



Semiannual Report To The Congress



October 1, 2003 – March 31, 2004

Office of Inspector General

DEPARTMENT OF THE TREASURY

HIGHLIGHTS IN BRIEF

Overall, during this semiannual reporting period, our **Office of Audit** issued 31 audit and evaluation reports. The **Office of Investigations** work resulted in 4 successful prosecutions, 4 cases accepted for prosecution, and 7 Reports of Investigation. Investigative activities also resulted in \$153,000 in recoveries and one personnel action.

Some of the significant results from our work this period are described below:

- We issued our audit report on the Department of the Treasury's FY 2003 consolidated financial statements on November 14, 2003. We rendered an unqualified opinion on the financial statements and reported two material weaknesses related to (1) Internal Revenue Service (IRS) financial management and reporting and (2) Electronic Data Processing controls over the Department's financial management systems. We also continued to report that the Department's financial management systems were not in substantial compliance with the Federal Financial Management Improvement Act.

FY 2003 represents the 2nd consecutive year that Treasury has successfully accelerated its reporting of financial and performance results.

- Our independent evaluation of the Department's information security policies and practices pursuant to the Federal Information Security Management Act (FISMA) found that, while some progress had been made, significant weaknesses continued. Of particular note, the Department reported that only 23 percent of its systems were certified and accredited, significantly lower than the 32 percent of certified and accredited systems reported for FY 2002.
- Our inquiry, requested by Treasury management, into the release of some 19,000 internal documents to former Secretary Paul O'Neill identified instances where classified and other sensitive information was included in those documents. After finding that these documents were released without adequate review, the Inspector General issued a "7-day" letter to the Secretary of the Treasury informing him about this serious deficiency in Departmental operations. In accordance with the Inspector General Act, the Secretary transmitted this letter to the Congress along with management's corrective actions to address these deficiencies.



April 30, 2004

The Honorable John W. Snow
Secretary of the Treasury
Washington, DC 20220

Dear Mr. Secretary:

Following is our Semiannual Report to the Congress. This report summarizes the activities of the Office of Inspector General for the 6-month period ending March 31, 2004. Fiscal Year (FY) 2004 represents our first full year of operations since approximately 70 percent of our resources were divested to the Department of Homeland Security Office of Inspector General. While smaller, we continued to perform important audits and investigations on a number of significant programs and activities of the Department.

For example, I am pleased that we were able to support the Department in meeting its goal to accelerate financial and performance reporting for the second year in a row, maintaining Treasury as an established leader in Government financial management. In this regard we issued our audit report on Treasury's FY 2003 Performance and Accountability Report on November 14, 2003. In that report we rendered an unqualified opinion on the financial statements, but also reported on the continuing material weaknesses over (1) financial management and reporting at the Internal Revenue Service and (2) EDP controls over financial systems.

Furthermore, the Department continues to have significant weaknesses in the area of information security. Our independent evaluation of the Department's information security program and practices performed in accordance with the Federal Information Security Management Act showed that while some progress had been made from the prior year, the Department lost ground in the critical area of certification and accreditation. One focus of our audit program going forward is to work with management to improve progress.

On February 3, 2004, Inspector General Rush, now retired, issued a "7-day letter" to you concerning a serious deficiency involving Treasury's safeguarding of classified and other sensitive information. The decision to issue that letter was related to the deficiencies we identified in conducting our investigation into the release of documents to former Treasury Secretary Paul O'Neill and related findings identified in two of our audit projects. The Department acknowledged the seriousness of these matters and is moving to correct the deficiencies.

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These are a few examples of the significant audits and investigations that we have continued to produce and demonstrate some of the important issues that remain in the Department of the Treasury post-divestiture. We will continue to give priority to providing effective oversight to as many of these significant issues as our remaining resources will allow.

Sincerely,

A handwritten signature in cursive script, appearing to read "Dennis S. Schindel".

Dennis S. Schindel
Acting Inspector General

FAREWELL TO INSPECTOR GENERAL RUSH



The Department of the Treasury Office of Inspector General (OIG) congratulates the Honorable Jeffrey Rush, Jr. on his April 2, 2004, retirement. Mr. Rush served the public for more than 35 years, including nearly 5 years as the Treasury Inspector General.

After serving 2 years in the U.S. Army as a Counterintelligence Specialist, Mr. Rush began his federal civil service career in 1971 as a Criminal Investigator with the U.S. Department of the Agriculture. He worked for the Agriculture OIG for 23 years in a variety of field and Headquarters positions. He was Acting Inspector General for the Peace Corps from 1993 to 1994 and the Inspector General of the U.S. Agency for International Development from 1994 until sworn in as the Treasury Inspector General on July 30, 1999.

Throughout his 5 years as the Treasury Inspector General, Mr. Rush provided our office with outstanding leadership. He played a key role in helping Treasury management accomplish the extraordinary goal of accelerating the issuance of the Treasury Department FY 2002 Performance and Accountability Report from 5 months to 45 days after the close of the fiscal year. This accomplishment resulted in the Treasury OIG receiving the first ever Hamilton Award, the highest honor bestowed upon an Inspector General organization by the President's Council on Integrity and Efficiency.

Mr. Rush also successfully guided the Treasury OIG through a major divestiture of its resources to help establish the Department of Homeland Security OIG. Under his steady leadership post-divestiture, our office continued its legacy of strong and effective oversight of the Department and the Treasury bureaus.



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Our Office

The Treasury's Office of Inspector General (OIG) was established pursuant to the 1988 amendment to the Inspector General Act of 1978, 5 USC Appendix §1. The OIG is headed by an Inspector General who is appointed by the President of the United States, with the advice and consent of the United States Senate. Serving with the Inspector General in the immediate office is a Deputy Inspector General. The OIG performs independent and objective reviews of Treasury programs and operations, except for the Internal Revenue Service, 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 performs audit and investigative services related to the Internal Revenue Service.

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

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

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

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



Furthermore, the OC conducts the OIG's ethics training, financial disclosure, and Freedom of Information Act programs.

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

OIG Values

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

About Treasury

The mission of the Department of the Treasury (Treasury) is to promote the conditions for prosperity and stability in the United States and encourage prosperity and stability in the rest of the world. Organized into bureaus and offices, the Treasury encompasses a wide range of programmatic and operational activities. Currently, approximately 115,300 people make up the Treasury. Of this workforce, the Internal Revenue Service has approximately 100,800 Full-time Equivalent (FTE) staff and the other Treasury bureaus and offices have approximately 14,500 FTEs.

Treasury Bureaus

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

Bureau of Engraving and Printing (BEP) manufactures paper currency and postage stamps, and other government documents.

Bureau of the Public Debt (BPD) manages U.S. Government borrowing, monitors the national debt, and processes bonds, notes, and T-Bill transactions.



Financial Crimes Enforcement Network (FinCEN) supports law enforcement investigative efforts against domestic and international financial crimes.

Financial Management Service (FMS) manages Federal government financial accounts.

Internal Revenue Service (IRS) collects income taxes and other forms of Federal revenue.

U.S. Mint (Mint) produces coins, medals, and coin-based consumer products.

Office of the Comptroller of the Currency (OCC) oversees and regulates all national banks and supervises the U.S. branches and agencies of foreign banks.

Office of Thrift Supervision (OTS) oversees and regulates all Federal- and many state-chartered thrift institutions.

Treasury Offices

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

Executive Office for Terrorist Financing and Financial Crimes (EOTF/FC) coordinates and leads the Department's multi-faceted efforts to combat terrorist financing and other financial crimes.

Office of Foreign Assets Control (OFAC) manages and enforces economic sanctions and embargo programs against targeted foreign governments and groups that pose threats to the national security, foreign policy, or economy of the United States.

Executive Office for Asset Forfeiture (EOAF) manages the **Treasury Forfeiture Fund (TFF)**, which supports Treasury's national asset forfeiture program in a manner that results in Federal law enforcement's continued effective use of asset forfeiture as a law enforcement sanction to punish and deter criminal activity.

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

Exchange Stabilization Fund (ESF) deals in gold and foreign exchange and other instruments of credit and securities as deemed necessary.



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

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

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

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



Financial Management

Consolidated Financial Statements

The OIG issued unqualified opinions on Treasury's consolidated financial statements for Fiscal Years (FY) 2003 and 2002. We reported two material weaknesses in internal controls related to: (1) financial management and reporting at the IRS; and (2) electronic data processing controls over financial systems, most notably at IRS and FMS. One other reportable condition was identified, which related to the need for financial management infrastructure improvements at TTB and Treasury's Office of International Affairs. We also continued to report that Treasury's financial systems were not in substantial compliance with the Federal Financial Management Improvement Act (FFMIA).

Treasury has established itself as a leader in accelerated performance and accountability reporting. The FY 2002 annual report was accelerated from more than 3 months to only 45 days after the close of the fiscal year, 2 years ahead of the Office of Management and Budget's (OMB) requirement for accelerated annual reporting. This was cited by OMB as one of the most significant achievements in furthering the President's Management Agenda for Improved Financial Performance and has served as a catalyst to encourage other agencies to accelerate their annual reports ahead of the mandated requirements.

FY 2003 was a year of significant change and accompanying challenges for Treasury, especially managing the divestiture of most of its law enforcement bureaus and activities to the Departments of Homeland Security and Justice. Despite these challenges, Treasury was able to sustain its accelerated schedule and submit its FY 2003 annual report on November 14, 2003.

Treasury also made progress during the past year in addressing financial management deficiencies identified by financial statement audits; however, longstanding deficiencies still persist. The material weaknesses at the IRS have, for the most part, existed since financial statement audits were initiated at the IRS in FY 1992. Similarly, computer security has been reported as a material weakness at Treasury since consolidated financial statement audits were implemented in FY 1997. **(OIG-04-003)**

In connection with our audit of Treasury's consolidated financial statements, we also issued a management letter that identified other matters, not required to be included in our report on the financial statements, where Treasury could improve the quality and efficiency of financial reporting. These matters included: (1) consistent financial reporting--certain Treasury component entities still prepare their financial statements in accordance with private sector instead of federal accounting principles; (2) analytical reviews of interim financial reports; and (3) improved processes for preparing the annual performance and accountability report. **(OIG-04-022)**



Federal Financial Management Improvement Act of 1996

The following instances of FFMIA non-compliance were reported in connection with the FY 2003 audits. The current status of these FFMIA non-compliances, including progress in implementing remediation plans, will be evaluated as part of our audit of Treasury's FY 2004 financial statements.

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

Other Financial Audits

The Chief Financial Officer's Act (CFO) 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 statements audits. The financial statements of certain other Treasury component entities are audited pursuant to other requirements, or due to their materiality to Treasury's financial statements. The OIG is also required to perform certain other financial related reviews. The following table shows audit results for FY 2003 and 2002.



Significant Audits and Evaluations

Treasury Audited Financial Statements and Related Audits						
<u>Entity</u>	<u>FY 2003 Audit Results</u>			<u>FY 2002 Audit Results</u>		
	<u>Opinion</u>	<u>Material Weaknesses</u>	<u>Other Reportable Conditions</u>	<u>Opinion</u>	<u>Material Weaknesses</u>	<u>Other Reportable Conditions</u>
GMRA/CFO Requirements						
Treasury Department	UQ	2	1	UQ	4	0
IRS (A)	UQ	4	2	UQ	5	2
Other Required Audits						
BEP	UQ	0	0	UQ	0	0
CDFI Fund	UQ	0	0	UQ	0	0
Office of DC Pensions	UQ	0	0	UQ	0	0
ESF	UQ	0	0	UQ	0	0
FFB	UQ	0	0	UQ	0	0
OCC	UQ	0	2	UQ	0	1
OTS	UQ	0	0	UQ	0	0
TFF	UQ	0	1	UQ	0	1
Mint						
Financial Statements	UQ	0	0	UQ	1	2
Custodial Gold and Silver Reserves	UQ	0	0	UQ	0	0
Material to Treasury Department Financial Statements						
BPD						
Schedule of Federal Debt (A)	UQ	0	0	UQ	0	0
Government Trust Funds	UQ	0	0	UQ	0	0
Schedule of Loans Receivable	UQ	0	0	UQ	0	0
FMS						
Treasury Managed Accounts	UQ	0	0	UQ	0	0
Operating Cash of The Federal Government	UQ	1	0	UQ	2	0
TTB Schedule of Custodial Activities	UQ	0	3	N/A	N/A	N/A
International Assistance Programs	(B)	0	1	(B)	0	0

N/A – Schedule was not audited before FY 2003
 (A) Audited by the U.S. General Accounting Office.
 (B) Significant accounts of the International Assistance Programs were audited as part of the FY 2003 and 2002 Treasury Department consolidated financial statement audit. No separate audit reports were issued. These accounts were considered materially accurate.



Significant Audits and Evaluations

The results of financial audits and attestation engagements issued by our Office this period that were performed as required by statute or in support of our audit of Treasury's FY 2003 consolidated financial statements are summarized as follows:

- An Independent Public Accountant (IPA), working under OIG supervision, rendered an unqualified opinion on **OCC's** FY 2003 financial statements. The audit identified two reportable conditions related to (1) duplicate payments for travel reimbursements and (2) documentation and security over system interfaces. No instances of reportable noncompliance with laws and regulations were identified. **(OIG-04-010)**
- An IPA, working under OIG supervision, rendered an unqualified opinion on EOAF's FYs 2003 and 2002 financial statements for the **TFF**. The audit identified one reportable condition related to the recording and accounting of the indirect overhead expenses of the National Seized Property Contractor at the line item level. No instances of reportable noncompliance with laws and regulations were identified. **(OIG-04-016)**
- An IPA, working under OIG supervision, rendered an unqualified opinion on **TTB's** FY 2003 Schedule of Custodial Activities. That Schedule presents the transactions related to the collection and disposition of revenue by TTB. The audit identified three reportable conditions related to: (1) controls over financial network operating systems, (2) controls over various financial and operational databases, and (3) oversight of the financial management process. No instances of reportable noncompliance with laws and regulations were identified. **(OIG-04-007)**
- Our Office or IPAs under our supervision issued unqualified opinions and noted no reportable conditions in internal control or reportable instances of non-compliance with laws and regulations for the financial statements and schedules prepared by the following bureaus and funds: (1) **OTS'** FYs 2003 and 2002 financial statements **(OIG-04-011)**; (2) **BEP's** FYs 2003 and 2002 financial statements **(OIG-04-012)**; (3) **FFB's** FYs 2003 and 2002 financial statements **(OIG-04-013)**; (4) **Office of D.C. Pension's** FYs 2003 and 2002 financial statements **(OIG-04-008)**; (5) **CDFI Fund's** FYs 2003 and 2002 financial statements **(OIG-04-015)**; (6) **ESF's** FY 2003 and 2002 financial statements **(OIG-04-021)**; (7) **Mint's** Schedule of Custodial Gold and Silver Reserves at September 30, 2003 and 2002 **(OIG-04-001)**; and (8) Schedule of Loans Receivable from Federal entities and related interest receivable serviced by **BPD** at September 30, 2003 **(OIG-04-006)**.

Additionally, an IPA under our supervision examined **BPD's** assertions pertaining to its Schedules of Assets and Liabilities as of September 30, 2003, and the related Schedules of Activities for the fiscal year then ended for selected trust funds. The Schedules related to functions performed by BPD's Trust Fund Management Branch as custodian of the following Trust Funds' monies and investments:



Federal Supplementary Medical Insurance, Federal Hospital Insurance, Highway, Airport and Airway, Hazardous Substance Superfund, Leaking Underground Storage Tank, Oil Spill Liability, Harbor Maintenance, Inland Waterways, and South Dakota Terrestrial Wildlife Habitat Restoration. The IPA concluded that BPD's assertions were fairly stated and there were no reportable instances of noncompliance with laws and regulations. **(OIG-04-004)** The IPA also examined, under our supervision, the processing of transactions related to (1) the investment accounts of various Federal and State Government agencies (Program Entities) maintained by BPD's Trust Fund Management Branch and (2) the investment accounts of various Federal agencies (Fund Agencies) maintained by BPD's Federal Investments Branch. The IPA found: (1) BPD's description of controls for these activities fairly present controls that had been placed in operation as of September 30, 2003; (2) controls were suitably designed; (3) controls tested by the IPA were effective during FY 2003; and (4) no instances of reportable noncompliance with laws and regulations. **(OIG-4-005 and OIG-04-009)**

Other Attestation Engagements

During the semiannual reporting period, our office performed the following attestation engagements pursuant to statute or other requirements, as follows:

- **Treasury Payments for DC Water and Sewer Services.** The District of Columbia (DC) Public Works Act of 1954, as amended, requires that bureaus make timely payments for DC water and sewer services. The Consolidated Appropriations Act of 2001 requires our office to submit a quarterly report to the House and Senate Committees on Appropriations analyzing the promptness of payments with respect to the water and sewer services furnished to Treasury by DC. For the first and second quarters of FY 2004, we found that the payments for these services were made promptly. **(OIG-4-002 and OIG-04-018)**



- **Treasury's Annual Reporting of Drug Control Funds.** Beginning in 1998, Treasury agency participation in the Organized Crime Drug Enforcement Task Force (OCDETF) program was funded through a separate appropriation, known as Interagency Crime and Drug Enforcement (**ICDE**) within Treasury. OCDETF was created in 1982 to mount a comprehensive law enforcement effort to dismantle sophisticated drug trafficking and money laundering organizations, and other related criminal enterprises.



We performed an attestation review of the following management assertions included in the **ICDE's** FY 2003 Annual Accounting of Drug Control Funds as



required by law: (1) the obligations reported by budget decision unit were the actual obligations from the accounting system of record for these budget decision units; (2) the methodology used to calculate obligations of FY 2003 budgetary resources by function and decision unit is reasonable and accurate; (3) the drug methodology disclosed in the report was the actual methodology used to generate the Table of FY 2003 Drug Control Obligations; (4) data presented was associated with obligations against a financial plan that properly reflects all revisions; and (5) the financial plan fully complied with all Fund Control Notices issued by the Director under 21 U.S.C. 1703 (F) and the Office of National Drug Control Policy (ONDCP) Circular section on budget execution. The Annual Accounting, including the assertions made, was prepared pursuant to 21 U.S.C. 1704 (d) and the ONDCP Circular *Drug Control Accounting*. Based on our review, nothing came to our attention that caused us to believe that management's assertions included in the Annual Accounting were not fairly stated, in all material respects, based on criteria set forth in the ONDCP Circular. **(OIG-04-017)**

It should be noted that this is the last year we will review ICDE annual reporting as the activity has transferred from Treasury to the Department of Justice.

Information Technology

Evaluation of Treasury's FISMA Implementation for FY 2003



The Government Information Security Reform Act (GISRA), enacted in 2000, brought focus to the program management, implementation, and evaluation aspects of the security in both unclassified and national security information systems. GISRA also required federal agencies to perform annual security reviews and OIGs to perform annual independent evaluations of their respective agencies' information security program and practices. The annual agency security reviews and OIG independent evaluations followed guidance issued by OMB. GISRA contained a sunset provision to end these requirements after 2 years. The Federal Information Security Management Act (FISMA), enacted as part of the E-Government Act of 2002, permanently reauthorized the framework set forth in GISRA, including the annual agency security reviews and OIG independent evaluations. In addition, FISMA included new provisions to further strengthen the security of the federal government's information and information systems.

Our FY 2003 FISMA evaluation found that Treasury's information security program and practices, as they relate to non-national security systems, need to be improved. Despite some progress by Treasury, many of the weaknesses observed in our FY 2002 GISRA independent evaluation continued to exist. For instance, Treasury's: (1) overall percentage of certified and accredited systems for FY 2003



(23 percent) was significantly lower than the percentage reported in FY 2002 (32 percent), (2) Plans of Action and Milestones to address security weaknesses were not always complete, (3) the computer security incident response capability was not fully functional, (4) program and system reviews did not always use the required National Institute of Standards and Technology's guidance, (5) critical operations and assets lacked interdependency analyses, and (6) employees did not receive sufficient information technology security training. We believe that the weaknesses in Treasury's information security program and practices constitute, in the aggregate, a material weakness in Treasury's management controls. In this regard, management reported lack of substantial compliance with FISMA as a material weakness under the Federal Manager's Financial Integrity Act. We recommended that the Treasury Chief Information Officer (CIO) provide effective oversight to ensure that Treasury implements the corrective actions necessary to achieve compliance with FISMA. **(OIG-CA-04-001)**

During the period, we also performed a FISMA independent evaluation of Treasury's classified information systems. Our classified report on the weaknesses noted was provided to the CIOs of Treasury and the Intelligence Community. **(OIG-CA-04-002)**

Program

Weaknesses in Controls Over Government Purchase Cards Found at FMS and the Mint



As a cost-cutting measure, Treasury directed all bureaus in December 1993 to begin using Government purchase cards for small purchases. The intent was to provide a low-cost, efficient way for bureaus to obtain goods and services directly from vendors. Treasury issued Treasury Directive (TD) 76-04, *Government Purchase Card Program*, to provide bureaus with guidance on the use of purchase cards. TD 76-04 states that the card is the preferable method for making micro-purchases up to \$2,500, requires bureaus and offices to establish approved uses and limitations on the types of purchases and spending limits, and requires a cardholder to receive training prior to receiving a purchase card. The Government purchase card can only be used for official business.

During the period, we completed audits on the use of Government purchase cards at FMS and the Mint. Our objective was to determine if the bureaus had adequate controls over their respective purchase card programs to ensure the cards were used as intended. We reviewed FMS and Mint purchase card program policies and procedures to determine if they were reasonably effective in preventing and detecting improper usage.



We found that internal control weaknesses in the purchase card programs exposed the two bureaus to, and in some case resulted in, improper and questionable purchases, as discussed below:

- FMS lacked fundamental separation of duties to prevent cardholders from performing incompatible functions. Consequently, some cardholders directed all aspects of a purchase card transaction from initiating purchases through approving final payment. We also found extensive deviations from prescribed policies and procedures that occurred throughout the purchase card process, beginning with the authorizing official level and extending to the cardholders and those responsible for post reviews. Procedural deviations included purchase authorizations, record keeping, monthly statement approvals, account reconciliations, and periodic reviews. Of 226 sampled purchase card transactions, 164 (73 percent) contained at least one or more deviations from policies and procedures.

Existing controls and procedures that could be reasonably expected to prevent or detect deviations from prescribed policies and procedures were often not followed. In 50 percent of the transactions that we reviewed, the authorizing officials did not adequately oversee or monitor purchases, billing reconciliations, and payment. The controls also did not sufficiently mitigate the risk of non-adherence to federal acquisition regulations by FMS cardholders. We found card purchases of construction services exceeding the \$2,000 limit established for these services, employee awards ceremony expenditures exceeding the \$250 limit established for food purchases, and split purchases that circumvented the \$2,500 single purchase limit.

Furthermore, inventory controls over nonexpendable items obtained with purchase cards were not always followed. Out of a sample of 29 nonexpendable items, FMS' inventory system could not account for 2 items. An additional 5 items were not entered in the inventory system until shortly after our inquiry. Contrary to prescribed procedures, the FMS Property Branch had not been made aware of the purchases for entry into the property tracking system.

- The Mint did not: (1) always comply with applicable policies, directives, or sound management practices, (2) did not have adequate documentation to support all purchases, and (3) made improper and questionable transactions. Of the transactions randomly selected, 23 percent were not recorded in a purchase log; 11 percent did not have a receipt; and 30 percent lacked documentation as to when items were received. Of 132 cardholders we interviewed, 30 percent told us that they allowed others to use their card, including 2 percent who told us that they shared their card with the Approving Official thereby negating the key control of supervisory review. Our audit also identified improper or questionable purchases. For example, our sample included 11 transactions involving prohibited gasoline and oil purchases. We



also found 15 improper split purchases, totaling over \$100,000. Ten (10) of these split purchases occurred at the Philadelphia Mint facility.

We attributed these internal control weaknesses and procedural deviations to either a lack of clarity, or gaps, in bureau purchase card prescribed policies and procedures. For example, FMS had not sufficiently emphasized internal control activities in its *FMS Purchase Card Handbook*. The handbook did not have a requirement for Approving Officials to validate purchases or sign off on the reconciliation process. It also allowed sign-off by a funding or budget official for purchases, rather than the unit manager or supervisor. Likewise, the Mint, in developing its internal purchase card policy, did not include certain requirements established by the *Treasury Financial Manual* or TD 76-04. The need for additional training of cardholders and Approving Officials was also evident at the two bureaus.

FMS and Mint management concurred with our recommendations to improve controls over purchase cards and had taken or planned corrective actions that were responsive to the recommendations. **(OIG-04-014 and OIG-04-029)**

Follow-Up Audit of the Processing of Alcohol and Tobacco Tax-Free Exports Found Continued Weaknesses

Alcohol and tobacco products may be exported tax-free directly from a manufacturer or export warehouse. The tax liability is relieved once the manufacturer or export warehouse proprietor provides Treasury acceptable proof of exportation. Previous audits of the former Treasury Bureau of Alcohol, Tobacco and Firearms (ATF) found that adequate proof of exportation was often missing in sampled closed cases or had not been submitted to ATF for review in a timely manner (OIG-99-123, issued September 15, 1999; OIG-01-019, issued November 3, 2000).



Our two prior reports included a total of 15 recommendations to strength controls over tax-free exports. ATF management agreed to implement these recommendations and subsequently asserted that it located or obtained export documentation for most of the sampled deficient cases, and had issued tax assessments for the other cases that had not passed the statute of limitations.

During a follow-up audit initiated at ATF while still part of Treasury, we found that corrective actions had been taken in the areas of guidance, training, and supervision. Nonetheless, we found continuing problems with missing records and inadequate documentation to support product exportation, including the deficient cases cited in our prior reports. We made several new recommendations to TTB,

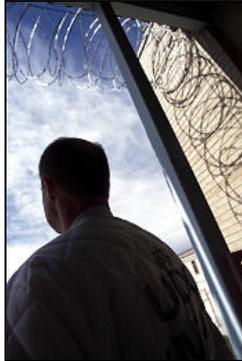


Significant Audits and Evaluations

which took over responsibility for excise taxes when most of the former ATF transferred to the Department of Justice in 2003, for improving internal controls over the current process of granting export tax waivers. Rather than try to strengthen a process that has continually failed to show improvement, TTB management countered with a plan to implement a post-audit process. This process will allow manufacturers to maintain their export records on-site subject to audit by the TTB Tax Audit Division. We believe this process, once formalized and if properly implemented, meets the intent of our recommendations and could strengthen the export verification process. **(OIG-04-028)**



Senior Computer Specialist Pleads Guilty to Child Pornography Charge



As reported in the previous period, an OIG investigation established that a former FMS Senior Computer Specialist used his government computer to collect child pornography. Forensic analysis revealed the presence of over 1,100 images of child pornography on the computer. The Senior Computer Specialist was terminated and pled guilty to one count of Possession of Child Pornography (18 USC 2252 A) and will be sentenced later this year. The subject faces 15 years imprisonment.



Former Acting Treasury CIO Debarred for Life for Making False Statements

A complaint filed with Treasury OIG alleged, as part of or in exchange for a \$5.8 million contract for cyber-security related software and consulting services, Treasury's former Acting CIO directed the contractor to place a \$1.5 million subcontract with a company owned by a friend of the CIO. Our investigation revealed that, in return, the CIO received various gratuities including jewelry and use of a time-share rental property located in the Bahamas. The former CIO agreed to plead guilty to making False Statements in Official Certificates or Writings (18 USC 1018) and to be debarred from doing business with the federal government for life.



Mint Account Technician Pleads Guilty to Submitting False Travel Documentation

In October 2002, the Treasury OIG responded to a complaint alleging that a former Mint Account Technician stole money by creating and submitting fraudulent travel vouchers to the bureau. Our investigation showed that the subject opened 5 bank accounts, using various fictitious names, then created, altered, and submitted 57 sets of travel documentation which resulted in unauthorized Electronic Fund Transfer payments totaling \$153,000 to personal bank accounts. The Account Technician has since pled guilty to making False Statements (18 USC 1001) and is scheduled to be sentenced on June 14, 2004. We will be issuing a Management Implication Report to the Mint about internal control weaknesses that enabled the fraudulent travel vouchers to be paid so that management can take corrective action.



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

An OIG investigation into the unauthorized use of the United States Treasury Seal, and forgery of the signature of a Treasury Official, resulted in the arrest and subsequent January 2004 indictment of an Illinois businessman for federal bank fraud charges.



Previously, Special Agents from Treasury OIG and the United States Secret Service (Secret Service) executed a search warrant at the individual's Chicago residence which yielded 86 boxes of evidence – confirming the subject's involvement in a variety of financial crimes to include the impersonation of a foreign government official, wire fraud, forgery, and uttering counterfeit obligations and securities. Further prosecutorial action is expected to push the current trial date to the summer of 2004.

Former Bank Owners and Another Individual Indicted for Fraud and Obstructing an OCC Examination

On November 20, 2003, a joint investigation with the Federal Deposit Insurance Corporation OIG and the Federal Bureau of Investigation resulted in a federal indictment of the two former owners of OCC-regulated Sinclair Bank. A third person, the owner of Stevens Investment Corporation, was also indicted as a co-conspirator. The three defendants are charged with nine counts for conspiracy to fraudulently obtain control of a federally insured bank with the purpose of using bank assets for personal gain, false statements, obstruction of a bank examination, illegal participation, misapplication of bank funds, and bank fraud. The bank lost \$3 million while the fraudulent investment scheme cost Missouri residents \$60 million. Trial is scheduled for July 2004.



Former FMS Employee and Spouse Indicted for Conspiracy that Led to the Sole-Source Placement of Training Contracts



A former FMS employee was arrested for defrauding the government by abusing her position of trust in the overall procurement process. From January 1999 through December 2000, the former Employee Development Specialist directed the placement of more than 100 government training contracts, valued at more than \$139,600, to software training businesses owned by her spouse. A search warrant of the couple's residence resulted in the seizure of various relevant documents.

Also, more than \$60,000 in the former employee's bank account was frozen. Both subjects have been indicted on one count of conspiracy, 15 counts of wire fraud, and



10 counts of conflict of interest. Further judicial action is anticipated in the summer of 2004.

Company President Pleads Guilty to Payment of a Gratuity – Business Debarred



A joint Treasury OIG and Army Criminal Investigation Command investigation, focused on the misuse of government purchase cards issued under the International Merchant Purchase Authorization Card (IMPAC) program, disclosed that the president of Plum Resources provided gratuities to Treasury and other federal employees. The subject recently pled guilty before the United States District Court, Eastern District of Virginia, to Payment of a Gratuity (18 U.S.C. § 201). As part of the plea agreement, the subject was debarred from doing business with the United States Government for the next 15 years and was sentenced to 6 months home confinement, 24 months probation, and assessed a \$100 fine.

District Resident Charged in Fraud Targeting the Mint



A Washington, DC resident was charged with engaging in a scheme to defraud the Treasury by mailing worthless personal checks from a non-existent bank account to the Mint and receiving various Mint coin products. In addition, the Mint remitted the unfilled portion of the subject's original order by issuing a United States Treasury Check which he later negotiated. The Treasury OIG, with the assistance of the Secret Service Metro Area Fraud Task Force, executed an arrest warrant for this subject and recovered evidence that led the U.S. Attorney's Office to charge him with Uttering Worthless Checks (22 D.C. Code, Section 3241, 3241(c) (2001 ed.) and Theft (22 D.C. Code, Section 3211). The individual received 180 days suspended sentence with 2 years' probation.

District Resident Arrested in Real Estate Scam Offering False Instrument Secured by the Treasury Secretary as the Trustee

A Washington, DC resident was arrested by the OIG for intent to defraud the Government – Uttering a Worthless Instrument (22 D.C. Code, Section 3241, 3241(c) (2001 ed.). The subject presented a real estate company with a false written instrument to purchase property. He altered the document to reflect that Treasury, with the Secretary acting as trustee, possessed a private "set-off" account in the amount of approximately \$470,400. The judicial disposition of this investigation is pending.



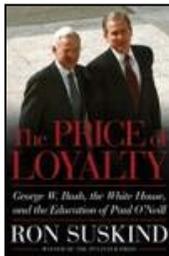


Non-Profit Organization Diverted CDFI Program Award Funds for Personal Expenses

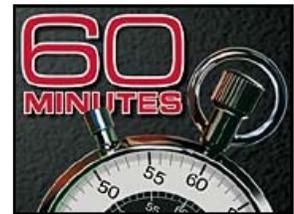
An OIG investigation revealed that a non-profit organization received loan proceeds disbursed from CDFI Program funds for developing affordable elderly and disabled housing. This organization defaulted on the loans and may have diverted proceeds for personal expenses. Although the United States Attorney's Office declined to prosecute, administrative suspension and debarment action is being considered.

Improper Release of Classified and Sensitive Treasury Documents to Former Treasury Secretary

The day following the January 11, 2004, appearance of former Treasury Secretary Paul O'Neill on the CBS television show **60 Minutes**, Treasury officials requested that our office initiate an



inquiry to gather the facts surrounding the Treasury's reported release of some "19,000 internal documents" to Mr. O'Neill. Of



immediate concern was the need to ascertain whether these documents – one that was shown on **60 Minutes** and others which were said to have been used as reference material by former Wall Street Journal writer Ron Suskind to write a forthcoming book (*The Price of Loyalty: George W. Bush, the White House, and the Education of Paul O'Neill*) –

contained classified information and, therefore, may have been compromised posing a threat to national security.

During the course of our investigation, we confirmed classified information was compromised. Treasury and intelligence community officials have since taken steps to minimize any further compromise of national security information. We noted serious weaknesses in intra-, inter-, and extra-departmental controls related to the creation, proper classification, dissemination, storage, and release of national security information, as well as other sensitive information.

This matter has been presented to and reviewed with officials of the Department of Justice who, at the present time, have found no reason to pursue any of our findings as a violation of criminal law. Upon conclusion of our investigation, we will issue a Management Implication Report detailing the results of interviews and record reviews to assist Treasury management in addressing known failures and weaknesses that contributed to the mishandling of national security and other sensitive information.



“7-Day Letter” Highlights Problems in the Handling of Classified and Sensitive Information within Treasury

Section 5(d) of the Inspector General Act, provides that the Inspector General report immediately to the Secretary of the Treasury any particularly serious deficiency found in the operations of Treasury, which the Secretary must forward to the appropriate Congressional committees within 7 days. Pursuant to this provision, Inspector General Rush issued a memorandum to Secretary Snow on February 3, 2004, that identified problems in the handling of classified and other sensitive information, and summarized three recently completed and on-going investigative and audit projects. The investigation involved the release of classified and other sensitive documents to former Secretary O’Neill without adequate review. One of the audit projects, our FY 2003 independent evaluation under FISMA of Treasury’s information security program and practices, found information security weaknesses in Treasury’s national security systems. The other audit project found weaknesses in the automated process by which certain Treasury bureaus obtained sensitive and classified intelligence information.

**The Inspector General Act of 1978,
As Amended**

Section 5 (d) – Each Inspector General shall report immediately to the head of the establishment involved whenever the Inspector General becomes aware of particularly serious or flagrant problems, abuses, or deficiencies relating to the administration of programs and operations of such establishment. The head of the establishment shall transmit any such report to the appropriate committees or subcommittees of Congress within seven calendar days, together with a report by the head of the establishment containing any comments such head deems appropriate.

In accordance with requirements of Section 5(d), the Secretary forwarded the Inspector General’s Memorandum to the responsible Congressional committees on February 6, 2004, and outlined the corrective action taken, and to be taken, by Treasury regarding the problems identified in the Memorandum.

OIG Meets With Russian Federation Official

During the period, the Deputy Inspector General and other OIG executives met with Prof. Dr. Mstislav Afanassiev, Secretary General of the Audit Office of the Russian Federation, to discuss the Inspector General mission and our audit and investigative program at Treasury. Our meeting was arranged through Treasury’s Office of International Affairs.





Office of Audit

FMS Modifies Contract for Assessment of General Computer Controls



In December 2003, FMS entered into a contract with an IPA to assess FMS' general computer controls in accordance with standards and guidance established for Federal auditors. The contract required, among other things, that the IPA determine whether the deficiency in FMS' general computer controls reported in our audit of FMS' cash balances at September 30, 2003, was properly classified as a material weakness.

The contract for audit services was negotiated by FMS without the advance knowledge and concurrence of our office in contravention of the Inspector General Act and the Chief Financial Officers Act. These laws confer on the Inspector General the sole responsibility for determining when it is appropriate to use non-federal auditors for financial statement audit work.

In a memorandum dated February 18, 2004, the Assistant Inspector General for Audit informed the FMS Commissioner about our serious concerns with this contract. After additional correspondence and a series of meetings involving FMS and Departmental officials, including the Fiscal Assistant Secretary, the Assistant Secretary for Management and Chief Financial Officer, and the Procurement Executive, FMS modified the contract to remove the improper requirement.

On February 29, 2004, Inspector General Rush issued a memorandum to Departmental Officials and Treasury Bureau Heads reminding them of Treasury policy implementing Inspector General Act requirements that our office be informed of, and review, all solicitations, offers or proposals for acquisition of auditing services, and that contracts for such services should not be entered into without the concurrence of the OIG. To assure independence and to avoid even the appearance of conflicts, the memorandum also advised that our office must be informed of all proposed solicitations, offers or proposals for accounting, evaluation, or consulting services, to be performed by firms that also provide independent public accounting services.

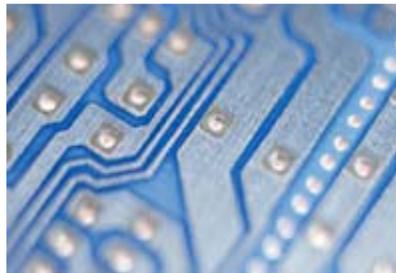
Inspector General Testifies On FISMA

On March 16, 2004, Inspector General Rush testified before the Subcommittee on Technology, Information Policy, Intergovernmental Relations and the Census of the House Committee on Government Reform in its hearing on *Information Security in the Federal Government: One Year into the Federal Information Security Management Act*. Also testifying at this hearing were officials from GAO, OMB, Department of Commerce, Nuclear Regulatory Commission, Department of Health and Human Services, and Department of Justice. As requested by the



Other OIG Activity and Accomplishments

Subcommittee Chairman, the topics covered in the Inspector General's testimony were: (1) the state of information security at the Treasury Department, (2) the methodology used to audit Treasury's information security policies and practices and the resources available to our office for this work, and (3) the circumstances that led to the delay in reporting our FISMA results for FY 2003.



With respect to the first topic, Mr. Rush informed the Subcommittee that FY 2003 was the 3rd year we assessed the information security programs and practices in Treasury, first under GISRA then under FISMA. All three assessments, as well as management's own assessments, identified serious deficiencies in information security throughout Treasury. These deficiencies are summarized on page 10. Mr. Rush noted that while some progress had been made, these weaknesses have largely gone uncorrected and, in fact, in the critical area of certification and accreditation, Treasury's performance declined. Mr. Rush gave credit to Treasury management for declaring the lack of substantial compliance with information security requirements as a material weakness under the Federal Manager's Financial Integrity Act based on our FY 2002 evaluation, and for continuing to report this deficiency as a material weakness for FY 2003.

With regard to the second and third topics, Mr. Rush informed the Subcommittee that for our FY 2003 evaluation of Treasury's information security program and practices, we followed the guidance issued by OMB. With respect to the 3-month delay in our reporting of the FY 2003 FISMA results, Mr. Rush provided the Subcommittee with background on the divestiture of approximately 70 percent of our staff to the Department of Homeland Security in March 2003 pursuant to the Homeland Security Act of 2002. Through this divestiture and subsequent attrition, our IT Audit staff was reduced from 14 to 5 and we determined that our office could not complete the FISMA evaluation on schedule and sustain an accelerated audit of Treasury's FY 2003 financial statements. In consultation with Treasury and OMB officials, Mr. Rush advised that priority was given to our audit of the Treasury's FY 2003 financial statements. We committed to issue our FISMA report 1 month later. Mr. Rush concluded his testimony by advising the Subcommittee that to meet the anticipated deadline for FY 2004 FISMA reporting, our office planned to contract out the independent evaluation for Treasury's non-national security systems.

External Quality Control Reviews

Audit organizations that perform audits of federal government programs and operations are required by *Government Auditing Standards* to undergo an external quality control review every 3 years. The objective of a quality control review is to determine whether the organization's internal quality control system is in place and



operating effectively to provide reasonable assurance that established policies and procedures and applicable auditing standards are being followed.

During this semiannual period, we completed a quality control peer review of the Department of Energy (DOE) OIG's Office of Audit and issued our report on the results of the review to the DOE Inspector General on February 27, 2004. An external quality control review of our Office of Audit by the National Aeronautics and Space Administration OIG was in progress at the end of the period.

Office of Investigations

Enhancing Internal Operations

In FY 2004, we initiated a "bottom-up" review of all OI operations to ensure a "best practices" approach while conducting the people's business. This will ensure the President's Council on Integrity and Efficiency (PCIE) and Executive Council on Integrity and Efficiency (ECIE) goals related to the Quality Standards for Investigation and Inspection are known, fully understood, and integrated within the office and thereby allowing us to achieve accountability – from internal quality assurance and IG community peer reviews through the OI oversight inspections we do of Treasury operations – in addition to attaining outcome-oriented results in furtherance of the Treasury and OIG strategic and annual planning processes. To date, we have taken specific actions to ensure standards-driven investigative operations are including:

- **Completion of an "Allegation through Adjudication" Workflow Analysis** – identifying the entire investigative process, from allegation through adjudication, to better articulate, integrate, and assess our work along the lines of established investigative priorities (IP), self-assessed internal measures (IM), externally reported performance measures (PM), and customer survey (CS) feedback.
- **Completion of a PCIE-ECIE Standards-Based "Case Event" Workflow Analysis** – identifying the internal case events that occur during the life of an investigation and overlaying the specific PCIE-ECIE standards to be met if we are to fulfill our performance requirements as well as conduct and undergo an IG community peer review.
- **Creating a Standards-Based Investigative Focus** – drafting policy and procedures in a new chapter of the Treasury OIG-OI Special Agent Handbook that will implement the 2003 PCIE-ECIE general and qualitative standards for investigations as well as the 1993 PCIE inspections standards throughout our workforce.

PCIE-ECIE PEER REVIEW SCHEDULE

FY2005 – In the second quarter, Interior OIG's Office of Investigations will conduct a peer review of Treasury OIG-OI.

FY2006 – In the second quarter, Treasury OIG-OI will conduct a peer review of the Federal Deposit Insurance Corporation OIG's Office of Investigations.



- **Comprehensive Review of Existing Policy for Standards Compliance** – performing an in-depth assessment of each chapter of the Treasury OIG-OI Special Agent Handbook to ascertain compliance with the PCIE-ECIE investigative and inspection standards as well as ensuring implementation of major changes to existing Department of Justice (DOJ) policy and procedures.

Our Investigative Roadmap and Current Operations

Over the years, criminal investigators within the IG community have consistently contributed to the prosecution of thousands of wrongdoers and the recovery of billions of dollars annually. Even through the realignment of the OI mission involving the Congressional creation of the Treasury Inspector General for Tax Administration in 1998 and the 2003 divestiture associated with the Homeland Security Act of 2002, Treasury OIG contributions remain significant when assessed against fiscal and continuing personnel resource allocation challenges.

As set forth in the Treasury OIG's Annual Plan for FY 2004, the Investigative Priorities (IP) of this office also drives our conventional and proactive or preventative initiatives within and across the three IPs. Moreover, our IPs are established with a purpose of being able to be independent and objective, but still support Treasury's strategic planning process by aligning our fraud detection and prevention activities to run parallel with the

domestic and international programs and operations that drive Treasury's financial mission. And, where appropriate, we do so jointly in coordination with our fellow OIG community investigative partners in those departments and agencies who have similar missions.

IP1 – Allegations of Serious Employee Misconduct.

IP2 – Allegations of Fraud Involving Treasury Contracts, Grants, or Agreements.

IP3 – Allegations of Fraud Involving Failed Financial Institutions

While the types of fraud and other financial crimes investigated by this office are diverse (**Chart 1**), the top priority among our current IP activity (**Chart 2**) is the investigation of **Allegations of Serious Employee Misconduct** (IP1), including violations of the Ethics in Government Act, Title 18 and other crimes of the United States Code, and any other serious misconduct as prohibited by the Standards of Ethical Conduct for Employees of the Executive Branch. Also, several bureaus and offices of Treasury have additional rules and regulations relating to ethical standards for employees of those bureaus and offices. OI refers our investigative products to the DOJ Office of General Counsel and other Treasury officials for appropriate criminal, civil, or administrative action.



Chart 1

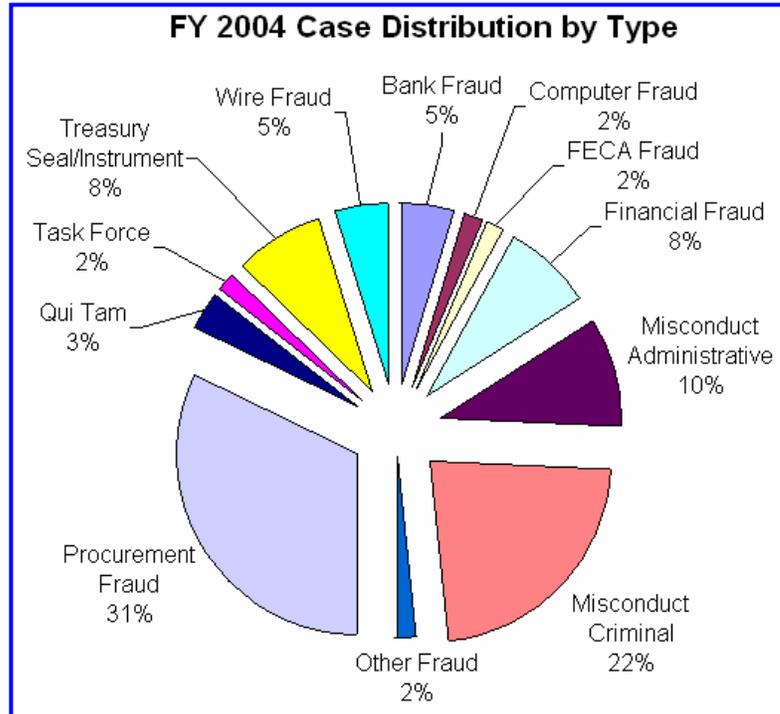
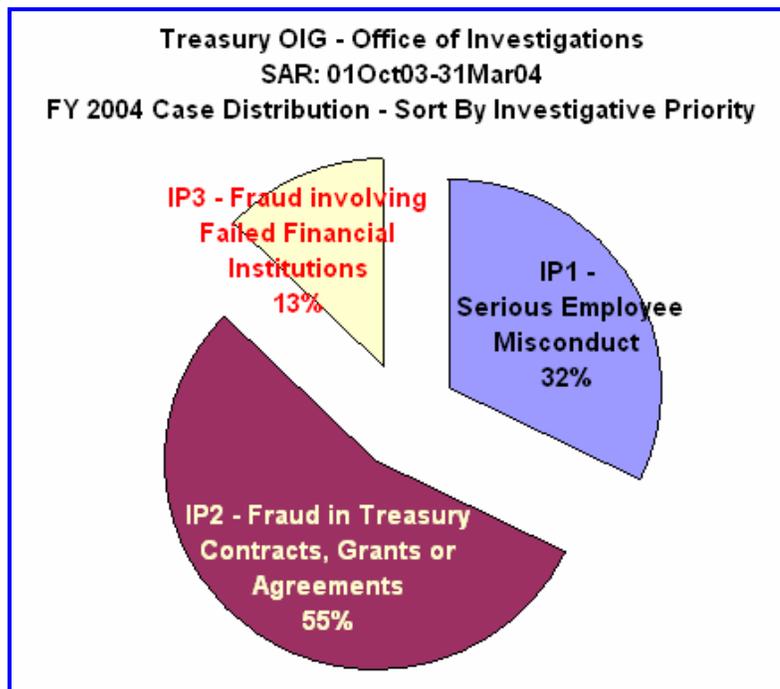


Chart 2





Allegations of Fraud Involving Treasury Contracts, Grants or Agreements (IP2) often involve contractors who are providing or seeking to deliver various financial-oriented goods or services to Treasury. Complaints are received from employees, contractors, members of the public, and the Congress alleging criminal or other misconduct constituting a violation of law, rule, or regulation. Working through the Treasury's Office of the Procurement Executive in addition to other departmental bureau and office contracting executives, the OIG has implemented a proactive **Procurement Initiative**, which is inclusive of the Government's International Merchant Purchase Authorization Card (IMPAC) program, designed to:

- Treasury awarded \$3.3 billion in contracts.
- Of the \$3.3 billion in contracts awarded in FY 2003, Treasury placed \$2.8 billion directly, with the remainder being placed by other agencies on Treasury's behalf.
- \$889.7 million or 27 percent of the FY 2003 contracts were awarded to small and disadvantaged businesses.
- Approximately 80 percent of Treasury's contracts are firm-fixed price contracts.
- In FY 2002, Treasury employee's purchased in excess of \$188 million of goods and services using the Government purchase card.

- Ascertain information about Treasury contracts.
- Educate and reaffirm the role of the OIG in detecting and preventing fraud.
- Determine if contractors have submitted fraudulent claims relating to Treasury contracts.

Allegations of Fraud Involving Failed Financial Institutions (IP3) includes the entities that are regulated by OCC and OTS. Due to the complex and rather unique regulatory and enforcement role Treasury has within this community, our criminal investigations generally focus on failed financial institutions and are conducted jointly with our colleagues at the Federal Deposit Insurance Corporation and the Federal Bureau of Investigation.



To complement our three-tiered IP efforts, OI's **Quality Assessment Review (QAR)** activity in FY 2004 is designed to focus upon enhancing not only our traditional oversight role of Treasury bureaus and offices, but to improve upon the overall economy, efficiency, and effectiveness of operations while preventing and detecting fraud within and against Treasury programs. During this reporting period, OI completed a QAR of the Mint Police operations in Washington, DC (see box on next page). Preparation for a second QAR of the BEP Police is already underway.

While our oversight function has predominantly involved Treasury's law enforcement bureaus, we plan to look at other Treasury operations in FY 2005 – namely, OCC, OTS, the Executive Office for Terrorist Financing and Financial Crimes (EOTF/FC), FinCEN, and TTB. Our QAR activity will focus on: (1) enforcement policy and procedures, (2) the historical nature of regulatory violations, and (3) the type of enforcement actions taken or overseen (administrative, civil, or criminal). In addition to ascertaining this type of background information, our objective includes achieving the following outcomes:



Other OIG Activity and Accomplishments

- Acceptance and further promulgation of the OIG role as relates to preventing and combating fraud in Treasury programs as well as the investigation of crimes involving Treasury programs and employees (i.e., fraud, obstruction, threats, etc.).
- Cooperative, timely, and simultaneous notification of reports or referrals related to suspected or known criminal activity to the Treasury OIG in accordance with existing Treasury policy and procedures.
- Enhanced training leading to the detection of the indicators of suspected or actual criminal activity.
- Coordination of proposed or planned Treasury civil or administrative enforcement actions to ensure for proper and more effective and efficient “global fraud remedies” – to include the use of parallel proceedings allowing for criminal actions by DOJ.

FY 2004 Mint Police QAR

The objective of our QAR was to, (1) identify the nature of the cases being reported, (2) the quality and timeliness of internal investigations, (3) the internal quality control of investigative reports, and (4) whether the investigative results are being reported to the appropriate action official(s). During our review, we examined Mint Police duties and responsibilities and assessed the internal quality control of investigative reporting. All Mint Police Directives and a random sampling of incident reports (10/01/02-12/31/03) were reviewed. Under separate correspondence to the Mint and the Mint Police leadership, a copy of our QAR findings has been forwarded for their consideration and comment as relates to the implementation of our recommendations.

Prevention and Detection Activities

Integral components of the OI **Public Outreach Initiative**, our Integrity Awareness Briefing (IAB) and Fraud Awareness Briefing (FAB) projects, focus on the prevention and detection of standards of conduct or conflict of interest violations as well as fraudulent-related crimes within and directed against Treasury operations. During this reporting period, OI has:

- Re-designed our IAB and FAB training materials.
- Made the IAB and FAB training materials available to Treasury employees as well as the general public by posting them to the Intranet and Internet web sites.
- Partnered with Treasury OIG’s Office of Counsel and Treasury’s Designated Agency Ethics Officials (DAEOs), procurement or contract, and other Treasury officials to “field test” and schedule the delivery of briefings across Treasury in the second half of FY 2004.
- Begun liaison with the World Bank, and other OIG community members having international missions, to jointly identify, detect, and prevent fraud in the Office of International Affairs \$1.47 billion budget for the Treasury International Accounts – including multilateral development banks and technical assistance.





Other OIG Activity and Accomplishments

- As an outgrowth of the liaison associated with the FAB project, initiated the District of Columbia (DC) Pension Fund and FMS Treasury Check Fraudulent Claims projects.

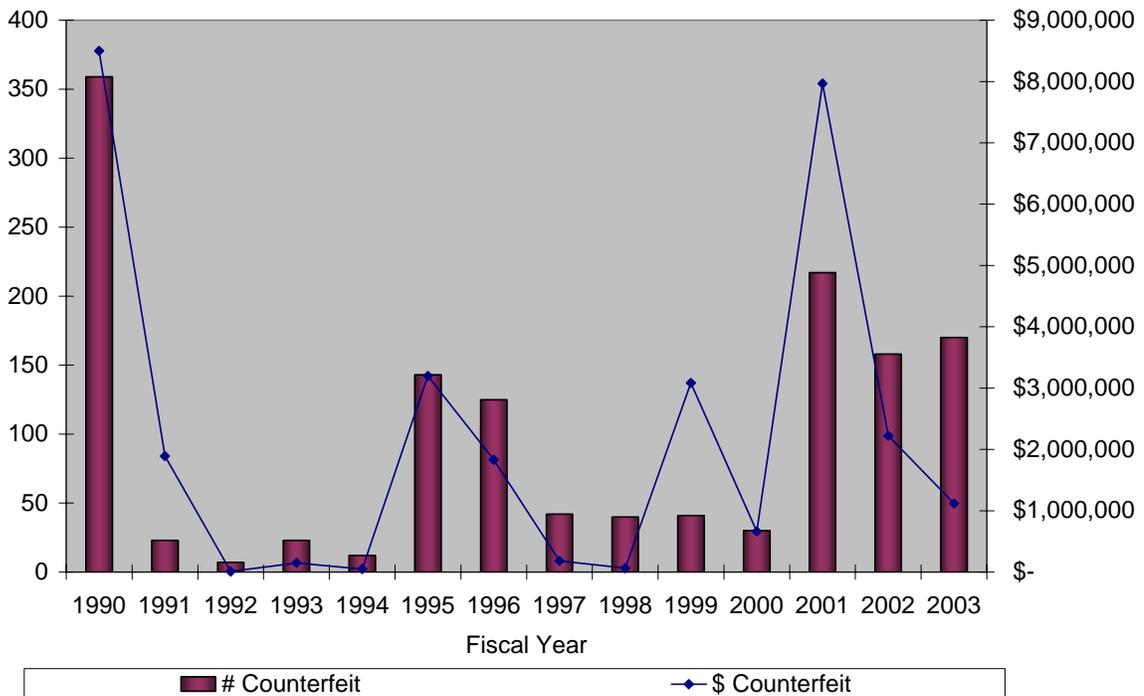
Our **DC Pension Fund (DCPF)** effort involves an ongoing review of the federal government's responsibility to pay benefits (based on service accrued through June 30, 1997) for the retirement plans of police officers, firefighters, and teachers. In 1999, Treasury established the Office of DC Pensions (ODCP) to carry out the Secretary's responsibilities under the Balanced Budget Act of 1997; namely, to administer the District of Columbia Pension Liability Trust Fund, the District of Columbia Judicial Retirement and Survivors Annuity Fund, and the Federal Supplemental District of Columbia Pension Fund. BPD FY 2003 statistics indicate that BPD manages an estimated 13,381 annuitants and disburses nearly \$6.2 million a month (\$74.4 million annually) across these three funds in accordance with the ODCP's investment policies. The goal of the DCPF project is to assist ODCP in identifying and preventing potential fraud and abuse throughout the Office's administration of pension benefits. Together, we are designing and initiating proactive measures like implementing safeguards to identify suspicious claims, routine monitoring of pension recipients for accuracy insurance, internal control reviews, and preventive education.

The Treasury Check Fraudulent Claims (TCFC) project is a joint Treasury OIG-FMS endeavor designed to combat the fiscal challenges facing Treasury caused by those who would submit fraudulent or false claims involving Treasury checks. In FY 2003, Treasury disbursed 268.3 million payments and initiated almost 1.5 million claim inquiries in response to non-receipt, lost, stolen, or forgery allegations. Of these, some 44,000 claims involved acts of forgery – causing FMS to issue some replacement checks, covered by the Check Forgery Insurance Fund, while the remaining 34,777 forged checks (non-receipt) valued at \$43.8 million caused Treasury to initiate a collection action (namely, requesting a refund from the financial institution that erroneously accepted checks for encashment bearing forged or unauthorized endorsements). FMS also reports 455 altered checks valued at \$3.7 million and 170 counterfeit checks valued at \$1.1 million for this time period.



Other OIG Activity and Accomplishments

Treasury FMS: Altered & Counterfeit Checks
FY 1990 - FY 2003



Historically, FMS has requested investigative assistance from the Secret Service in order to gather facts related to unresolved claims. In these instances, the check must have a value in excess of \$500, have been negotiated within the United States, and possess a written endorsement. With the transfer of the Secret Service to the Department of Homeland Security (DHS), FMS reports 1,615 requests involving nearly \$12.4 million in unresolved claims during FY 2003 with a similar caseload building in FY 2004 requiring investigation. Not surprisingly, these Treasury check-related claims stem from work done by FMS in large part for the Social Security Administration (60 percent), IRS (33 percent), and Veterans Administration (4 percent).

Preliminary estimates indicate 150 to 200 Criminal Investigators (Special Agents) have historically engaged in processing such requests. In our post-DHS divestiture environment, Treasury OIG-OI finds itself with 19 Special Agents – 12 (63 percent) of which are GS-1811-13 personnel or below dedicated to combating the full breadth and depth of the diverse types of fraud and financial-oriented crimes at Treasury. This office has nonetheless committed to a review of those Treasury check actions for which a fraudulent claim is suspected or known by the FMS Financial Processing Division's Questioned Documents Branch. Treasury OIG is committed to review and revise our existing Memorandum of Agreement with the Secret Service to clarify FMS-related roles and responsibilities given its departure to DHS.



Other OIG Activity and Accomplishments

A final component of our **Public Outreach Initiative** is the **Public Awareness Reporting (PAR)** project – a proactive effort to alert Treasury employees, contractors, and the public regarding the investigative actions of Treasury OIG. Working in collaboration with the Treasury OIG Office of Counsel and Office of Management, OI now posts Treasury-related press releases – crafted in cooperation with our federal, state, and local prosecutorial partners – to the Treasury Intranet and Internet. Simply stated, our objective is to better inform, educate, and gain the deterrent effect – associating improper to illegal conduct with criminal justice and administrative sanctions.

Breaking the Cycle: Providing Feedback to Treasury Leadership

To ensure that the administrative “lessons learned” from our investigative work become part of the continual cycle leading to necessary change within the Treasury, OI employs a **Management Implication Report (MIR)** process which alerts Treasury’s management and senior leadership about systemic or programmatic deficiencies or vulnerabilities within Treasury programs or operations to fraud, waste, or abuse. The MIR process includes recommendations that are designed to correct or minimize the problem(s) identified during the course of an investigation. Corrective actions may require administrative, procedural, policy, regulatory, or legislative change. During this reporting period, OI has issued three MIRs. A brief summary of the investigations that led to the issuance of two of the MIRs appear in the Significant Investigations section of this report.

Conclusion

We are committed to developing a more vigorous, comprehensive, and capable investigative program. The initiatives we have outlined here will start to position us to deliver on that commitment. However, the reality is that with a post-divestiture resource level of under 25 positions in the Office of Investigations, many of these initiatives will not get much past the formative stage. Should more resources become available we will be in a better position to carry out meaningful investigative efforts in each of these areas. That will enable us to better ensure that we are giving adequate attention to these numerous Treasury programs and activities as well doing our part to better protect the very substantial assets under Treasury’s stewardship.



Summary of OIG Activity

April 1, 2003 to March 31, 2004 (Dollars in Thousands)

	4/1/03 – 9/30/03	10/01/03 – 3/31/04
OIG Activity	Number /Amount	Number /Amount
Reports Issued (Audits and Evaluations)	24	31
Reports Issued & Oversight Reviews (Investigations)	40	7
Regulation and Legislation Reviews	4	85
Disputed Audit Recommendations	0	0
Significant Revised Management Decisions	0	0
Management Decision in Which the IG Disagrees	0	0
Instances Where Information Was Refused	0	1
Number of Hotline Calls	736	922
Monetary Benefits (Audit)		
a) Questioned Costs	\$240	\$0
b) Funds Put to Better Use	\$3,597,000	\$0
c) Revenue Enhancements	0	\$0
Total Monetary Benefits (Audit)	\$3,597,240	\$0
Monetary Benefits (Investigations)		
a) Fines/Restitutions	\$7	\$0
b) Recoveries	\$27	\$153
c) Savings/Cost Avoidance	0	\$0
Total Monetary Benefits (Investigations)	\$34	\$153

Significant Unimplemented Recommendations

As of March 31, 2004, for Reports Issued Prior to April 1, 2003

Report Number	Issue Date	Report Title and Recommendation Summary
OIG-99-123	9/99	<i>Bureau of Alcohol, Tobacco and Firearms Controls Over Tax Free Spirit Exports</i> The ATF Director should amend 27 CFR to include specific timeframes for Distilled Spirits Plants to submit documents that support claimed exports and additional guidance defining adequate export evidence. (1 recommendation) TTB management is responsible for the audit follow-up on the recommendation.
OIG-01-014	11/00	<i>Review of Treasury Computer Security Plans</i> The Treasury CIO should: (i) correct system vulnerabilities identified in Departmental Offices systems, update Departmental Offices system security plans, ensure through the Certification and Accreditation process that system security plans are kept up-to-date and that new system vulnerabilities are identified and addressed; and (ii) develop a means to identify all existing and



Significant Unimplemented Recommendations

As of March 31, 2004, for Reports Issued Prior to April 1, 2003

Report Number	Issue Date	Report Title and Recommendation Summary
		newly developed Departmental Offices systems. (1 recommendation)
OIG-01-019	11/00	<i>Alcohol, Tobacco and Firearms Needs to Improve its Controls Over Tax-Free Tobacco Exports</i> The ATF Director should establish controls to ensure Tobacco Unit specialists properly monitor open notices of removal listed in the pending files. Consideration should be given to developing an automated tracking system that begins assessment action on all shipments not cleared within 90 days. (1 recommendation) TTB management is responsible for the audit follow-up on the recommendation.
OIG-01-025	12/00	<i>Final Report on the Review of Treasury's Infrastructure Protection Program</i> The Assistant Secretary for Management and Chief Financial Officer (ASM/CFO) should ensure that critical infrastructure assets are immediately identified and prioritized. Specifically, the ASM/CFO should ensure: (i) Treasury completes its identification of Treasury critical infrastructure and prioritize those assets that support Presidential Decision Directive (PDD) 63 in order to assess vulnerabilities and request adequate funding for remediation efforts; and (ii) the Treasury CIO obtains the information necessary to management and oversee all of Treasury information technology efforts, in addition to satisfying requirements specific to PDD 63 to support the development of a Department-wide database of Treasury information systems. The Treasury CIO should be responsible for determining the level of detail necessary to carry out these efforts and provide for adequate security over the database. (1 recommendation)
OIG-01-026	12/00	<i>Review of Surcharges from the Sale of Commemorative Coins</i> The Mint Director should ensure that the Mint's implementation of Activity Based Costing (ABC) provides equitable and cost effective methods for allocating general and administrative (G&A) costs. The Mint should also ensure that its implementation of ABC with regard to G&A activities is completed in a timely manner. (1 recommendation)
OIG-02-078	4/02	<i>Revenue Collection: ATF Needs to Improve Its Offers in Compromise Process</i> The ATF Director should: (1) take appropriate action to ensure that N-Spect integration efforts progress as originally planned and/or an appropriate case tracking system is implemented to accomplish accurate and consistent tracking and monitoring of offers in compromise (OIC) cases; (2) ensure that OIC information entered in N-Spect or other appropriate system is reviewed and that any necessary adjustments are made to correct any OIC information that is inaccurate, incomplete, and/or inconsistent; (3) ensure that there is an adequate system in place capable of reporting and tracking OIC cases so that meaningful management reports can be produced; (4) ensure that OIC cases are monitored and analyzed to identify trends and patterns to measure the effectiveness of the OIC case process; (5) ensure that timeliness guidelines are established for processing OIC cases to timely recognize revenue and allow funds to be put to better use; (6) re-emphasize to the field divisions the importance of sending completed OIC case documentation promptly to the National Revenue Center (NRC); (7) ensure that appropriate follow-up action is taken to resolve OIC cases



Significant Unimplemented Recommendations

As of March 31, 2004, for Reports Issued Prior to April 1, 2003

Report Number	Issue Date	Report Title and Recommendation Summary
		<p>identified as untimely to more quickly recognize revenue received as a result of an OIC; (8) ensure that OIC case processing procedures are revised and issued to provide clear guidance for processing OIC cases, including a more specific definition for classifying a case as closed, specific instructions regarding OIC workflow process (including entering and closing cases in N-Spect), an updated OIC form that lists the correct address for submitting an offer, and timeliness guidelines for processing OIC cases. The ATF Director should emphasize the importance of implementing these procedures to ensure that OIC cases are processed fairly, consistently, and timely. (8 recommendations) TTB management is responsible for the audit follow-up on these recommendations.</p>
OIG-02-098	6/02	<p><i>Extensive Claims Review But Few Inspections in ATF's Non-Beverage Drawback Program</i></p> <p>The ATF Director should ensure that (1) National Revenue Center personnel request field divisions to perform MNBP (manufacturers of non-beverage product) inspections and prioritize the requests so that field division personnel know which inspections to perform first and (2) ensure that field divisions make every effort to complete the number of inspections identified in ATF's annual operating plan. (2 recommendations) TTB management is responsible for the audit follow-up on these recommendations.</p>
OIG-02-105	7/02	<p><i>Federal Efforts to Recover Unclaimed State-Held Assets Face Many Challenges and Obstacles</i></p> <p>Treasury should: (1) perform a cost analysis to determine under which circumstances would it be more economical to administer asset recovery duties in-house versus contracting with finders; (2) assess the feasibility and circumstances of providing financial assistance to states for assisting in the recovery of unclaimed federal assets; and (3) establish procedures to review internal controls regarding unclaimed assets held by states, cities, and counties. (3 recommendations)</p>
OIG-02-115	9/02	<p><i>Treasury's Planning, Management, and Implementation of a Smart Card and Public Key Infrastructure (PKI) Needs Improvement</i></p> <p>The CIO should ensure that Treasury: (1) establishes a Treasury program to effectively manage smart cards and PKI; (2) develops a program plan defining roles and responsibilities, and milestones and resources needed for smart card and PKI initiatives; (3) plans for adequate staffing of employees to support smart card and PKI infrastructure as enterprise architecture; (4) develops a strategy to consolidate and minimize the number of smart card and PKI administrative systems (inventory management, personnel management, administrative, travel, manpower, etc.); (5) develops a detailed Cross-Certification Policy that triggers a multi-phase process designed to achieve a mutually reliable trust relationship; (6) uses another hard token as an interim security measure along with smart cards to provide strong two-factor authentication for digital certificates; and (7) establishes appropriate record management controls for general, sensitive, and secret information related to the Treasury smart card and PKI infrastructure. (7 recommendations)</p>
OIG-02-122	9/02	<p><i>Community Development Financial Institution (CDFI) Fund</i></p> <p>The CDFI Fund Director should initiate action to amend the OMB Circular A-133 Compliance Supplement to reflect revised accountability requirements for financial assistance funds. (1 recommendation)</p>



Significant Unimplemented Recommendations

As of March 31, 2004, for Reports Issued Prior to April 1, 2003

Report Number	Issue Date	Report Title and Recommendation Summary
OIG-03-004	10/02	<p><i>The Bureau of Engraving and Printing's Controls Over Background Investigations Need to be Improved</i></p> <p>The Bureau should: (1) enhance the Employee Suitability System (ESS) to produce reports that accurately depict the Bureau's status of background investigations on an individual and overall basis, and ensure that the ESS is reconciled on a regular basis with the Bureau's Office of Human Resources roster. Employees' current employment status should be ascertained, and multiple records of former employees archived in accordance with the policy; (2) review employees' manual files that contain erroneous Social Security numbers to ascertain whether background investigations reflect the actual person being investigated. Erroneous Social Security numbers in the ESS and the manual files should be corrected; (3) reassess employees' job positions and descriptions to determine if they are commensurate with security levels and accessibility to vulnerable areas. The required background investigation for upgraded positions should be provided; (4) ascertain that procedures are in place in the Personnel Security Division to ensure background investigations are tracked, adjudicated, and closed timely to reduce or eliminate backlogs; and (5) designate someone to provide continuous oversight over both facilities (Washington, D.C. and Ft. Worth) relative to background investigations and other applicable security issues. A self-assessment of the Ft. Worth facility should be performed. (5 recommendations)</p>
OIG-03-007	10/02	<p><i>Controls Over FinCEN's Law Enforcement Data Need Improvement</i></p> <p>The FinCEN Director should: (1) establish a formal process for approving, transmitting, and maintaining system access authorization forms to reduce the risks associated with granting excessive or unauthorized access privileges, alterations, misunderstandings, and mishandled forms; and (2) implement a procedure for backing up audit trails separately from the databases and using write-once devices to protect the integrity of audit trail data. The procedure should include strict controls over who is allowed access to audit trail data and backups. (2 recommendations)</p>
OIG-03-024	11/02	<p><i>Material Loss Review of NextBank, NA</i></p> <p>The Comptroller of the Currency should reassess the adequacy of existing examination guidance on how examiners should assess the risks presented by the parent company. Added consideration be given to the specific supervisory issues presented by entities operating under the Competitive Equality Banking Act of 1987. (1 recommendation)</p>
OIG-03-031	12/02	<p><i>OCC Purchase Card Usage at the Western District and Headquarters</i></p> <p>The Agency Program Coordinator should commence audits covering any years with lapsed audit coverage to reasonably ensure that prior purchases were proper and payments were not erroneous or improper. (1 recommendation)</p>
OIG-03-034	12/02	<p><i>Audited Financial Statements of the Treasury Forfeiture Fund for Fiscal Years 2002 and 2001</i></p> <p>EOAF should: (1) for all direct costs and common support costs not directly traceable to individual seizures, develop and implement an allocation process. Indirect costs will have to be applied to the individual seizures. Direct and indirect costs will have to be added together to provide total costs seizure; and (2) vigorously pursue the enhancement of SEACATS system capabilities to record and report expenses at the asset level. (2 recommendations)</p>



Significant Unimplemented Recommendations

As of March 31, 2004, for Reports Issued Prior to April 1, 2003

Table with 3 columns: Report Number, Issue Date, and Report Title and Recommendation Summary. It lists two unimplemented recommendations from 2002.

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

Prosecutorial Activities

October 1, 2003, to March 31, 2004

Table showing prosecutorial activities: Cases pending decision at start (4), referred during period (9), accepted for prosecution (3), declined (4), pending at end (2), and successful prosecutions (4). Includes a footnote about pretrial diversion agreements.

Administrative Sanctions

October 1, 2003, to March 31, 2004

Table showing administrative sanctions: Adverse Personnel actions (1) and Suspensions and/or debarments of contractors (3).



Summary of Instances Where Information Was Refused
October 1, 2003, to March 31, 2004

The OIG sought information from OCC in connection with an investigation involving a failed bank. OCC questioned the OIG's jurisdiction, and refused to provide information. We brought this matter to the Secretary's attention, pursuant to IG Act § 6(b)(2), as well as to the House and Senate oversight committees. The OIG is continuing efforts to resolve the dispute.

Listing of Audit and Evaluation Reports Issued
October 1, 2003, through March 31, 2004

Financial Audits and Related Attestation Engagements

Mint, FINANCIAL MANAGEMENT: Audit of the United States Mint's Schedule of Custodial Gold and Silver Reserves as of September 30, 2003 and 2002, OIG-04-001, 10/29/03

Departmental Offices, Audit of the Department of the Treasury's Fiscal Years 2003 and 2002 Financial Statements, OIG-04-003, 11/14/03

BPD, The Treasury Bureau of the Public Debt Trust Fund Management Branch Schedules and Notes for Selected Trust Funds for the Period October 1, 2002 to September 30, 2003, OIG-04-004, 11/14/03

BPD, Controls Placed In Operation and Tests of Operating Effectiveness for the Treasury Bureau of the Public Debt Trust Fund Management Branch for the Period October 1, 2002 to September 30, 2003, OIG-04-005, 11/17/03

BPD, The Schedule of Loans Receivable from Federal Entities and Related Interest Receivable Serviced by the Treasury Bureau of the Public Debt at September 30, 2003, OIG-04-006, 11/17/03

TTB, Audit of the Alcohol and Tobacco Tax and Trade Bureau's Schedule of Custodial Activities for the Fiscal Year Ended September 30, 2003, OIG-04-007, 11/20/03

Departmental Offices, Audit of the Office of D.C. Pensions' Financial Statements for Fiscal Years 2003 and 2002, OIG-04-008, 11/20/03

BPD, Controls Placed In Operation and Tests of Operating Effectiveness for the Treasury Bureau of the Public Debt Federal Investments Branch for the Period October 1, 2002 to September 30, 2003, OIG-04-009, 11/20/03

OCC, Audit of the Office of the Comptroller of the Currency's Fiscal Years 2003 and 2002 Financial Statements, OIG-04-010, 12/3/03



Listing of Audit and Evaluation Reports Issued

October 1, 2003, through March 31, 2004

OTS, Audit of the Office of Thrift Supervision Fiscal Years 2003 and 2002 Financial Statements, OIG-04-011, 12/3/03

BEP, Audit of the Bureau of Engraving and Printing Fiscal Years 2003 and 2002 Financial Statements, OIG-04-012, 12/3/03

FFB, Audit of the Federal Financing Bank's Fiscal Years 2003 and 2002 Financial Statements, OIG-04-013, 12/9/03

CDFI Fund, Audit of the Community Development Financial Institutions Fund's Fiscal Years 2003 and 2002 Financial Statement, OIG-04-015, 12/23/04

EOAF, Audit of the Department of the Treasury Forfeiture Fund's Fiscal Years 2003 and 2002 Financial Statements, OIG-04-016, 12/23/04

Departmental Offices, Agreed-Upon Procedures for the Department of the Treasury Fiscal Year 2003 Federal Intragovernmental Activity and Balances, OIG-04-019, 1/23/04

Departmental Offices, Agreed-Upon Procedures for the Department of the Treasury Fiscal Year 2003 FACTS I Accounts Groupings Worksheets, OIG-04-020, 2/4/04

Departmental Offices, Audit of the Exchange Stabilization Fund's Fiscal Years 2003 and 2002 Financial Statements, OIG-04-021, 2/18/04

Departmental Offices, Management Letter for the Fiscal Year 2003 Audit of the Department of the Treasury Financial Statements, OIG-04-022, 2/18/04

Other Attestation Engagements

Multi-Bureau, FINANCIAL MANAGEMENT: Department of the Treasury Payments for Water and Sewer Services Provided by the District of Columbia Were Made Timely for the First Quarter of Fiscal Year 2004, OIG-04-002, 10/30/03

Departmental Offices, Review of Assertions Included in the Interagency Crime and Drug Enforcement's Fiscal Year 2003 Annual Accounting of Drug Control Funds, OIG-04-017, 1/9/04

Departmental Offices, FINANCIAL MANAGEMENT: Department of the Treasury Payments for Water and Sewer Services Provided by the District of Columbia Were Made Timely for the Second Quarter of Fiscal Year 2004, OIG-04-018, 1/16/04

Information Technology Evaluations

Multi-Bureau, Evaluation of Treasury's FISMA Implementation for Fiscal Year 2003, OIG-CA-04-001, 12/15/03



Listing of Audit and Evaluation Reports Issued

October 1, 2003, through March 31, 2004

Departmental Offices, FISMA Evaluation for National Security Systems (Classified Report), OIG-CA-04-002, 12/24/03

Program Audits

FMS, FINANCIAL MANAGEMENT: Purchase Card Internal Control Weaknesses Expose FMS Headquarters to Improper and Questionable Purchases, OIG-04-014, 12/19/03

TTB, REVENUE COLLECTION AND INDUSTRY REGULATION: Alcohol and Tobacco Export Controls Strengthened, But More Action Is Needed, OIG-04-028, 2/26/04

Mint, MANUFACTURING OPERATIONS: Control Weaknesses and Poor Management Oversight in the Mint's Purchase Card Program, OIG-04-029, 3/2/04

Supervised Contract Audits

Departmental Offices, Fiscal Year 1998 Incurred Costs for Contracts TOS-91-31 and TOS-97-16, OIG-04-023, 2/24/03

Departmental Offices, Fiscal Year 2000 Incurred Costs for Contracts TOS-91-31 and TOS-97-16, OIG-04-024, 2/26/04

Departmental Offices, Fiscal Year 2000 Incurred Costs for Contract TOS-97-16, OIG-04-025, 2/26/04

Departmental Offices, CONTRACT AUDIT: Report of Audit on Contractor's Accounting System, OIG-04-026, 2/26/04

Departmental Offices, CONTRACT AUDIT: Report of Audit on a Contractor's Labor Floor Check, OIG-04-027, 2/26/04

Contract Audit Reports Issued

October 1, 2003, to March 31, 2004 (Dollars in Thousands)

Bureau	Pre Award Audits		Costs Incurred Audits		Other Contract Audits	
	Number Completed	Funds to be Put to Better Use	Number Completed	Questioned Costs	Number Completed	Questioned Costs
DO	0	\$0	5	\$0	0	\$0
Totals	0	\$0	5	\$0	0	\$0

The above audits were performed by Defense Contract Audit Agency (DCAA). All Treasury bureaus requests for pre-award, costs incurred, and other contract audits are referred to the OIG. The OIG has the option to perform the audits, refer the audits to DCAA and other government audit agencies, or contract with an Independent Public Accountant (IPA).



Number of Audit and Evaluation Reports by Bureau
October 1, 2003, to March 31, 2004

Office/Bureau	Number of Reports
TTB	2
BEP	1
BPD	4
Departmental Offices	16
CDFI Fund	1
EOAF	1
FFB	1
FinCEN	0
FMS	1
Mint	2
OCC	1
OTS	1
Total	31

Audit Reports Issued with Questioned Costs
October 1, 2003, to March 31, 2004 (Dollars in Thousands)

Category	Total		
	No. of Reports	Questioned Costs	Unsupported Costs
For which no management decision had been made by beginning of reporting period	5	1,661	0
Which were issued during the reporting period	0	0	0
Subtotals	5	1,661	0
For which a management decision was made during the reporting period	2	510	0
dollar value of disallowed costs	1a/	10	0
dollar value of costs not disallowed	2a/	500	0
For which no management decision had been made by the end of the reporting period	3	1,151	0
For which no management decision was made within six months of issuance	3	1,151	0

"Questioned costs" denotes that one or more of the following three situations exist: (1) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding



that the expenditure of funds for the intended purpose is unnecessary or unreasonable. During the period, there were no reports with unsupported costs.

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

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

October 1, 2003, to March 31, 2004 (Dollars in Thousands)

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

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



Previously Issued Audit Reports Pending Management Decisions

As of March 31, 2004 (Dollars in Thousands)

Title and Date Issued	Report Number	Amount	Bureau
Costs Incurred Under Contract TOS-91-31 for Calendar Year 1991, 3/12/96 <i>a/</i>	OIG-96-042	\$5	DO
Contractor's FY Ended December 31, 1992 through 1994, Applicable to Contracts TOS-91-31 and TOS-94-25, 2/25/98 <i>a/</i>	OIG-98-045	\$562	DO
Incurring Cost for Contract TOS-92-20 for FY 1997, 1/7/00 <i>a/</i>	OIG-00-030	\$584	DO
Totals	3 Reports	\$ 1,151	

a/ Contract negotiations are currently on-going.

Significant Revised Management Decisions

October 1, 2003, to March 31, 2004

There were no significant revised management decisions during the period.

Significant Disagreed Management Decisions

October 1, 2003, to March 31, 2004

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



Reference to the Inspector General Act of 1978, as Amended

Reference	Requirement	Page
Section 4(a)(2)	Review of legislation and regulations	30
Section 5(a)(1)	Significant problems, abuses, and deficiencies	5-18
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies	5-18
Section 5(a)(3)	Significant unimplemented recommendations described in previous semi-annual reports	30
Section 5(a)(4)	Matters referred to prosecutive authorities	34
Section 5(a)(5)	Summary of instances where information was refused	35
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Section 5(a)(11)	Significant revised management decisions made during the reporting period	40
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ATF	Bureau of Alcohol, Tobacco and Firearms
ATSB	Air Transportation Stabilization Board
BEP	Bureau of Engraving and Printing
BPD	Bureau of the Public Debt
CDFI Fund	Community Development Financial Institutions Fund
CFO	Chief Financial Officer
CIO	Chief Information Officer
CS	Customer Survey
DC	District of Columbia
DCAA	Defense Contract Audit Agency
DO	Departmental Offices
DOE	Department of Energy
DOJ	Department of Justice
EOAF	Executive Office for Asset Forfeiture
EOTC/FC	Executive Office for Terrorist Financing and Financial Crimes
ESF	Exchange Stabilization Fund
ESS	Employee Suitability System
FAB	Fraud Awareness Briefing
FDIC	Federal Deposit Insurance Corporation
FFB	Federal Financing Bank
FFMIA	Federal Financial Management Improvement Act of 1996
FinCEN	Financial Crimes Enforcement Network
FISMA	Federal Information Security Management Act
FMS	Financial Management Service
FTE	Full-time Equivalent
FY	Fiscal Year
GISRA	Government Information Security Reform Act
IAB	Integrity Awareness Briefing
ICDE	Interagency Crime and Drug Enforcement
IMPACT	International Merchant Purchase Authorization Card
IP	Investigative Priorities
IPA	Independent Public Accountant
IRS	Internal Revenue Service
Mint	U.S. Mint
MIR	Management Implication Report
OA	Office of Audit
OC	Office of Counsel
OCC	Office of the Comptroller of the Currency
OCDETF	Organized Crime Drug Enforcement Task Force
ODCP	Office of D.C. Pensions
OFAC	Office of Foreign Asset Control
OI	Office of Investigations
OIG	Office of Inspector General
OMB	Office of Management and Budget



ONDCP	Office of National Drug Control Policy
OTS	Office of Thrift Supervision
PCIE-ECIE	President's Council on Integrity and Efficiency
PKI	Public Key Infrastructure
PM	Performance Measures
QAR	Quality Assessment Review
SAR	Suspicious Activity Report
SEACATS	Seized Assets and Case Tracking System
Secret Service	U.S. Secret Service
TD	Treasury Directive
TFF	Treasury Forfeiture Fund
Treasury	Department of the Treasury
TTB	Alcohol and Tobacco Tax and Trade Bureau
USC	United States Code



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