



SEMIANNUAL REPORT TO THE CONGRESS

APRIL 1, 2000 – SEPTEMBER 30, 2000

FOREWORD



The Honorable Lawrence H. Summers
Secretary of the Treasury
Washington, D.C. 20220

Dear Mr. Secretary:

Enclosed is my Semiannual Report to the Congress. This report summarizes the activities of this office for the 6-month period ending September 30, 2000.

The employees of the Office of Inspector General hope that you find their audits and investigations contribute to the economy, efficiency, and effectiveness of the Department.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeffrey Rush, Jr.", written over a faint, larger version of the signature.

Jeffrey Rush, Jr.
Inspector General

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OVERVIEW

AUDIT ACTIVITIES

The Office of Inspector General (OIG) issued 47 audit reports and 2 evaluation reports during the reporting period which recommended \$58.6 million be put to better use and identified \$486,000 in questioned costs. The following summaries represent major issues, concerns, and other significant work for the second half of Fiscal Year 2000.

FINANCIAL MANAGEMENT AUDITS

Audit reports were issued for the Fiscal Year 1999 financial statements of the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), Bureau of Alcohol, Tobacco and Firearms (ATF), the District of Columbia (D.C.) Pension Funds, and the Federal Financing Bank. Unqualified audit opinions were issued for each of these entities; however, reportable conditions in internal control were identified at OCC and ATF. The results of audit work at other bureaus and entities, including the Department's Consolidated Financial Statements, were discussed in the March 2000 Semiannual report. (See Page 6)

INFORMATION TECHNOLOGY AUDITS

The Inspector General notified the Secretary of the Treasury about particularly serious automated systems deficiencies at the U.S. Customs Service (Customs) pursuant to the Inspector General Act of 1978, as amended (IG Act). The reported system weaknesses affect Customs security and continuity of operations capability. The IG Act requires the Inspector General to notify the agency head immediately upon becoming aware of particularly serious deficiencies in Department operations. The Inspector General recommended specific actions that Customs should take to immediately correct identified deficiencies. Under this same provision of law, the Secretary notified the appropriate committees and subcommittees of Congress within 7 calendar days of receiving the report, and also provided information on actions undertaken to mitigate the risks caused by those deficiencies. (See Page 10)

PERFORMANCE AUDITS

❖ OCC Supervision of Banks Selling Insurance

Most national banks offer insurance as a byproduct of their lending activities, often in an agency capacity. Recently, the Gramm-Leach-Bliley Act removed depression-era barriers between banking, insurance, and securities. As a result, the volume of bank insurance activities is expected to significantly increase. The new legislation makes the states primarily responsible for regulating bank insurance activities. However, state regulators focus mainly on insurer insolvency and market conduct and may not be able to provide OCC assurance that these expanded insurance activities do not affect the safety and soundness of national banks. OCC management disagreed with OIG recommendations that it should (1) determine the degree of reliance it can place on state regulation, (2) expand its level of expertise in the business of insurance as it affects national banks, (3) develop a supervisory strategy that address safety and soundness issues associated with the expanded insurance activities, and (4) develop supervisory and examination procedures to ensure adequate, consistent, and uniform coverage over national banks' insurance activities. The disagreed recommendations will be handled in accordance with Treasury's audit resolution policy. (See Page 11)

❖ ATF's Youth Crime Gun Interdiction Initiative

In July 1996, ATF initiated the Youth Crime Gun Interdiction Initiative (YCGII) to strengthen enforcement efforts against gun traffickers who supply firearms to juveniles. During this Semiannual reporting period, the OIG completed three audits related to YCGII. The first audit focused on ATF's redesign of its Firearms Tracing System and found that while the system generally is meeting user needs, the conversion did not take place in the most efficient manner. The second audit evaluated ATF's procedures and controls over YCGII funds and found that certain obligations and expenditures were not used efficiently and may not have supported YCGII activities. Most significantly, the third audit looked at ATF's implementation of the YCGII program. The audit found that ATF field offices responsible for implementing YCGII in the first 17 cities to participate in the program have not consistently performed important program activities, such as ensuring that the cities submit trace requests for all firearms recovered in crimes. Also, ATF has not ensured that appropriate special agent resources were

available in field offices to conduct YCGII-related activities. Certain police departments were either not familiar with, or did not avail themselves of ATF's analytical tools to help target firearms traffickers for investigation. Finally, ATF has not developed specific performance measures that show the actual impact on youth violent crime in the cities as a result of participating in YCGII. ATF generally agreed with the OIG's recommendations and has initiated or planned actions to address the recommendations. (See Page12)

❖ **Deposit Fund Accounts Used for Implementation of the Competitive Equality Banking Act**

The Competitive Equality Banking Act, also known as the "limited payability" statute, required the cancellation of Treasury checks that were outstanding as of October 1, 1989, as well as subsequently issued checks that were not negotiated within 12 months of issuance. An OIG audit, which was requested by Treasury's General Counsel, found that the Financial Management Service (FMS) should close out three limited payability cancellation accounts and transfer the corresponding balances, which total approximately \$42 million, to the miscellaneous receipts of the Treasury. FMS is taking action to move these funds. (See Page 13)

❖ **Customs Charges to Couriers for Inspector Services**

The OIG evaluated whether Customs properly assessed and collected revenue from Express Consignment Carrier Facilities (ECCF) and Courier Hubs to recover inspector costs. The auditors found that Customs did not bill the companies for all hours worked, for all night differential premiums, and for certain costs associated with canines. Without changes, Customs could lose about \$2.035 million in revenue over the upcoming 3-year period. Customs also needs to update the computational rate charged to cover employee benefits. By doing so, the OIG estimates that Customs would net an additional \$5.52 million in revenue over the next 3 years. In addition, the OIG found that Customs had not established a process for allocating inspection staff among ECCFs and Courier Hubs, and wide variations were noted in staffing and workload between these facilities. Customs agreed to take action that, when implemented, should fully address the audit recommendations. (See Page 13)

❖ **ATF Explosives Inspection Program**

To protect the public safety, ATF conducts compliance inspections of explosives licensees and permittees. An OIG review of violations that ATF identified during FYs 1997 and 1998 found that its case files for many of the violations lacked evidence that the entities had corrected the violations. This condition was attributable to ATF inspectors not fully documenting significant explosives

violations on inspection forms, and their supervisors failing to identify the discrepancies when reviewing inspection documentation. ATF agreed with the OIG's recommendations to strengthen its explosives inspection program. (See Page14)

EVALUATIONS

❖ **Assessment of Department's FY 1999 Performance Report and FY 2001 Performance Plan**

In response to a request by the Chairman of the Senate Committee on Governmental Affairs, the OIG assessed the Department's FY 1999 Performance Report and the FY 2001 Performance Plan to determine how these documents identify and offer solutions to certain major management challenges facing the Department. The OIG found that the FY 1999 Performance Report included 99 measures related to these management challenges, 57 of which were met or exceeded. The Performance Report adequately explained the strategies needed to address or revise goals and measures as appropriate. The OIG also found that the FY 2001 Performance Plan represents an improvement in how the management challenges will be tracked by the Department in the future. (See Page 15)

INVESTIGATIVE ACTIVITIES

OIG investigations of procurement and contract irregularities within Treasury resulted in significant findings and recoveries. Some of these investigations are highlighted.

❖ **OCC Employee Falsely Certified Contractor Invoices**

The OIG investigation of an OCC referral of suspicious activity by an employee found that a senior performance development specialist falsely certified OCC contractor's invoices. The employee, who was serving as the contracting officer's technical representative (COTR) on the contract, falsely certified that the contractor rendered services to the OCC which had not been provided. Although the employee stated she made the certifications to ensure the availability of funding and not for personal gain, they nonetheless resulted in \$41,990.50 in improper payments to the contractor. Investigation led to the employee's termination. (See Page 19)

❖ **U.S. Mint Contractor reaches Restitution Agreement**

An OIG investigation of alleged procurement fraud by a contractor doing business with the United States Mint resulted in a \$202,000.00 recovery. The contractor entered into a firm fixed price contract with the Mint to provide computer support services. The contractor was required under the contract to work 2000 hours per year. The

contractor interpreted the 2000 hours as billable hours that they claimed to have included government holidays. The interpretation by the contractor was found to be incorrect according to clauses in the contract. The investigation revealed that the company routinely overbilled the government for the various government holidays. The U.S. Attorney's Office for the District of Columbia reached a settlement agreement with the company that is resulting in restitution of \$202,000.

INTRODUCTION

Under the provisions of the Inspector General Act of 1978, as amended, Treasury OIG reports to the Congress semiannually on its activities. This report, which covers the second half of FY 2000, describes major issues and concerns identified during audits, evaluations, and investigations, along with recommendations for corrective action. **Because the report describes selected significant reviews and investigations, the conditions should not be considered as representative of overall conditions in the Department of the Treasury and its bureaus.**

Treasury OIG consists of the following components:

- **Audit**
- **Investigations**
- **Legal Counsel**
- **Management Services**

The OIG's mission is to conduct independent audits and investigations to help the Department accomplish its mission; improve the Department's programs and operations; promote economy, efficiency, and effectiveness; and prevent and detect fraud and abuse.

In addition to Treasury OIG operations, this report includes a summary of the significant activities of the Offices of Internal Affairs and Inspection at ATF, Customs, and United States Secret Service (Secret Service). The Inspector General is responsible for oversight of the internal investigations conducted by these offices.

TREASURY MISSION, FUNCTIONS AND ORGANIZATION

Treasury's mission is to promote prosperous and stable American and World economies; manage the Government's finances; protect our financial systems and our nation's leaders, and foster a safe and drug-free America; and continue to build a strong institution for the future.

Treasury is organized into 13 bureaus and 12 offices. The Treasury bureaus make up 98 percent of the Treasury work force and are responsible for carrying out specific operations assigned to the Department. Treasury's Departmental Offices are composed of divisions headed by Assistant Secretaries and are primarily responsible for policy formulation and overall management of the Treasury Department.

The OIG performs reviews of Treasury's many roles, which include such diverse functions as striking commemorative medals, enforcing national firearms and explosives laws, and investigating financial institution fraud. Treasury, as one of the oldest Federal agencies, performs some of the most fundamental governmental activities, including collecting and borrowing the money to run the United States Government, and enforcing Federal laws.

TREASURY EMPLOYMENT STATISTICS

DEPARTMENT OF THE TREASURY On Board Employees as of September 30, 2000

Bureau/Office	Employees
OIG	251
ATF	4,592
Bureau of Engraving and Printing (BEP)	2,596
Bureau of the Public Debt (BPD)	1,859
Departmental Offices ¹ (DO)	1,552
Federal Law Enforcement Training Center (FLETC)	609
FMS	2,180
Internal Revenue Service (IRS)	114,639
OCC	2,872
OTS	1,253
Treasury Inspector General for Tax Administration (TIGTA) ²	944
Customs ³	20,415
U.S. Mint (Mint)	2,872
Secret Service	<u>5,555</u>
Total	<u>162,189</u>

¹ Employment statistics for the Community Development Financial Institutions (CDFI) Fund and the Treasury Forfeiture Fund (TFF) are included within DO.

² Under provisions of the IRS Restructuring Act of 1998, the TIGTA exercises all audit and investigative duties and responsibilities at IRS.

³ Employment statistics for the Financial Crimes Enforcement Network (FinCEN) are included within Customs.

AUDIT ACTIVITIES

FINANCIAL MANAGEMENT AUDITS

The Chief Financial Officers (CFO) Act and the Government Management Reform Act (GMRA) are intended to strengthen Federal financial management systems and require audited financial statements.

The CFO Act, as amended by GMRA, requires an annual audit of the Department of the Treasury and any Office of Management and Budget (OMB) designated components. OMB has currently designated the IRS, Customs and ATF for stand-alone audited financial statements. The Federal debt, which is managed by BPD and FMS are also audited.

Financial statements audit work at the Department is primarily based on the CFO Act and GMRA requirements. However, other statutory financial statement audit requirements also are incorporated into the overall audit plan. Financial statements audits required by other statutes or management initiatives include audits of BEP, the Mint, the CDFI Fund, D.C. Pension Funds, the Exchange Stabilization Fund, the Federal Financing Bank, OCC, OTS, and TFF.

The process of preparing and auditing financial statements has been instrumental in the identification of areas for financial management improvements. The Department has made significant progress in many areas, particularly in reporting annual financial results; however, much work remains to be done to address underlying systemic issues. A critical factor in meeting the Department's overall financial management objectives is to successfully develop and implement remediation plans to address non-compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA). Although Treasury component entities, except for IRS and FMS, received unqualified audit opinions on their FY 1999 financial statements, this was often achieved only through extensive efforts to overcome material weaknesses in internal controls over financial accounting and reporting. Although these efforts resulted in materially correct annual financial statements, they do not provide for timely and reliable information during the year for management purposes.

The "Department of the Treasury Audited Financial Statements" table at the end of this section provides a three-year summary of financial statements audit results for the Department and its component entities.

❖ Treasury Department-wide Financial Statements

In the March 2000 Semiannual Report to the Congress, the OIG highlighted the results of the Department-wide FY 1999 financial statements audit, which were incorporated into the Department of the Treasury Accountability Report for Fiscal Year 1999. The OIG's audit opinion was qualified because the IRS could not provide sufficient evidence to support certain administrative accounts in the financial statements. The OIG identified two material weaknesses and three other reportable conditions. The two material weaknesses relate to financial management and reporting at IRS and electronic data processing controls at certain bureaus, most notably IRS, Customs, and FMS. The other reportable conditions address financial management improvements needed at Customs, FMS, OCC, Treasury Forfeiture Fund, and the Office of International Affairs.

The Department reported that it is not in compliance with the financial management systems requirements of FFMIA, based on instances of non-compliance identified at seven component entities. These entities are Customs, DO, Executive Office of Asset Forfeiture, FMS, IRS, OCC and Secret Service. The OIG concurred with this assessment.

The Department continues to make progress in meeting its financial management objectives; however, major challenges remain. The Department should continue to focus efforts on engaging top-level bureau management to address key financial management issues affecting the integrity of their financial reporting, particularly at the IRS. The ability of the Department to achieve an unqualified opinion and comply with FFMIA is predicated in large part upon major financial management improvements at the IRS.

❖ Departmental Component Entity Financial Statement Audits

The Department-wide audit report reflects the cumulative results of audit work performed at eleven departmental bureaus, as well as the consolidation itself. The audit results for most of the bureaus were discussed in the March 2000 Semiannual Report. Highlights of the individual bureau and component entity audits for which final reports have been issued during the current reporting period are provided below.

❖ **OCC's Financial Statements**

An Independent Public Accountant (IPA) rendered an unqualified opinion on the Calendar Year (CY) 1999 financial statements of the OCC. Material weaknesses reported in the prior year's audit were either addressed or downgraded. The IPA noted four reportable conditions: (1) timely reconciliation of the Fund Balance with Treasury records was not performed; (2) policies and procedures were not adequately documented for many accounting and financial processes; (3) internal controls over timekeeping were not adequate; and (4) adequate controls over disbursements were not in place.

The IPA's Report on Compliance with Laws and Regulations disclosed no instances of reportable noncompliance. Based on the material weaknesses identified in the prior year report, OCC reported nonconformance for FY 1999 under the Federal Managers' Financial Integrity Act (FMFIA) and the FFMIA in its annual assurance statement to Treasury. (Report # OIG-00-084)

❖ **OTS Financial Statements**

An IPA rendered an unqualified opinion on the OTS' CY 1999 financial statements. There were no reportable conditions and no instances of noncompliance with laws and regulations. (Report # OIG-00-083)

❖ **ATF's Financial Statements**

An IPA rendered an unqualified opinion on ATF's financial statements for the year ended September 30, 1999. Despite some progress by ATF, three of the four reportable conditions noted in prior years' audit reports remain: (1)

weaknesses related to protecting financial information existed in ATF's mainframe and client server environments; (2) procedures neither adequately documented the tracking of program code changes nor established responsibility for implementing changes; and (3) a lack of adequate duty segregation remained in the financial systems environment. The IPA found no instances of reportable noncompliance with laws and regulations. (Report # OIG-00-091)

❖ **District of Columbia Pensions Project's Financial Statements**

The OIG rendered an unqualified opinion on the D.C. Pensions Project's FY 1999 consolidating financial statements, citing no reportable conditions, and no instances of noncompliance with laws and regulations. Under the terms of the Balanced Budget Act of 1997 as amended, the Secretary of the Treasury assumed certain responsibilities for the District of Columbia pension system, including administration of certain fund assets and distribution of certain pension benefits. To varying degrees, Treasury is responsible for the retirement programs of police and firefighters, teachers, and judges. (Report # OIG-00-092)

❖ **Federal Financing Bank's Financial Statements**

An IPA rendered an unqualified opinion on the financial statements of the Federal Financing Bank as of September 30, 1999 and 1998. There were no reportable conditions, and no instances of noncompliance with laws and regulations. (Report # OIG-00-079)

DEPARTMENT OF THE TREASURY AUDITED FINANCIAL STATEMENTS

ENTITY	FY 99 Audit Results		FY 98 Audit Results		FY 97 Audit Results	
	Opinion	Material Weaknesses	Opinion	Material Weaknesses	Opinion	Material Weaknesses
Treasury Department (A)						
Department-wide	Qualified	2	Qualified	2	-	-
Administrative	-	-	-	-	Unqualified	4
Custodial	-	-	-	-	Qualified	-
IRS (A)						
IRS Financial Statements	(B)	7	(B)	6	-	-
Administrative	-	-	-	-	Unqualified	2
Custodial	-	-	-	-	Unqualified	6
Headquarters						
Departmental Offices	Unqualified	0	Unqualified	0	Unqualified	0
Exchange Stabilization Fund	Unqualified	0	Unqualified	0	Unqualified	0
Federal Financing Bank	Unqualified	0	Unqualified	0	Unqualified	0
Treasury Forfeiture Fund	Unqualified	3	Unqualified	4	Unqualified	3
CDFI Fund	Unqualified	0	Unqualified	0	Unqualified	2
International Assistance Prgms (IAP)	(C)	-	Unqualified	0	(C)	-
DC Pension Funds	Unqualified	0	Not Audited	-	Not Audited	-
ATF	Unqualified	0	Unqualified	0	Unqualified	0
OCC	Unqualified	0	Unqualified	3	Unqualified	0
Customs	Unqualified	2	Unqualified	2	Unqualified	2
BEP	Unqualified	0	Unqualified	0	Unqualified	0
FMS						
Financial Statements (D)	Qualified	3	Unqualified	2	-	-
Salaries and Expenses (D)	-	-	-	-	Unqualified	1
Treasury Managed Accounts/ Miscellaneous Accounts (D)	-	-	-	-	Disclaimer	4
Federal Government Cash	(E)	1	(E)	1	(E)	1
BPD						
Schedule of Federal Debt	Unqualified	0	Unqualified	0	Unqualified	0
Schedule of Loans Receivable	Unqualified	0	Unqualified	0	Unqualified	0
Government Trust Funds	Unqualified	0	Unqualified	0	Unqualified	0
Mint						
Financial Statements	Unqualified	0	Unqualified	1	Unqualified	1
Custodial Gold and Silver Reserves	Unqualified	0	Unqualified	0	Unqualified	0
Secret Service	Not Audited	-	Not Audited	-	Qualified	2
OTS	Unqualified	0	Unqualified	0	Unqualified	0

NOTES

- A. For FY 1999 and 1998, administrative and custodial activities were reported in a single set of financial statements. For FY 1997, administrative and custodial activities were reported in separate financial statements.
- B. The IRS' FY 1999 and FY 1998 Financial Statements audit resulted in (1) an unqualified opinion on the Statement of Custodial Activity, (2) a qualified opinion on the Balance Sheet, and (3) disclaimers of opinion on the Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing.
- C. IAP significant accounts were audited as part of the Department-wide audit in FY 1999 and as an entity in FY 1998. IAP was included in FMS Miscellaneous Accounts in FY 1997.
- D. FMS' FY 1999 and FY 1998 financial statements cover Salaries & Expenses and Miscellaneous Accounts, which were reported separately in FY 1997. Miscellaneous Accounts were renamed Treasury Managed Accounts in FY 1999.
- E. Audit procedures were performed to determine that cash balances managed by FMS were reliable in all material respects. A separate audit opinion was not issued.

❖ Progress Report on FFMA Requirements

In connection with the OIG's annual financial statement audits of the Department for FY 1997, 1998 and 1999, the OIG reported that the Department was not in substantial compliance with the financial management systems requirements of FFMA. The Department also reached a similar determination. The "Inventory of Unresolved FFMA Non-compliances as of September 30, 1999" table at the end of this section provides a summary of unresolved FFMA non-compliances by bureau as of September 30, 1999, as reported in the OIG's audit of the Department's FY 1999 financial statements.

FFMA requires that the Department establish remediation plans necessary to bring financial management systems into substantial compliance no later than 3 years after a determination of non-compliance. The concurrence of the Director of OMB is required for plans that extend beyond 3

years. The review disclosed that the Department's oversight of remediation efforts needs improvement. Bureaus either failed to provide remediation plans to the Department or the plans submitted lacked the information necessary to effectively implement and monitor plan progress. Further, the Department's program to oversee and implement FFMA was limited. The Department's oversight efforts do not ensure that remediation plans are prepared and viable plans contain comprehensive and executable resources, remedies, and intermediate target dates. The development of an adequate oversight program is essential because FFMA holds the Department responsible for bringing financial management systems into compliance.

The OIG recommended that the Department's Chief Financial Officer improve the oversight of remediation plan development and implementation, with particular emphasis on correcting identified deficiencies. (Report # OIG-00-124)

Inventory of Unresolved FFMA Non-Compliances as of September 30, 1999

BUREAU	CONDITION	FISCAL YEAR FIRST REPORTED FOR FFMA PURPOSES
Customs	Core Financial Systems do not provide complete and accurate information for financial reporting and for preparation of audited financial statements.	1997
Customs	Weaknesses exist in EDP controls over (1) timely restoration of its mission-critical systems; (2) access to data files, application programs, and computer-related facilities and equipment; and (3) application software development and program modifications.	1997
Departmental Offices	The Department's Financial Management Division's accounting services are provided by the The Center for Applied Financial Management. The issue is the lack of emergency back-up capabilities.	1999
Executive Office of Asset Forfeiture	Customs' SEACATS does not contain accurate and sufficient data that can be relied upon to prepare the analysis of changes in seized and forfeited property without substantial manual manipulation and reconciliation.	1998
Executive Office of Asset Forfeiture	Accounting records are primarily maintained on a cash basis. The fund's general ledger does not record all balances and transactions that are reflected in the financial statements.	1998
FMS	Area for improvement in computer controls. Information in FMS' systems is at significant risk because of serious general control weaknesses.	1997
FMS	The general ledger system for Salary and Expense accounts was not integrated with its subsidiary property system.	1999
IRS	IRS cannot reliably prepare four of the six financial statements required by OMB 97-01, as amended.	1998
IRS	IRS does not have a general ledger that conforms to the U.S. Government Standard General Ledger.	1997
IRS	IRS lacks a subsidiary ledger for its unpaid assessments.	1997
IRS	IRS lacks reliable subsidiary ledger for its property and equipment.	1997
IRS	IRS lacks an effective audit trail from its general ledger back to subsidiary detailed records and transaction source documents.	1997
IRS	IRS has other material weaknesses, including controls over refunds, property and equipment, payroll, budget, and computer security are also conditions indicating that IRS' systems do not comply with Federal Financial Management Systems Requirements.	1997
OCC	Timely and complete information for tracking financial expenditures is not available for program personnel, (i.e., there is no formal system for administrative control of funds).	1999
OCC	OCC's financial management systems currently do not comply with Federal financial management systems requirements and the US Government Standard General Ledger at the transactional level.	1999
Secret Service	Secret Service does not have reliable Seized Property Systems.	1997
Secret Service	Materials and supplies are not entered in the U.S. Standard General Ledger.	1997

INFORMATION TECHNOLOGY AUDITS

❖ Deficiencies in Customs' Automated Systems

Section 5(d) of the IG Act mandates that the Treasury Inspector General notify the Secretary of the Treasury immediately upon becoming aware of particularly serious deficiencies in the Department's operations. Accordingly, on May 26, 2000, the Inspector General reported deficiencies in the Customs automated systems to the Secretary and specifically recommended actions that Customs should take to immediately correct the identified deficiencies. The Inspector General also provided the Secretary with a list of committees and subcommittees of the Congress that should be notified of these deficiencies within seven calendar days of receiving this report.

The Inspector General noted that the OIG and the General Accounting Office have been reporting on automated systems deficiencies since 1994. In particular, a Limited Official Use (LOU) report, *Audit of the U.S. Customs Service's Continuity of Operations Capability (OIG-99-109)*, dated August 23, 1999, disclosed serious vulnerabilities. The May 25, 2000 draft LOU *Report on the Audit of the U.S. Customs Service's Disaster Recovery and Computer Security Programs* (issued in final as OIG-00-115 on August 17, 2000) disclosed that the vulnerabilities were not corrected and included new information as to the magnitude. Further, the LOU *Final Report on the United States Customs Service's Automated Information Systems Security Safeguards Need Improvement (OIG-00-085)*, dated May 25, 2000, identified serious security weaknesses that would leave Customs vulnerable to a range of cyber-related attacks.

When informed that identified vulnerabilities in a Treasury program had not been corrected, that the time necessary to correct vulnerabilities was greater than previously reported, and that threats to this program had increased, the Inspector General reported these serious deficiencies to the Secretary of the Treasury. The Secretary in turn reported the deficiencies to the Congress, and also provided information to Congress on the actions undertaken to mitigate the risks caused by the deficiencies. At the request of the Senate Finance Committee, the OIG provided more detailed information on these deficiencies to Committee staff.

In the August 1999 *Report on the U.S. Customs Service's Continuity of Operations Capability (OIG-99-109)*, the OIG detailed capacity management issues that caused significant outages to the Automated Broker Interface (ABI) module. Import brokers use the ABI module of the Automated Commercial System to submit trade-related information. This system operates almost at capacity daily and module overload has led to trade activity disruptions.

In FY 1999 Customs initiated a pilot project to reduce ABI outages by allowing selected users of the module to communicate with the Customs mainframe using newer high speed telecommunications technology. As briefly mentioned above, the *Final Report on the United States Customs Service's Automated Information Systems Security Safeguards Need Improvement* was the result of our audit of security controls associated with the ABI pilot. The OIG audited the security controls associated with this effort because of potentially increased risks to Customs' systems and data. The audit disclosed conditions that could seriously impair Customs' ability to secure mission-critical systems and data. (Report # OIG-00-085)

❖ BPD's Change Control Procedures

Weaknesses in Treasury's automated information systems change management controls have been identified and reported in OIG financial statement audit reports. Establishing controls over the modification of application software programs and hardware helps to ensure that only authorized programs and modifications are implemented. As part of the effort to review change controls at several bureaus, we audited BPD's systems of controls over application, mainframe hardware, and systems software changes to determine whether they were effective.

Overall, the change control program at BPD was effective. In particular, BPD's use of a change control software product and extensive internal coordination of change are examples of strong change management controls. However, the audit report repeated a GAO finding concerning multiple change management reporting systems, and also included two instances where change control procedures could be improved. Specifically, BPD was not using standard test plans for unit and system acceptance testing of software changes and lacked documentation that software was adequately tested to support approval for implementation. The management response to this report indicates that corrective measures have already been taken. (Report # OIG-00-122)

CONTRACT OVERSIGHT

All Treasury bureau requests for preaward, cost incurred, and other contract audits are referred to the OIG. The OIG has the option to perform the audits, refer the audits to the Defense Contract Audit Agency (DCAA) and other cognizant Government audit agencies, or contract with an Independent Public Accountant.

As shown on the following page, DCAA performed 23 contract audits, which questioned \$8.7 million (\$8,244,000 in preaward audits and \$486,000 in overhead audits) in Treasury contractor costs. Contracting officers agreed to savings and disallowed costs of approximately \$390,000 including amounts that were questioned prior to April 1, 2000. An additional \$12.5 million in potential monetary benefits, including amounts which were questioned prior to April 1, 2000, are awaiting completion of negotiations with the contractors.

Contracting officers negotiating contracts use preaward audits, which provide information on whether pricing proposals are fair and reasonable. During the period a prime contractor and its proposed subcontractors submitted proposals exceeding \$81.5 million to Customs related to the modification of the P-3 Airborne Early Warning/SLICK aircraft. DCAA auditors questioned \$4.4 million and classified another \$3.8 million as unsupported. The questioned costs were related to direct material, direct labor, subcontracts, supplies, travel, and indirect costs. The unsupported costs included material and warranty

costs. Disposition of the questioned and unsupported costs is pending negotiations with the prime and subcontractors. (Report # OIG-00-081, OIG-00-089, OIG-00-094, OIG-00-096, OIG-00-112, and OIG-00-113)

Incurring costs audits are used to determine the allowability of direct costs and indirect cost rates under flexibly priced contracts. In addition, incurred costs audits are used to establish audits and determine indirect rates to facilitate contract closeout. In a prior period, United States Postal Service auditors questioned over \$1.7 million of costs claimed under a contract awarded by BEP. The contract was for a public education campaign for newly designed United States currency. Of the questioned costs, \$112,000 related to indirect material handling charge and \$1,669,000 related to international labor costs. After negotiations, BEP contracting officials sustained the entire amount of the questioned indirect material handling charge. (Report # OIG-99-121)

**COMPLETED CONTRACT AUDITS
APRIL 1, 2000 THROUGH SEPTEMBER 30, 2000**

ORGANIZATION	PREAWARD PROPOSAL AUDITS		OVERHEAD AUDITS		OTHER CONTRACT AUDITS	
	NUMBER OF REPORTS	FUNDS TO BE PUT TO BETTER USE	NUMBER OF REPORTS	COSTS QUESTIONED	NUMBER OF REPORTS	COSTS QUESTIONED
BEP	1	\$25,919	2	\$17,382	0	0
Customs	6	8,218,444	8	313,624	2	0
DO	0	0	1	0	0	0
IRS	0	0	0	0	1	0
Secret Service	<u>0</u>	<u>0</u>	<u>2</u>	<u>154,652</u>	<u>0</u>	<u>0</u>
TOTALS	<u>7</u>	<u>\$8,244,363</u>	<u>13</u>	<u>\$485,658</u>	<u>3</u>	<u>\$0</u>

DCAA auditors performed the 23 audits shown above.

The monetary amounts shown above are reflected in the table on monetary benefits from OIG audits in the Statistical Summaries at the end of this report.

❖ OCC Supervision of Banks Selling Insurance

Most national banks offer insurance in addition to their lending activities. These products provide banks an increasingly important source of fee income at low cost and little capital. Recently, the Gramm-Leach-Bliley Act removed depression-era barriers between banking, insurance, and securities. As a result, the volume of bank insurance activities is expected to significantly increase. As it does, bank management will encounter new and different products and strikingly different business environments and risks that could affect their bank's safety and soundness. The new legislation makes the states primarily responsible for regulating bank insurance activities. However, state regulators focus mainly on insurer insolvency and market conduct and may not be able to provide OCC with information on how these expanded insurance activities affect the safety and soundness of national banks.

The OIG recommended that OCC: (1) determine the degree of reliance it can place on state regulation over national bank insurance activities; (2) develop a universe of national banks engaged in insurance activities in order to identify the potential risks; (3) expand its level of expertise and knowledge in the insurance business as it affects national banks; (4) develop a supervisory strategy over national bank insurance activities that addresses safety and soundness issues; and (5) develop supervisory and examination procedures to ensure adequate, consistent, and uniform coverage over national banks' insurance activities.

OCC management agreed that a universe of banks was needed and took action to implement the recommendation. However, OCC disagreed with the other four recommendations stating that they were inconsistent with the Gramm-Leach-Bliley Act and that they were inappropriate in light of the limited insurance activities now permitted for national banks. Resolution of the disagreed recommendations will be handled in accordance with Treasury Directive 40-01, "Responsibilities of and to the Inspector General." (Report # OIG-00-098)

❖ ATF's Youth Crime Gun Interdiction Initiative

In July 1996, ATF, at the direction of the President, initiated the Youth Crime Gun Interdiction Initiative (YCGII) to strengthen enforcement efforts against gun traffickers who supply firearms to juveniles. YCGII has the following primary goals: (1) to trace every recovered crime gun in each city through ATF's National Tracing Center; (2) to analyze the resulting crime gun information to determine the community-wide patterns relating to recovered firearms;

and (3) to publish the analysis for use by Federal, state, and local law enforcement in developing collaborative strategies and enforcement activities against illegal sources of crime guns. Initially, YCGII was implemented in 17 pilot cities and then expanded to a total of 27 cities. For FY 1999, Congress appropriated \$27 million for the program. For FY 2000, Congress increased total funding to \$51.3 million to expand YCGII to 37 cities. The Administration has committed to the inclusion of 75 cities in the program within 4 years.

During this reporting period, the OIG completed three audits related to YCGII. The first audit focused on ATF's Firearms Tracing System (FTS), which is used by ATF to trace recovered crime guns. ATF had redesigned the FTS to correct various operational deficiencies and had migrated the system to a new operating platform. The OIG found that although the redesigned FTS appeared to be meeting user needs, the conversion did not take place in the most efficient manner.

The second OIG audit evaluated ATF's procedures and controls over funds designated for YCGII. The OIG found that ATF finance files showed no material error in the recording of the payment amounts made for YCGII from inception through FY 1998. However, certain obligations and expenditures were not used efficiently and may not have supported YCGII activities.

The third audit looked at ATF's implementation of the YCGII program and their effectiveness in promoting the program among local law enforcement offices. The OIG found that ATF needs to do a better job of implementing the YCGII program and accounting for resources. ATF field offices responsible for implementing YCGII have not consistently performed important program activities prescribed in Headquarters YCGII guidance. Consequently, certain field offices were not providing cities with all of the assistance necessary to help ensure that the cities submitted trace requests for all firearms recovered in crimes. Field offices have not always performed these activities, in part because YCGII coordinators either were unaware of existing guidance, or the existing guidance did not sufficiently describe how to implement YCGII activities. Additionally, activities were not performed because YCGII coordinators had other responsibilities. Also, ATF has not developed a method to ensure that appropriate special agent resources were available in field offices to conduct YCGII-related activities.

The OIG found that not all police departments submitted trace requests on every firearm recovered. Additionally, certain police department YCGII representatives were either not familiar with, or did not avail themselves of ATF's analytical tools to help target firearms traffickers for investigation. As a result, YCGII programs in certain cities may not be identifying the most significant indicators of illegal firearms trafficking for investigation. Not all ATF field offices

regularly communicated with the cities to verify that trace requests were submitted for all firearms, and to determine the resources needed to ensure the cities' active YCGII participation. Police department representatives also explained that other analytical information was not always provided or was not easily accessible. ATF's current Statement of Participants requires cities to submit trace requests on all recovered firearms and to develop strategies based upon analytical information received from ATF.

Finally, ATF has not developed specific performance measures that show the actual impact on youth violent crime rates in cities as a result of participating in YCGII. ATF has not developed a formal process to verify certain statistics that have been reported to Congress about the program's results. Consequently, reported statistical information may not be accurate.

The OIG made nine recommendations that will improve ATF's administration and expansion of YCGII at ATF field offices and selected cities. ATF agreed with and will implement all nine recommendations. (Report # OIG-00-119)

❖ **Deposit Fund Accounts Used for Implementation of the Competitive Equality Banking Act**

The Competitive Equality Banking Act (CEBA), also known as the "limited payability" statute, required the cancellation of Treasury checks that were outstanding as of October 1, 1989, and the cancellation of subsequently issued checks that were not negotiated within 12 months of issuance. At the request of Treasury's General Counsel, the OIG reviewed certain deposit fund accounts that FMS established and maintained for the purpose of implementing CEBA. The OIG also assessed any related activity regarding the Individual Indian Moneys trust fund and FMS' current limited payability cancellation process.

Overall, the OIG identified approximately \$42 million in funds to be put to better use. Specifically, FMS should close out three limited payability cancellation accounts and transfer the corresponding balances, which total approximately \$42 million, to the miscellaneous receipts of the Treasury. The OIG also found that the Individual Indian Moneys trust fund, for which the Department of Interior has primary responsibility, has no direct relationship to the limited payability deposit fund accounts. In addition, the OIG concluded that FMS' current limited payability cancellation process adheres to CEBA, although some areas for improvement were identified.

FMS management agreed with the OIG's recommendations. Among other things, management was taking action to move the \$42 million in the three limited payability cancellation accounts to the general fund. (Report # OIG-00-088)

❖ **Customs Charges to Couriers for Inspector Services**

An OIG audit evaluated whether Customs properly assessed and collected revenue from Express Consignment Carrier Facilities (ECCF) and Courier Hubs. ECCFs and Courier Hubs are privately owned air cargo operations—such as Airborne Express and United Parcel Service—that offer customers expedited delivery of imported cargo. Customs inspectors provide timely processing of shipments to help the companies meet delivery dates. In exchange, the companies reimburse Customs for the cost of the inspections, as required by the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

The OIG auditors reviewed a sample of pay periods from FY 1998 and 1999, and found that Customs had not collected all the revenue due. Specifically, Customs did not bill the companies for all hours worked, for all night differential premiums, and for certain costs associated with canines. Without changes, the OIG estimated that Customs could lose about \$2.035 million in revenue over the next three years.

Customs also assesses an extra charge to cover employee benefits. At the time of the audit, Customs charged 137 percent of the inspectors' hourly rates of pay to recover these costs. The auditors concluded that the 137 percent rate needs to be updated. For example, the rate did not include the Martin Luther King holiday or realistic amounts for retirement, insurance, or health benefits. The auditors estimated the amount to be closer to 158 percent. Using this updated computational charge, the OIG estimated Customs would net an additional \$5.52 million in revenue over the next three years.

In addition, the OIG found that Customs had not established a process for allocating inspection staff among ECCFs and Courier Hubs. Wide variations were noted in staffing and workload. For example, at one Courier Hub inspectors processed 41 packages per hour, while at a busy ECCF inspectors processed 2,165 packages per hour. The OIG acknowledged the need for Customs to consider risk and degree of automation in allocating staff. However, Customs had not assessed risk for these facilities based on seizure data.

The OIG made several recommendations to Customs, including providing guidance to inspectors on properly billing ECCFs and Courier Hubs for services, amending the regulations to increase the computational charge for benefits, and developing a staff allocation process. Customs agreed to take action that, when fully implemented, should fully address these recommendations. (Report # OIG-00-111)

❖ ATF Explosives Inspection Program

To protect the public safety, ATF conducts compliance inspections of explosive licensees and permittees. OIG auditors reviewed 311 violations that ATF identified during FY 1997 and 1998, and found that for 75 of the violations, there was no evidence in the case files that the licensee or permittee had completed required corrective actions. The OIG attributed this condition to ATF inspectors not fully documenting significant explosives violations, and their supervisors failing to identify the discrepancies when reviewing inspection documentation. For a majority of these violations, ATF inspectors also failed to document the specific corrective actions the proprietors needed to take to be in compliance or to hold the proprietors to specified completion dates.

Most of the 75 violations constituted a real or potential threat to the public safety. For example, 39 violations were storage-related, such as inadequate locks or more explosives in a particular magazine than allowed. Additionally, 18 of 32 cases involving record keeping violations were significant because they prevented the ATF inspectors from determining whether other serious violations existed, such as a theft of explosives. In response to the audit, ATF agreed to: (1) document all significant violations in accordance with ATF directives and guidance; (2) provide all field offices guidance on the proper completion of ATF Form 5030.5; and (3) task an inter-directorate group with developing training for supervisors on report content and review for all of ATF's regulated industries. (Report # OIG-00-086)

❖ ATF Compliance Inspection Strategy for Firearms and Ammunition Excise Taxes

The OIG reviewed ATF's efforts to ensure that firearms and ammunition manufacturers and importers pay required excise taxes. ATF relies primarily on voluntary industry compliance, augmented by on-site tax compliance inspections performed by field personnel. In FY 1998, ATF collected about \$165 million in firearms and ammunition excise taxes, including about \$5 million resulting from additional assessments made following on-site inspections. During FY 1995 through 1998, ATF's on-site inspections resulted in additional tax assessments of about \$22.5 million.

The OIG auditors found that ATF needs to improve its procedures for selecting firearms and ammunition manufacturers and importers for inspection. ATF had established risk-based criteria for making selections, but was generally not following those criteria. Instead, it inspected about 50 of the largest volume taxpayers each year. The OIG recommended that ATF upgrade its existing strategy to include inspections of taxpayers from other risk groups.

For example, the auditors identified as possible risk groups: (1) taxpayers with decreasing payments; (2) former taxpayers that were no longer paying taxes; (3) licensees that had never filed a return; and (4) manufacturers and importers with Internet websites with no record of tax payments.

The OIG also found that ATF annual operational reports of additional tax assessments resulting from excise tax inspections were misleading in that the reports did not reflect the amount of actual collections. As of May 1999, \$8.4 of the \$22.5 million assessed during the audit period remained uncollected due to appeals, mitigation, or the financial status of the inspected entity.

In its response to the OIG draft audit report, ATF stated that it implemented a program in FY 2000 called "Determine at Risk Taxpayers," or DART. DART incorporates risk-based criteria into the selection of firms for inspection. ATF also agreed to more fairly represent the financial benefits of its compliance inspections in the future. (Report # OIG-00-080)

❖ ATF's Beverage Sampling Program

To protect the public and prevent deception in the sale of alcoholic beverages, ATF annually samples and tests alcoholic beverages from retail outlets for compliance with label requirements, alcoholic proof, fill level, and possible contaminants. An OIG audit of the Beverage Sampling Program found several weaknesses. First, the program lacked clear and measurable program goals, which could result in less effective product sampling. Second, ATF did not use statistically valid sampling to select products for testing. The number of products sampled annually—an average of 550 beverages during FY 1995 through 1997—was so small relative to the number of products available for sale that the sampling ATF used provided very limited information, benefit, or impact. Third, when follow-up testing was conducted based on initial sample results, ATF limited the potential benefits of this testing by not: (1) conducting the testing in a statistically valid manner; (2) ensuring follow-up testing was conducted only when perceived as cost-beneficial; and (3) timely initiating follow-up actions.

The OIG recommended that ATF develop: (1) specific objectives for the program; (2) a statistically valid sampling methodology for selecting products; and (3) procedures to ensure more expeditious follow-up. ATF agreed with the recommendations. ATF's strategic plan will outline the objectives for the Beverage Sampling Program. ATF also agreed to use statistical sampling, but reserved the right to use judgmental sampling as needed. In addition, ATF will establish procedures to ensure timely follow-up testing on products with violations. (Report # OIG-00-110).

❖ **Customs' Management Inquiry Process**

In response to continued reported weaknesses in its integrity program, Customs implemented new procedures for the management inquiry process. The OIG reviewed these new procedures to determine if they addressed the previously identified weaknesses. The OIG found that, for the most part, the problems associated with the management inquiry process had been addressed. However, there are two areas within the new management inquiry procedures that still need attention. Specifically, inquiries were not assigned to designated fact finders for follow-up in a timely manner. Also, assigned fact finders were not contacting designated Office of Internal Affairs investigators for guidance on the inquiry plan until near the end of the time allotted to complete an inquiry. These areas represented potential problems, which if not addressed, could become major deficiencies. Customs agreed with our findings and recommendations and made appropriate procedural changes. (Report # OIG-00-099)

❖ **Customs' Support for the Business Anti-Smuggling Coalition**

Customs has entered into several partnerships with the business community to reduce the threat of using legitimate trade to smuggle drugs. One of these partnerships is the Business Anti-Smuggling Coalition (BASC). An OIG audit found that neither Customs nor the business community provided sufficient support to ensure the success of the BASC in reducing the threat of smuggling along the southern United States border. Each had different expectations as to the roles and responsibilities of the other — the business community did not provide the leadership anticipated by Customs, and Customs did not provide certain services, such as security inspections, expected by the business community. As a result, the success of the BASC has been marginal.

The OIG recommended Customs commit sufficient resources and, with U.S. businesses, implement policies and procedures needed to ensure the success of the BASC. Customs stated that it would reemphasize the roles and responsibilities of the partners. In the short term, Customs would help establish foreign partnerships under the Americas Counter-Smuggling Initiative, with long-term emphasis along the southern United States border. The OIG believes that until Customs devotes its efforts and resources to the domestic BASC program, its growth will be limited. (Report # OIG-00-109)

❖ **Review of Contract Performance Related to Seized and Forfeited Property**

Treasury established the Executive Office for Asset Forfeiture (EOAF) to consolidate all Treasury law enforcement bureaus under a single forfeiture fund program. Under a memorandum of understanding, Customs acts as EOAF's

Executive Agent for securing property management services for seized and forfeited property. In FY 1996, Customs entered into a contract for the transportation, storage, maintenance, and disposal of seized and forfeited property.

The OIG conducted a review to determine how effectively these contracted services were being provided. The OIG's review found that: (1) the estimated inventory value of general property was overstated for insurance purposes; (2) contract requirements for property insurance were out of date; (3) forfeited property was not always offered for sale within 63 days of receipt of a disposition order; (4) performance award fee criteria was not always applicable; (5) seizing agencies were not always timely entering seized property information into the Seized Asset and Case Tracking System, and (6) contractor invoices could be reviewed more thoroughly. With regard to the first item listed above, the OIG estimated that by adjusting the inventory value of general property, it might be possible to reduce insurance premiums by as much as \$402,000 annually.

Customs and EOAF management either agreed with the OIG's recommendations or provided other alternative actions that satisfied the intent of the recommendations. (Report # OIG-00-121)

EVALUATIONS

❖ **Assessment of the Department's FY 1999 Performance Report and FY 2001 Performance Plan**

As part of ongoing efforts to adopt an effective results orientation for the Federal Government, the Chairman of the Senate Committee on Governmental Affairs asked the OIG to review the Department's FY 1999 Performance Report and the FY 2001 Performance Plan. The objective of this assessment was to determine how these documents identify and offer solutions to the following six major management challenges facing the Department: (1) Treasury's Information Technology Investment Management; (2) Money Laundering/Bank Secrecy; (3) Information Security; (4) Trade Enforcement and Narcotics Interdiction by Customs; (5) Revenue Protection; and (6) Financial Management at Treasury/Compliance with the Federal Financial Management Improvement Act.

The Department's format for the FY 1999 Performance Report was not designed to track specific OIG-identified management challenges. Nevertheless, 30 goals and 99 measures in the Report relate to 5 of the above 6 management challenges. Of the 99 measures, 39 met, 18 exceeded, and 42 did not meet performance indicators established by the Department. For the other management challenge, Information Security, the Report did not contain

goals and measures that were directly applicable to this challenge. In addition, the OIG concluded that the Report adequately explained the strategies needed to address or revise goals and measures as appropriate.

The OIG also assessed whether the FY 2001 Performance Plan makes improvements in the Department's tracking of the OIG management challenges. The Plan identified performance goals and measures in a new section that specifically discusses the OIG management challenges. Accordingly, the Plan represents an improvement in how the management challenges will be tracked by the Department. (Report # OIG-00-CA-006)

❖ **Assessment of the Financial Crimes Enforcement Network's Strategic Plan for FY 1997-2002**

The OIG assessed FinCEN's strategic plan for FY 1997-2002 for consistency with the requirements of the Results Act. The assessment revealed that FinCEN's strategic plan met the basic requirements of the Results Act along with GAO, OMB, and Treasury guidance. FinCEN, however, should consider building on its first strategic plan when making revisions. Since the development of its plan, FinCEN's management has changed. This provides an excellent opportunity for it to include any necessary performance information-based adjustments. (Report # OIG-00-CA-005)

INVESTIGATIVE ACTIVITIES

INTEGRITY AWARENESS BRIEFINGS

Integrity awareness, which is critical to the effectiveness of agency programs and how they are received throughout the Federal Government and by the citizens they serve, remains a high priority. The OIG conducted 19 fraud and integrity awareness briefings to 355 Treasury employees, managers and supervisors during the reporting period. The OIG is working with all the Treasury agencies to ensure they have programs in place to brief each employee on fraud and integrity awareness as well as ethical conduct.

Highlights of integrity awareness activities conducted by the Offices of Internal Affairs (IA) and Inspection at ATF, Customs and Secret Service follow:

- Secret Service conducted 9 ethics briefings for 515 employees.
- ATF Office of Inspection special agents and managers present integrity awareness briefings at conferences, meetings, and training classes throughout the country. During this reporting period, 19 briefings were conducted with 480 criminal investigators, inspectors, analysts, managers, supervisors, and administrative personnel in attendance. The ATF Office of Inspection conducted eight full-scale inspections during the second half of fiscal year 2000. These eight inspections involved the review of 40 separate field and Headquarters office locations. All office inspections covered areas such as, personnel, training, office security, quality and quantity of investigations/inspections, and internal controls. Inspections include personnel interviews with all employees. The interviews cover such topics as morale, supervision, and work-related problems.
- Customs' Office of Internal Affairs conducted 26 integrity awareness presentations to 336 employees during the period.

IMPROPER CONDUCT OR DISCLOSURE

❖ Senior ATF Agent Misuses Official Position for Personal Gain

OIG Special Agents recently completed an investigation of a GS-15 ATF official who, while at HQ ATF, misused his position, government equipment and official travel to

conduct business related to a non profit organization he founded. The official, who had a phone for the organization installed on a support staff's desk, also directed his staff to perform work on government time for a private company owned by a personal friend. This work included helping to prepare a proposal for the company to obtain government contracts from other federal agencies. ATF's Professional Review Board proposed the employee's removal. The official announced his retirement effective July 31, 2000.

❖ Former FinCEN Senior Intelligence Analyst Resigns

An OIG investigation disclosed that a GS-14, Senior Intelligence Research Specialist, improperly used his official position, time and government computer resources. The analyst gathered and solicited information about the Church of Scientology and acted as an unpaid tax consultant to members of a group opposed to Scientology while on official duty. He also actively assisted in the creation of an Internet web site designed to discredit members of the Church of Scientology, while on official duty. The analyst also used his position to conduct 27 unauthorized queries/searches of the Treasury Enforcement Communications System (TECS) to obtain information on himself and several Indian nationals with whom he maintained a personal relationship. The investigation also revealed that the analyst violated agency ethics policies regarding approval for outside employment when he provided written articles for a monthly newsletter on countering money laundering published by an associate in the United Kingdom. In addition, he used official time and government computer resources to access the Internet for personal reasons for significant periods of time while on duty and paid overtime. While the United States Attorney's Office declined prosecution in this matter, investigation did result in the employee's resignation.

THEFT/MISUSE OF FUNDS/PROPERTY

❖ U.S. Mint Employee Prosecuted for Trafficking in Stolen Error Coins

Information was received by the U.S. Mint from the numismatic community that excessive numbers of error coins from the Philadelphia Mint were being circulated on the coin market. There also existed persistent rumors of a "leak" at the Philadelphia facility. Investigation by OIG agents of coin dealers in Maryland, Pennsylvania, New York, California, Tennessee, and Delaware revealed a network that had distributed single and multiple Philadel-

phia coin error pieces between March 1999 and March 2000 that had been sold for \$75,000. A maintenance employee at the Philadelphia Mint was successfully identified as the source of these coins. Monitoring of the activities of that person resulted in the apprehension of the suspect during an attempt to remove additional coins from the Mint. The U.S. Attorney for the Eastern District of Pennsylvania prosecuted this case and accepted a guilty plea from the defendant for the violation of Title 18 United States Code Section 641.

❖ **Theft of OCC Computers by Federal Express Employee**

A joint OIG and FBI investigation resulted in the arrest and conviction of a FedEx delivery driver for theft of Government computer components from the Office of the Comptroller of the Currency (OCC). Video surveillance confirmed that the FedEx delivery driver sold OCC computer equipment to an Annapolis, Maryland, computer retailer. The Circuit Court for Anne Arundel County, Maryland issued an arrest warrant for the FedEx driver. A subsequent search of the FedEx driver's residence, incident to the arrest, disclosed additional OCC computer equipment. The FedEx delivery driver plead guilty to one count of misdemeanor theft and in February 2000, was sentenced to 12 months of incarceration (suspended), 50 hours of community service, and placed on unsupervised probation for one year.

CRIMINAL – OTHER

❖ **Bank officials convicted of obstructing OCC examination**

Following a multi-agency task force investigation, in which the OIG participated, two senior officials of the First National Bank of Keystone, Keystone, West Virginia, were convicted of obstructing the OCC's examination of a financial examination. One of the two officials was also convicted of conspiracy to obstruct the examination of financial institutions. During this investigation, OIG and task force partners executed two federal search warrants, one of which resulted in the seizure of 370 boxes of bank and mortgage company records that were buried on one of the bank officials' rural West Virginia property. One senior bank official was sentenced to 57 months confinement, a \$100,000 fine, and 3 years of supervised release. The other senior bank official was sentenced to 51 months confinement, a \$7,500 fine, and 3 years of supervised release.

❖ **FMS Employee Abuses Government Credit Card**

The OIG completed an investigation into the misuse of a Government Credit Card by a computer specialist at the Financial Management Service (FMS). Investigation revealed that the employee used his Government Credit Card to make substantial cash advances from automated teller machines. These advances, in excess of \$24,000, were not related to official travel or his assigned duties. The United States Attorney's Office declined criminal and civil prosecution against the employee, and FMS terminated the employee on March 14, 2000.

❖ **Former OCC Employee Indicted for Wire Fraud**

An OIG investigation substantiated allegations that prior to being terminated from his employment, a former OCC employee manipulated the Time and Travel Reporting System (TTRS) in order to receive expense reimbursement payments for travel that was never taken. Part of the former employee's responsibilities was to input individual employee travel data into the TTRS. Investigation determined that during a 6-month period, the former employee entered false data in the system that was then electronically deposited into his personal bank account. The amount of the fraudulent deposits totaled \$14,828. Based on this OIG investigation, the former employee confessed to his actions and was indicted on 11 counts of wire fraud.

FALSE STATEMENTS AND CLAIMS

❖ **Customs Service Internal Affairs Senior Executive Service Official indicted and arrested for perjury**

Agents of the OIG investigated allegations that a Senior Executive Service (SES) former Assistant Commissioner of Internal Affairs (IA) obstructed an Internal Affairs investigation by advising the target (a personal friend who was employed as a GS-12 Customs special agent in San Diego, California) that she was under investigation, which subsequently caused her to alter her criminal activities. Additionally, the SES official allegedly violated Customs policy by failing to recuse himself from the supervision of a case in which he had a personal interest and by continuing to have contact with the target of an IA case. Further, he allegedly made false statements to Customs officials and to the Merit Systems Protection Board in a deposition about his relationship with the target of the IA case. The target was convicted and sentenced for her criminal activities in 1999. On June 16, 2000, the IA SES official was arrested by the OIG at the U.S. District Court

house, Greenbelt, MD, pursuant to a grand jury indictment in the Southern District of California (SDCA) for violations of Title 18 United States Code Section 1001 (false statements) and Section 1621 (perjury). The IA SES official was held at his request until his release on June 20, 2000, on a \$25,000 bond. He was subsequently arraigned in SDCA and defense motions are scheduled for January 2001. No trial date has been set. The SES official continues to be suspended without pay.

❖ **OCC employee pleads guilty to overtime Fraud**

An OIG investigation disclosed that a Time and Attendance Clerk for the Office of the Comptroller of the Currency in Washington D.C. falsified her own time and attendance records between 1997 and 1998. As a result of her falsifications, she was paid approximately \$23,000 in overtime pay for time that she did not work. The employee resigned while under investigation and the United States Attorney's Office accepted this matter for prosecution. In June 2000, this individual plead guilty in U.S. District Court to violating Title 18 United States Code, Section 641, Theft of Government Funds. On September 13, 2000, the employee was sentenced to five years probation, six months home detention, ordered to make restitution in the amount of \$22,042 and ordered to serve 15 hours of community service per month for one year.

PROCUREMENT AND CONTRACT IRREGULARITIES

❖ **OCC Employee Falsely Certified Contractor Invoices**

The OIG investigation of an OCC referral of suspicious activity by an employee found that a senior performance development specialist falsely certified OCC contractor's invoices. The employee, who was serving as the contracting officer's technical representative (COTR) on the contract, falsely certified that the contractor rendered services to the OCC, which had not been provided. Although the employee stated she made the certifications to ensure the availability of funding and not for personal gain, they nonetheless resulted in \$41,990 in improper payments to the contractor. Investigation led to the employee's termination.

❖ **U.S. Mint Contractor reaches Restitution Agreement**

An OIG investigation of alleged procurement fraud by a contractor doing business with the United States Mint resulted in a \$202,000 recovery. The contractor entered into a firm fixed price contract with the Mint to provide computer support services. The contractor was required under the contract to work 2000 hours per year. The contractor interpreted the 2000 hours as billable hours that they claimed included government holidays. The interpretation by the contractor was found to be incorrect according to clauses in the contract. The investigation revealed that the company routinely overbilled the government for the various government holidays. The U.S. Attorney's Office for the District of Columbia reached a settlement agreement with the company that is resulting in restitution of \$202,000.

❖ **Former Officials of the Department of the Treasury Executive Office of Asset Forfeiture are indicted on corruption charges**

Following a joint OIG and FBI investigation, two former officials of the Department of the Treasury Executive Office of Asset Forfeiture (EOAF), and a private contractor were indicted by a federal grand jury for the District of Maryland on May 25, 2000. The indictment alleges that the former Director of the EOAF, a former EOAF staff employee and a private contractor engaged in a conspiracy and solicited bribes in connection with the awarding of Department of the Treasury contracts. All three individuals entered pleas of not guilty and a trial date is still to be determined.

OFFICE OF COUNSEL ACTIVITIES

The Counsel to the Inspector General reports directly to the Inspector General. The office fulfilled its responsibilities in the area of ethics training, providing materials and presentations to all employees, and assuring that all new employees received training. The Office managed all administrative and judicial litigation arising from personnel actions taken against OIG employees. It evaluated and responded to document requests and discovery orders with respect to OIG records. The Office also managed all required filings of public and confidential financial disclosures. It carried out its obligations in these areas completely and within time limits.

The Office assisted Management Services in revising the OIG's records retention schedules, including work to assure coordination and compliance with document preservation and production orders in pending litigation. In the course of carrying out the OIG's obligations to safeguard tax information, the Office arranged for a security evaluation of the OIG's office spaces, and developed training for all OIG personnel to enhance awareness and compliance with statutory requirements.

The Office also provided legal advice to headquarters and field investigators and auditors in areas such as procurement and personnel law, and criminal procedure. The Office developed training on the provisions of the Inspector General Act for all employees.

To increase responsiveness to FOIA requests, a second paralegal position was authorized and filled. The Office of Counsel also provided advice on making work products publicly available, by working with other OIG components to expand the OIG website.

The Office receives information from the Department and other sources regarding proposed legislation, including bill drafts and committee reports, as well as commentary and proposed testimony. The Office reviews all such incoming information, makes recommendations and determinations regarding when analysis and/or response by the OIG is appropriate, and transmits such responses back to the appropriate offices within the short deadlines imposed.

Pursuant to the requirement of Giglio v. United States, 405 U.S. 150 (1972), the government must search for and provide to the defense certain information on government employees who are witnesses in prosecutions. U.S. Attorneys' Offices and Department of Justice litigating divisions seek information on Department of the Treasury law enforcement agents from law enforcement bureaus and from the OIG to determine if potentially impeaching information has been developed regarding agents.

The Office of Investigations receives these requests and searches its investigative database. The Office of Counsel receives the results of the searches and communicates with the requesting prosecutor's office. Where information about a particular agent exists, Counsel coordinates with the prosecutor to determine if the information constitutes impeaching material that must be provided to the defendant. During the six-month period ended September 30, 2000, the OIG processed 163 requests for information pursuant to Giglio.

ACCESS TO INFORMATION

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

STATISTICAL SUMMARIES

❖ Audit and Evaluation Reports Issued by Bureau

Appendix A of this report lists individual audit and evaluation reports issued during the 6 months ended September 30, 2000.

OIG Audits and Evaluations	Reports
ATF	9
Customs Service	20
DO	6
BEP	3
BPD	1
OCC	3
FMS	1
IRS*	1
Mint	1
OTS	1
Secret Service	2
Independent Entity	1
Total	49

*OIG Contract Audit

❖ **Audit Reports with Recommendations that Funds Be Put To Better Use**

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

OIG AUDIT REPORTS WITH QUESTIONS COSTS 6 MONTHS ENDED SEPTEMBER 30, 2000			
<u>Report Category</u>	<u>Number</u>	<u>Questioned Costs a/ (in Thousands)</u>	<u>Unsupported Costs a/ (in Thousands)</u>
1. For which no management decision had been made by the beginning of the reporting period	18	\$5,498	\$0
2. Which were issued during the reporting period	3	486	0
3. Subtotals (1 plus 2)	21	5,984	0
4. For which a management decision was made during the reporting period	5	1,952	0
dollar value of disallowed costs	5b/	379	0
dollar value of costs not disallowed	2b/	1,573	0
5. For which no management decision has been made by the end of the reporting period (3 minus 4)	16	4,032	0
6. Reports for which no management decision was made within six months of issuance	14	3,563	0
a/“Questioned costs” includes “unsupported costs.” b/Two reports were partially agreed to and partially not agreed to.			

❖ Audit Reports with Recommendations that Funds Be Put To Better Use

The term “recommendation that funds be put to better use” means a recommendation that funds could be used more efficiently if management took actions to implement and complete the recommendation, including: (1) reductions in outlays, (2) deobligations of funds from programs or operations, (3) costs not incurred by implementing recom-

mended improvements related to operations, (4) avoidance of unnecessary expenditures noted in pre-award reviews of contract agreements, (5) any other savings which are specifically identified, or (6) enhancements to revenues. The term “management decision” means the evaluation by management of the findings and recommendations included in a report and the issuance of a final decision concerning its response to findings and recommendations, such as actions considered necessary.

OIG AUDIT REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO A BETTER USE 6 MONTHS ENDED SEPTEMBER 30, 2000				
Report Category	Number	Total (in Thousands)	Savings (in Thousands)	Revenue Enhancements (in Thousands)
1. For which no management decision has been made by the commencement of the reporting period	4	\$50,682	\$222	\$50,460
2. Which were issued during the reporting period	9a/	58,614	50,653	7,961
3. Subtotals (1 plus 2)	13	109,296	50,875	58,421
4. For which a management decision was made during the reporting period	4	92,174	41,714	50,460
dollar value of recommendations that were agreed to by management	2	67,014	41,714	25,300
based on proposed management action	2	67,014	41,714	25,300
based on proposed legislative action	0	0	0	0
dollar value of recommendations that were not agreed to by management	2	25,160	0	25,160
5. For which no management decision has been made by the end of the reporting period (3 minus 4)	9	17,122	9,161	7,961
6. Reports for which no management decision was made within six months of issuance	1	222	222	0
a/Five audits were performed by DCAA				

❖ Disputed Audit Recommendations

The Inspector General Act requires Inspectors General to provide information on significant management decisions in response to audit recommendations, with which the Inspectors General disagree. As of September 30, 2000, the following recommendations were disputed.

On May 25, 2000, we issued our audit report entitled *Final Report on The United States Customs Service's Automated Information Systems' Computer Security Safeguards Need To Be Strengthened* (Report # OIG-00-085). The report contained several recommendations where the Customs did not agree to take adequate corrective action. We believe Customs has made progress in resolving reported findings and implementing proposed recommendations. However, there are still two areas where the OIG and Customs are not in agreement.

First, we are concerned that 3 months after the issuance of the final audit report, Customs has not prohibited downloading Active-X code from the Internet as required by Treasury Directive 71-10, *Security Manual*. This is a serious issue, as hostile Active-X code could use low level Microsoft Windows utilities to access and, potentially reformat a user's hard drive.

The second area involves the security of ccMail. We had reported that ccMail has not been secured with anti-virus and macro checking. We originally agreed with Customs response based on actions that Customs had planned to

take. However, since that time, it has come to our attention that Customs has not implemented their planned corrective action. Specifically, Customs responded that it was replacing ccMail with Lotus Notes beginning in April 2000, and would correct the noted deficiencies. In June 2000, we were informed that Customs ccMail users were subjected to a virus attack. In July 2000, we were informed that Customs was delaying the Lotus Notes implementation and that Customs was reviewing ccMail options. Accordingly, the ccMail issue should be reopened as corrective actions were not actually taken.

With respect to Report # OIG-00-098, *Office of the Comptroller of the Currency's Supervision of Banks Selling Insurance*, OCC did not agree with four OIG recommendations involving two issues discussed in the report. As of September 30, 2000 the OCC, OIG, and Departmental Offices have had subsequent discussions on these disputed recommendations, and progress is being made toward a resolution.

❖ Undecided Audit Recommendations

The Inspector General Act requires a summary of each audit report that has been undecided for over 6 months. There were 15 such reports, as indicated in the following table.

Report Title and Date	Report Number	Amounts
1. Evaluation of Procurement Overhead Rates Under Contract TC-89-047, Review of Contractor's Accounts Payable Processing System, and Compliance with Cost Accounting Standard 412, 12/15/94 a/	OIG-95-029	10,234
2. Evaluation of Direct and Indirect Costs and Rates Claimed Under Contract TC-89-047 for Calendar Year Ending 12/31/92, 1/11/95 a/	OIG-95-033	69,284
3. Costs Incurred Under Contract TOS-91-31 for Calendar Year 1991, 3/12/96 a/	OIG-96-042	5,404
4. Direct and Indirect Costs and Rates Claimed Under Contract TC-89-047 for Calendar Year Ended December 31, 1993, 10/10/96 a/	OIG-97-002	135,662
5. Final Procurement Determined Indirect Cost Rates Claimed Under Contract TC-89-047 for Contractor Fiscal Year-Ended December 31, 1992, 7/23/97 a/	OIG-97-113	33,774
6. Final Procurement Determined Indirect Cost Rates Claimed Under Contract TC-89-047 for Contractor Fiscal Year-Ended December 31, 1993, 7/23/97 a/	OIG-97-114	112,884
7. Direct and Indirect Costs and Rates Claimed Under Contract TC-89-047 for Fiscal Year Ended December 31, 1994, 9/15/97 a/	OIG-97-132	37,716
8. Direct and Indirect Costs and Rates Claimed Under Contract TC-89-047 for Fiscal Year Ended December 31, 1995, 12/10/97 a/	OIG-98-025	39,071
9. Contractor's Fiscal Year Ended December 31, 1992, through 1994. Applicable to Contractor's TOS-91-31 and TOS-94-25, 2/25/98 a/	OIG-98-045	562,205
10. Revised Direct and Indirect Costs and Rates Claimed Under Contract TC-89-047 for Fiscal Year Ended December 31, 1994, 1/7/99 a/	OIG-99-028	27,366
11. Post Award Audit of Cost or Pricing Data Under Contract TEP-95-55 (TN) a/	OIG-99-100	1,742,837
12. Incurred Costs for Contractor's Fiscal Year Ended December 31, 1997 b/	OIG-99-108	196,527
13. Incurred Cost for Contracts PC-96-014 and PC-97-015 for Fiscal Year 1997 c/	OIG-00-029	6,603
14. Incurred Cost for Contract POS-92-20 for Fiscal Year 1997 a/	OIG-00-030	584,192
15. Subcontract Proposal Submitted Under Solicitation CS-00-022 for the P-3 Airborne Early/Slick Warning Program a/	OIG-00-073	222,116
a/ Contract negotiations have not yet been held or completed. b/ Pending DCAA's supplemental report. c/ Pending Contractor's return to work.		
TOTAL		\$3,785,335

❖ Significant Unimplemented Recommendations

The Inspector General Act requires identification of significant recommendations described in previous semiannual reports on which corrective actions have not been completed. The following list of such unimplemented recommendations in OIG audit reports are based on information

in the Department's automated tracking system, which is maintained by Treasury management officials. Unimplemented recommendations from previous financial statement audit reports pursuant to the CFO Act, GMRA, and other statutory requirements relate to material weaknesses disclosed by the audits and address unresolved FFMIA non-conformances.

<u>Report Number</u>	<u>Issue Date</u>	<u>Report Title/Potential Monetary Benefits and Recommendation Summary</u>
OIG-94-048	1/94	<p><i>Department of the Treasury Forfeiture Fund Annual Financial Statements for the Year Ended September 30, 1993</i></p> <p>Ensure that (1) the Fund's accounting records are maintained on an accrual basis of accounting as required and (2) an integrated financial system is implemented that will capture all transactions related to the Fund's activities in the general ledger. (Two recommendations)</p>
OIG-95-130	9/95	<p><i>Audit of U.S. Customs Service's Fiscal Year 1994 Financial Statements</i></p> <p>Improve and integrate core financial systems by (1) including a "customer-based" accounts receivable subsidiary ledger, (2) recording refunds or payments against the individual import entries associated with cost submissions, (3) identifying the modifications necessary to the general ledger systems to capture all financial transactions as they occur, and (4) implementing supervisory controls over critical Automated Commercial System warning messages and other edit checks that can be overridden.</p>
OIG-96-098	9/96	<p><i>Audit of U.S. Customs Service's Fiscal Year 1995 Consolidated Financial Statements</i></p> <p>Analyze options to ensure capacity to fully recover high priority applications, expeditiously implement an approach, and fully test the disaster recovery plan.</p>
OIG-97-133	9/97	<p><i>Audit of the United States Secret Service Fiscal Year 1996 Statement of Financial Position</i></p> <p>Ensure that (1) the seized property system captures all seized property data necessary to generate a complete analysis of changes in seized and forfeited property and (2) material and supplies transactions are recorded in the general ledger as the transactions occur. (Two recommendations)</p>
OIG-98-033	3/98	<p><i>U.S. Customs Service Advance Passenger Information System</i></p> <p>Analyze data from the advance passenger system that result in low interception rates.</p>
OIG-98-066S	9/98	<p><i>Supplement to Report on the Department of the Treasury's Fiscal Year 1997 Custodial Schedules and Administrative Statements</i></p> <p>Ensure that IRS develops and implements an appropriate corrective action plan that will fully address the material weaknesses and reportable conditions identified in the audits of its financial statements. Provide effective oversight to ensure that the specific recommendations related to EDP general control weaknesses detailed in the component entity reports (particularly IRS, Customs, and FMS), and the related plans for corrective actions, are implemented completely and timely by the various bureaus. (Two recommendations)</p>

<u>Report Number</u>	<u>Issue Date</u>	<u>Report Title/Potential Monetary Benefits and Recommendation Summary</u>
OIG-98-068	3/98	<p><i>Custom's Reorganization to Streamline Operations</i></p> <p>Establish definitive performance measures for CMC Mission Support Teams, to facilitate assessment of their efforts and the overall effectiveness of CMC operations. (Two recommendations)</p>
OIG-98-072	4/98	<p><i>Audited Fiscal Years 1997 and 1996 Financial Statements of the Treasury Forfeiture Fund</i></p> <p>Correct shortfalls associated with SEACATS, the seized assets and case tracking system, to allow for "cradle to grave" tracking of all property and currency seizures from case initiation to final resolution.</p>
OIG-99-015	11/98	<p><i>Use of HIDTA Funds by the United States Secret Service</i></p> <p>Ensure that training is provided on the proper use of HIDTA funds based on Secret Service guidance.</p>
OIG-99-018	12/98	<p><i>ATF's Administration of the National Firearms Registration and Transfer</i></p> <p>Ensure that report to monitor pending workloads and identify registration activity is fully developed. (Three recommendations)</p>
OIG-99-025	12/98	<p><i>Transfer Fee Revenue Has Been Insufficient to Recover the Cost of Trading Treasury Securities</i></p> <p>Coordinate with the Wholesale Payments Product Office of the FRB of New York a reassessment of the FRBs funds movement fee to ensure it accurately represents cost to provide service.</p>
OIG-99-039	2/99	<p><i>Audit of the Treasury Communications System Automated Information Automated System</i></p> <p>DO should prepare and test continuity of operations plans that meet the requirements of TCS user agencies. (Six recommendations)</p>
OIG-99-074	3/99	<p><i>Audited Salaries and Expense Appropriation and Miscellaneous Accounts- Fiscal Year 1998 Financial Statements of the Financial Management Service</i></p> <p>Improve financial management and reporting policies and procedures to address documentation problems and the need to periodically analyze particular accounts. Ensure that accountability over property and equipment is adequately maintained, and amounts reported in the financial statements are materially correct and adequately supported. (Two recommendations)</p>
OIG-99-123	9/99	<p><i>Bureau of Alcohol, Tobacco and Firearms Controls Over Tax Free Exports</i></p> <p>ATF should amend 27 CFR to include 1) specific timeframes for DSPs and 2) additional guidance defining export evidence. (One recommendation)</p>

❖ Revised Management Decisions

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

❖ Regulatory and Legislative Review

The Inspector General Act requires the Inspector General to review existing and proposed regulations and legislation relating to the programs and operations of the Department and to make recommendations concerning their impact.

The OIG reviewed and commented on various Treasury Directives and Treasury Orders in the six months ended September 30, 2000. In addition, the OIG reviewed and commented on 10 legislative items.

❖ Hotline Allegations

The table below summarizes allegations of fraud, waste, misconduct, mismanagement, and assault received through "800" hotline numbers during the six months ended September 30, 2000. It does not include (1) allegations received by the OIG and the Offices of Internal Affairs and Inspection through other sources; (2) inquiries on taxes and other matters which are referred informally to Treasury program managers and others for appropriate disposition; or (3) pending allegations for which dispositions have not been determined. This table does not represent the total number of "hotline" calls received during the period, but rather only the calls that led to allegations.

Disposition of Hotline Allegations	OIG	Customs	Total
No. of calls referred for investigative or audit inquiry	7	289	296
No. of calls referred to program managers	0	471	471
No. of calls referred to other agencies	28	0	28
Total	35	760	795

❖ Caseload Accounting

This table accounts for the caseload of the OIG and the Offices of Internal Affairs and Inspection for the six months ended September 30, 2000. The beginning balance of cases, plus the cases opened, minus the cases closed, equals the ending balance of open cases.

	OIG	ATF	Customs	Secret Service	Total
Number of open cases at the beginning of the period	166*	69*	1,342*	42*	1,619
Number of cases opened during the period	80	90	556	16	742
Number of cases closed during the period	37	96	431	24	588
Number of open cases at the end of the period	209	63	1,449	34	1,755

*Figure adjusted from previous Semiannual Report.

❖ Nature of Allegations

This table classifies the nature of allegations for investigative cases opened during the period by the OIG and the Offices of Internal Affairs and Inspection. The number of allegations equals the number of cases opened because only the most significant allegation per case was counted.

	OIG	ATF	Customs	Secret Service	Total
Bribes, graft, kickbacks	0	2	24	0	26
Procurement and contract irregularities	7	8	0	0	15
Assaults/threats	0	6	64	4	74
False statements and claims	14	7	39	0	60
Theft/misuse of funds/property	16	11	65	0	92
Drug abuse and control	0	3	0	0	3
Impersonating a Government official	1	0	5	0	6
Criminal - Other	5	7	36	5	53
Sexual harassment	0	5	25	0	30
Improper conduct or disclosure	25	18	287	2	332
Non-Criminal - Other	12	23	11	5	51
Total Allegations	80	90	556	16	742

❖ Prosecutive Actions

This chart accounts for the prosecutive actions of the OIG and the Offices of Internal Affairs and Inspection for the six months ended September 30, 2000. The number of

pending cases at the beginning of the period, plus the cases referred to prosecutive authorities, less the cases accepted for prosecution, less the declinations, equals the pending cases at the end of the period.

	OIG	ATF	Customs	Secret Service	Total
Number of cases pending prosecutive decision at the beginning of the period	0	1	24*	5	30
Number of cases referred to prosecutive authorities during the period	4	12	4	5	25
Number of cases accepted for prosecution during the period	1	0	2	4	7
Number of declinations during the period	3	11	5	4	23
Number of cases pending prosecutive decision at the end of the period	0	2	21	2	25

* Adjusted for Management Referrals

❖ Successful Prosecutions

This chart shows the number of successful prosecutions involving the cases of the OIG and the Offices of Internal Affairs and Inspection during the six months ended September 30, 2000. Successful prosecutions include the number of individuals who as a result of investigations (1) are found guilty by a Federal or state court, (2) are accepted for pretrial diversion agreements by the Department of Justice, or (3) are granted plea bargaining agreements.

Organization	Prosecutions
OIG	1
ATF	0
Customs	19
Secret Service	0
Total	20

❖ Administrative Sanctions

This chart shows the number of personnel actions and the number of suspensions and debarments of contractors involving cases of the OIG and the Offices of Internal Affairs and Inspection during the period ended September 30, 2000.

Organization	Personnel Actions	Suspensions and Debarments
OIG	8	0
ATF	42	0
Customs	238	0
Secret Service	8	0
Total	296	0

❖ Investigative Monetary Benefits

This table summarizes monetary benefits relating to investigations of the OIG and the Offices of Internal Affairs and Inspections during the period ended September 30, 2000.

Organization	Total	Recoveries	Criminal Penalties	Administrative Penalties	Savings
OIG	\$242,525	\$242,525	\$0	\$0	\$0
ATF	0	0	0	0	0
Customs	\$160,400	\$160,400	0	0	0
Secret Service	0	0	0	0	0
Total	\$402,925	\$402,925	\$0	\$0	\$0

APPENDIX A - REPORT LISTING

April 1, 2000 through September 30, 2000¹

Bureau of Alcohol, Tobacco and Firearms

Bureau of Alcohol, Tobacco and Firearms Compliance Inspection Strategy for Firearms and Ammunition Excise Taxes, OIG-00-080, 4/18/00

Improvements Needed in the Bureau of Alcohol, Tobacco and Firearms Explosives Inspection Program, OIG-00-086, 5/26/00

Bureau of Alcohol, Tobacco and Firearms' Expenditures for the Youth Crime Gun Interdiction Initiative, OIG-00-087, 5/30/00, **\$292,270 S**

Bureau of Alcohol, Tobacco and Firearms' Fiscal Year 1999 Financial Statements, OIG-00-091, 6/06/00

Final Report on the Bureau of Alcohol, Tobacco and Firearms Conversion of the Firearms Tracing System, OIG-00-093, 6/16/00

Subcontract Costs Incurred under Prime Contract TATF-96-14 for Contractor's Fiscal Years 1997 and 1998, OIG-00-104, 7/13/00

Contract Audit Closing Statement on Flexibly Priced Physically Completed Subcontract Awarded under Prime Contract TATF-96-14 for Contractors Fiscal Years 1997 and 1998, OIG-00-106, 7/13/00

Increased Benefits Possible from the Bureau of Alcohol, Tobacco and Firearms Beverage Sampling Program, OIG-00-110, 7/17/00

Bureau of Alcohol, Tobacco and Firearms' Implementation of the Youth Crime Gun Interdiction Initiative, OIG-00-119, 8/21/00

Office of the Comptroller of the Currency

Audited Financial Statements of the Office of the Comptroller of the Currency for Calendar Year 1999, OIG-00-084, 5/19/00

Office of the Comptroller of the Currency's Supervision of Banks Selling Insurance, OIG-00-098, 6/27/00

The Effectiveness of the Office of the Comptroller of the Currency's Procurement Operations, OIG-00-120, 8/28/00

U.S. Customs Service

Subcontract Proposal Submitted Under Solicitation CS-99-022 for the P-3 Airborne Early/Slick Warning Program, OIG-00-081, 5/15/00, **\$701,850 S**

Contract Audit Closing Statement on Flexibly Priced Physically Completed Contract CS-I-97-26053-3 for Fiscal Year 1997, OIG-00-082, 5/16/00

The United States Customs Service's Automated Information Systems Computer Security Safeguards Need Improvement, OIG-00-085, 5/25/00

Agreed-Upon Procedures for Solicitation CS-99-022 for the P-3 Airborne Early/Slick Warning Program, OIG-00-089, 6/5/00

Follow-up Evaluation of Contractor's Estimating System and Internal Controls, OIG-00-090, 6/5/00

Subcontract Proposal Submitted Under Solicitation CS-99-022 for the P-3 Airborne Early/Slick Warning Program, OIG-00-094, 6/21/00

Proposal Submitted Under Solicitation CS-99-022 for the P-3 Airborne Early/Slick Warning Program, OIG-00-096, 6/21/00, **\$4,434,930 S**

United States Customs Service's Management Inquiry Process, OIG-00-099, 6/27/00

Subcontract Costs Incurred under Prime Contracts TC-91-014, TC-95-037, TC-95-044, TC-96-14, and TC-99-001 for Fiscal Years 1997 and 1998, OIG-00-103, 7/13/00

Contract Audit Closing Statements on Flexibly- Priced Physically Completed Contracts for Contractor's Fiscal Years 1997 and 1998, OIG-00-105, 7/13/00

United States Customs Service Support for the Business Anti-Smuggling Coalition, OIG-00-109, 7/17/00

¹ Amounts shown for some reports represent recommended monetary benefits. Q = Questioned Costs; S = Savings; R = Revenue Enhancements.

U.S. Customs Service Has Undercharged Couriers for the Cost of Inspector Services, OIG-00-111, 7/31/00, **\$7,960,440 R**

Subcontract Proposal Submitted Under Solicitation CS-99-022 for the P-3 Airborne Early/Slick Warning Program, OIG-00-112, 8/1/00, **\$974,630 S**

Subcontract Proposal Submitted Under Solicitation CS-99-022 for the P-3 Airborne Early/Slick Warning Program, OIG-00-113, 8/4/00, **\$2,107,020 S**

Incurred Costs Under Contract TC-96-005 for Fiscal Years Ending December 31, 1997 and 1998, OIG-00-114, 8/8/00

U.S. Customs Service's Disaster Recovery and Computer Security Programs, OIG-00-115, 8/17/00

Cost and Fee Billed Under Contract Number TC-89-028, OIG-00-116, 8/16/00, **\$313,620 Q**

Contractor's Labor Accounting System and Internal Controls, OIG-00-117, 8/22/00

Option 1 Public Vouchers 1 Through 7 Under Contract Number TC-89-014, OIG-00-118, 8/22/00

Review of Contract Performance Related to Seized and Forfeited Property, OIG-00-121, 9/8/00 **\$ 402,000 S**

Departmental Offices

Department of the Treasury District of Columbia Pensions Project's Fiscal Year 1999 Financial Statements, OIG-00-092, 6/27/00

Incurred Costs for Fiscal Years 1995 and 1996, OIG-00-095, 6/21/00

Office of Tax Analysis' Fiscal Year 1999 Revenue Estimation Process, OIG-00-097, 6/23/00

Implementation of the Federal Financial Management Improvement Act, OIG-00-124, 9/28/00

Assessment of the Department's Fiscal Year 1999 Performance Report and Fiscal Year 2001 Performance Plan, OIG-CA-00-006, 7/13/00

Assessment of the Financial Crimes Enforcement Network's Strategic Plan for Fiscal Years 1997 - 2002, OIG-00-CA-005, 5/8/00

Bureau of Engraving and Printing

Direct and Indirect Costs and Rates Incurred Under Contract TEP-92-02 and TEP-92-03 for Fiscal Years 1997 and 1998, OIG-00-078, 4/3/00, **\$17,380 Q**

Contract Audit Closing Statement on Physically Completed Flexibly Priced Contracts, OIG-00-100, 6/30/00

Contractor's Price Proposal Submitted Under Contract TEP-96-32 for Counterfeit Deterrence Technology Development, OIG-00-108, 7/11/00 **\$25,900 S**

Financial Management Service

Financial Management Service's Deposit Fund Accounts Used for the Implementation of the Competitive Equality Banking Act, OIG-00-088, 5/30/00, **\$41,714,400 S**

U.S. Mint

Review of the Results Act Implementation through the Consolidated Information System at the United States Mint, OIG-00-123, 9/15/00

Internal Revenue Service

Evaluation of Contractor's Compensation System, OIG-00-107, 7/11/00

U.S. Secret Service

Costs Incurred for Fiscal Year Ended December 31, 1997, OIG-00-101, 7/6/00, **\$154,650 Q**

Contract Audit Closing Statement on Physically Completed Flexibly Priced Contracts, OIG-00-102, 7/6/00

Office of Thrift Supervision

Audited Financial Statements of the Office of Thrift Supervision for the Calendar Years 1999 and 1998, OIG-00-083, 5/19/00

Independent Entity

Audited Financial Statements of the Federal Financing Bank for the Fiscal Years 1999 and 1998, OIG-00-079, 4/10/00

Bureau of the Public Debt

The Bureau of the Public Debt's Change Control Procedures, OIG-00-122, 9/15/00

APPENDIX B

CROSS REFERENCES TO INSPECTOR GENERAL ACT

The specific reporting requirements of the Inspector General Act of 1978, as amended, are listed below with cross-references to the pages in this report where they can be located.

SECTION	REQUIREMENT	REF. PAGE
Section 4(a)(2)	Review of Legislation and Regulation	46
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	10-33
Section 5(a)(2)	Recommendations with Respect to Significant Problems, Abuses, and Deficiencies	10-33
Section 5(a)(3)	Significant Unimplemented Recommendations Described in Previous Semiannual Reports	41-43
Section 5(a)(4)	Matters Referred to Prosecutive Authorities	47
Section 5(a)(5)	Summary of Instances Where Information Was Refused	33
Section 5(a)(6)	List of Audit Reports	49-52
Section 5(a)(7)	Summary of Significant Reports	10-33
Section 5(a)(8)	Statistical Table - Questioned Costs	36
Section 5(a)(9)	Statistical Table - Recommendations that Funds Be Put to Better Use	38
Section 5(a)(10)	Summary of Audit Reports Issued Before the Commencement of the Reporting Period for which No Management Decision Has Been Made	39-40
Section 5(a)(11)	Significant Revised Management Decisions Made During the Reporting Period	42
Section 5(a)(12)	Management Decisions with which the Inspector General is in Disagreement	39

GLOSSARY

ACS	Automated Commercial System	FY	Fiscal Year
ATF	Bureau of Alcohol, Tobacco and Firearms	GAO	General Accounting Office
BEP	Bureau of Engraving and Printing	GMRA	Government Management Reform Act
BDMOC	Birmingham Debt Management Operations Center	ITMRA	Information Technology Management Reform Act
BIF	Bank Insurance Fund	IPA	Independent Public Accountant
BPD	Bureau of the Public Debt	IRS	Internal Revenue Service
BSA	Bank Secrecy Act	IT	Information Technology
CCS	Counterfeit Contraband System	Keystone	First National Bank of Keystone
CDFI	Community Development Financial Institutions	Mint	United States Mint
CFO	Chief Financial Officers	OCC	Office of the Comptroller of the Currency
CIT	Court of International Trade	OCRE	Office of Compliance and Regulatory Enforcement
CMP	Civil Monetary Penalty	OIG	Office of Inspector General
CMU	Currency Manufacturing Unit	OMB	Office of Management and Budget
COINS	Consolidated Information System	OSPE	Office of Strategic Planning and Evaluation
Customs	United States Customs Service	OTS	Office of Thrift Supervision
D.C.	District of Columbia	PCA	Private Collection Agency
DCAA	Defense Contract Audit Agency	PCIE	President's Council on Integrity and Efficiency
DCIA	Debt Collection Improvement Act of 1996	PRS	Performance Reporting System
DO	Departmental Offices	Results Act	Government Performance and Results Act
ECIE	Executive Council on Integrity and Efficiency	SAR	Suspicious Activity Reports
ETA	Electronic Transfer Account	SEACATS	Seized Asset and Case Tracking System
FDIA	Federal Deposit Insurance Act	Secret Service	United States Secret Service
FDIC	Federal Deposit Insurance Corporation	TFF	Treasury Forfeiture Fund
FFMIA	Federal Financial Management Improvement Act of 1996	TIGTA	Treasury Inspector General for Tax Administration
FinCEN	Financial Crimes Enforcement Network	TIRB	Treasury Investment Review Board
FLETC	Federal Law Enforcement Training Center	TIRB	Treasury Investment Review Board
FMS	Financial Management Service		
FOIA	Freedom of Information Act		