaction threshold for MSB designation more clearly. In addition, FinCEN is in the process of reviewing its regulatory framework for MSBs. (OIG-08-033)

OTS Examinations of Thrifts for BSA and USA PATRIOT Act Compliance Were Often Limited

At 82 of the 95 sampled thrifts, examiners did not evaluate whether significant [BSA] compliance program elements had been implemented.

We reviewed OTS's most recent BSA examinations for a sample of 95 thrifts. At 82 of the 95 sampled thrifts, examiners did not evaluate whether significant compliance program elements had been implemented. Examiners frequently accepted that the thrift programs were up to standard because the thrifts had policies and procedures in place for certain BSA and USA PATRIOT Act program areas,

without determining the manner in which these policies and procedures were implemented. In other cases, examiners did not fully understand the provisions that had been added to BSA with the enactment of the USA PATRIOT Act. This resulted in limited reviews, or no additional testing in situations that posed a potential risk to the thrift. Areas in which examinations were limited included 314(a) information sharing; customer identification programs; customer due diligence activities; and separation of duties of thrift officials who perform independent testing or day-to-day BSA functions and are also responsible for the administration, oversight, direction and monitoring of the thrift's compliance program.

For each thrift in our sample, at least one BSA compliance examination area lacked evidence of review or the examiner's assessment of work that was warranted in the particular BSA compliance area. OTS guidance requires examiners to document in their workpapers the judgments made during examinations and the basis for selecting areas subject to review. The review of a thrift's electronic banking activities, specifically Internet banking, most often lacked evidence of examiner review. Also, although OTS's information technology group examines the authentication processes at thrifts, the information technology group does not routinely share the results of the examinations with compliance examiners, even though problems with authentication processes may affect the adequacy of BSA controls.

In addition, OTS's regions were inconsistent when reporting findings regarding outdated or incomplete written BSA programs, in some cases representing the findings as recommendations for enhancement and in other cases as BSA violations. OTS guidance states that required elements that are missing from written BSA programs should be considered violations and entered as such into OTS examination system records and Reports of Examinations.

OTS generally concurred with our recommendations that it: (1) reinforce the need for examiners to adhere to existing BSA examination-related guidance, and assess if it is necessary to provide supplemental guidance and training to ensure examination consistency and documentation of examinations; (2) for thrifts that offer electronic banking services, have compliance examiners consult with examiners performing information technology examinations to determine if there are additional BSA-related risks; and (3) provide guidance to examiners to ensure that they consistently cite thrifts for violations when their written BSA programs are missing required elements. In its response, OTS took exception to or commented on certain matters in our report, and the final report includes our assessment of OTS's comments. OTS also stated, among other

SIGNIFICANT AUDITS AND EVALUATIONS

things, that it is committed to ensuring that savings associations are in compliance with BSA and anti-money laundering requirements and that OTS has devoted significant resources in this area. (OIG-08-034)

Treasury Foreign Intelligence Network Project Experienced Delays and Project Management Weaknesses

Treasury initiated the \$37 million Treasury Foreign Intelligence Network (TFIN) project as a priority to stabilize and upgrade the analytical capabilities of its intelligence system. Due to its expanding role in fighting terrorism activities, analysts required more capabilities than the existing system could offer. Our report focused on (1) determining whether sound project management principles were followed in executing the project, (2) if procurement requirements were adhered to in the acquisition of contract support, and (3) whether the TFIN business case was based on appropriate and supportable assumptions. As part of our work, we reviewed project milestones to determine if the work was progressing on schedule.

Although Treasury did not meet the planned September 30, 2007, timeline for completing segment 2B of the TFIN modernization project – enhanced analyst tool set – we found that the work was progressing. The estimated completion date for segment 2B was pushed back several times and as of the end of our fieldwork in March 2008, no date had been established for the completion of this segment. Our discussions with the Assistant Secretary for Intelligence and Analysis – the TFIN business owner, the Treasury Chief Information Officer, and TFIN pilot program users indicated that barring any unforeseen complications, the revamped system was expected to provide the necessary applications for Office of Intelligence and Analysis to accomplish its work and mission. As a subsequent event, in a memorandum dated May 21, 2008, the Assistant Secretary and the Chief Information Officer informed us that segment 2B was completed and deployed on April 17, 2008. Additionally, analysts have been trained and have begun using the system.

Although Treasury did not meet the planned September 30, 2007, timeline for completing segment 2B of the TFIN modernization project – enhanced analyst tool set – we found that the work was progressing.

As for other findings, documentation for the project was inadequate to demonstrate sound project management principles were followed, and for one TFIN-related contract in the amount of \$440,000, Treasury did not conform to the Federal Acquisition Regulation sole source justification requirements.

We recommended that management continue working toward a successful completion of the remaining segments of the TFIN modernization project. We also recommended that the Treasury Chief Information Officer work with business owners to ensure that planning efforts are appropriate and adequately documented at the outset of a major investment project and ensure that all key planning and decision documents for major information technology acquisitions are retained in a manner to be readily available for management or external audit review. Furthermore, we recommended that Treasury's Senior Procurement Executive ensure that contracting officers are reminded to properly justify and document procurements that are made on a basis other than full and open competition. Management generally concurred with the

SIGNIFICANT AUDITS AND EVALUATIONS

recommendations and provided comments for certain matters discussed in the report.
(OIG-08-040)

BEP Needs to Enforce and Strengthen Controls at Its Eastern Currency Facility to Prevent and Detect Employee Theft

In June 2006, BEP notified us that at least 64 incomplete \$100 notes had entered into commerce. A joint investigation by OIG, BEP, the U.S. Secret Service, and the Federal Bureau of Investigation led to the recovery of additional incomplete notes. Investigators found that these notes originated from 21 32-count sheets of partially printed \$100 notes that a BEP Eastern Currency Facility employee stole in May 2006. The thief was able to put the partially printed currency into circulation by using casino vending machines. We conducted our audit to determine what internal control failures allowed the theft to occur and whether, since the theft, BEP had enhanced its internal controls to prevent a similar theft and provide for timely detection should another theft occur.

The theft occurred because BEP failed to ensure that production supervisors enforced, and employees adhered to, existing internal controls. Additionally, no policies and procedures were in place to investigate production discrepancies.

We determined that the theft occurred because BEP failed to ensure that production supervisors enforced, and employees adhered to, existing internal controls. Additionally, no policies and procedures were in place to investigate production discrepancies. We recommended that BEP take several actions to strengthen its internal controls and provide for periodic employee security training. BEP concurred and plans to add routine security patrols, establish policies and procedures for dealing with production discrepancies, and provide annual security training to employees.

In September 2006, the employee pled guilty, pursuant to a plea agreement, to one count of possession of tools and materials for counterfeiting purposes. In February 2007, the employee was sentenced to 9 months of incarceration and 3 years of supervised release and was ordered to pay restitution of \$37,200. After his arrest, the employee retired from federal service and is drawing a federal government pension. **(OIG-08-036)**

Controls Over Treasury's Working Capital Fund Expense Process Need Improvement

According to criteria on acceptable error rates in tests of controls and based on the results of our testing, we concluded that controls related to OFM processing of WCF transactions were ineffective.

We performed an audit of Treasury's working capital fund (WCF) to determine whether adequate controls over WCF had been established. We initially planned to determine, as sub-objectives of the audit, whether (1) WCF activities and programs were appropriate for inclusion in the fund; (2) reconciliations between actual costs incurred by WCF and costs billed to participating Treasury bureaus existed, were timely prepared, and consistent; (3) costs charged by WCF were appropriate; (4) costs charged by WCF to specific bureaus were supported by appropriate documentation; and (5) assumptions, data, processes, and models used by WCF to estimate its annual costs were reasonable. Because of unforeseen priorities, we only completed and reported on objectives 3 and 4. We plan to address the remaining objectives in a subsequent audit.

SIGNIFICANT AUDITS AND EVALUATIONS

The following control weaknesses in the payment and recording of WCF expenses were found:

- WCF expenses were not always appropriately recorded between shared and bureau-specific. The Office of Financial Management (OFM) did not always correctly record expenses for WCF customers, and WCF program offices did not adequately monitor recorded expenses.
- Some WCF transactions were in violation of the Prompt Payment Act because OFM did not pay interest penalties to WCF vendors for late payments. In addition, OFM paid interest to one vendor when it was not required. Late payments to vendors result in increased and unnecessary interest costs to WCF and its customers.
- Supporting documentation was not available for some WCF transactions. Without adequate documentation, the appropriateness of transactions cannot be verified.
- Some expenses were charged to WCF that it did not incur, and WCF did not adequately monitor these charges to ensure that they were appropriate. Failure to adequately monitor and review expenses charged increases the risk that improperly charged expenses may result in increased costs to WCF and its customers.

According to criteria on acceptable error rates in tests of controls and based on the results of our testing, we concluded that controls related to OFM processing of WCF transactions were ineffective.

Management concurred with our recommendations to update or develop procedures and train staff to improve controls over expenses charged to the WCF and ensure compliance with the Prompt Payment Act. However, management disagreed that there were instances of violations with the Prompt Payment Act for payments made to one WCF vendor. We evaluated the information provided in the response and we still conclude the Prompt Payment Act was violated in these instances.

As part of our audit, we administered a survey questionnaire to WCF customers. Customers generally indicated that they were satisfied with WCF programs' performance. However, many customers expressed concerns regarding insufficient communication of information and a perceived lack of transparency in WCF operations. Some customers questioned the value of participating in WCF. We provided the survey results in our report for WCF management to consider in its operations. **(OIG-08-041)**

Office of Management Needs to Improve Its Monitoring of the Department's Audit Follow-up Process

In December 2007, the House Committee on Oversight and Government Reform asked us to provide certain information relating to Treasury OIG audit recommendations that were not implemented. In letters dated January 30 and March 6, 2008, we provided this information to the committee for 20 audit recommendations that had not been implemented as of September 30, 2007.

SIGNIFICANT AUDITS AND EVALUATIONS

Audit follow-up was not consistently performed on audit recommendations by the responsible Treasury officials.

In compiling the information for the committee, we found that (1) audit follow-up was not consistently performed on audit recommendations by the responsible Treasury officials; (2) the status of numerous audit recommendations was not updated in the Department's audit follow-up tracking system called the

Joint Audit Management Enterprise System (JAMES); (3) planned corrective actions were not consistently recorded in JAMES; and (4) an audit follow-up officer was not designated for the Office of Terrorist Financing and Financial Crimes. To address these matters, we issued a report to the Assistant Secretary for Management and Chief Financial Officer. In that report, we recommended that (1) a plan be developed and implemented to assure timely and proper resolution and implementation of audit recommendations; (2) audit follow-up officers be required to ensure corrective action plans to implement recommendations are prepared and the status of plans monitored and properly reflected in JAMES, and (3) audit follow-up officers be designated to provide for appropriate, continuous coverage of all Treasury offices. Management concurred with the recommendations. **(OIG-08-037)**

OCC Is Appropriately Using HMDA Data in Its Risk Assessment Process to Identify Possible Discriminatory Lending Practices

OCC used HMDA data – as the law intended – to identify possible discriminatory lending patterns.

We conducted an audit at OCC concerning the use of Home Mortgage Disclosure Act (HMDA) data. The objectives of the audit were to determine whether (1) OCC is making appropriate use of HMDA data in its risk assessment process to identify

instances of possible discriminatory lending practices, and (2) OCC is taking appropriate action to follow up on identified instances of possible discriminatory lending practices. As an observation, HMDA data consist of certain borrower characteristics and certain loan characteristics. One of HMDA's purposes is to help regulators identify possible discriminatory lending patterns and enforce antidiscrimination statutes. HMDA data in past years have indicated disparities in mortgage lending by race and ethnicity, but HMDA data alone are generally considered insufficient to determine whether a lender is complying with fair lending laws because the data do not include potential key determinants of loan pricing, such as borrowers' credit scores, debt-to-income ratios, or loan-to-value ratios.

OCC used HMDA data—as the law intended—to identify possible discriminatory lending patterns. OCC (1) runs HMDA data through several screens to identify outliers, (2) prepares a preliminary screening list that is reviewed by OCC's Deputy Comptrollers in charge of bank supervision, and (3) prepares a final screening list and schedules Fair Lending examinations for all institutions included on the final screening list. In addition, OCC took appropriate action to follow up on HMDA data that indicates potential discrimination in lending.

Although OCC has documented its internal operating procedures for the use of HMDA data, the document is in draft form only. We recommended that OCC finalize these procedures. We also recommended that the procedures address OCC's plans to monitor demographic shifts and to adjust the screening process as necessary. OCC agreed. **(OIG-08-038)**

SIGNIFICANT AUDITS AND EVALUATIONS

Private Collection Agencies Need to Improve Compliance with the Financial Management Service's Debt Compromise Requirements

As the federal government's financial manager, FMS implements the government's delinquent debt program. FMS collected an annual average of more than \$3 billion in delinquent debt over the last 4 fiscal years through the Treasury Offset Program (TOP) and the Cross-Servicing Program. FMS Debt Management Services (DMS) provides federal agencies with debt collection and management services and leads the development and implementation of governmentwide debt management policies. Once DMS determines that debtors cannot be located or are unwilling to resolve debts in an acceptable manner, the debts may be sent to a private collection agency (PCA). PCAs are private companies that specialize in collecting delinquent debt. They attempt to find and contact debtors by searching databases, making telephone calls, and sending collection letters. Once debtors are located and contacted, PCAs encourage them to satisfy their debts.

During this period, we issued reports on our audits of two PCAs. Our objectives were to determine, for compromises of delinquent federal nontax debt, whether PCAs were (1) following PCA contract requirements, including (a) attempting to collect the full amount due before considering a compromise and (b) compromising at authorized levels; and (2) documenting each compromise, providing proper justification, and retaining evidence for the required period.

Pioneer Credit Recovery, Inc. The PCA processed 274 compromise agreements for which the forgiven amount was in excess of \$2,000 during the 1-year period ending January 31, 2008. The forgiven amounts for these 274 agreements totaled \$10.6 million. We found that the PCA was not following some PCA contract requirements and FMS policy, including documentation and justification provisions for debt compromise. **(OIG-08-043)**

Linebarger, Goggan, Blair & Sampson, LLP The PCA processed 132 compromise agreements for which the forgiven amount was in excess of \$2,000 during the 1-year period ending January 31, 2008. The forgiven amounts for these 132 agreements totaled \$4.8 million. We found that the PCA was not following some PCA contract requirements and FMS policy, including documentation provisions for debt compromise. **(OIG-08-044)**

FMS concurred with our recommendations to address these matters found at the two PCAs.

Our audits of the two PCAs are part of a series of audits of debt compromise activities by PCAs under contract with FMS. We plan to report on other PCAs and DMS's overall management of debt compromise in the future.

(End of Significant Audits and Evaluations)

SIGNIFICANT INVESTIGATIONS

Thirteen Individuals Indicted in the District of Maryland

According to the 53-count indictment, from April 2006 to May 2007, a U.S. Postal Service employee stole Treasury checks from the post office where he worked in Baltimore, Maryland.

A joint investigation by Treasury OIG, U.S. Secret Service, U.S. Postal Service OIG, and U.S. Postal Inspection Service resulted in the June 25, 2008, indictment of 13 individuals in an alleged scheme to steal Treasury checks from the mail and cash the checks using false identification documents. According to the 53-count indictment, from April 2006 to May 2007, a U.S. Postal Service employee stole Treasury checks from the post office where he worked in Baltimore, Maryland, and provided the stolen mail to other co-conspirators. Two other individuals manufactured and distributed false identification documents, such as driver's licenses, bearing the conspirators' photo with the names and addresses of the victims whose mail was stolen. By using the false identifications to pose as the victims in order to cash the stolen checks, the defendants are alleged to have fraudulently obtained over \$100,000. Eleven arrests have been made and one defendant has pled guilty to conspiracy to commit mail fraud, forged endorsement of a Treasury check, and aggravated identity theft in the U.S. District Court for the District of Maryland. Further investigative activity and judicial action are pending.

Indictment of Maryland Resident

A joint Treasury OIG and U.S. Secret Service investigation resulted in the August 25, 2008, indictment of a Maryland resident by a federal grand jury in the District of Maryland. In the 10-count indictment, the subject was charged with bank fraud, forging endorsements on Treasury checks, and aiding and abetting, relating to his alleged participation in a scheme to defraud two financial institutions. It was alleged that the subject fraudulently endorsed stolen Treasury checks and deposited the funds in bank accounts that he established using fraudulent identification documents. The amount of attempted fraud associated with the scheme was over \$200,000. Further judicial action is pending.

In the 10-count indictment, the subject was charged with bank fraud, forging endorsements on Treasury checks, and aiding and abetting.

Senior Treasury Official Suspended

It was determined that the official's conduct was improper and gave the appearance of barring the former employee from representing his current employer before the Treasury bureau.

OIG initiated an investigation after it was reported that a senior Treasury bureau official allegedly retaliated against a former employee for whistleblowing during and immediately following the individual's employment with the Treasury bureau. It was alleged that the senior official contacted the individual's new employer and informed the new employer's management that the official did not want the employee to appear before the bureau on behalf of the employer, an entity regulated by the Treasury bureau. The employee was soon thereafter terminated, ostensibly due to staff cuts. The investigation revealed that the senior official made a call, labeling it a recusal notification, and only later provided written notification of the recusal to the bureau. While the investigation did not find that the call directly caused the employee's termination, it was determined that the

SIGNIFICANT INVESTIGATIONS

official's conduct was improper and gave the appearance of barring the former employee from representing his current employer before the Treasury bureau. The senior Treasury official was suspended for 7 calendar days.

Treasury Employee Convicted on Bribery Charges

A joint investigation conducted by the Treasury OIG, General Services Administration OIG, and the Federal Bureau of Investigation resulted in the arrest and conviction of Daniel Money, a Treasury Facilities Management Division employee, on one count of bribery in the United States District Court for the District of Columbia. The investigation revealed that Money, who owned and operated a private construction business in addition to his employment with Treasury, agreed to provide bribe payments totaling \$55,000 to a Facilities Services Officer of the U.S. Tax Court in exchange for the public official's awarding of two contracts to Money's privately owned company, Daniel Construction. Of the negotiated bribe, Money provided \$1,800 in two separate cash payments to the U.S. Tax Court official. Money entered into a plea agreement with the United States Attorney's Office and pled guilty to one count of bribery on October 6, 2008. Sentencing is scheduled for February 5, 2009.

Money, who owned and operated a private construction business in addition to his employment with the Treasury, agreed to provide bribe payments totaling \$55,000 to a Facilities Services Officer of the U.S. Tax Court in exchange for the public official's awarding of two contracts to Money's privately owned company.

In an initially unrelated Treasury OIG investigation, it was suspected that in or about December 2007 through February 2008, Money stole diesel fuel from Treasury, resulting in an estimated loss to Treasury of approximately \$2,250. As part of the previously mentioned plea agreement, Money also acknowledged that he converted to his own personal use approximately 600 gallons of diesel fuel that was Treasury property when he filled approximately 11 55-gallon drums on the back of his personally owned vehicle with diesel fuel from a Treasury-contracted fuel truck.

Seizure of Mutilated Currency

Investigations have resulted in three seizures of mutilated currency with an estimated value totaling more than \$6 million.

Since March 2008, joint investigations by Treasury OIG, Immigration and Customs Enforcement, and BEP have resulted in three seizures of mutilated currency with an estimated value totaling more than \$6 million. The mutilated currency was initially submitted to BEP's Mutilated Currency

Division by individuals who intended to exchange it for its face value. Subsequent investigative activity identified suspected violations of federal law related to the importation or international transportation of the currency. The mutilated currency was seized pursuant to seizure warrants issued in the United States District Court for the District of Columbia. The seized currency remains in the custody of the government pending further investigative activity and/or administrative procedures.

SIGNIFICANT INVESTIGATIONS

Misuse of Authority by Two Treasury Employees

An OIG investigation revealed that two TTB investigators exceeded their authority while conducting a product integrity investigation. It was determined that the investigators exceeded their authority by entering a private winery without authorization, searching the establishment, removing documents from the premises to photocopy at a different location, and then returning the documents to the winery without notifying the winery owner of their actions. TTB has proposed the removal of both investigators.

The two investigators exceeded their authority by entering a private winery without authorization.

Treasury Employee Charged Criminally for Purchasing Illegal Narcotics

A joint investigation by the Treasury OIG, the Federal Bureau of Investigation, and Fairfax County Police Task Force resulted in the May 2008 arrest of a Treasury employee, who allegedly purchased illegal narcotics with the intent to further distribute them. The employee was placed on administrative leave pending the outcome of the investigation. A trial date is pending in the United States District Court. Further investigative activity has also resulted in the identification of other possible suspects.

Standards of Conduct Violated by BEP Police Officers

The investigations determined that seven officers violated the Standards of Ethical Conduct and/or BEP policy and procedures. OIG conducted two investigations involving the outside employment or business activities of nine BEP police officers who allegedly used their public positions for private gain by patrolling and/or working as security officers for a private company at a nightclub in Washington, DC. The investigations determined that seven officers violated the Standards of Ethical Conduct and/or BEP policy and procedures. In addition, the investigations determined that lack of internal management controls at BEP may have contributed to the actions and perceived violations committed by the police officers. As a result of the investigations, a Management Implication Report was issued to BEP, in addition to the investigative findings. In response, BEP management took corrective administrative action: six BEP police officers received verbal counseling; one BEP police officer received a letter of warning; and BEP management implemented new policy and additional in-service training for their police officers.

North Carolina Residents Convicted and Sentenced

A joint investigation by the Treasury OIG and Social Security Administration (SSA) OIG resulted in the arrest and conviction of two North Carolina residents related to their fraudulent negotiation of Treasury-issued checks and receipt of SSA benefit payments following the death of the intended SSA annuitant. Glenn Jackson previously pled guilty in Superior Court, Robeson County, North Carolina, to a state charge of obtaining property by false pretenses. He was sentenced to supervised probation for a term of

A joint investigation by the Treasury OIG and Social Security Administration OIG resulted in the arrest and conviction of two North Carolina residents.

SIGNIFICANT INVESTIGATIONS

36 months and ordered to pay criminal monetary penalties totaling \$814. On April 8, 2008, Christine Davis also pled guilty to the same North Carolina state charge of obtaining property by false pretenses. She was sentenced to probation for a term of 60 months and ordered to pay criminal monetary penalties totaling \$6,084.

Sentencing of Kansas Resident for Unlawful Receipt of Federal Benefit Payments

Following her mother's death in February 1989, Shanks continued to claim and improperly received DOL Black Lung benefit payments.

A joint investigation by the Treasury OIG and Department of Labor (DOL) OIG resulted in the conviction of Iris Shanks, who fraudulently claimed and received over \$90,000 in DOL benefits initially intended for her mother. Following her mother's death in February 1989, Shanks continued to claim and improperly received DOL Black Lung benefit payments. On March 27, 2008, Shanks pled guilty to one count of

false, fictitious, or fraudulent claims in the United States District Court for the District of Kansas (Wichita). On July 1, 2008, she was sentenced to probation for a term of 1 year and ordered to pay criminal monetary penalties in the amount of \$92,102 for restitution and a \$100 special assessment.

The following are updates of other significant investigations discussed in previous semiannual reports.

Sentencing of Former FinCEN Contract Employee

As previously reported, a joint Treasury OIG, Immigration and Customs Enforcement, the Federal Bureau of Investigation, and Fairfax County Police Department investigation resulted in the arrest and conviction of Jovie Adawag, a former FinCEN contract employee, who solicited a sex act from a child using a government-issued computer, telephone, and official e-mail account. The charges stemmed from collaboration with the Internet Crimes Against Children Task Force, which placed a posting on an Internet classified website advertising a fictitious underage prostitute, to which Adawag responded. In response to the investigative findings, FinCEN removed the employee from the contract.

Update: On April 25, 2008, in the Circuit Court of Fairfax County, Virginia, Adawag was sentenced to incarceration for a term of 5 years with all but 4 months (time already served) suspended and probation for a term of 1 year and was ordered to register as a sex offender with the Virginia State Police.

Florida Resident Arrested on Charges of Federal Emergency Management Agency Fraud and Identity Theft

As previously reported, a joint Treasury OIG, Department of Homeland Security OIG, and SSA OIG investigation resulted in the indictment of Janelle Green of West Palm Beach, Florida, by a federal grand jury in the Southern District of Florida. According to the indictment, the subject allegedly submitted fraudulent applications for aid in the wake of several hurricane disasters.

SIGNIFICANT INVESTIGATIONS

The subject allegedly used several different personal identifiers, including false social security numbers and multiple addresses, when submitting the fraudulent claims. The estimated loss was over \$31,000 in federal assistance.

Update: On June 11, 2008, Green was arrested and on September 11, 2008, she pled guilty to one count of conversion of government property and one count of aggravated identity theft. Sentencing is pending in U.S. District Court for the Southern District of Florida.

Sentencing in Improper Payments Case

A joint Treasury OIG and Defense Criminal Investigative Services investigation revealed that Stanley Foster, Jr., unlawfully received military retirement benefits initially intended for his father, who died in August 1989. Foster had forged certificates of eligibility and received an estimated \$168,000 in federal payments. In October 2006, Foster was arrested in Hyattsville, Maryland, pursuant to an arrest warrant issued by the U.S. District Court for the Eastern District of New York. He was subsequently indicted and pled guilty to one count of theft of government property.

Update: On June 24, 2008, Foster was sentenced to 2 years of supervised release, including 4 months of home detention, and ordered to pay restitution in the amount of \$167,583.

Sentencing of Two Georgia Residents

As previously reported, a joint Treasury OIG and Veterans Affairs OIG investigation resulted in the indictment, arrest, and conviction of two Georgia residents, Rachel Clark and Rachel D. Clark (mother and daughter). In February 2008, both subjects pled guilty in the U.S. District Court for the Middle District of Georgia to one count of theft of government monies relating to their theft of \$7,256 of federal veterans benefits to which they were not entitled.

Update: On April 23, 2008, the subjects were both sentenced to probation for a term of 3 years and ordered to pay criminal monetary penalties in the aggregate amount of \$7,256 for restitution and \$100 each for a court assessment.

Sentencing of Texas Resident

As previously reported, a joint Treasury OIG and RRB OIG investigation resulted in the December 5, 2007, indictment of Frances Biggs by a federal grand jury in the Southern District of Texas. In the six-count indictment, the subject was charged with wire fraud and theft of government money relating to the unlawful receipt and theft of RRB widowed spouse annuity payments to which she was not entitled. On December 6, 2007, Biggs was arrested.

Update: On May 2, 2008, Biggs pled guilty to one count of theft of government money. On September 24, 2008, Biggs was sentenced to probation for a term of 5 years and ordered to pay criminal monetary penalties in the amount of \$108,626 for restitution and \$100 for a court assessment.

SIGNIFICANT INVESTIGATIONS

Misuse of Treasury Commuter Program Benefits

As previously reported, in response to various referrals from GAO, Treasury OIG initiated multiple investigations involving the potential misuse of public transportation subsidies by DO employees. The investigations revealed that several of the identified Treasury employees received excessive transportation subsidy benefits and misused them by selling them for profit or giving them to friends and family members, in violation of the program policy. In addition, it was determined that in order to receive the excess subsidy benefits, the employees provided inaccurate information when applying to the program. The results of the investigations were provided to DO management for administrative action.

Update: In April 2008, DO reported that four employees received proposed 14-day suspensions and one employee received a proposed removal from federal service.

(End of Significant Investigations)

OTHER OIG ACCOMPLISHMENTS AND ACTIVITY

OIG Hosts Delegations from Spain and France

During the semiannual period, Treasury OIG hosted two foreign delegations to discuss the mission of U.S. government Inspectors General and our office.

In May 2008, Deputy Inspector Dennis Schindel, Treasury Inspector General for Tax Administration J. Russell George, and senior executives of Treasury OIG and TIGTA met with the following officials of the government of Spain. The meeting was arranged through the Embassy of Spain.

- Juan Angel Esteban Paul, Inspección General Ministerio Economía y Hacienda: Inspector General (*Treasury Inspector General*)
- Marina Fernandez Castaño, Servicio de Auditoría Interna – Agencia Tributaria: Jefa de Departamento (*Treasury Inspector General for the Tax Administration*)
- José Alberto Pérez Pérez, Intervención General de la Administración del Estado (IGAE) – Interventor General (*Comptroller General*)
- Mercedes Vega, IGAE: Jefa de División de Organización, Coordinación y Supervisión (*Chief of Organization, Coordination & Supervision Division - Office of the Comptroller General*)
- Gregorio Cuñado, Tribunal de Cuentas – Director Técnico de la Presidencia (*Accounting Tribunal – Technical Director of the Presidency*)
- Maria Luz Martin Sanz, Tribunal de Cuentas – Subdirectora Técnica (*Accounting Tribunal – Technical Subdirector*)
- Juan Antonio Garde Roca, Agencia de Evaluación y Calidad de Políticas Públicas (AEVAL): Presidente (*National Agency for the Evaluation of Public Policies and the Quality of Services – President*)
- Juan María Burdie, AEVAL: Presidente
- Inés Pérez-Durantez Bayona, AEVAL: Directora de División de Evaluación (*Chief of Evaluation Division*)



Treasury Inspector General for Tax Administration George and Treasury OIG Deputy Inspector General Schindel with visiting Spanish officials.

In September 2008, Inspector General Eric Thorson and OIG senior executives met with the following officials of the government of France: Henri Guillaume, Financial Inspector General,

OTHER OIG ACCOMPLISHMENTS AND ACTIVITY

and Nicolas Colin, Financial Inspector. Also attending was Agnès Surry of the Embassy of France.



Mr. Colin, Inspector General Thorson, Financial Inspector Guillaume, Assistant Inspector General Marla Freedman, Counsel to the IG Rich Delmar, Deputy Assistant Inspector General Bob Taylor, Ms. Surry, and Assistant Inspector General Matt Issman.

PCIE Awards

At the annual joint President's Council on Integrity and Efficiency (PCIE) and Executive Council on Integrity and Efficiency (ECIE) ceremony on October 23, 2008, Treasury OIG received a prestigious Audit Award for Excellence in recognition of its material loss review of NetBank, FSB (the results of this review are discussed on page 14). Treasury OIG also sponsored the nomination of the Financial Statement Audit Network which was accepted for this year's Barry R. Synder PCIE/ECIE Joint Award. The Network, with its membership of nearly 140 representatives from the Inspector General community, OMB, and GAO was recognized for improving federal financial management.

OIG NetBank Material Loss Review Team (front – Susan Barron, Audit Director, Jeff Dye, Audit Manager, Amni Samson, Auditor; back – Michelle Littlejohn, Auditor, John Gauthier, Auditor, Jai Mathai, Audit Manager, Regina Morrison, Auditor, Deputy Inspector General Schindel, Inspector General Thorson, Assistant Inspector General Marla Freedman, Deputy Assistant Inspector General Bob Taylor; not pictured – Alain Dubois, Audit Director, and Delores Dabney, Audit Manager)



OTHER OIG ACCOMPLISHMENTS AND ACTIVITY

OIG Audit Leadership Roles

The Federal Audit Executive Council (FAEC) consists of audit executives from the OIG community and other federal audit organizations. Its purpose is to discuss and coordinate issues affecting the federal audit community with special emphasis on audit policy and operations of common interest to FAEC members. During the period, Treasury OIG continued to actively support a number of FAEC initiatives.

- As chair of the FAEC Training Committee, **Marla Freedman**, Assistant Inspector General for Audit, worked with other committee members to continue to promote and support auditor training. Among other things, the Committee (1) maintains a set of standard statements of work to contract for auditing courses, (2) maintains public and private websites on www.ignet.gov to facilitate information sharing on sources of training and training partnering/sharing opportunities, and (3) provides review services for training courses. During this period, the Committee completed a review of a course offered by the Inspector General Criminal Investigator Academy entitled *Inspector General Interviewing for Auditors*.
- **Joel Grover**, Deputy Assistant Inspector General for Financial Management and Information Technology Audits, serves as co-chair of the FAEC Financial Statements Committee and is actively involved in developing and coordinating FAEC positions on a variety of accounting and auditing issues related to federal financial reporting. The committee also jointly sponsors with GAO an annual federal financial statement audit update conference.
- **Bob Taylor**, Deputy Assistant Inspector General for Performance Audits, is leading a multi-agency effort to update the President's Council on Integrity and Efficiency and Executive Council on Integrity and Efficiency guide for external peer reviews of federal audit organizations. External peer reviews are required every 3 years under *Government Auditing Standards*. An exposure draft of the updated guide, which incorporates the requirements of the 2007 revision to these auditing standards, was circulated to the FAEC membership for comment in early October 2008.

Mr. Grover is also a member of the Government Performance and Accountability Committee of the American Institute of Certified Public Accountants. The mission of this Committee is to (1) promote greater government accountability and integrity of government operations, information and information systems; (2) promote and encourage increased participation and involvement by Certified Public Accountants (CPA) in government within the Institute; (3) enhance the professional image and value of CPAs in government; (4) provide advice and counsel to the Institute on the needs of CPAs in government, and (5) serve as a conduit for communications among CPAs in government, the Institute, and other professional organizations. Furthermore, Mr. Grover serves as a co-chair of the Maryland Association of Certified Public Accountants Members in Government Committee. Among other activities, the Committee sponsored a day-long conference in April 2008 on government/not-for-profit accounting and auditing issues.

OTHER OIG ACCOMPLISHMENTS AND ACTIVITY

OIG Bi-annual Continuing Professional Education Audit Conference

The Office of Audit held its bi-annual educational conference on August 4-8, 2008, at the Washington Duke Inn in Durham, NC. Fifty-seven Treasury OIG audit staff attended along with 13 auditors from the DOL OIG. The conference provided 40 hours of technical auditing, accounting, contract fraud, and managerial training to address staff career development needs and to meet the continuing professional education requirements of *Government Auditing Standards*. In addition to plenary sessions and classroom training, OIG luncheon speakers covered a variety of topics such as ethics, pending legislative changes to the Inspector General Act, equal employment opportunity and diversity, and information security.

Treasury OIG Participates in Special Olympics Law Enforcement Torch Run

On June 6, 2008, the Office of Investigations participated in the 23rd Annual Law Enforcement Torch Run organized by the Special Olympics, District of Columbia. The annual project helps unify the law enforcement community in a common goal and displays its commitment to the community's children and adults with intellectual disabilities. Proceeds from the event help fund the Special Olympics Summer Games.

(End of Other OIG Accomplishments and Activity)

STATISTICAL SUMMARY

Summary of OIG Activity

For the 6 Months Ended September 30, 2008

OIG Activity	Number or Dollar Value
Office of Counsel Activity	
Regulation and Legislation Reviews	8
Instances Where Information was Refused	0
Office of Audit Activities	
Reports Issued (Audits and Evaluations)	21
Disputed Audit Recommendations	0
Significant Revised Management Decisions	0
Management Decision in Which the IG Disagrees	0
Monetary Benefits (Audit)	
Questioned Costs	\$0
Funds Put to Better Use	\$0
Revenue Enhancements	\$0
Total Monetary Benefits	\$0
Office of Investigations Activities	
Allegations	
Total Allegations Received and Processed	1,548
Cases – Investigations & Inquiries (Includes Joint Investigations)	
Opened in the Reporting Period*	40
Closed in the Reporting Period	53
Total Cases in Progress as of 9/30/2008	151
Criminal & Judicial Actions (Includes Joint Investigations)	
Cases Referred for Prosecution and/or Litigation	12
Cases Accepted for Prosecution and/or Litigation	1
Arrests	13
Indictments/Informations	3
Convictions (By Trial and Plea)	3
Total Monetary Benefits (Fines/Restitution/Recoveries - Includes Joint Investigations)	\$382,052
Administrative Sanctions	
Total Adverse Personnel Actions Taken	15
Oversight Activities	
Prevention and Detection Briefings	15
*Includes 2 joint investigations initiated by another agency prior to Treasury OIG involvement.	

STATISTICAL SUMMARY

Significant Unimplemented Recommendations

For Reports Issued Prior to October 1, 2007

<u>Number</u>	<u>Date</u>	<u>Report Title and Recommendation Summary</u>
OIG-05-032	3/05	<p><i>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</i></p> <p>The Assistant Secretary for Terrorist Financing should ensure that the Office of Terrorist Financing and Financial Crimes 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. (1 recommendation)</p>
OIG-06-010	12/05	<p><i>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</i></p> <p>BEP should ensure that currency billing rates consider the full cost of operations, including imputed costs such as the imputed cost of employee benefits paid by the Office of Personnel Management. To the extent that the currency rates result in excess monies to the BEP revolving fund, they should be deposited as miscellaneous receipts to the Treasury general funds. (1 recommendation)</p> <p>Because this recommendation involves a policy issue with governmentwide implications, the Department referred the matter to OMB. Resolution is pending.</p>
OIG-06-030	5/06	<p><i>Terrorist Financing/Money Laundering: FinCEN Has Taken Steps to Better Analyze Bank Secrecy Act Data but Challenges Remain</i></p> <p>FinCEN should enhance the current FinCEN database system or acquire a new system. An improved system should provide for complete and accurate information on the case type, status, resources, and time expended in performing the analysis. This system should also have the proper security controls to maintain integrity of the data. (1 recommendation)</p>
OIG-CA-07-003	11/06	<p><i>Information Technology: Evaluation of Treasury's Compliance with OMB M-06-016</i></p> <p>Due to the sensitive nature of the finding and recommendation, we designated the report Limited Official Use. One recommendation in the report has not been implemented.</p>
OIG-07-029	2/07	<p><i>Management Letter for the Fiscal Year 2006 Audit of the Department of the Treasury's Financial Statements</i></p> <p>The Department should: (1) assess and address financial management human capital needs, (2) require all Treasury component entities to prepare their financial statement in accordance with federal generally accepted accounting principles, (3) improve quality control review procedures over financial data,</p>

STATISTICAL SUMMARY

(4) improve Treasury's A-123 process, (5) develop a disaster recovery plan for TIER and CFO Vision financial systems, and (6) establish a functionality in TIER that will automatically invoke a session timeout after an extended period of time. (6 recommendations)

OIG-07-048 9/07 *Foreign Assets Control: Actions Have Been Taken to Better Ensure Financial Institution Compliance With OFAC Sanction Programs, But Their Effectiveness Cannot Yet Be Determined*
The OFAC Director should determine whether MOUs should be established with self-regulatory organizations and the IRS for sharing information on financial institutions for which they have OFAC oversight responsibility. (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. We also considered the results of the most recent financial audits, which include follow-up on matters reported in prior financial audits.

Summary of Instances Where Information Was Refused

April 1, 2008, through September 30, 2008

There were no such instances during this period.

Listing of Audit and Evaluation Reports Issued

April 1, 2008, through September 30, 2008

Financial Audits and Attestation Engagements

Report on Controls Placed in Operation and Tests of Operating Effectiveness for the Bureau of the Public Debt's Administrative Resource Center for the Period of July 1, 2007 to June 30, 2008, OIG-08-042, 9/18/2008

Report on Controls Placed in Operation and Tests of Operating Effectiveness for the Bureau of the Public Debt's Federal Investment Branch for the Period of August 1, 2007 to July 31, 2008, OIG-08-045, 9/24/2008

Information Technology Audits and Evaluations

Information Technology: Network Security at the Office of the Comptroller of the Currency Needs Improvement, OIG-08-035, 6/3/2008

Information Technology: Fiscal Year 2008 Evaluation of Treasury's FISMA Implementation for Its Non-IRS Intelligence Systems, OIG-CA-08-009, 8/1/2008

STATISTICAL SUMMARY

Information Technology: Treasury Successfully Demonstrated its TCS Disaster Recovery Capability, OIG-CA-08-010, 8/12/2008

Information Technology: BEP BEPMIS Disaster Recovery Exercise Was Successful, OIG-CA-08-011, 9/15/2008

Information Technology: Fiscal Year 2008 Evaluation of Treasury's FISMA Implementation for its Non-IRS Non-Intelligence National Security Systems, OIG-CA-08-012, 9/26/2008

Information Technology: Federal Information Security Management Act Fiscal Year 2008 Performance Audit, OIG-08-046, 9/26/2008

Performance Audits

Terrorist Financing/Money Laundering: Responsibility for Bank Secrecy Act Is Spread Across Many Organizations, OIG-08-030, 4/9/2008

Foreign Investments: Review of Treasury's Failure to Provide Congress Required Quadrennial Reports in 1998 and 2002 on Foreign Acquisitions and Industrial Espionage Activity Involving U.S. Critical Technology Companies, OIG-08-031, 4/21/2008

Safety and Soundness: Material Loss Review of NetBank, FSB, OIG-08-032, 4/23/2008

Bank Secrecy Act: FinCEN Has Taken Action to Improve Its Program to Register Money Services Businesses (Corrective Action Verification on OIG-05-050), OIG-08-033, 4/25/2008

Terrorist Financing/Money Laundering: OTS Examinations of Thrifts for Bank Secrecy Act and Patriot Act Compliance Were Often Limited, OIG-08-034, 5/15/2008

Bill and Coin Manufacturing: BEP Needs to Enforce and Strengthen Controls at Its Eastern Currency Facility to Prevent and Detect Employee Theft, OIG-08-036, 6/21/2008

General Management: Office of Management Needs to Improve Its Monitoring of the Department's Audit Follow-Up Process, OIG-08-037, 6/23/2008

Accessibility of Financial Services: OCC Is Appropriately Using HMDA Data in its Risk Assessment Process to Identify Possible Discriminatory Lending Practices, OIG-08-038, 7/21/2008

Tax Administration: Review of the Tax Guidance Process, Including IRS Notice 2007-17, OIG-08-039, 7/22/2008

Capital Investments: Treasury Foreign Intelligence Network Project Experienced Delays and Project Management Weaknesses, OIG-08-040, 7/25/2008

Financial Management: Controls Over Treasury's Working Capital Fund Expense Process Need Improvement, OIG-08-041, 7/28/08

Private Collection Agencies: Pioneer Credit Recovery, Inc., Needs to Improve Compliance with FMS's Debt Compromise Requirements, OIG-08-043, 9/26/08

Private Collection Agencies: Linebarger, Goggan, Blair & Sampson, LLP, Needs to Improve Compliance with FMS's Debt Compromise Requirements, OIG-08-044, 9/26/08

STATISTICAL SUMMARY

Audit Reports Issued with Questioned Costs

April 1, 2008, through September 30, 2008

At the beginning of the period, there were no audit reports from prior periods pending a management decision with questioned costs. There were also no audit reports issued during this period with questioned costs.

Audit Reports Issued With Recommendations That Funds Be Put to Better Use

April 1, 2008, through September 30, 2008

At the beginning of the period, there were no audit reports from prior periods pending a management decision on recommendations that funds be put to better use. There were also no audit reports issued during this period with recommendations that funds be put to better use.

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

as of September 30, 2008

There were no audit reports issued before this semiannual reporting period that are pending a management decision.

Significant Revised Management Decisions

April 1, 2008, through September 30, 2008

There were no significant revised management decisions during the period.

Significant Disagreed Management Decisions

April 1, 2008, through September 30, 2008

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

(End of Statistical Summary)

REFERENCES TO THE INSPECTOR GENERAL ACT

	Requirement	Page
Section 4(a)(2)	Review of legislation and regulations	34
Section 5(a)(1)	Significant problems, abuses, and deficiencies	10-29
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies	10-29
Section 5(a)(3)	Significant unimplemented recommendations described in previous semi-annual reports	35-36
Section 5(a)(4)	Matters referred to prosecutive authorities	34
Section 5(a)(5)	Summary of instances where information was refused	36
Section 5(a)(6)	List of audit reports	36-37
Section 5(a)(7)	Summary of significant reports	10-29
Section 5(a)(8)	Audit Reports with questioned costs	38
Section 5(a)(9)	Recommendations that funds be put to better use	38
Section 5(a)(10)	Summary of audit reports issued before the beginning of the reporting period for which no management decision has been made	38
Section 5(a)(11)	Significant revised management decisions made during the reporting period	38
Section 5(a)(12)	Management decisions with which the Inspector General is in disagreement	38
Section 5(a)(13)	Instances of unresolved FFMIA non-compliance	N/A
Section 5(d)	Serious or flagrant problems, abuses or deficiencies	N/A
Section 6(b)(2)	Report to Secretary when information or assistance is unreasonably refused	N/A

ABBREVIATIONS

AIG	American International Group
BEP	Bureau of Engraving and Printing
BPD	Bureau of Public Debt
BSA	Bank Secrecy Act
CFO Act	Chief Financial Officers Act
CPA	Certified Public Accountant
DMS	Debt Management Services
DO	Departmental Offices
DOL	Department of Labor
EESA	Emergency Economic Stabilization Act
FAEC	Federal Audit Executive Council
FinCEN	Financial Crimes Enforcement Network
FISMA	Federal Information Security Management Act of 2002
FMS	Financial Management Service
GAO	Government Accountability Office
GMRA	Government Management Reform Act of 1994
HMDA	Home Mortgage Disclosure Act
IRS	Internal Revenue Service
IPA	Independent Public Accountant
JAMES	Joint Audit Management Enterprise System
MLR	material loss review
MOU	memoranda of understanding
MSB	money services business
OIG	Office of Inspector General
OCC	Office the Comptroller of the Currency
OFAC	Office of Foreign Assets Control
OFM	Office of Financial Management
OMB	Office of Management and Budget
OTP	Office of Tax Policy
OTS	Office Thrift Supervision
PCA	Private Collection Agency
PCIE/ECIE	President's Council on Integrity and Efficiency and Executive Council on Integrity and Efficiency
RRB	Railroad Retirement Board
SSA	Social Security Administration
TARP	Troubled Assets Relief Program
TCS	Treasury Communications System
TFI	Office of Terrorism and Financial Intelligence
TFIN	Treasury Foreign Intelligence Network
TIGTA	Treasury Inspector General for Tax Administration
TTB	Alcohol and Tobacco Tax and Trade Bureau
WCF	Working Capital Fund

Little Known Money Facts

DID YOU KNOW?

- The origin of the "\$" sign has been variously accounted for. Perhaps the most widely accepted explanation is that it is the result of the evolution of the Mexican or Spanish "P's" for pesos, or piastres, or pieces of eight. This theory, derived from a study of old manuscripts, explains that the "S," gradually came to be written over the "P," developing a close equivalent to the "\$" mark. It was widely used before the adoption of the United States dollar in 1785.
- Have you ever wondered how many times you could fold a piece of currency before it would tear? About 4,000 double folds (first forward and then backwards) are required before a note will tear.
- If you had 10 billion \$1 notes and spent one every second of every day, it would require 317 years for you to go broke.
- During fiscal year 2007, the Bureau of Engraving and Printing produced approximately 38 million notes a day with a face value of approximately \$750 million.
- The largest note ever printed by the Bureau of Engraving and Printing was the \$100,000 Gold Certificate, Series 1934. These notes were printed from December 18, 1934, through January 9, 1935, and were issued by the Treasurer of the United States to Federal Reserve Banks **only** against an equal amount of gold bullion held by the Treasury. These notes were used for transactions between Federal Reserve Banks and were not circulated among the general public.
- The 100 dollar note has been the largest denomination of currency in circulation since 1969.
- Five African Americans have had their signatures on currency. The four African American men whose signatures appeared on the currency were Blanche K. Bruce, Judson W. Lyons, William T. Vernon and James C. Napier. These men served as Registers of the Treasury. The fifth African American whose signature appeared on currency was Azie Taylor Morton. Ms. Morton was the 36th Treasurer of the United States. She served from September 12, 1977, to January 20, 1981.



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