



Semiannual Report To The Congress



April 1, 2005 – September 30, 2005

Office of
Inspector General
Department of the Treasury

HIGHLIGHTS IN BRIEF

During this semiannual reporting period, our **Office of Audit** issued 18 audit and evaluation reports which identified, in total, approximately \$2.8 million in monetary benefits. Work by our **Office of Investigations** resulted in 9 convictions by plea agreement, 1 conviction by trial, 18 indictments, 2 informations, 6 State and local charges, and 32 referrals accepted for prosecution. Investigative activities also resulted in over \$116,000 in court ordered restitution and investigative recoveries as well as 17 personnel actions. Some of the significant results for this period are described below:

- Our audit report on the Financial Crimes Enforcement Network (FinCEN) revealed that it faces several major challenges to better ensure money services businesses (MSB) register with FinCEN pursuant to the Money Laundering Suppression Act of 1994. We found, among other things: indicators that many MSBs required to register have not done so; the Internal Revenue Service -- FinCEN's primary vehicle for examining MSBs -- may not have sufficient resources to conduct timely examinations of MSBs for compliance with the Bank Secrecy Act; and, as of our audit period, there had been no enforcement action taken against non-compliant MSBs. FinCEN management has already taken some actions and planned others to enhance the MSB registration program.
- We issued an interim audit report from our continuing audit oversight of the Treasury Building and Annex Repair and Restoration (TBARR) program providing the results of an independent inspection of the Main Treasury building renovation for building code compliance. An engineering and construction consultant under our supervision noted that the TBARR renovation contractors exerted extraordinary effort in bringing the project to its current stage. However, the consultant found some violations and other deficiencies in certain areas. These matters are being addressed by the Department.
- As a result of our joint investigation with the Department of Housing and Urban Development OIG in June 2005, an individual was found guilty in U.S. District Court on 13 counts of issuing Fictitious Government Financial Instruments to purchase approximately \$1.6 million in real estate from low income families. In September 2005, the individual was sentenced to 15 months incarceration, 36 months of supervised probation, and ordered to pay a special assessment of \$1,300.
- An OIG investigation disclosed that 12 employees within a section of the Bureau of Engraving and Printing (BEP) viewed, sent, and saved sexually explicit images on government computers. It was also determined that managers within the section knew of and participated in these activities. BEP recommended 1 to 14 days suspension without pay for 9 employees and formal counseling for 3 others.

Finally, we are pleased to report that the work of our office during fiscal year 2005 was recognized with 5 awards for excellence by the President's Council on Integrity and Efficiency at an October 2005 ceremony.

A MESSAGE FROM THE INSPECTOR GENERAL

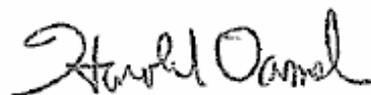
I am pleased to present the Department of the Treasury (Treasury), Office of Inspector General (OIG) Semiannual Report summarizing activities for the 6-month period from April 1, 2005 through September 30, 2005.

Having been sworn in on April 5, 2005, the activity described in this Semiannual Report represents my first six months of service as the Treasury Inspector General. During this time, I have become acquainted with my staff and I have been impressed with their dedication and professionalism.

I made some organizational changes with the intent of creating more efficiency in carrying out our mandated duties. Most significantly, I closed our audit office in San Francisco, California as most of its work was based in Washington, D.C. Those positions were transferred to establish a banking unit in Washington, D.C. whose primary mission will be to focus on traditional banking issues such as safety and soundness, Bank Secrecy Act compliance, and consumer protection.

In the Office of Investigations, I have increased our level of supervision by adding a third special agent-in-charge and two assistant special agents-in-charge. I believe this additional supervision will allow us to handle our investigations in a more efficient manner. I have also tasked my Assistant Inspector General for Investigations to develop and direct more proactive investigative activities.

I am pleased to report that during this reporting period a number of senior management positions within Treasury have been filled. Most importantly, from the Department's operational standpoint, are the positions of Deputy Secretary and the Assistant Secretary for Management and Chief Financial Officer. My staff and I look forward to working closely with these individuals, along with Secretary Snow, who has been very supportive of the OIG, as we seek to identify and prevent potential vulnerabilities and fraud in the Department's programs, promote effective program management, ensure sound financial management, and improve information technology.



Harold Damelin
Inspector General

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OVERVIEW OF THE OIG AND THE TREASURY

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

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

The **Office of Audit (OA)** performs audits and evaluations. The Assistant Inspector General for Audit has two deputies. One deputy is primarily responsible for performance audits while the other deputy is primarily responsible for financial management and information technology audits. OA headquarters is located in Washington, DC, with a field office in Boston. The Western Field Audit Office located in San Francisco, California, was closed on September 16, 2005. On-going audit work from that office will be transferred to headquarters.

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

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

The **Office of Management** provides a range of services designed to maintain the OIG administrative infrastructure. These services include: asset management; budget formulation and execution; financial management; information technology; and

OVERVIEW OF THE OIG AND THE TREASURY

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

As of September 30, 2005, the OIG had 108 full-time staff onboard. The OIG's fiscal year 2005 appropriation was \$16.368 million.

OIG Values

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

About Treasury

The mission of Treasury is to promote the conditions for prosperity and stability in the United States and encourage prosperity and stability in the rest of the world. Organized into bureaus and offices, the Treasury encompasses a wide range of programmatic and operational activities. Currently, Treasury is comprised of approximately 113,000 Full-time Equivalent (FTE) staff. Of this workforce, the IRS has approximately 97,500 FTE staff and the other Treasury bureaus and offices have approximately 15,500 FTE staff.

Treasury Bureaus

Alcohol and Tobacco Tax and Trade Bureau (TTB) collects alcohol, tobacco, firearms and ammunition excise taxes (totaling approximately \$15 billion annually); ensures that these products are labeled, advertised and marketed in accordance with the law; and administers laws and regulations in a manner that protects the consumer and the revenue.

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

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

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

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

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

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

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

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

Treasury Offices

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

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

- TFI is headed by an Under Secretary and includes two major components: the **Office of Terrorist Financing and Financial Crime (TFFC)**, responsible for TFI's enforcement functions, and the **Office of Intelligence and Analysis (OIA)**, responsible for TFI's intelligence functions. An Assistant Secretary oversees each of these offices. TFFC is responsible for integrating **FinCEN**, the **Office of Foreign Assets Control (OFAC)**, and the **Treasury Executive Office of Asset Forfeiture (TEOAF)**. TFFC also works in close partnership with **IRS Criminal Investigation (IRS-CI)** to enforce laws against terrorist financing and money laundering, including the Bank Secrecy Act. OIA is responsible for the receipt, analysis, collation, and dissemination of intelligence and counterintelligence information related to the operations and responsibilities of the entire Department, including all components and bureaus of the Department.
- **OFAC** administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign countries, terrorists, international narcotics traffickers, and those engaged in activities related to the proliferation of weapons of mass destruction.

OVERVIEW OF THE OIG AND THE TREASURY

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

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

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

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

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

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

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

SIGNIFICANT AUDITS AND EVALUATIONS

FINANCIAL MANAGEMENT

Financial Audits

The Chief Financial Officers (CFO) Act, as amended by the Government Management Reform Act of 1994 (GMRA), requires annual financial statement audits of Treasury and Office of Management and Budget (OMB)-designated entities. The following table shows audit results for fiscal years 2004 and 2003.

Treasury Audited Financial Statements and Related Audits						
Entity	Fiscal Year 2004 Audit Results			Fiscal Year 2003 Audit Results		
	Opinion	Material Weakness	Other Reportable Conditions	Opinion	Material Weakness	Other Reportable Conditions
GMRA/CFO Requirements						
Treasury Department	UQ	1	1	UQ	2	1
IRS (A)	UQ	4	2	UQ	4	2
Other Required Audits						
BEP	UQ	0	0	UQ	0	0
CDFI Fund	UQ	0	0	UQ	0	0
Office of DC Pensions	UQ	0	0	UQ	0	0
ESF	UQ	0	0	UQ	0	0
FFB	UQ	1	0	UQ	0	0
OCC	UQ	0	1	UQ	0	2
OTS	UQ	0	0	UQ	0	0
TFF	UQ	0	1	UQ	0	1
Mint						
Financial Statements	UQ	0	0	UQ	0	0
Custodial Gold and Silver Reserves	UQ	0	0	UQ	0	0
Material to Treasury Department Financial Statements						
BPD						
Schedule of Federal Debt (A)	UQ	0	0	UQ	0	0
Government Trust Funds	UQ	0	1	UQ	0	0
Schedule of Loans Receivable	(B)	0	0	UQ	0	0
FMS						
Treasury Managed Accounts	UQ	0	0	UQ	0	0
Operating Cash of the Federal Government	UQ	0	1	UQ	1	0
TTB Schedule of Custodial Activities	(B)	0	0	UQ	0	3
International Assistance Programs	(C)	0	0	(C)	0	1
UQ Unqualified Opinion (A) Audited by the U.S. Government Accountability Office. (B) A separate schedule was not prepared and audited for fiscal year 2004. Related accounts were audited, and any required follow-up on prior year internal control weaknesses was performed as part of the audit of the Treasury's consolidated financial statements. (C) These accounts were audited as part of the Department's consolidated financial statement audits. No separate audit reports were issued. These accounts were considered materially accurate.						

SIGNIFICANT AUDITS AND EVALUATIONS

Audits of the fiscal year 2005 financial statements or schedules of the Department and component reporting entities were in progress at the end of this Semiannual reporting period.

The following instances of Federal Financial Management Improvement Act (FFMIA) non-compliance were reported in connection with the fiscal year 2004 audits. The current status of these FFMIA non-compliances, including progress in implementing remediation plans, will be evaluated as part of our audit of Treasury's fiscal year 2005 financial statements.

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

The results of financial audits issued by our Office during this period that were performed in support of our audit of Treasury's 2004 consolidated financial statements are summarized as follows:

Audit of the Federal Financing Bank's Fiscal Years 2004 and 2003 Financial Statements

An Independent Public Accountant (IPA), working under OIG supervision, issued an unqualified opinion on FFB's Fiscal Years 2004 and 2003 financial statements. The audit identified one material weakness related to internal controls over the selecting, monitoring, and applying generally accepted accounting principles related to certain non-routine transactions. No instances of reportable non-compliance with laws and regulations were identified. **(OIG-05-045)**

Management Letter for Fiscal Year 2004 Audit of the Financial Management Service's Schedules of Non-Entity Government-Wide Cash

An IPA, working under OIG supervision, issued a management letter related to the audit of FMS's Fiscal Year 2004 Schedule of Non-Entity Government-Wide Cash **(OIG-05-008)**. The management letter contained the specific findings and recommendations for the reportable condition related to the ineffectiveness of computer controls. Due to the

SIGNIFICANT AUDITS AND EVALUATIONS

sensitive nature of the information contained in the management letter, it has been designated for Limited Official Use (LOU). **(OIG-05-036)**

Management Letter For Fiscal Year 2004 Audit of the Financial Management Service's Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue

An IPA, working under OIG supervision, issued a management letter related to the Audit of the FMS's Fiscal Year 2004 Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue **(OIG-05-009)**. The management letter contained internal control weaknesses related to electronic data processing that were not required to be included in the audit report. Due to the sensitive nature of the information contained in the management letter, it has been designated for LOU. **(OIG-05-037)**

Attestation Engagements

The following engagements were completed in support of our audit of Treasury's fiscal year 2005 consolidated financial statements. These engagements also support the financial statement audits of certain other Federal agencies.

BPD Controls over the Processing of Transactions for Other Agencies

An IPA, under our supervision, examined the general computer and accounting controls related to certain services provided by BPD's Administrative Resource Center to various Federal agencies (Customer Agencies). The IPA found that (1) BPD's description of controls for these activities fairly presented, in all material respects, the controls that had been placed in operation as of June 30, 2005; (2) the controls were suitably designed; and (3) the controls tested by the IPA were effective during the period July 1, 2004, to June 30, 2005. The IPA noted no instances of reportable non-compliance with laws and regulations tested. **(OIG-05-044)**

An IPA, under our supervision, performed examinations that covered the general computer and trust fund management processing controls related to BPD's transactions processing of investment accounts of various Federal and State government agencies (Program Entities) and the general computer and investment/redemption processing controls related to the BPD's transactions processing of investment accounts for various Federal Government agencies (Fund Agencies). The IPA found that (1) BPD's description of these controls fairly presented, in all material respects, the controls that had been placed in operation as of July 31, 2005; (2) the controls were suitably designed; and (3) the controls tested by the IPA were effective during the period August 1, 2004, to July 31, 2005. The IPA noted no instances of reportable non-compliance with the laws and regulations tested. **(OIG-05-046 and OIG-05-047)**

SIGNIFICANT AUDITS AND EVALUATIONS

INFORMATION TECHNOLOGY

Fiscal Year 2005 Independent Evaluation of Information Security for Treasury's National Security Systems

As required by the Federal Information Security Management Act of 2002, we evaluated Treasury's information security program and practices as they relate to the Department's national security systems. Our classified report on this evaluation noted several weaknesses that warranted management's attention. **(OIG-CA-05-001 Classified)**

Effective Security Controls Needed to Mitigate Critical Vulnerabilities in Departmental Offices' Networked Information Systems

Several high-risk security vulnerabilities detected by specialized software may expose DO's network and systems to unauthorized access and exploitation. Many of the vulnerabilities detected in DO's systems also appear on the System Administration, Networking and Security Institute/Federal Bureau of Investigation List of the Twenty Most Critical Internet Security Vulnerabilities. The majority of successful attacks on network and systems can be traced to the exploitation of these vulnerabilities. In addition, we discovered that a number of DO's system configurations did not meet minimum requirements set forth by Treasury Directive Publication 85-01, *Treasury Information Technology Security Program*. In general, we found that password security measures need improvement, logical access controls should be strengthened, audit trails are not optimally retained or secured, and systems and software are not sufficiently patched. We recommended that the Chief Information Officer (CIO) take the necessary steps, including correction of security measures in DO's systems and application of the latest service packs and security updates, to mitigate the vulnerabilities detected. The CIO has implemented or planned corrective actions that are responsive to our recommendations. Due to the sensitive nature of the vulnerabilities detected, the report was issued as LOU. **(OIG-05-043)**

... we found that password security measures need improvement, logical access controls should be strengthened, audit trails are not optimally retained or secured, and systems and software are not sufficiently patched.

The Treasury Communications System's Disaster Recovery Capability Has Improved

Despite the improvements, we identified some weaknesses during this exercise that still need attention including: (1) the lack of participation in the disaster recovery exercise by all Treasury components ...

In a follow-up audit, we found that the Department took action to remedy a material weakness related to disaster recovery capability of the Treasury Communications System (TCS) by establishing bureau connection to its backup facility. Management also performed a disaster recovery exercise in

June 2004 to test the connections which we observed. During the exercise, we observed

SIGNIFICANT AUDITS AND EVALUATIONS

that TCS service from its primary site was successfully restored at its backup site. TCS was also successful in restoring the backup operations to normal processing at the primary site. Despite the improvements, we identified weaknesses during this exercise that still need attention including: (1) the lack of participation in the disaster recovery exercise by all Treasury components, (2) a component processing prioritization scheme was not established at the backup site, and (3) a connection to the backup site was not established for TEOAF. Our recommendations included: (1) conducting a disaster recovery exercise during a peak utilization period, (2) establishing a prioritization plan; (3) ensuring bureaus identify critical systems and recovery needs, and (4) establishing policies identifying and managing system overloads. Management agreed with our recommendations and is in the process of developing or implementing procedures to address our recommendations. **(OIG-05-038)**

Subsequently, we performed a follow-up audit that included the observation of TCS' August 2005 disaster recovery exercise. Although all Treasury components participated, the exercise was unsuccessful due to Treasury's inability to sustain the processing of TCS services at the backup facility. We issued a follow up audit report in October 2005 and will include our detailed findings and recommendations in our March 2006 Semiannual Report. **(OIG-06-001)**

Treasury's Computer Security Incident Response Capability Needs Improvement

In support of the OIG's mandated reporting responsibility for the Federal Information Security Reform Act of 2002, we reviewed the computer security incident response capability (CSIRC) at the Mint, BEP, and FMS. For all bureaus reviewed, we determined whether they established an adequate computer security incident response capability. Weaknesses noted were as follows:

- At the Mint, we found that current CSIRC policy and procedures need to be updated, security incidents were not completely reported, and necessary documentation for Mint's patch management system was not retained. We recommended that Mint: (1) revise its policy and procedures and incorporate Treasury guidance; (2) create Help Desk procedures that clearly define incident-related communication requirements; (3) collect complete computer security incident data from external and internal sources and report them to the Treasury Computer Security Incident Response Center (TCSIRC) on a monthly basis; (4) update software patch management policy and procedures to conform with Treasury guidance; (5) retain appropriate configuration change request and testing documentation for software patches; (6) apply appropriate security bulletin patches and retain written justification for those that are not applied, and (7) include all configuration change requests in the patch tracking system. The Mint substantially agreed with our recommendations and is in the process of instituting corrective measures to address most of the recommendations. However, the Mint requested that the Department grant an exemption from certain Treasury requirements concerning reporting quarantined files due to resource considerations. We believe that the Mint should implement the related recommendation as stated. **(OIG-05-040)**

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- At BEP, we found that although a CSIRC and a patch management function had been established, its computer security incident reporting process needed improvement. Specifically, we noted that CSIRC and related training were based on outdated Treasury guidance, CSIRC procedures did not incorporate all required aspects of Treasury guidance, an intrusion detection system had not been established, and incidents needed to be timely reported to the TCSIRC. BEP agreed with our findings and has implemented corrective actions that are responsive to our recommendations. **(OIG-05-039)**
- At FMS, we also found that a CSIRC and patch management function had been established, but its computer security incident reporting process could be improved. Specifically, we noted that: CSIRC policy and procedures, help desk computer security incident reporting, potential incident investigations, and software patch management procedures were not always complete. Additionally, a monthly virus scan was not performed for April 2004. We recommended that FMS: (1) revise its CSIRC policy and procedures; (2) report all significant incidents to the Treasury Computer Security Incident Response Center; (3) ensure that Help Desk tickets are complete; (4) perform virus scans on a monthly basis; (5) ensure that investigations of potential incidents are complete; and (6) revise its software patch management procedures. FMS agreed with our recommendations and its corrective actions were responsive to the intent of our recommendations. **(OIG-05-041)**

PROGRAMS AND OPERATIONS

A major focus of our self-initiated audit work continues to be the high-risk area of the Department's administration of the Bank Secrecy Act (BSA) and other programs to detect and deter terrorist financing and financial crimes. During fiscal year 2005, we completed five audits of FinCEN or TFI, and had a number of audits in progress at the end of this period. During this semiannual period, we completed an audit of FinCEN's registration program for the money services business industry. We also issued two Interim Audit Reports on the Treasury Building and Annex Repair and Restoration (TBARR) program. Our continuing audit oversight of the TBARR program is pursuant to a Congressional mandate.

FinCEN Faced Major Challenges in its Program to Register Money Services Businesses

The Money Laundering Suppression Act of 1994 requires certain money services businesses (MSBs) to register with the Secretary of the Treasury. At the time of the law's enactment, it was generally believed that a national registration list would enhance federal oversight of the MSB industry's compliance with the BSA. FinCEN has primary responsibility for administering Treasury's MSB registration program. FinCEN issued the

We found that FinCEN faces major challenges to better ensure that MSBs comply with the registration mandate. Furthermore, we identified indicators that many MSBs required to register have not done so.

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implementing regulations, and directs the BSA compliance examination process and supervisory enforcement efforts through delegated authority to the IRS.

FinCEN regulation, 31 C.F.R. 103.11(uu), broadly defines MSBs to include five distinct types of financial services providers and the U.S. Postal Service: (1) currency dealers or exchangers; (2) check cashers; (3) issuers of traveler's checks, money orders, or stored value cards; (4) sellers or redeemers of traveler's checks, money orders, or stored value cards; and (5) money transmitters. Unlike commercial banks and thrifts, MSBs do not offer federally insured accounts such as savings or checking accounts. FinCEN's final rule implementing the 1994 law became effective in September 1999, and existing MSBs were required to register on or before December 31, 2001 (new businesses, which are established after that date and subject to the requirement, must register within 6 months). Excluded from the registration requirement are agents of MSBs, unless engaged in money services apart from their capacities as agents; businesses that conduct transactions under a dollar threshold; and issuers, sellers, or redeemers of stored value cards. As of January 2005, the number of registered MSBs reported on a FinCEN website (www.msb.gov) was approximately 22,000. We conducted an audit of the MSB registration program to determine whether FinCEN had adequate management systems and controls to ensure industry compliance with the statutory registration requirement.

We found that FinCEN faces major challenges to better ensure that MSBs comply with the registration mandate. Furthermore, we identified indicators that many MSBs required to register have not done so. We also found that the IRS may not have sufficient resources to conduct timely MSB BSA examinations and, as of our audit period, there have been no enforcement actions taken against MSBs. We noted other areas where FinCEN could improve the registration program. These areas relate to (1) measuring how registration is improving BSA compliance, (2) guidance on the dollar threshold for meeting the definition of MSB, and (3) the reliability of the publicly available MSB registration list.

As detailed in our report, FinCEN had taken or planned a number of actions to improve the registration program. As a recent and significant action, FinCEN and the federal banking agencies jointly issued interpretative guidance in April 2005 to clarify the requirements for, and to assist, banking organizations in appropriately assessing and minimizing risks posed by providing banking services to MSBs. Among other things, the guidance advises banking organizations that it is reasonable and appropriate to insist that MSB customers provide evidence of registration or demonstrate that they are not subject to the registration requirements. FinCEN also established an Office of Compliance in 2004 and recently entered into information sharing agreements with the IRS and many states. As further actions, we recommended that FinCEN (1) develop and track performance indicators that measure how registration is enhancing BSA compliance by the MSB industry, including registration; (2) develop and implement a strategy to take enforcement actions when appropriate, including working with the IRS and the states to ensure timely and quality referrals of unregistered MSBs are made; and (3) assess the need to clarify guidance on the dollar threshold for designation as an MSB.

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FinCEN management concurred with our recommendations. Management also commented that the importance of an effective federal registration system is underscored by recent challenges faced by the MSB industry in securing appropriate access to banking services. **(OIG-05-050)**

TBARR Interim Audit Reports

After a June 1996 roof fire resulted in major damage to the Main Treasury building, Treasury decided to modernize the building. The TBARR program was established in August 1998 for the stated purpose to (1) repair and restore the Main Treasury building to correct the damage caused by the roof fire; (2) restore the historic fabric of the building; and (3) modernize the building and its systems to comply with current codes and standards. Starting with emergency funding received in fiscal year 1996 for the fire damage, Treasury has received funding each year in accordance with no-year and multi-year spending plans. Through fiscal year 2005, Congress appropriated a total of \$237 million for the TBARR project. The Conference Report (H.R. 108-401) for the Consolidated Appropriations Act, 2004, directed our office to comprehensively audit all TBARR Program contracts since fiscal year 1998. During fiscal year 2004, we issued Interim Audit Reports on TBARR (1) project planning and (2) contract award and administration. Interim Audit Reports issued during this semiannual period are summarized below.

- Compliance with Building Code The Conference Report (H.R. 108-792) and related House Report (H.R. 108-671) to the Consolidated Appropriations Act, 2005, directed that our audit of the TBARR project include the inspection of the Main Treasury building to determine whether the renovation work conformed to applicable building codes. To address the mandate, we contracted with CMDR Associates, Inc. (CMDR), an engineering and construction consultant.

CMDR noted that the TBARR project renovation contractors have exerted extraordinary effort in bringing this project to its current stage. However, CMDR found building code violations and other deficiencies in the following areas: (1) accessibility, (2) life safety, (3) structural, (4) environmental, (5) vertical conveyance (elevators), (6) mechanical, (7) fire protection, (8) electrical, and (9) fire alarm. CMDR did not report any building code violations or deficiencies with the telecommunications/data systems and security. Treasury generally agreed with the findings and recommendations to remedy or mitigate these conditions. **(OIG-05-042)**

- Employee Moves During Renovation As reported previously, we had found that ineffective management of employee moves to and from “swing space” during construction resulted in delays and unnecessary costs (OIG-04-039). The Conference Report for the Consolidated Appropriations Act, 2005, directed us to identify the costs associated with delays in planned employee moves into alternative space during restoration phases.

SIGNIFICANT AUDITS AND EVALUATIONS

To accomplish this task, we examined additional records, including move records and modifications to the prime renovation contract, and we interviewed appropriate Treasury, TBARR, and

contracting personnel. However, due to the incomplete and inconsistent methodologies of maintaining documentation for the project, we were unable to determine the total costs associated with the move delays. We were able to identify 3 prime renovation contract modifications totaling \$0.98 million that were issued because of government delays with 2 of the modifications, totaling \$0.73 million, indicating the delays were related to employee relocation issues. Management agreed with our recommendations to implement procedures to improve the management and records for its move activities during the remainder of the TBARR project and future renovation work of the Treasury Annex building, if funded. **(OIG-05-035)**

... due to the incomplete and inconsistent methodologies of maintaining documentation for the project, we were unable to determine the total costs associated with the move delays.

We are continuing our audit oversight of the TBARR program. Current work includes an assessment of contract and other costs charged to the TBARR appropriations accounts, and we plan to follow up on the findings in our previous Interim Audit Reports.

SIGNIFICANT INVESTIGATIONS

Undue Political Influence

At the request of the former Chairman of the Senate Subcommittee on Financial Management, the Budget and International Security, the Treasury OIG conducted an investigation into the circumstances surrounding the handling by the ATSB of the United Airlines (UAL) \$1.6 billion guaranteed loan application.

We found that a former Treasury Under Secretary, a voting representative on the ATSB, was not subjected to any political pressure or intimidation to vote in favor of UAL \$1.6 billion guaranteed loan application and, in fact, he voted to deny the application. Our investigation also found no evidence or information indicating the former Treasury Under Secretary was asked to resign from the ATSB by the Secretary of the Treasury in an effort to replace him with someone more likely to vote in favor of UAL. Furthermore, although it was established that various senior Treasury officials met with UAL officials for 2 days prior to the June 17, 2004 vote, no evidence of gifts and gratuities was uncovered and the meeting did not violate laws, regulations, and/or standards of ethical conduct.

Fraudulent Predatory Lending Practices

Coley's name was also listed on a purported private direct Treasury account with the Secretary of Treasury being listed as the trustee.

The Treasury OIG, in conjunction with the Department of Housing and Urban Development OIG, conducted an investigation regarding fraudulent predatory lending practices through the use of fraudulent

financial instruments purporting to be a "Bill of Exchange." The investigation disclosed that Gary Coley had used the fraudulent instruments to purchase approximately \$2.4 million in real estate from low income families. On November 17, 2004, he was indicted by the U.S. Attorney's Office, District of Maryland, on 13 counts of violating 18 USC 541, Fictitious Government Financial Instrument, worth approximately \$1.6 million. Coley's name was also listed on a purported private direct Treasury account with the Secretary of the Treasury being listed as the trustee. On June 24, 2005, Coley was found guilty on all 13 counts. On September 16, 2005, Coley was sentenced to 15 months confinement in a Federal prison facility, 36 months of supervised probation, and ordered to pay a special assessment of \$1,300.

BEP Employees Misused Government Computers

An OIG investigation determined that while on duty, 12 employees within one section of BEP, viewed, sent, and/or saved sexually explicit or inappropriate images on government computers. It was also determined that managers within the section knew of and participated in the activity and initially withheld this information from investigators. BEP's Labor Management Relations Division has initially recommended various penalties for employees ranging from 1 to 14 days suspension without pay and formal counseling.

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SIGNIFICANT INVESTIGATIONS

Senior Executive Absent Without Leave

... a DO senior executive was absent without leave for approximately 32 days ...

An OIG investigation determined that a DO senior executive was absent without leave for approximately 32 days, from April 9, 2001, to February 5, 2005. This abuse of leave was valued at \$19,290. The senior executive resigned from Treasury shortly after the investigation began, and declined to be interviewed. This matter was referred to the Department of Justice, Public Integrity Section, which declined prosecution of the matter in favor of administrative remedies. A Report of Investigation has been forwarded to DO for consideration of recoupment of the loss from the executive's leave balance, which has been frozen pending administrative resolution.

PricewaterhouseCoopers LLP. (PwC) Pays U.S. \$41.9 Million To Settle False Claim Allegations

In an investigation headed by the Department of Justice Civil Division and U.S. Attorney's Office in Los Angeles, various agencies including the Treasury OIG assisted in investigating allegations that PwC submitted false claims to the Government relating to travel reimbursements. In July 2005, PwC agreed to a financial settlement of \$41.9 million with the Department of Justice Civil Division. The settlement share for the Treasury is estimated at \$566,862.

Improper Possession of a BEP Engraving

In April 2005, the BEP advised the Treasury OIG of the discovery of an engraved Vignette of the U.S.S. San Diego being auctioned on eBay. BEP believed the Vignette was property of BEP based on information provided on the

... the BEP advised the Treasury OIG of the discovery of an engraved Vignette of the U.S.S. San Diego being auctioned on eBay. BEP believed the Vignette was property of BEP ...

eBay site. In this regard, BEP researched the history of the serial numbers and discovered it was created by the BEP in 1915 and loaned out for display during the Panama – California Exposition of 1915. It was learned the Vignette was never returned to BEP upon the conclusion of the Exposition.

OIG Special Agents, assisted by investigators from the BEP, obtained documentation from the BEP historical archives proving the Vignette was created by the BEP and was the property of the U.S. Government. The facts of the case were presented to the U.S. Attorney's Office in the Eastern District of Virginia. Based on the findings, an "Ex Parte Application for a Preliminary Injunction" and a seizure order enjoining an auction company from selling or disposing of the Vignette and ordering its surrender to the U.S. Department of Treasury were obtained.

SIGNIFICANT INVESTIGATIONS

The Injunction and Order were served on the auction company and the Vignette was seized. A hearing was held in Federal Court, Eastern District of Virginia, regarding the ownership of the Vignette. The court found the Vignette to be property of the U.S. Government and ordered it returned to the BEP for final retention. Following the court ruling, the Vignette was returned to the BEP where it will be placed on display in its library. The BEP estimated the current replacement value of the Vignette to be \$15,600.

Chargeback to Mint Credit Card

In June 2005, the OIG received information from the Mint that an individual in Westminster, Maryland, received a chargeback to his credit card when he alleged that 12 boxes containing approximately \$10,000 worth of U.S. Mint products delivered to his residence were ordered via fraudulent means. The individual, however, would not return the products to the Mint. In July 2005, the OIG, with the assistance of the Maryland State Police, went to his residence and recovered the Mint products. The investigation continues into the purchase of these items from the Mint.

Misuse of Voyager Fleet Credit Card

The Treasury OIG, in conjunction with the General Services Administration OIG, conducted an investigation into an individual misusing a Voyager fleet credit card assigned to FMS. In February 2005, the individual was arrested, pursuant to an arrest warrant issued by the Superior Court of the District of Columbia, for violation of 22 DC Code 3811-Theft. On April 1, 2005, the subject admitted guilt and was sentenced to 40 hours community service and restitution of \$684, under the pre-trial diversion program.

U.S. Mint Police Officer Violated the Standards of Ethical Conduct

An OIG investigation revealed that a U.S. Mint Police Officer violated the Standards of Ethical Conduct for employees of the Executive Branch, as well as U.S. Mint Police standard operating procedures when he drew his Mint-issued, duty firearm and pointed it at a dog belonging to his ex-wife's neighbor. The OIG has submitted a Report of Investigation to the Mint for consideration of appropriate administrative action.

The following are updated cases of investigative activities from previous Semiannual Reports.

Employee Pleads Guilty to Theft of Currency from BEP

As previously reported, the Treasury OIG was notified by BEP Police of a possible theft of currency from the Western Currency Facility (WCF) in Fort Worth, TX. A joint investigation with the U.S. Secret Service identified a BEP employee, Donald Stokes, who was alleged to have removed at least \$5,000 of \$50 Federal Reserve Notes slated for

SIGNIFICANT INVESTIGATIONS

destruction. Further investigation disclosed that Stokes had been stealing currency, in the form of uncut notes, from BEP since 1998.

On July 13, 2005, Stokes pled guilty to one count of interstate transportation of stolen property for the \$30,000 of currency that he admitted to stealing from the WCF. Stokes is awaiting sentencing in October 2005, and faces a maximum statutory sentence of 10 years imprisonment, a \$250,000 fine, and restitution.

South Carolina Man Sentenced and Ordered to Pay Restitution for Forgery of FMS-Issued Treasury Checks

We previously reported on a joint investigation with the Social Security Administration (SSA) OIG which resulted in the indictment of a Columbia, South Carolina man, Jackie Ballard, who had been forging and cashing his deceased mother's widow benefits checks from 1989 until 2001. Ballard failed to notify the SSA of his mother's death, and after multiple failed attempts to validate his mother's health, the SSA discontinued the benefits payments.

On April 4, 2005, Ballard pled guilty to one count of forging endorsements on Treasury checks (18 USC 510) and was sentenced to 5 years probation and ordered to pay restitution of \$66,799.

Former FMS Employee and Spouse Debarred by Treasury

As previously reported, a former FMS employee, Veronica Hardy-Everette and her spouse, Charles Daniel Everette, were indicted and arrested for their involvement in an ongoing scheme to defraud the government. From January 1999 to December 2000, Hardy-Everette participated in awarding more than 100 government training agreements to two software training businesses operated by herself and her spouse. Payments totaling more than \$139,000 were made to the two businesses, Computer Image and C & D Training Consultants. Both were sentenced in United States District Court for the District of Maryland to 12 months imprisonment, 3 years probation, and were ordered to pay restitution in the amount of \$54,500 to FMS.

Effective September 1, 2005, a 3-year debarment was imposed on Veronica Hardy-Everette and her spouse Charles Everette, by the Department of the Treasury and the Office of the Procurement Executive.

Roanoke, VA Postal Carrier Convicted for Stolen Treasury Checks

As previously reported, Treasury OIG and U.S. Postal Inspection Service Special Agents, recovered two stolen U.S. Treasury Checks valued at \$1,564 from the residence of a U.S. Postal Carrier, John McKenna, following the execution of Federal search warrant in December

The investigation disclosed that while McKenna was performing his official duties, he stole several hundred pieces of U.S. Mail and concealed it at his residence.

SIGNIFICANT INVESTIGATIONS

2004. McKenna was also arrested pursuant to a federal arrest warrant on the same day and charged with mail theft (U.S. Treasury Check) by a Postal Employee (18 USC 1709). The investigation disclosed that while McKenna was performing his official duties, he stole several hundred pieces of U.S. Mail and concealed them at his residence.

On March 30, 2005, McKenna pled guilty to one count of theft (18 USC 1709), and was sentenced on June 10, 2005, to 5 months incarceration, 5 months of home confinement, and 2 years supervised release and a \$100 Special assessment.

DC Resident Plead Guilty to Second Degree Burglary

As reported in the previous period, a District of Columbia resident, Ameenah Franks, was arrested as a result of an OIG investigation into thefts from Treasury and other

... the subject was responsible for multiple thefts from other government facilities and commercial buildings throughout the DC metropolitan area ...

tenants at an office building in Washington, DC, in September 2004. The investigation also revealed that the subject was responsible for multiple thefts from other government facilities and commercial buildings throughout the DC metropolitan area, including a theft from a Federal office building in Montgomery County, Maryland. During March 2005, as part of a plea agreement entered into with the U. S. Attorney's Office, Franks provided descriptions of more than 25 additional thefts and/or burglaries that she was responsible for in Washington, DC. On May 6, 2005, Franks pleaded guilty to Second Degree Burglary related to the Treasury burglary. Sentencing was originally scheduled for July 21, 2005, however, following a subsequent arrest in an unrelated matter, sentencing was continued and is now scheduled for October 2005.

OTHER OIG ACCOMPLISHMENTS AND ACTIVITIES

Office of Investigations Continues Participation in Multi-Jurisdictional Task Force to Combat Fraud

As reported in our last Semiannual Report, the Treasury OIG Office of Investigations along with other federal, state, and local law enforcement agencies joined together with the U.S. Attorney for the Eastern District of Virginia and the Attorney General for the Commonwealth of Virginia to form the Metro Richmond Fraud and Identity Theft Task Force in November 2004. The task force coordinates and integrates the ongoing efforts of the various agencies and task forces throughout the U.S. to fight the growing problem of fraud and identity crimes. By functioning as a repository of expertise and intelligence, the task force will improve the speed, quality, and effectiveness of law enforcement's response to these types of cases.

Update The work of the task force over the past year has resulted in 26 federal arrests, 71 state arrests, 17 searches, resulting in the recovery of approximately \$827,750 and the seizure of \$29,000. Additionally, task force members provided 29 Fraud Awareness/Identity theft briefings to various government and civic groups as part of its outreach and education mission.

Over the course of the past year, the task force has established a telephone Hot Line and website in order further to assist and educate the public in dealing with the complexity of financial frauds and identity theft crimes. Within the website, there is a comprehensive section dealing with the *most common scams* and a listing of agencies and organizations that can provide additional information along with downloadable forms that can be used to report such crimes.

The Metro-Richmond Fraud and Identity Theft Task Force may be contacted by visiting the website at www.fraudandidentitytheftaskforce.com or by calling the Hotline at (804) 418-6121.

Treasury/Labor Joint Continuing Professional Education Conference

Federal government auditing standards require that our auditors maintain their technical abilities by completing at least 80 hours of continuing professional education every 2 years. During August 2005, Treasury OIG participated in a joint continuing professional education conference with the Department of Labor OIG, a first for the IG Community. This conference provided the opportunity for the OIG staff to enhance their professional expertise by further developing their skills in auditing, supervision, and management in a cost effective manner. The training program developed for the conference included instructors and presenters from the U.S. Departments of Education and Transportation, the Inspector General Auditor Training Institute, USDA Graduate School, and commercial vendors.

OTHER OIG ACCOMPLISHMENTS AND ACTIVITIES

IGATI Curriculum Review Board

The Inspectors General Auditor Training Institute (IGATI) was created by the President's Council on Integrity and Efficiency (PCIE) in December 1990. IGATI provides training to enhance the skills, abilities, and knowledge of auditors in the Federal OIG community. As previously reported, an IGATI Curriculum Review Board was formed under the leadership of Assistant Inspector General for Audit Marla Freedman to assist the PCIE Audit Committee in achieving its strategic goal to identify and provide useful, relevant, and cost-effective auditor training. The Board established a methodology for reviewing each IGATI course offering. That methodology involves a course materials review, classroom observations, and interviews with former students and supervisors. As of September 30, 2005, the Board had substantially completed its review of about a fourth of IGATI's course offerings. A report on one course review was issued in final to the Chair of the Audit Committee; reports are being drafted for the other courses reviewed during fiscal year 2005.

In addition to **Treasury OIG**, the Board currently consists of representatives from the **Naval Audit Service** and the Offices of Inspector General at the **Agency for International Development, Department of Defense, Department of Education, Department of Energy, Environmental Protection Agency, General Services Administration, Department of Housing and Urban Development, Department of the Interior, and Social Security Administration.**

OIG Participates in IG E-Learning Initiative

During the reporting period, the PCIE and Executive Council on Integrity and Efficiency (ECIE) began to pilot a new learning initiative, IG E-Learning (IGEL), in partnership with SkillSoft. IGEL is the IG community's first venture into E-Learning. It represents the community's desire to leverage available technology at a time when government organizations are trying to operate more efficiently and cost-effectively. An IGEL Steering Committee, of which the Treasury OIG is a member, established a core curriculum of SkillSoft courses for each IG discipline (audit, investigation, human resources, and administration). The Steering Committee is also capturing usage statistics and evaluating the pilot results on an ongoing basis. At the completion of the pilot in April 2006, the IG community will assess the overall success of the pilot and consider the future of IGEL.

PCIE Awards for Excellence

At the annual joint PCIE and ECIE awards ceremony on October 26, 2005, Treasury received five Awards for Excellence in recognition of their work on certain audits and investigations completed during fiscal year 2005.

The achievements recognized were as follows:

- The audit of the Treasury Building and Annex Repair and Restoration Program performed at the direction of the Congress.
- Developing and implementing a vulnerability scan based audit approach to identify and prioritize information security weaknesses and to contribute to the improvement of the agency cyber security program.

OTHER OIG ACCOMPLISHMENTS AND ACTIVITIES

- The innovative approaches used and significant results achieved on an audit of the Treasury's secure network to file Bank Secrecy Act reports.
 - The follow-up audit performed of longstanding data quality problems with suspicious activity reporting by institutions subject to the Bank Secrecy Act.
 - The investigation of an individual whose fraudulent \$1.6 million multi-national bank "Bill of Exchange" scheme was thwarted.
-

STATISTICAL SUMMARY

Summary of OIG Activity

For the 12 Months Ended September 30, 2005 (Dollars in Thousands)

OIG Activity	10/1/2004 – 3/31/2005	4/1/2005 – 9/30/2005	Period Totals
Office of General Counsel Activity			
Regulation and Legislation Reviews	43	7	50
Instances Where Information was Refused	1 *	0	N/A
Office of Audit Activities			
Reports Issued (Audits and Evaluations)	36	18	54
Disputed Audit Recommendations	0	0	0
Significant Revised Management Decisions	0	0	0
Management Decision in Which the IG Disagrees	0	0	0
Monetary Benefits (Audit)			
a) Questioned Costs	\$975	\$2,843	\$3,818
b) Funds Put to Better Use	\$48,000	\$0	\$48,000
c) Revenue Enhancements	\$0	\$0	\$0
Total Monetary Benefits	\$48,975	\$2,843	\$51,818
Office of Investigations Activities			
Reports of Investigation	5	14	19
Preliminary Inquiry Closing Memorandums	17	18	35
Number of OIG Hotline Calls Processed	517	279	796
Allegations – Total Number Processed	212	182	394
Referrals Made During the Period	111	101	212
Cases Open at Start of Period	113	150	N/A
Cases Opened in the Reporting Period	46	40	86
Cases Closed in the Reporting Period	9	7	16
Cases Open at the End of the Period	150	183	N/A

*The instance is related to a jurisdictional issue at OCC that is not currently in contention.

STATISTICAL SUMMARY

OIG Activity	10/1/2004 – 3/31/2005	4/1/2005 – 9/30/2005	Period Totals
Inquiries Open at Start of Period	30	59	N/A
Inquiries Opened in the Reporting Period	50	43	93
Inquiries Closed in the Reporting Period	21	26	47
Inquiries Open at the End of the Period	59	76	N/A
<i>Judicial Actions</i>			
Cases Referred for Prosecution	68*	51	119
Cases Accepted for Prosecution	32*	32	64
Arrests	59	26	85
Search Warrants	12	9	21
Indictments/Information	8	20	28
Pleas	7	9	16
Conviction by Trial	0	1	1
Imprisonment (Months)	169	26	195
Home Detention (Months)	0	0	0
Probation (Months)	300	204	504
Community Service (Hours)	0	1040	1040
<i>Administrative Sanctions</i>			
Adverse Personnel Actions	13	17	30
Contractor Suspensions/Debarments	1**	0**	1**
Individual Suspensions/Debarments	1**	2**	3**
<i>Oversight Activities</i>			
Quality Assessment Reviews	0	1	1
Management Implication Reports	1	0	1
Fraud and Integrity Briefings	12	7	19
<i>Monetary Benefits</i>			
Fines	\$7	\$167	\$174
Restitution	\$5,019	\$92	\$5,111
Recoveries	\$73	\$116	\$189
Settlements	\$0	\$569	\$569
Savings/Cost Avoidance	\$0	\$0	\$0
Actual Losses Identified	\$5,167	\$744	\$5,911
Potential Losses Identified	\$48	\$33	\$81

* 14 referrals and 8 acceptances were inadvertently not tabulated during the last reporting period. Tabulations are now corrected.

**As a change starting this period, we are reporting on this activity when affirmative administrative action is taken. Previously, we reported when we made referrals recommending debarment or suspension.

STATISTICAL SUMMARY

Significant Unimplemented Recommendations

For Reports Issued Prior to September 30, 2005

<u>Number</u>	<u>Date</u>	<u>Report Title and Recommendation Summary</u>
OIG-01-014	11/00	<p><i>Final Report on the Review of Treasury Computer Security Plans</i></p> <p>The Treasury CIO should: (1) correct system vulnerabilities identified in DO systems, update DO system security plans, ensure through the certification and accreditation process that system security plans are kept up-to-date and that new system vulnerabilities are identified and addressed; and (2) develop a means to identify all existing and newly developed DO systems. (1 recommendation)</p>
OIG-02-115	9/02	<p><i>INFORMATION TECHNOLOGY: Treasury's Planning, Management, and Implementation of a Smart Card and Public Key Infrastructure (PKI) Needs Improvement</i></p> <p>The CIO should ensure that Treasury: (1) establishes a Treasury program to effectively manage smart cards and PKI; (2) develops a program plan defining roles and responsibilities, and milestones and resources needed for smart card and PKI initiatives; (3) plans for adequate staffing of employees to support smart card and PKI infrastructure as enterprise architecture; (4) develops a strategy to consolidate and minimize the number of smart card and PKI administrative systems (inventory management, personnel management, administrative, travel, manpower, etc.); (5) uses another hard token as an interim security measure along with smart cards to provide strong two-factor authentication for digital certificates; and (6) establishes appropriate record management controls for general, sensitive, and secret information related to the Treasury smart card and PKI infrastructure. (6 recommendations)</p>
OIG-02-122	9/02	<p><i>Community Development Financial Institution Fund Post Award Administration Process</i></p> <p>The CDFI Fund Director should initiate action to amend the OMB Circular A-133 Compliance Supplement to reflect revised accountability requirements for financial assistance funds. (1 recommendation)</p>
OIG-03-007	10/02	<p><i>INFORMATION TECHNOLOGY: Controls Over FinCEN's Law Enforcement Data Need Improvement</i></p> <p>The FinCEN Director should establish a formal process for approving, transmitting, and maintaining system access authorization forms to reduce the risks associated with granting excessive or unauthorized access privileges, alterations, misunderstandings, and mishandled forms. (1 recommendation)</p>

STATISTICAL SUMMARY

- OIG-03-034 12/02 *FINANCIAL MANAGEMENT: Audited Financial Statements of the Treasury Forfeiture Fund for Fiscal Years 2002 and 2001*
TEOAF should: (1) develop and implement an allocation process for all direct costs and common support costs not directly traceable to individual seizures. Indirect costs will have to be applied to the individual seizures. Direct and indirect costs will have to be added together to provide total costs per seizure; and (2) vigorously pursue the enhancement of Seized Assets and Case Tracking System (SEACATS) capabilities to record and report expenses at the asset level. (2 recommendations)
-
- OIG-03-038 12/02 *PROTECTING THE PUBLIC: Treasury Departmental Offices' Control Over Computers Needs To Be Improved*
DO should re-evaluate the method for reporting lost or stolen computers to ensure all losses are reported to the proper authorities. This should include periodic reconciliations between the CIO, Treasury Office of Security and Critical Infrastructure Protection, and the OIG Office of Investigations. (1 recommendation)
-
- OIG-03-093 8/03 *INFORMATION TECHNOLOGY: Treasury's Cyber-Based Critical Infrastructure Protection Implementation Efforts Remain Inadequate*
The Treasury CIO should finalize draft documents that are key elements of the Treasury Critical Infrastructure Protection Plan and distribute them to DO and the bureaus, ensuring that DO and the bureaus have the necessary guidance to comply with Presidential Decision Directive 63 requirements. (1 recommendation)
-
- OIG-04-003 11/03 *Audit of the Department of the Treasury's Fiscal Years 2003 and 2002 Financial Statement*
The Assistant Secretary for Management and CFO should: (1) provide effective oversight to ensure that the specific recommendations detailed in a previous OIG report, and the related plans for corrective actions, are implemented completely and timely by the various bureaus; and (2) oversee efforts to ensure effective financial management structures are established at TTB and International Assistance Program. (2 recommendations)
-
- OIG-04-007 11/03 *Alcohol and Tobacco Tax and Trade Bureau's Schedule of Custodial Activities for Fiscal Year Ended September 30, 2003*
TTB management should: (1) review the network services and open ports and disable any that are unnecessary, and review and update current policies and procedures to provide clear guidelines for approving which services will run on servers attached to the network; and (2) complete an inventory of all databases within the environment, and ensure that all default passwords have been removed, user and developer access is appropriate, and database server passwords abide by TTB password requirements. In addition, TTB should develop policies and procedures to ensure the database server is periodically scanned for weak or default passwords. (2 recommendations)

STATISTICAL SUMMARY

- OIG-04-016 12/03 *Audit of The Department of the Treasury Forfeiture Fund's Fiscal Years 2003 and 2002 Financial Statements*
TEOAF should: (1) develop an allocation process for all common support costs not directly traceable to individual seizures; and (2) vigorously pursue the enhancement of SEACATS capabilities to record and report total expenses at the asset level. (2 recommendations, repeated from (OIG-03-034))
-
- OIG-04-022 2/04 *Management Letter for Fiscal Year 2003 Audit of the Department of the Treasury Financial Statements*
The Department should: (1) research and determine whether component reporting entities reporting on a basis other than Federal Generally Accepted Accounting Principles (GAAP) are required to do so by statute; that all reporting entities within the Department prepare their financial statements in accordance with Federal GAAP; and entities that are statutorily required to report on a basis of accounting other than Federal GAAP provide supplemental information in their annual reports that meets the reporting requirements of Federal GAAP, to include a Management Discussion and Analyses; and (2) implement analytical review procedures as an integral part of interim financial reporting at the individual bureau level as well as the Department level. The results of these analytical reviews should be documented in a brief narrative accompanying the financial reports. (2 recommendations)
-
- OIG-04-035 6/04 *GENERAL MANAGEMENT: Controls Over Security Need to be Improved at the Bureau of Engraving and Printing*
The Bureau of Engraving and Printing Director should complete plans for its Integrated Security Systems and install its security upgrade systems expeditiously. (1 recommendation)
-

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

Summary of Instances Where Information Was Refused *April 1, 2005, through September 30, 2005*

There were no such instances during this period.

STATISTICAL SUMMARY

Listing of Audit and Evaluation Reports Issued

April 1, 2005 through September 30, 2005

Financial Audits and Attestation Engagements

Management Letter for Fiscal Year 2004 Audit of the Financial Management Service's Schedules of Non-Entity Government-Wide Cash, OIG-05-036, 5/2/05

Management Letter for Fiscal Year 2004 Audit of the Financial Management Service's Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue, OIG-05-037, 5/4/05

Controls Placed in Operation and Tests of Operating Effectiveness for the Treasury Bureau of the Public Debt Administrative Resource Center for the Period July 1, 2004 to June 30, 2005, OIG-05-044, 8/19/05

The Federal Financing Bank's Fiscal Years 2004 and 2003 Financial Statements, OIG-05-045, 8/26/05

Controls Placed in Operation and Tests of Operating Effectiveness for the Bureau of the Public Debt's Trust Fund Management Branch for the Period August 1, 2004, to July 31, 2005, OIG-05-046, 9/12/05

Controls Placed in Operation and Tests of Operating Effectiveness for the Bureau of the Public Debt's Federal Investments Branch for the Period August 1, 2004 to July 31, 2005, OIG-05-047, 9/12/05

Information Technology Audits and Evaluations

INFORMATION TECHNOLOGY: The Treasury Communications System's Disaster Recovery Capability Has Improved, OIG-05-038, 5/16/05

INFORMATION TECHNOLOGY: BEP's Computer Security Incident Response Capability Needs Improvement, OIG-05-039, 6/30/05

INFORMATION TECHNOLOGY: Mint's Computer Security Incident Response Capability Needs Improvement, OIG-05-040, 7/13/05

INFORMATION TECHNOLOGY: FMS's Computer Security Incident Response Capability Needs Improvement, OIG-05-041, 7/13/05

INFORMATION TECHNOLOGY: Evaluation of Information Security Program and Practices for National Security Systems, OIG-CA-05-001, 7/29/05

Effective Security Controls Needed to Mitigate Critical Vulnerabilities in Departmental Offices' Networked Information Systems, OIG-05-43, 8/2/05 (LOU)

STATISTICAL SUMMARY

Performance Audits

TBARR: Cost of Employee Move Delays During Main Treasury Building Renovation Could Not Be Determined, OIG-05-035, 4/1/05

TBARR: While Progress Has Been Made On The Main Treasury Renovation, Code Violations and Other Deficiencies Need To Be Corrected, OIG-05-042, 7/29/05

BANK SECRECY ACT: Major Challenges Faced by FinCEN In Its Program to Register Money Services Businesses, OIG-05-050, 9/27/05

Supervised Contract Audits

CONTRACT AUDIT: Xerox Special Information Systems Fixed Price Proposal for Advanced Counterfeit Deterrent Flush, Reference – TEP-05-0003, OIG-05-048, 9/14/05, \$2,569,040 Q

CONTRACT AUDIT: Xerox Special Information Systems Fixed Price Proposal for Quality Evaluation Detector Maintenance Services, Reference – TEP-05-0009, OIG-05-049, 9/14/05, \$212,650 Q

CONTRACT AUDIT: Johns Hopkins University/Applied Physics Laboratory (JHU/APL) Proposal for Contract TEP-05-0017, V4405, OIG-05-051, 9/27/05, \$61,483 Q

Audit Reports Issued with Questioned Costs

April 1, 2005, Through September 30, 2005 (Dollars in Thousands)

Category	Total		
	No. of Reports	Questioned Costs	Unsupported Costs
For which no management decision had been made by beginning of reporting period	2	737	0
Which were issued during the reporting period	3	2,843	0
Subtotals	5	3,580	0
For which a management decision was made during the reporting period	1	695	0
dollar value of disallowed costs	1	695	0
dollar value of costs not disallowed	0	0	0
For which no management decision had been made by the end of the reporting period	4	2,885	0
For which no management decision was made within 6 months of issuance	1	42	0

STATISTICAL SUMMARY

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

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

April 1, 2005, through September 30, 2005 (Dollars in Thousands)

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

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

As of September 30, 2005 (Dollars in Thousands)

There are no previously issued Audit Reports pending Management Decisions for this reporting period.

Significant Revised Management Decisions

April 1, 2005, to September 30, 2005

There were no significant revised management decisions during the period.

Significant Disagreed Management Decisions

April 1, 2005, to September 30, 2005

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

REFERENCE TO THE INSPECTOR GENERAL ACT

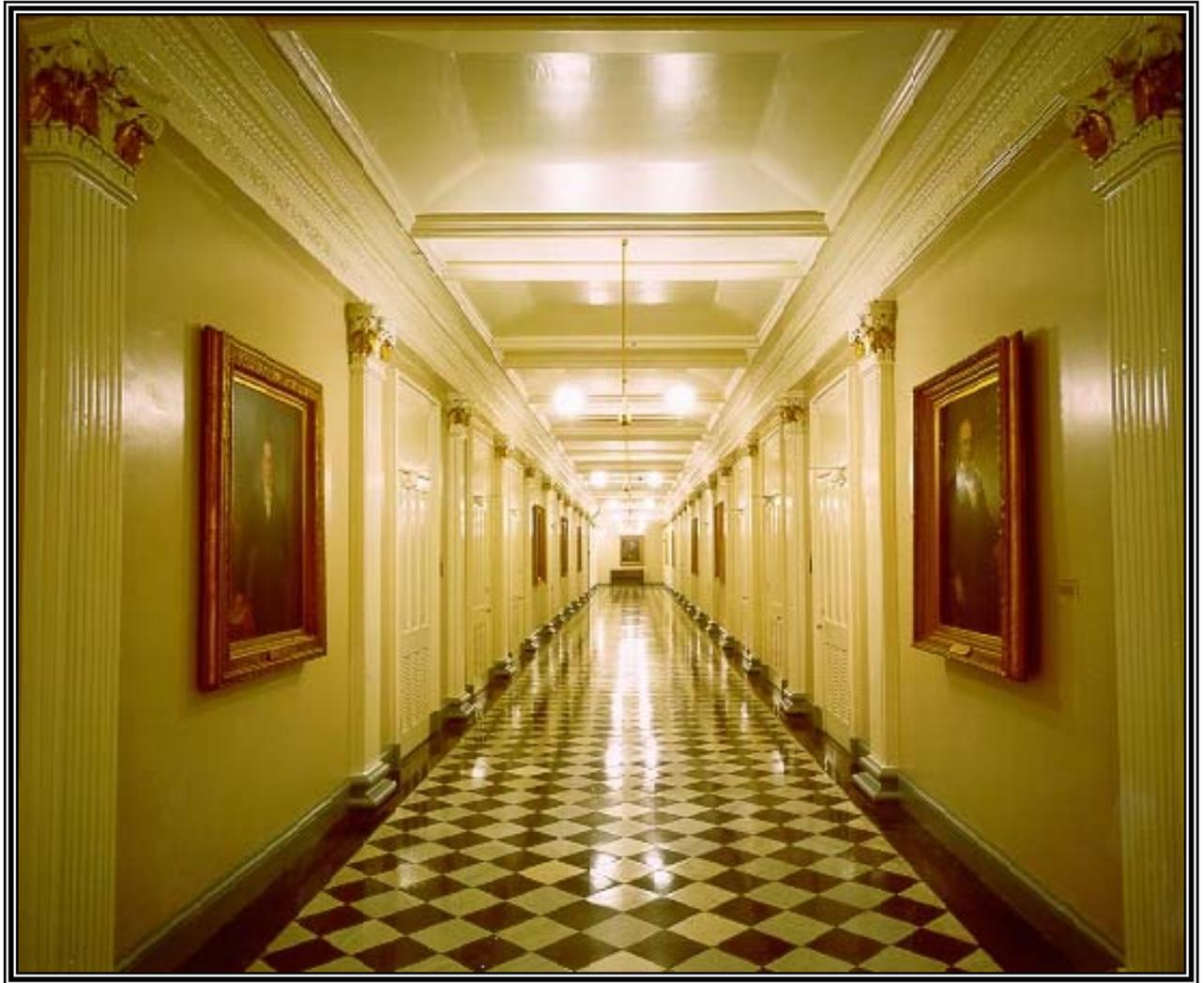
Reference	Requirement	Page
Section 4(a)(2)	Review of legislation and regulations	1
Section 5(a)(1)	Significant problems, abuses, and deficiencies	5-18
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies	5-18
Section 5(a)(3)	Significant unimplemented recommendations described in previous semi-annual reports	24-26
Section 5(a)(4)	Matters referred to prosecutive authorities	22-23
Section 5(a)(5)	Summary of instances where information was refused	26
Section 5(a)(6)	List of audit reports	27-28
Section 5(a)(7)	Summary of significant reports	5-18
Section 5(a)(8)	Audit Reports with questioned costs	28
Section 5(a)(9)	Recommendations that funds be put to better use	29
Section 5(a)(10)	Summary of audit reports issued before the beginning of the reporting period for which no management decision has been made	29
Section 5(a)(11)	Significant revised management decisions made during the reporting period	29
Section 5(a)(12)	Management decisions with which the Inspector General is in disagreement	29
Section 5(a)(13)	Instances of unresolved FFMIA non-compliance	6
Section 5(d)	Serious or flagrant problems, abuses or deficiencies	N/A
Section 6(b)(2)	Report to Secretary when information or assistance is unreasonably refused	N/A

ACRONYMS

ATSB	Air Transportation Stabilization Board
BEP	Bureau of Engraving and Printing
BPD	Bureau of the Public Debt
BSA	Bank Secrecy Act
CDFI Fund	Community Development Financial Institutions Fund
CFO	Chief Financial Officer
CIO	Chief Information Officer
CMDR	CMDR Associates, Inc.
DC	District of Columbia
CSIRC	Computer Security Incident Response Capability
DO	Departmental Offices
ECIE	Executive Council on Integrity and Efficiency
ESF	Exchange Stabilization Fund
FFB	Federal Financing Bank
FFMIA	Federal Financial Management Improvement Act of 1996
FFMSR	Federal Financial Management Systems Requirements
FinCEN	Financial Crimes Enforcement Network
FMS	Financial Management Service
FTE	Full-time Equivalent
GAAP	Generally Accepted Accounting Principles
GMRA	Government Management Reform Act of 1994
IG	Inspector General
IGATI	Inspectors General Auditor Training Institute
IPA	Independent Public Accountant
IRS	Internal Revenue Service
IRS-CI	IRS Criminal Investigations
LOU	Limited Official Use
Mint	U.S. Mint
MSB	Money Service Business
PwC	PriceWaterhouse Coopers, LLP.
OA	Office of Audit
OCC	Office of the Comptroller of the Currency
OFAC	Office of Foreign Assets Control
OI	Office of Investigations
OIA	Office of Intelligence and Analysis
OIG	Office of Inspector General
OMB	Office of Management and Budget
OTS	Office of Thrift Supervision
PCIE	President's Council on Integrity and Efficiency
PKI	Public Key Infrastructure
SEACATS	Seized Assets and Case Tracking System
SSA	Social Security Administration
TBARR	Treasury Building and Annex Repair and Restoration
TCS	Treasury Communications System
TCSIRC	Treasury Computer Security Incident Response Center

ACRONYMS

TEOAF	Treasury Executive Office for Asset Forfeiture
TFF	Treasury Forfeiture Fund
TFFC	Office of Terrorist Financing and Financial Crime
TFI	Office of Terrorism and Financial Intelligence
TIGTA	Treasury Inspector General for Tax Administration
Treasury	Department of the Treasury
TTB	Alcohol and Tobacco Tax and Trade Bureau
UAL	United Airlines
USC	United States Code
WCF	Western Currency Facility, BEP



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(Source: Office of the Curator)

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