



# Annual Plan Fiscal Year 2003

## Office of Inspector General

DEPARTMENT OF THE TREASURY



## Foreword

We are please to provide our Fiscal Year 2003 Annual Plan. This document outlines the major initiatives, priorities, and challenges of our office in assisting the Department of the Treasury with fulfilling its mission.

The initiatives and projects described in this Annual Plan represent the best collective judgment of our office of the areas of known or emerging risk and vulnerabilities of the Department, based on our planning process. To achieve the maximum benefit of this Annual Plan, we strongly encourage Treasury and bureau management to use it as a guidepost, or roadmap, to identify areas for self-assessment and to take corrective measures when vulnerabilities and control weaknesses are identified. This is especially important for those issues we have identified as significant, but will not be audited by us this year because of resource limitations.

At this time, the Congress is contemplating legislation to create a Department of Homeland Security. If enacted, this legislation will divest certain Treasury law enforcement bureaus and activities to the new department. In this regard, a number of projects that we will not undertake this year are related to these bureaus and activities. Similarly, the investigative activities described in the Annual Plan will likely be affected by the Treasury divestiture. While the U.S. Customs Service and U.S. Secret Service may be transferred out, we will still exercise investigative oversight authority over the remaining Treasury bureaus and we have identified additional methods to accomplish this responsibility, particularly in the non-law enforcement bureaus with police powers such as the U.S. Mint, the Bureau of Engraving and Printing, and the Federal Law Enforcement Training Center. Additionally, we have identified several non-traditional proactive investigative initiatives for Fiscal Year 2003. Accordingly, once the Department of Homeland Security is enacted into law, we will work with the new department to consider these initiatives and projects in the oversight process.

October 2002



## TABLE OF CONTENTS

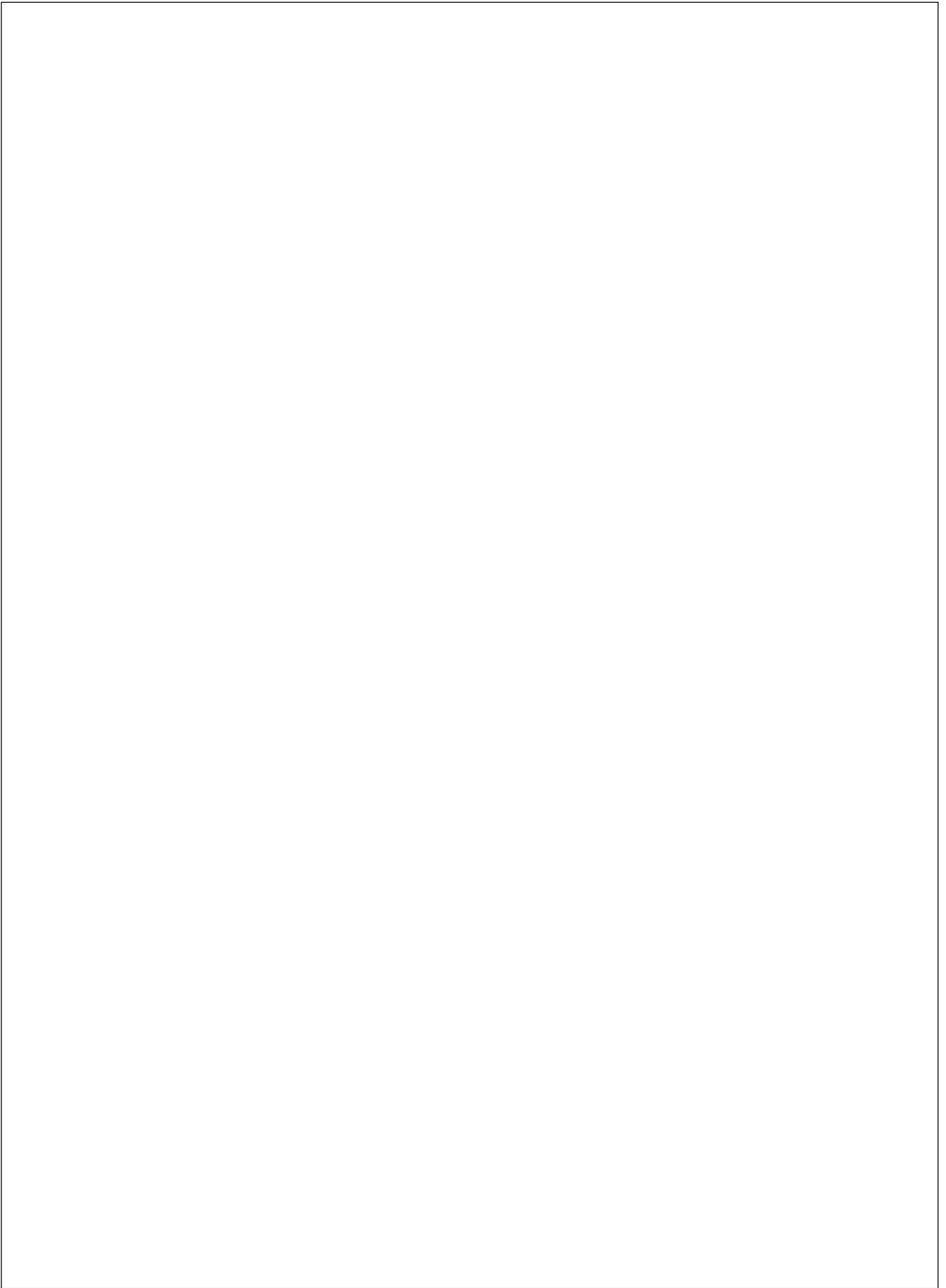
### Office of Inspector General

I. Overview.....	1
II. Office of Management .....	6
III. Office of Counsel .....	8
IV. Office of Investigations .....	10
V. Office of Audit .....	13

### Appendixes

Table of Contents

Appendix A Project Narratives In Progress and Planned New Audits and Evaluations for FY 2003 .....	25
Appendix B Project Narratives Office of Audit Projects Under Consideration for Future OIG Annual Plans .....	105
Appendix C Index of FY 2003 Project Narratives by Bureau .....	133
Appendix D Acronyms .....	137



---

---

**T**his planning document outlines the major initiatives, priorities, and challenges of our office to assist the Department of Treasury (Department) in fulfilling its mission, priorities, and plans. This planning document further provides senior officials of the Department, members of Congress, and other stakeholders with a greater understanding of who we are, what we do, and what our intended work will be for fiscal year 2003.

Each of the four components of the OIG (Audit, Investigations, Counsel, and Management) has made contributions to the development of this plan. In their respective sections, each component describes their function, role, organizational structure, and the expected challenges their respective workforce may encounter in fiscal year 2003.

## Background

In 1989, the Secretary of Treasury, as a result of the 1988 amendments to the Inspector General (IG) Act, established the Office of Inspector General (OIG). Section 2 of The IG Act sets out the following major duties and responsibilities of the IG:

- Conduct and supervise audits and investigations
- Provide leadership and coordination of policies that:
  - ❖ Promote economy, efficiency, and effectiveness in programs and operations
  - ❖ Prevent and detect fraud and abuse in programs and operations
- Provide a means for keeping the Secretary and the Congress fully and currently informed about problems and deficiencies in programs and operations
- Submit semiannual reports to the Congress, through the Secretary, summarizing the activities of the OIG during the preceding period that disclose problems, abuses, and deficiencies in the administration of programs and operations of the Department. These semiannual reports also discuss the recommendations for corrective action that the IG has made.

The OIG is headed by an Inspector General who is appointed by the President of the United States, with the advice and consent of the Senate. The Inspector General is responsible for keeping both the Secretary of the Treasury and the Congress fully and currently informed about problems and deficiencies in the Department's programs and operations. The Inspector General exercises his duties and responsibilities for Department of Treasury operations – with the exception of the Internal Revenue Service (IRS).<sup>1</sup>

---

<sup>1</sup> In 1998, Congress, through the Internal Revenue Service Restructuring and Reform Act of 1998, established the Treasury Inspector General for Tax Administration (TIGTA), which exercises OIG authority for that bureau.



---

---

Specifically, the Treasury OIG has jurisdiction over the following Departmental bureaus and offices:

- Bureau of Alcohol, Tobacco and Firearms (ATF) – serves as the nation’s expert on and regulates alcohol, tobacco, firearms, and explosives industries; assesses and collects excise and other taxes related to these products on behalf of the Federal government.
- U.S. Customs Service (Customs) –enforces the laws that govern the flow of commerce and people across our borders and that prohibit the movement of illegal drugs and other contraband across our borders; assesses and collects duties, excise taxes, and fees on behalf of the Federal government.
- U.S. Secret Service (Secret Service) – protects the President, Vice-President, and other dignitaries and designated individuals; investigates counterfeiting and other criminal threats to the nation’s financial system.
- Financial Crimes Enforcement Network (FinCEN) – collects, analyzes, and shares information to support law enforcement investigative efforts and foster interagency and global cooperation against domestic and international financial crimes.
- Federal Law Enforcement Training Center (FLETC) – provides training to Federal law enforcement personnel, as well as state, local, and international agencies, and private security personnel.
- Financial Management Service (FMS) – provides central payment services for all Executive Branch agencies, operates the Federal Government’s collections and deposit systems, provides government-wide accounting and accounting services, and manages the collection of delinquent debt.
- Bureau of Engraving and Printing (BEP) – produces United States currency, postage stamps, and other government securities; redeems damaged or mutilated currency for the public.
- U.S. Mint (Mint) – produces circulating coinage for use by the general population; produces and sale of commemorative, numismatic, and investment products; and protects U.S. Treasury precious metals and other monetary assets held in custody of the Mint.
- Bureau of the Public Debt (BPD) – borrows the money needed to operate the Federal Government and accounts for the resulting debt.





- Office of the Comptroller of Currency (OCC) – charters, regulates, and supervises national banks to ensure a safe, sound, and competitive banking system.
- Office of Thrift Supervision (OTS) – charters, regulates, and examines Federal thrift institutions to ensure their safety and soundness.
- Departmental Offices (DO) - provides basic support to the Secretary of the Treasury and performs specialized functions to carry out Treasury's mission.

Established in one Department, these entities have broad responsibilities to promote a prosperous and stable America and world economy; enforce trade laws and agreements; manage the Government's finances; produce money; protect the nation's financial systems; monitor the sale of firearms and explosives; protect the nation's leaders; protect the nation's borders against smuggling of illegal drugs and other contraband; and train law enforcement personnel from over 60 Federal organizations.

The Department's broad mission and areas of responsibility provide our auditors and investigators with work of enormous variety and complexity on issues confronting our nation in the 21<sup>st</sup> century.

### **Organizational Structure and Fiscal Resources**

As previously stated, the OIG is headed by an IG. Serving with the Inspector General in the immediate office is a Deputy Inspector General (DIG). The DIG shares responsibility for the leadership of the OIG workforce and management of the OIG's resources.

The OIG is structured into four components headquartered in Washington, D.C.:

- Office of Audit
- Office of Investigations
- Counsel
- Office of Management

For fiscal year 2003, the President's budget proposed \$35,424,000 in budget authority and 282 full-time equivalent (FTE) positions for the OIG. This funding level represents the same funding and FTEs as fiscal year 2002.

### **OIG Performance Measures**

OIG established performance measures for each of its three programs. For the Audit Program, the goals are to maintain 100% of audit products at quality standards, increase the number of audit products, maintain 100% timeliness of statutory audit products, and increase the impact of



---

---

audits and evaluations. For the Investigative Program, the goals are to maintain high standards of quality, and increase the timeliness of both criminal and administrative investigations. Finally, for the Oversight Program, the goal is to increase the impact of oversight reviews, as measured by surveys distributed annually.

### **Office of Audit Office of Audit Program Performance Measures**

Audit Measure 1 (Quality of Audits and Evaluations): Percentage of audits and evaluations that meet applicable standards, including *Government Auditing Standards* and the standards established by the President's Council on Integrity and Efficiency. Based on a sample of closed audits and evaluations, the percentage is calculated by dividing the number of audits and evaluations meeting applicable standards by the number of audits and evaluations sampled during the fiscal year.

Performance Goals for Measure 1: In FY 2003, 100% of audits and evaluations sampled are expected to meet applicable standards.

Audit Measure 2 (Quantity of Audits and Evaluations): The number of audits and evaluations completed in the fiscal year.

Performance Goals for Measure 2: Using the number of audits and evaluations completed in FY 2001 as a baseline, the number of audits and evaluations completed are expected to increase by 20% in FY 2003.

Audit Measure 3 (Timeliness of Statutory Audits): The percentage of statutory audits completed by the date set by statute or the date established by the Office of Management and Budget (OMB). The percentage is computed by dividing the number of statutory audits completed on time by the total number of statutory audits.

Performance Goals for Measure 3: In FY 2003, 100% of audits required by statute are expected to be completed by the required date.

Audit Measure 4 (Impact of Audits and Evaluations): The Office of Audit will use an Audit and Evaluation Impact Survey as a measure of the impact that audits and evaluations have on Treasury programs and operations. The survey will be distributed biannually to Treasury management and annually to other stakeholders. Survey scores are the sums of actual responses to Likert scale questions divided by the sum of the maximum possible response. The performance measure is an average of all survey scores received in response to audits and evaluations completed during the fiscal year.

Performance Goals for Measure 4: FY 2003 will be used to baseline the impact of audits and evaluations.

### **Office of Investigations Investigative Program Performance Measures**

Investigations Measure 1 (Quality of Investigations): Percentage of closed investigations that meet the President's Council for Integrity and



---

---

Efficiency (PCIE) investigative quality standards. Based on a sample of closed investigations, the number of investigations meeting PCIE standards is divided by the total number of investigations sampled during the fiscal year. The PCIE standards are the general and qualitative guidelines applicable to investigative efforts conducted by criminal investigators working for the Offices of the Inspector General affiliated with the PCIE.

Performance Goals for Measure 1: In FY 2003, 100% of investigations sampled will meet PCIE standards.

Investigations Measure 2 (*Timeliness of Criminal Investigations*): Percentage of criminal investigative reports referred for prosecution within one year of case initiation. The percentage is computed by dividing the number of criminal investigations referred during the fiscal year within one year of initiation by the total number of criminal investigations referred during the fiscal year. Criminal investigations are referred to the Assistant U.S. Attorney, State or Local Authorities.

Performance Goals for Measure 2: Using data collected in FY 2003 as a baseline, the percentage of investigations referred for prosecution within one year of initiation will be increased by 10% by FY 2008.

Investigations Measure 3 (*Timeliness of Administrative Investigations*): Percentage of misconduct investigations referred to management for administrative adjudication within 4 months of case initiation. The percentage is computed by dividing the number of misconduct cases referred to management during the fiscal year within 4 months of initiation by the total number of misconduct cases referred during the fiscal year. Misconduct investigations involve a Treasury Department employee. At the conclusion of the investigation, cases are referred to management for administrative adjudication that could include an adverse action (removal, suspension, admonishment, etc.) or a clearance letter if the allegations are determined to be unsubstantiated.

Performance Goals for Measure 3: Using data collected in FY 2003 as a baseline, the percentage of investigations referred for administrative action within 4 months of initiation will be increased by 10% by FY 2008.

## **Oversight Program Performance Measures**

Oversight Measure 1 (*Impact of Oversight Reviews*): OI will use an Oversight Review Impact Survey as a measure of the impact that Oversight Reviews and subsequent reports have on Treasury programs and operations. The survey will be distributed to stakeholders following the completion of oversight reviews. Survey scores are the sums of actual responses to Likert scale questions divided by the sum of the maximum possible response. The performance measure is an average of all survey scores received in response to oversight reviews conducted during the fiscal year.

Performance Goals for Measure 1: Using data collected in FY 2003 as a baseline, the average impact of oversight reviews will be increased by 10% by FY 2008.

## II. OFFICE OF MANAGEMENT

The Assistant Inspector General for Management (AIG/M) establishes and maintains a transparent and fully integrated administrative infrastructure for asset management, budget formulation and execution, financial management, information technology (data and voice systems), policy preparation, planning and reporting for the OIG. Multi-faceted, this organization provides more than 200 business services to individuals within and outside the OIG. Management comprises 32 full-time equivalents (FTEs).

### Organizational Structure and Staffing

	FTE's
Immediate Office of the AIG/M	2
Asset Management Division	9
Budget Division	5
Human Resources Division	7
Information Technology Division	9
<b>Total</b>	<b>32</b>

The Director of Asset Management provides and directs cradle to grave coordination of the acquisition, maintenance, and disposition of all agency material assets. The Director oversees the procurement of goods and services for the OIG and directs all logistics support for the organization. This support includes auditor and investigator travel, credentials and official identification issuance, records management and disposal, facilities management, issuance of OIG-wide policy, health and safety, and physical and information security at nine OIG offices nationwide.

The Director of Budget formulates, presents, and executes OIG integrated financial and performance plans. Additionally, the Director coordinates financial management services to the OIG. The budget formulation function comprises the development, justification and presentation of future year budget requests to the Department, Office of Management and Budget, and Congress. Through budget execution, the Director determines annual-funding allocations, tracks and analyzes spending patterns, processes financial documents, and reports on the use of resources both internally and externally.

The Director of Human Resources provides a complete range of personnel and payroll services to employees throughout the OIG. The Director manages all OIG recruitment and staffing; position classification and management; employee relations and performance management; training, awards and recognition; employee development; benefits; personnel actions processing; and payroll processing.

The Director of Information Technology develops and maintains all OIG automated data and integrated voice systems. This includes ensuring electronic infrastructure sufficiency and the proper installation, support,



---

---

maintenance, and management of hardware, software and voice and data telecommunications.

Management ensures a quality-working environment throughout the OIG by providing seamless administrative support.

### **Initiatives for Fiscal Year 2003**

The Information Technology Division will support the implementation of a new agency-wide management information system; improve the implementation and actual quality of mobile communications tools; and ensure OIG automated systems are fully maintained, up-to-date, and operational at all times.

The Asset Management Division will publish a prioritized list of policy directives for issuance and issue at least 200 up-to-date, OIG-wide policies using plain language, to-the-point style, photos, and graphics; and conduct a 100 percent inventory of all non-information technology property valued at \$5,000 or more, or easily pilfered.

The Budget Division will further increase the accuracy of its estimates, reconcile obligations with invoices more efficiently and effectively, identify methods for consolidating redundant cuff record systems in the different offices, and evaluate the possible implementation of alternate financial systems and accounting approaches.

The Human Resources Division will improve staffing procedures in order to be able to hire employees within 60 days of announcements; develop time and attendance procedures that reduce payroll errors, and fix any payroll errors within two pay periods; and implement new time and attendance, and routine personnel actions processing systems.

# III. OFFICE OF COUNSEL

---

---

**T**he Counsel to the Inspector General serves as the senior legal and policy adviser to the Inspector General, Deputy Inspector General, and the Assistant Inspectors General. The Counsel has responsibility for all legal work in the Office of the Inspector General. The Office of Counsel, which is located in Washington, D.C., is staffed with a Deputy Counsel, two Assistant Counsels, two paralegals, and an office manager.

## The Role of the Office of Counsel

The Office of Counsel provides legal advice on issues arising during the statutorily mandated investigative, oversight, and audit activities conducted by the Offices of Investigations and Audit. In addition, the Office of Counsel provides legal advice on issues concerning government contracts, appropriations, budget formulation and execution, disclosure, records retention, tax information safeguards, equal employment opportunity, and personnel law. The office represents the OIG in administrative proceedings before the Merit Systems Protection Board and the Equal Employment Opportunity Commission.

The office is also responsible for managing the OIG ethics program, which includes financial disclosure, training, and advice on the governing law and regulations. In the area of disclosure law, the Office of Counsel manages the OIG's Freedom of Information Act (FOIA) and Privacy Act programs. The Office of Counsel also coordinates document requests from Congress and from litigation, as well as responding to Giglio<sup>1</sup> requests from the Department of Justice for information on Treasury personnel.

## Initiatives in Fiscal Year 2003

The Office of Counsel will support OIG investigative, oversight, and audit activities by responding to requests for legal advice, and through reviewing and processing requests for the issuance of Inspector General subpoenas.

In the area of disclosure, the Office of Counsel will continue to coordinate with the Department to implement an independent FOIA and Privacy Act program for the OIG, including issuing notices, completing regulations, and generating required reports. Based upon past experience, the Office of Counsel expects to process 60 initial FOIA/Privacy requests and 15 appeals from those initial responses. In the area of electronic FOIA, the Office of Counsel expects to review 150 audit, evaluation, and oversight reports for posting on the OIG web site. The Office of

---

<sup>1</sup> Giglio v. United States, 405 U.S. 150 (1972) requires the government to provide potential impeachment evidence to criminal defendants about government employees who may testify at their trials. Such evidence generally includes specific instances of proven misconduct, evidence of reputation for credibility, prior inconsistent statements, and evidence suggesting bias.



---

Counsel will amend the Privacy Act systems of records notices for both OIG's investigative and administrative records systems, and will continue to coordinate with the Department in updating the Treasury Order and Directives that establish and define the OIG's authority, responsibility, and organization. Finally, the Office of Counsel will respond to Giglio requests, coordinate responses to document requests from Congress, and respond to discovery requests arising from litigation involving the Department and its bureaus.

The Office of Counsel will provide training on the IG Act and other subjects in connection with new employee orientation and in-service training. The Office will obtain necessary training in order to provide advice in emerging areas of OIG responsibility. As statutorily mandated, the Office will review legislative and regulatory proposals and, where appropriate, will coordinate comments.

# IV. OFFICE OF INVESTIGATIONS

**T**he Assistant Inspector General for Investigations (AIG/I) is responsible for the overall investigative and oversight activities of the Office of Inspector General relating to the programs and operations of the Department of Treasury.

## The Role of Investigations

The Office of Investigations' (OI) role within the OIG is to conduct and provide oversight of investigations relating to programs and operations of the Department and its bureaus. OI is responsible for the prevention, detection, and investigation of fraud, waste, and abuse in Treasury programs and operations.

The OI provides direct oversight of the internal investigations conducted by the Offices of Inspection and Internal Affairs at three of Treasury's law enforcement bureaus: ATF, Secret Service, and Customs. In addition, OI performs oversight for Treasury's remaining bureaus with the exception of the Internal Revenue Service (IRS), which is serviced by the Treasury Inspector General for Tax Administration.

Types of investigations conducted by OI include allegations of serious employee misconduct, procurement fraud, and other criminal or illegal acts. OI receives and investigates complaints or information from employees, contractors, members of the public, and Congress alleging criminal or other misconduct constituting a violation of laws, rules, or regulations.

## Organizational Structure and Staffing

Reporting directly to the AIG/I is the Deputy Assistant Inspector General for Investigations, who is responsible for the day-to-day operations of OI.

For fiscal year 2003, OI's investigative staff is expected to consist of 73 FTE positions. Of these, 64 are criminal investigators who conduct criminal and/or administrative investigations throughout the United States and its territories.

	FTEs
Headquarters Component	21
Washington Field Office	15
Philadelphia Field Office	7
Houston Field Office	9
Miami Field Office	6
Chicago Field Office	5
San Francisco Field Office with Sub-Office in Los Angeles	10
<b>Total</b>	<b>73</b>





---

---

The OI is organized into three operational components consisting of the Treasury Oversight Division, the Enforcement Operations Division, and the Regional Field Offices.

### **Treasury Oversight Division**

The Treasury Oversight Division (TOD) is supervised by a Special Agent in Charge. TOD is comprised of the Special Investigations Unit (SIU), the Treasury Inspection Unit (TIU), and the Operations Control Unit (OCU).

The SIU is responsible for investigating allegations against Department bureau heads and Treasury senior executives. Additionally, SIU investigates complaints received from members of Congress and other investigations deemed sensitive to the Department.

TIU has the primary responsibility of providing liaison to and conducting oversight activities of all of the Department's bureaus, with the exception of the IRS, including the internal affairs/inspection functions of three of the Department's law enforcement bureaus. TIU is also responsible for the review and subsequent referral of all allegations to OI Field Offices or Treasury bureaus for investigation or management action, as appropriate, and conducting the internal inspection program of the OI field offices.

The OCU is responsible for the Treasury OIG Hotline. OCU also receives and processes all allegations and correspondence received by OI. OCU manages the Investigation Data Management System (IDMS), which tracks and monitors all activities relating to investigations and information data requests received within OI.

### **Enforcement Operations Division**

A Special Agent in Charge (SAIC) heads the Enforcement Operations Division (EOD). EOD is responsible for the administration of the OI budget and records management. It is also responsible for developing OI policy and procedures, developing an ongoing training program, and maintaining the Victim/Witness Protection and Special Agent deputation programs.

### **Regional Field Offices**

There are six field offices and one sub-office within OI. Each field office is supervised by a SAIC. These offices are responsible for conducting investigations into allegations of criminal and administrative misconduct by Treasury employees and fraud perpetrated by Treasury contractors. The field offices undertake the responsibility of developing proactive investigative initiatives and coordinating liaison activities with their law enforcement counterparts within their respective geographical regions.



---

---

## Investigative Initiatives for FY 2003

- Increase the number of serious misconduct investigations conducted by OI.
- Expand OI's oversight role within the Department's law enforcement and non-law enforcement bureaus and use a newly developed tool, a customer survey, to measure the success of this increased role.
- Develop a proactive program for seeking out and investigating allegations of fraud involving Treasury grants or contracts.
- Accelerate the oversight review program within the non-law enforcement bureaus of the Department. To meet this initiative, OI will conduct additional evaluations of the disciplinary processes and actions of the bureaus.
- Expand OI's opportunities to exercise its oversight authority to conduct investigations into fraudulent banking activities by working with OCC, OTS, and FinCEN.
- Conduct oversight reviews of the Department's Community Development Financial Institutions Fund (CDFI) to determine its susceptibility to fraudulent activities.

## Preventive Initiatives

OI will continue to enhance and promote the OIG Hotline program as a mechanism that employees can use to report instances of waste, fraud, and abuse relating to Treasury's programs and operations.

The OIG website is being redesigned and will offer individuals the opportunity to forward complaints and allegations directly to the OIG.

OI will compare and review like functions between bureaus; for instance, the police functions within Treasury's non-law enforcement bureaus: Mint, BEP, and FLETC.

**T**he Assistant Inspector General for Audit (AIG/A) is responsible for supervising auditing activities relating to Treasury programs and operations.

**The Role of Audit**

The Office of Audit conducts or oversees the conduct of program, financial, information technology, and contract audits as well as evaluations. The purpose of these audits and evaluations is to improve the quality, reduce the cost, and increase the integrity of Treasury’s operations. The work of the Office is conducted in compliance with the standards and guidelines established by the Comptroller General of the United States, the President’s Council on Integrity and Efficiency, and other professional organizations.

**Organizational Structure and Staffing**

The AIG/A has two deputies—one for Program Audit and Evaluation and the other for Financial Management and Information Technology. In addition, the AIG/A’s immediate office includes an Audit Operations Division, responsible for policy, planning, and quality assurance. These offices are located in Washington, D.C. The Office of Audit has four regional offices located in Boston, Chicago, Houston, and San Francisco and four sub-offices located in Marlton, New Jersey; Indianapolis; Miami; and Los Angeles. Office of Audit authorized staffing levels for FY 2003 are shown in the following table:

	FTE’s
Immediate Office of the AIG/A	11
Program Audit and Evaluation (Washington, D.C.):	
Enforcement	9
Banking and Fiscal Service	11
Departmental Offices/Manufacturing/Procurement	10
Evaluations	12
Subtotal	42
Program Audit (Outside Washington, D.C.):	
Northeastern Region (Boston)	12
Marlton (sub-office)	6
Central Region (Chicago)	12
Indianapolis (sub-office)	6
Southern Region (Houston)	12
Miami (sub-office)	6
Western Region (San Francisco)	16
Los Angeles (sub-office)	2
Subtotal	72
Financial Management and Information Technology (Washington, D.C.)	
Consolidated Financial Audit	10



---

---

Enforcement Financial Audit	10
Financial Related Audit	14
Information Technology Audit	14
Subtotal	40
Office of Audit Total	165

In addition to its authorized FTE ceiling, the Office of Audit uses Independent Public Accounting (IPA) firms under contract to perform a substantial portion of the financial statement audits of Treasury bureaus and activities required pursuant to the Chief Financial Officer (CFO) Act, the Government Management Reform Act (GMRA), and other statutes.

### **Program Audit and Evaluation**

Under the management and direction of the Deputy Assistant Inspector General for Program Audit and Evaluation are three National Directors of Audit, four Regional Inspectors General for Audit, and one Director of Evaluations. The National Directors of Audit are responsible for program audits performed by Washington, D.C., staff as well as coordinating audit planning for their assigned functional areas to ensure that audits of highest priority are included in the annual plan. The functional areas of the National Directors are described below:

- National Director, Enforcement, provides nationwide leadership for program audits of Customs, ATF, Secret Service, FinCEN, Office of Foreign Assets Control, and other enforcement Treasury components.
- National Director, Banking and Fiscal Service, provides nationwide leadership for program audits of OCC, OTS, CDFI Fund, other banking-related Treasury components, FMS, and BPD.
- National Director, Departmental Offices/Manufacturing/Procurement, provides nationwide leadership for program audits of BEP, the Mint, and Treasury's Departmental Offices, as well as for program audits of procurement activities at all Treasury bureaus and offices.

The four Regional Inspectors General for Audit are directly responsible for all audit work of Treasury bureaus within their respective geographic locations. They are secondarily responsible for planning and leading national audits of certain Treasury bureaus and functions, as follows:

- Regional Inspector General for Audit (Northeastern) plans and leads national audits of the commercial operations of ATF and Customs.
- Regional Inspector General for Audit (Central) plans and leads national audits of enforcement operations of ATF and Secret Service.



- 
- Regional Inspector General for Audit (Southern) plans and leads national audits for the enforcement operations of Customs.
  - Regional Inspector General for Audit (Western) plans and leads national audits of the operations of OCC, OTS, and other banking-related Treasury components.

Under the overall management and direction of the Deputy Assistant Inspector General for Program Audit and Evaluation, the Director of Evaluations is responsible for evaluations, studies, surveys, and analyses covering programs and operations of the Department and its components. The Director supervises a staff of program analysts, economists, and statisticians. The Director also provides overall coordination of evaluation planning to ensure that reviews of the highest priority are included in the annual plan.

### **Financial Management and Information Technology**

Under the management and direction of the Deputy Assistant Inspector General for Financial Management and Information Technology are four Directors of Audit. The Directors are responsible for audits performed by Washington, D.C., staff and for oversight of work performed by contracted IPA firms. Also, they are responsible for planning the audits in their assigned functional areas to ensure that audits of highest priority are included in the annual plan. The functional areas by Director are described below:

- Director, Consolidated Financial Audit, is responsible for performing the annual audit of the Department's consolidated financial statements pursuant to the CFO Act and GMRA, and performing or providing contractor oversight for audits of other components or activities that are material to Treasury or are required to be audited by other statutes. The Director coordinates with the U.S. General Accounting Office (GAO) with respect to its audits of IRS and the Public Debt as the IRS and Public Debt accounts are included in the Department's consolidated financial statements.
- Director, Enforcement Financial Audit, is responsible for performing, or providing contractor oversight, for audits of enforcement bureaus designated for stand-alone audits pursuant to the CFO Act and GMRA, and audits of other components or activities which are material to Treasury or are required by other statutes.
- Director, Financial-Related Audit, is responsible for: (1) performing, or providing contractor oversight, for pre-award, cost incurred, and other contract audits referred to OIG by Treasury bureaus; (2) overseeing Single Audit Act requirements pertaining to Treasury activities; and (3) managing the funding and reimbursement



---

---

agreements with audited bureaus related to financial statement audits.

- Director, Information Technology Audit, conducts reviews of the acquisition, use, and disposal of complex computer and other information technology systems, and the overall management of information technology as a capital and managerial asset of the Department. The reviews are performed to ensure that the systems are effective, efficient, productive, and economical; contain adequate safeguards to protect the data integrity and data processing; consistently support Treasury needs; and are developed and operated in accordance with all applicable policies, standards, and procedures.

### **FY 2003 Planning Approach**

This plan reflects our effort to provide appropriate audit and evaluation coverage to Treasury and its bureaus given our available resources. In formulating the plan, we also considered: (a) observations and suggestions by our managers, auditors, evaluators, and investigators; (b) Treasury's FY 2003 budget justification priorities; and (c) recent Congressional activity, testimony by Treasury officials, and remarks indicating significant areas of interest by Treasury, OMB, and Congressional officials and staff.

Key features of this plan include:

- *Perspective.* The plan's emphasis is on those issues of greatest significance to Treasury rather than to individual Treasury bureaus. In accordance with the Reports Consolidation Act of 2000, and in prior years to requests from the congressional leadership, the Inspector General annually provides the Secretary of the Treasury our views on the most significant management challenges facing the Department. In previous years, we identified management challenges that were mission-specific, reporting in 2001 that the most significant challenges in this regard were: (1) Information Security, (2) Treasury's Information Technology Investment Management, (3) Money Laundering/Bank Secrecy, (4) Safety and Soundness of the Banking Industry, (5) Narcotics Interdiction and Trade Enforcement, (6) Revenue Protection, (7) Violent Crime, (8) Implementation of the Government Performance and Results Act, and (9) Financial Management Improvement Act. While some progress was made on these challenges, more remains to be done.

This year, in light of the President's Management Agenda, we shifted our assessment to focus on those serious challenges that are impeding the Department's ability to carryout its program responsibilities and ensure the integrity of its operations. We also considered the terrorist attacks of September 11, 2001, which have



---

---

served to underscore the need to improve the management and security of Treasury assets that contribute to homeland security. Accordingly, in February 2002, we informed the Secretary that, in our view, there were five overarching management challenges requiring management's increased attention: (1) the unwillingness of Treasury management to take prompt corrective action on material weaknesses and other serious deficiencies in programs and operations, (2) linking resources to results that has not occurred because managerial cost accounting has not been integrated into Treasury's business activities, (3) inadequate financial management systems that are not capable of producing timely, accurate, and reliable information, (4) uncorrected, long-standing information security problems and vulnerabilities, as evidenced by the fact that 82 percent of the Department's information systems are not accredited, and (5) duplicated, wasteful practices that are the result of enterprise solutions not being adapted to core Treasury business activities.

- *Customer and Stakeholder Participation.* Our draft plan was provided, through bureau liaisons, to Treasury officials for comment. The Directors and their staffs met with Department and bureau officials and staff throughout the year to solicit audit and evaluation suggestions. We also met with interested staff from OMB and various congressional committees to obtain their insights and suggestions.
- *Responsiveness.* The plan is revised throughout the year to accommodate new legislative requirements, changing bureau missions, and unforeseeable events.
- *Continuity.* The plan is a dynamic document that will be updated and continued beyond FY 2003. At present, there are many high priority audits that were not included in the plan due to resource constraints.

For FY 2003, the Inspector General established the following three priorities for the Office of Audit:

***Priority 1 - Audit products mandated by law.***

Our office must allocate significant resources to meet legislative requirements related to (1) audited financial statements and financial-related review work, (2) information security, and (3) failed financial institutions, as described below:

Audited Financial Statements and Financial-related Review Work. The *Chief Financial Officers (CFO) Act of 1990*, as expanded by the *Government Management Reform Act of 1994* (GMRA) requires our office to audit the consolidated financial statements of the Department



---

---

of the Treasury as well as financial statements of component entities specifically designated by OMB. OMB designed ATF and Customs for component entity audited financial statements. Although OMB waived this requirement for Customs and ATF for the FY 2002 financial reporting period, considerable work must still be undertaken by our office and contracted IPAs under our oversight to fulfill our audit requirements for the Department's financial statements. Aside from the CFO Act and GMRA, other laws required audited financial statements for certain Treasury components that are performed by IPAs under our oversight. Specifically, the *United States Mint Reauthorization and Reform Act of 1992* and the *Treasury Forfeiture Fund Act of 1992* require annual audits of the Mint and the Treasury Forfeiture Fund, respectively. For OCC, annual audits are performed as part of OCC's efforts to comply with 12 U.S.C. 14, which requires that the Comptroller of the Currency make an annual report to Congress. For OTS, annual audits originated under the *Financial Institutions Reform, Recovery and Enforcement Act of 1989* and have continued since. The *Federal Financial Management Improvement Act of 1996* requires that our annual audits of Treasury's financial statements report on whether its financial management systems comply with Federal financial management systems requirements, applicable accounting standards, and the United States Government General Ledger at the transaction level. The Act also requires us to include in our semiannual reports to the Congress instances when the Department has not met targets in making its accounting systems compliant with the requirements of the Act. Furthermore, 21 U.S.C. § 1704(d) requires National Drug Control Program agencies in Treasury to provide the Office of National Drug Control Policy (ONDCP) an annual detailed accounting of all funds expended for National Drug Control Program activities that must be authenticated by our office.

Information Security. The *Government Information Security Reform Act* (GISRA) provides a comprehensive framework for establishing and ensuring the effectiveness of controls over information resources that support Federal operations and assets. Under GISRA, Treasury must develop and implement security policies, procedures, and control techniques sufficient to afford security protections commensurate with the risk and magnitude of harm resulting from the loss, misuse, or unauthorized access to or modification of information collected or maintained by the Department. GISRA also requires our office to perform an annual evaluation that includes tests of the effectiveness of security controls and an assessment of compliance with the Act.

Failed Financial Institutions. The *Federal Deposit Insurance Corporation (FDIC) Improvement Act of 1991* requires us to review failed Federally insured depository institutions that had been supervised by either the Office of the Comptroller of the Currency (OCC) or the Office of Thrift Supervision (OTS). These legislatively mandated reviews arise when the institution's failure results in a loss to FDIC's deposit insurance fund exceeding either (1) \$25 million or (2) 2 percent of the





---

---

institution's total assets. Known as a material loss review (MLR), we are required to determine why the institution failed and assess the adequacy of OCC's or OTS' supervision of the failed institution. In February 2002, we completed an MLR of Superior Bank FSB, located in Oakbrook Terrace, Illinois, and the Inspector General testified before the Senate Committee on Banking, Housing and Urban Affairs on the causes of Superior's failure and OTS' supervision of the institution. Shortly thereafter, there were two material bank failures requiring an MLR. Both supervised by OCC, the failed institutions are Hamilton Bank, N.A., located in Miami, Florida; and NextBank, N.A., located in Phoenix, Arizona. Unofficial loss estimates to the deposit insurance fund are \$140 million and \$300 to \$400 million, respectively. Both MLRs will be completed during FY 2003. It should be noted that this is the first time our office has performed two MLRs simultaneously since this requirement was enacted. Moreover, the rising number of problem banks nationally that closely align with current economic conditions possibly portend an increasing number of MLRs that must be performed by OIG.

***Priority 2 - Audit products that support the President's Management Agenda***

We recognize that the President's Management Agenda (PMA) parallels our mission of improving the economy, effectiveness and efficiency of the Department's programs and operations. Accordingly, for FY 2003, we have included audits to assess the Department's progress in addressing the PMA's five government-wide initiatives (strategic management of human capital, competitive sourcing, improved financial performance, expanded electronic government, and budget and performance integration).

***Priority 3 - Audit products that address material weaknesses and other known serious deficiencies in the Department's programs and operations.***

We will undertake audits during FY 2003 to assess the Department's progress in addressing material weaknesses and known significant vulnerabilities. Two principal areas that will be a continued focus of our office are IT security and Customs modernization. It should be noted that the Department's success in addressing these areas is also critical to its implementation of the President's Management Agenda.

IT Security. Treasury was identified as having longstanding IT security problems in the first year of GISRA. These security problems exist at both the Department level and within bureaus. We reported that while Treasury had developed policies to implement and maintain an adequate security system program, the implementation



of these policies was insufficient. We previously identified material weaknesses in Treasury's overall policy, guidance, and oversight of the bureau's computer system controls, most notably at the Customs, FMS, and the Mint. A continued annual, independent evaluation of bureau information security programs by our office will help drive reform because it will spotlight both the obstacles and progress toward improving information security.

Customs Modernization. Second in size only to tax system modernization, the development of the Automated Commercial Environment (ACE) is a massive and multifaceted effort that is critical to the long-term success of the Customs mission and to address a longstanding material weakness with the bureau's core financial systems. ACE is part of the Customs Modernization Program, a 15-year, \$5 billion effort to modernize Customs automated systems. The ability of Customs to process the growing volume of imports while improving compliance with trade laws depends heavily on successfully improving the trade compliance process and modernizing supporting automated systems. We recently reported on risks associated with Customs' staffing, communications, and scheduling for ACE. We also reported that six management control systems were not fully implemented and the initial deliverables from the prime contractor had significant deficiencies, which required reworking. Further, we reported that: "Because of the system's national importance, Customs is taking a schedule-driven approach to acquiring ACE. However, without the management capacity to effectively acquire such a large and complex system, particularly in light of Customs' performance to date and the accelerated acquisition and deployment schedule, this approach could backfire. Full system capabilities may take longer and cost more to acquire, deploy, and make operational, because the system delivered under the accelerated schedule could require considerable rework." These already existing conditions, and the risks associated with a failed ACE implementation, necessitates continued close audit oversight by our office.

In addition to projects responding to the above areas, we are including coverage of other areas in response to the events of September 11<sup>th</sup> or because we believe they represent significant risk to the Department. These areas include: (1) the Department's responsibilities for combating money laundering, including terrorist financing, and implementing the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act (USA PATRIOT Act); and (2) safety and soundness of financial institutions.

- Money Laundering/Terrorist Financing/USA PATRIOT Act. The Act made significant changes and additions to the electronic surveillance provisions in Title 18, and the Bank Secrecy Act in Title 31. The Act requires the Secretary of the Treasury to promulgate and report on the implementation of regulations that enhance the ability of financial institutions to identify and disrupt



---

---

terrorism and money laundering activities. Along with this, FinCEN was established as a Treasury bureau. Also, the Act established the Counterterrorism Fund, which is used to reimburse Treasury bureaus for costs incurred in fulfilling important counter terrorism responsibilities. Other changes include an extension of Secret Service's jurisdiction to include the authority to investigate cases involving espionage, foreign counterintelligence, and information protected against unauthorized disclosure due to national security or foreign relations requirements. In addition to the USA PATRIOT Act, the Congress provided significant increases in the Department's budget to enhance domestic security against terrorism. The Department's budget increased from \$14.8 billion in FY 2001 to \$16.5 billion appropriated in FY 2002. The Department's request for FY 2003 is \$16.65 billion. Of the FY 2003 request, law enforcement represents \$5.2 billion or 31.5 percent of the total program budget. Our office plans to provide audit oversight of these increased appropriations, procedures and controls to ensure effective use, implementation, and program results.

- Safety and soundness of financial institutions. Clearly, a safe and sound banking system is a pre-condition for stability within our financial system. Through OCC and OTS, Treasury regulates and supervises banks and thrifts with combined assets of over \$3.1 trillion that account for over 58 percent of total industry assets. In addition, OCC-regulated national banks account for the vast majority of the off-balance-sheet assets, also known as financial derivatives, which are estimated to exceed \$43 trillion for all banks nationally. The economic tide has turned following nearly a decade of unprecedented economic growth, record bank capitalization, and few problem banks. The events of September 11<sup>th</sup> magnified the effects of the current recession and the inevitable carryover effects on bank earnings and risk. Indicators portending increased risk and stress for the banking industry include sluggish consumer confidence, rising unemployment, and hard-hit sectors such as lodging, airlines, and telecommunications/high-tech. Indeed, the numbers of failed banks beginning in 2001 had lowered the FDIC bank insurance reserve below the statutory level by mid-2002.

Aside from fundamental economic factors, added regulatory and supervisory challenges arise out of the recently enacted Gramm-Leach-Bliley Financial Services Modernization Act (GLBA) of 1999. Due to the implementation of GLBA and its implications to allow banks to venture into the securities and insurance business, we will perform audits of the expanding regulatory requirements over third-party service providers, holding companies, and other areas of non-traditional bank regulation reviews. The movement into non-traditional banking practices required the regulators to re-evaluate their oversight roles and develop procedures to cover the changing environment. Our past experience revealed that

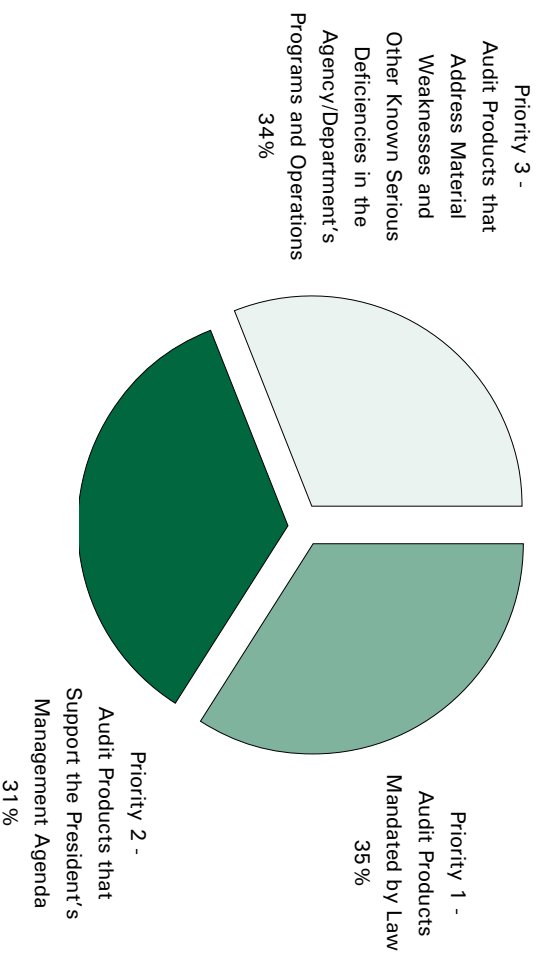


these procedures have not always been timely developed, or had not been developed well enough to provide the coverage required. GLBA has also built on the core issue of privacy over a customer's financial information with a major concern of information sharing among affiliated non-banking units such as an insurance arm. In addition, changes resulting from implementation of the GLBA have increased focus on provisions of the Community Reinvestment Act (CRA), requiring disclosures by banks of all CRA agreements and how resources are being used in meeting the objectives of the CRA.

Through our planning process we identified 100 new audit and evaluation projects for inclusion in the FY 2003 Annual Plan. These projects, as well as projects that were started in FY 2002, are described in Appendix A of the Annual Plan. Other high priority projects identified through the planning process that we must defer to future years due to resource limitations are described in Appendix B.

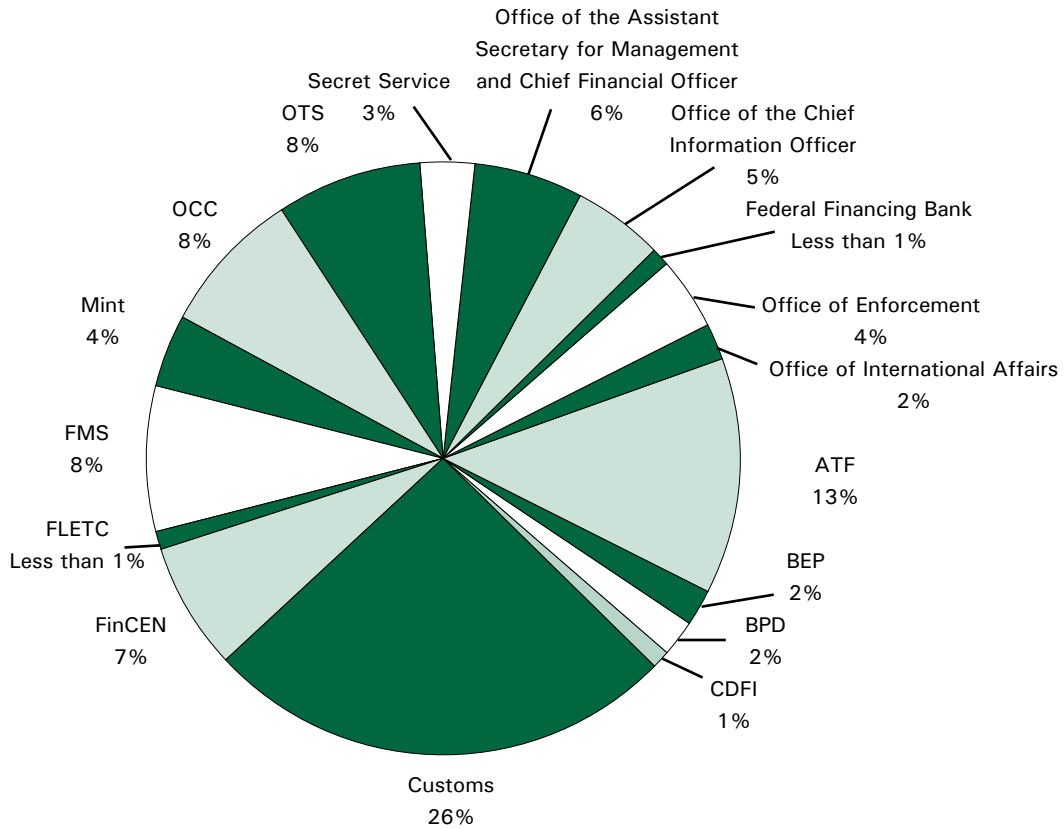
Our planned OIG staff resource utilization address our three priority areas for FY 2003 as shown in the following chart:

### FY 2003 Resource Allocation by Audit Priorities



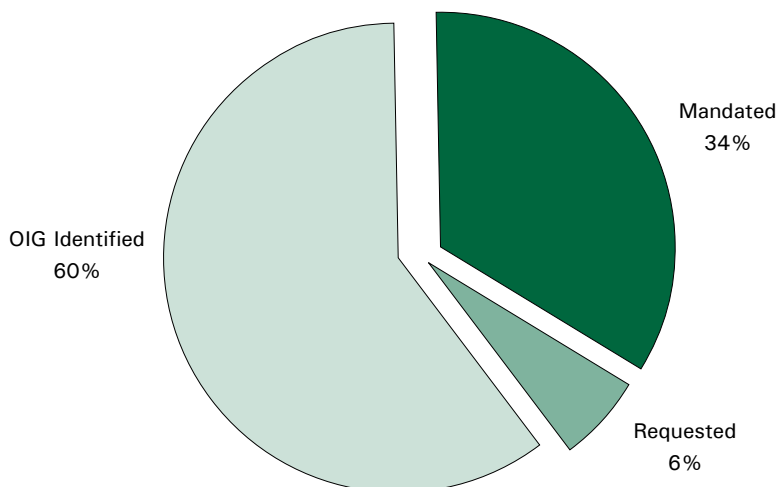


Our planned OIG staff resource allocation by Treasury bureau and Headquarters operational component is depicted in the following chart:



Our planned OIG staff resource allocation by source of the audit/evaluation project is depicted in the following chart:

**FY 2003 Resource Allocation by Audit Source**





---

---

### **Collaboration with the Office of Investigations**

It is difficult to anticipate the level of audit and evaluation resources needed to support OIG investigations. Our practice has been, and will continue to be, to treat requests for assistance by OI and other investigative organizations as top priority. Accordingly, we are prepared to delay or defer other planned audit work, if necessary, to support OI.

OI participated in the process that led to the audits and evaluations included in this plan. Also, we intend to collaborate on several audits and integrity probes during the year.

# APPENDIXES

## TABLE OF CONTENTS

### Appendix A Project Narratives

#### In Progress and Planned New Audits and Evaluations for FY 2003

##### ***Priority 1 - Audit Products Mandated by Law***

Department-wide Consolidated Financial Statements and Selected Treasury Bureaus Financial Statements (In Progress) .....	31
Treasury Progress in Achieving Compliance with the Federal Financial Management Improvement Act .....	32
Treasury Government Information Security Reform Act Implementation.....	33
Material Loss Review of Hamilton Bank, N.A. (In Progress) .....	33
Material Loss Review of NextBank, N.A. (In Progress) .....	34
Assertions Included in the FY 2002 Annual Reports of Drug Control Funds to the Office of National Drug Control Policy .....	34
Treasury Payments for Water and Sewer Services Provided by the District of Columbia.....	35

##### ***Priority 2 - Audit Products that Support the President's Management Agenda***

Management of HR Connect .....	36
Employee Safety and Health .....	36
Employee Job Satisfaction .....	37
Employee Recruitment Systems and Methods .....	37
Telecommuting and Flexible Workplace Arrangements .....	38
Customs Resource Allocation Model (RAM) .....	38
Customs Inspector Training .....	39
Enforcement Terrorist Training .....	39
Secret Service's Role at National Special Security Events .....	40
Treasury's Implementation of the Federal Activities Inventory Reform (FAIR) Act .....	40
Treasury Use of Government Purchase Cards (In Progress) .....	41
ATF Controls over Imports of National Firearms Act (NFA) Weapons (In Progress) .....	41
ATF Youth Crime Gun Interdiction Initiative (YCGII) Expenditures (In Progress).....	42
ATF Gang Resistance Education and Training (G.R.E.A.T.) Program Expenditures .....	43
ATF Controls over the Domestic Sale of Tobacco Products Labeled for Export .....	44
ATF Revenue Inspection Targeting .....	44
ATF Revenue Inspection Quality.....	45
Customs Payment of Antidumping and Countervailing Duty Claims (In Progress) .....	45
Customs Reconciliation Program .....	46
Implementing Contractor Recommendations .....	46
Pledge of Approved Collateral in Lieu of a Required Security Bond .....	47
FMS Use of Compensating Balances to Acquire Banking Services.....	47
Federal Agency Referral of Delinquent Non-Tax Debt under the Debt Collection Improvement Act (DCIA) of 1996.....	48
FMS Cross-Servicing Efforts to Collect Non-Tax Delinquent Debts .....	49
FMS Processing of Limited Payability Funds Follow-up .....	49



Treasury Offset Program (TOP) .....	49
FMS Credit Card Transaction Fees.....	50
BPD Special Purpose Securities Program .....	51
Mint Procurement Operations.....	51
Mint's 50 States Quarters Program .....	52
Employees' Use of Travel Credit Cards.....	52
Contract Audits .....	53
Treasury Implementation of E-Government .....	53
Treasury Implementation of the Government Paperwork Elimination Act (GPEA) .....	54
FMS Electronic Transfer Accounts.....	54
FMS Implementation of Pay.gov.....	55
Electronic Filing of Bank Secrecy Act Reports .....	55
ATF Comprehensive Firearms Tracing .....	56
Treasury's Enterprise Environment.....	57
Adoption of the X.500 Directory Service .....	58
Treasury Wireless Communications .....	58
Treasury's Budgeting for Computer Security .....	59
Treasury's Implementation of Network Intrusion Detection Techniques .....	59
Treasury Network and System Vulnerabilities Assessment (In Progress) .....	60
Treasury Firewall Policy and Management .....	60
Security Review of the Bureaus' Data Centers .....	61
Security Baseline of the Bureaus' UNIX Operating Systems .....	61
Treasury Countermeasures for Computer Viruses .....	62
Classified Information Systems Security Program .....	62
Remote Access Dial-up Security.....	63
Evaluation of the Department's Process to Ensure the Reliability of Performance Data (In Progress) .....	64
Integrating Budget and Performance .....	64
ATF Implementation of the Gang Resistance Education and Training (G.R.E.A.T.) Program .....	65
Customs Compliance Measurement Program.....	65
Customs Monitoring of Operation Green Quest .....	66
Adequacy of Customs Investigative Case Management Systems to Support Performance Reporting.....	67
Treasury Asset Forfeiture Activities .....	67
FinCEN Performance Measures.....	68
Secret Service New York Electronic Crimes Task Force (NYECTF) .....	68
Secret Service Response to Counterfeiting Overseas.....	69

***Priority 3 - Audit Products that Address Material Weaknesses and Other Known Serious Deficiencies in the Agency/Department's Programs and Operations***

Treasury's Information Technology Investment Portfolio System (I-TIPS) .....	70
Disaster Recovery Exercises (In Progress) .....	70
Office of D.C. Pensions Replacement of the Automated Pensions Benefit System Project.....	71
ATF Arson and Explosives National Repository .....	72
ATF Explosives Follow-Up .....	72
ATF National Integrated Ballistic Information Network (NIBIN) Program .....	73
ATF National Firearms Registration and Transfer Record (In Progress) .....	74
ATF On-line LEAD .....	74





ATF Use of Firearms Theft Information .....	75
Multi-year Audit Oversight of the Customs Automated Commercial Environment (ACE) Systems Initiative (In Progress) .....	76
Customs Counter Terrorism Efforts Related to the Processing of International Mail (In Progress) .....	78
Customs Sensitive Inventory Follow-Up .....	78
Customs Targeting and Inspection Efforts for Vessel Containers (In Progress) .....	79
Customs Targeting of Rail Carriers for Inspection (In Progress) .....	79
Customs Land Border Carrier Initiative Program (LBCIP) and Border Release Advanced Screening and Selectivity (BRASS) .....	80
Customs Automated Targeting System for Cargo Inspection.....	80
Customs Automated Commercial System Cargo Selectivity Program Follow-Up.....	81
Customs Advance Passenger Information System (APIS) Follow-Up (In Progress) .....	81
Customs Use of Radiation Detection Devices (In Progress) .....	82
Customs Background Investigation Follow-Up .....	83
Customs Passenger User Fee Follow-Up .....	83
Customs Mail Entry Duty Collection System (In Progress).....	84
Customs Hazardous Materials Program (In Progress).....	84
Customs Trade Partnership Against Terrorism (C-TPAT) .....	85
Customs Designation of Importers as Low Risk .....	85
Customs Container Security Initiative (CSI).....	86
Customs Intelligence Program .....	87
Customs License Plate Reader Program .....	88
Customs Targeting of Individuals at Land Border Ports of Entry .....	88
Treasury's Protection of Physical Critical Infrastructure Follow-Up .....	89
Financial Institution Compliance with Foreign Sanction Program – Phase II .....	89
OFAC Trade Sanctions Program .....	90
Treasury's Role in Combating Terrorist Financing and Money Laundering.....	91
FinCEN's Efforts to Estimate the Magnitude of Money Laundering .....	91
Efforts to Identify and Investigate Potential Money Laundering through the Black Market Peso Exchange.....	92
FinCEN Efforts to Ensure Compliance by Money Service Businesses with Suspicious Activity Reporting Requirements .....	93
FinCEN Identification of Suspicious Wire Transfers .....	93
FinCEN Gateway Program .....	94
OCC and OTS Exams for Compliance with Sections 312 and 313 of the USA Patriot Act.....	94
OCC and OTS Exams for Compliance with Section 326 of the USA Patriot Act.....	95
OCC and OTS Exams for Compliance with Section 314 of the USA Patriot Act.....	95
FMS Controls over the Access, Disclosure, and Use of Social Security Numbers by Third Parties (In Progress) .....	95
Mint's Consolidated Information System (COINS) .....	96
BEP Security Measures over Currency and other Documents (In Progress) .....	96
Treasury's Efforts as the Lead Agency for Banking and Finance Under Presidential Decision Directive (PDD) 63.....	97
OCC and OTS Examiner's Reliance on the External Auditors' Work (In Progress) .....	98
OCC and OTS Examination Coverage of Financial Institution Third Party Service Providers.....	99
OTS Examinations of Holding Companies and the Related Transactions with Affiliates .....	99



---

---

OCC and OTS Background Checks of Directors/Senior Officers .....	100
OCC Examiner Safeguards over Bank Sensitive Information .....	101
OTS Consumer Protection Compliance Exams .....	101
OCC and OTS Fee Assessment Practices .....	102
Financial Institutions' Anti-Money Laundering Programs .....	102
FLETC Environmental Remediation of Outdoor Firing Ranges (In Progress) .....	103
Treasury's Enforcement of Export Controls (In Progress) .....	103

## **Appendix B Project Narratives**

### **Office of Audit Projects Under Consideration for Future OIG Annual Plans**

Treasury Bureaus' Logical Access Controls .....	105
Bureaus' Private Branch Exchange (PBX) Telecommunication Systems .....	105
Bureau Controls and Security over Web Servers .....	106
Treasury Telecommunications Connections.....	106
Bureau Use of Non-Treasury Systems for Telecommunications .....	107
Security Controls for Application Service Providers .....	107
Safe Software Coding .....	108
Protection of Mainframe Data Backup .....	108
Treasury Communication System Inventory Management .....	109
Wireless Networking at Treasury .....	109
Assessing Risk for the Department's Computer Operations .....	110
Record Management Programs, Policies, and Procedures .....	110
ATF Project Safe Neighborhoods .....	111
ATF Federal Firearms License Program .....	112
ATF Web-Based Applications for Law Enforcement Data .....	112
ATF Collection Procedures.....	113
ATF Excise Tax Penalty Collections .....	113
ATF Enforcement of the Cigarette Contraband Trafficking Act .....	114
ATF Alcohol and Tobacco Permit Program .....	114
ATF Efforts to Prevent Moonshine.....	114
Multi-year Audit Oversight of the Customs Automated Commercial Environment (ACE) System Initiative .....	115
Customs Processing of Currency and Monetary Instrument Report (CMIR) Data .....	115
Customs Secure Electronic Network for Travelers Rapid Inspection (SENTRI) Program .....	116
Customs Procurement Modifications and Change Orders .....	117
Customs Enforcement Efforts at Foreign Trade Zones (FTZ).....	117
Customs Continuity of Operations .....	118
Use of Body Scan Imaging.....	119
Customs Threat Response Plan .....	119
Customs User Fee Decal Program Accountability.....	120
Importers' Selection of Customs Ports of Entry .....	120
Customs Project Shield America.....	121
Customs Refunds of Duties Resulting from Protests.....	121
Customs Supervision of Licensed Brokers.....	122



---

---

Customs Examination and Collection from Merchandise for Trade Fair Operators, Admission Temporaire (ATA) Carnets, and Temporary Importation under Bond.....	122
Customs Clearance of Left Over/Unaccompanied Baggage.....	123
Customs Examination of Outbound Mail .....	124
Customs Accountability of Western Hemisphere Drug Elimination Act (WHDEA) Funds .....	124
Customs Technology Contracts and General Procurement .....	125
Customs Use of Federal Supply Schedules .....	125
Customs Performance Measures for the Office of Regulations and Rulings.....	126
Customs Port Operations .....	126
Customs Bonded Warehouses.....	127
Customs Informed Compliance Strategy .....	127
Treasury Compliance with Section 508 of the Rehabilitation Act .....	128
OASIA's Monitoring of the Administration's Reforms .....	129
FinCEN Background Investigations.....	130
Secret Service Case Prioritization Policy .....	130
Secret Service Electronic Crimes Special Agent Program (ECSAP) .....	131
Secret Service National Threat Assessment Center (NTAC) .....	131

### **Appendix C**

Index of FY 2003 Project Narratives by Bureau .....	133
---	-----

### **Appendix D**

Acronyms .....	137
----------------	-----







---

---

continue to provide Department and bureau management officials with critical information and recommendations to help prepare reliable Treasury-wide financial statements, develop more effective and reliable financial accounting systems, correct internal control weaknesses, and improve mission-related operations. As in prior years, a combination of OIG, U.S. General Accounting Office (GAO), and contractor resources will be used to meet the FY 2002 financial statements audit requirements for the Department and its component bureaus and entities.

**Audit Objective/Key Questions:** Do the financial statements prepared by the Department and its bureaus accurately present their financial position and results of operations? Are Department and bureau managers taking action to correct identified financial management weaknesses so as to better manage their operations and comply with applicable laws and regulations having a direct and material effect on the financial statements? We estimate approximately 21,200 hours of OIG resources, supported by contractor resources, will be needed to fulfill our financial statement audit responsibilities during FY 2003.

### ***Treasury Progress in Achieving Compliance with the Federal Financial Management Improvement Act***

Contact Person:

Mike Fitzgerald (202) 927-5789

**Background:** The Federal Financial Management Improvement Act of 1996 (FFMIA), Section 803(a), states that: "In General ... Each agency shall implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level."

FFMIA requires us to report whether Treasury's financial management systems are in substantial compliance with these general requirements as part of the annual audit of the Department's financial statements pursuant to the CFO Act and GMRA. As a result of our audit of the Department's FY 2001 financial statements, we reported that Treasury's financial management systems were not in substantial compliance with FFMIA. That determination was based on the audit results at Customs, IRS, FMS, OCC and the Mint.

Under FFMIA, the Department must prepare a remediation plan that will bring its financial management systems into substantial compliance. There is a requirement, separate from the FFMIA reporting requirement on the financial statement audit, that we assess the Department's progress under its remediation plan, and report on any missed milestones in the OIG Semiannual Reports to the Congress. This mandated reporting is to include the facts pertaining to the failure to comply with the requirements, including the nature



---

---

and extent of the non-compliance, the primary reason or cause for the failure to comply, and any extenuating circumstances, as well as a statement of the remedial actions needed to comply.

Audit Objectives/Key Questions: Has the Department developed an appropriate FFMIA remediation plan? Has the Department met the milestones prescribed in its remediation plan? This work will be conducted at Customs, FMS, OCC, and the Mint. The Treasury Inspector General for Tax Administration is responsible for reviewing and reporting on IRS' remediation plan. We estimate 200 hours will be needed to complete this project during FY 2003.

### ***Treasury Government Information Security Reform Act Implementation***

Contact Person: Ed Coleman (202) 927-5007

Background: The Government Information Security Reform Act (GISRA) was passed in year 2000 as part of the FY 2001 Defense Authorization Act (P.L. 106-398), amending the Paperwork Reduction Act of 1995. GISRA codifies existing OMB security policies, as well as the Clinger-Cohen Act of 1996. GISRA focuses on the program management, implementation, and evaluation aspects of the security of unclassified and national security systems, and requires OIG to perform an independent evaluation of the Department's security program annually. As part of its FY 2003 budget submission, Treasury was required to submit an assessment of its unclassified information security program, along with our independent evaluation performed during 2001. That evaluation found that Treasury's information systems security program needed improvement to meet the requirements of GISRA. Specifically, we noted deficiencies with Treasury and its bureaus' performance measurement approach, certification and accreditation process, capital planning and investment process, training programs, and computer security incident reporting process.

Audit Objective/Key Question(s): Are Treasury's information security program and practices adequate? What progress has Treasury made in resolving weaknesses cited in the prior year's review. We estimate 2,000 hours will be needed during FY 2003 for this project.

### ***Material Loss Review of Hamilton Bank, N.A. (In Progress)***

Contact Person: Donald Kassel (202) 927-6512

Background: OCC closed Hamilton Bank, N.A., located in Miami, Florida, on January 11, 2002, and the Federal Deposit Insurance Corporation was appointed receiver. The OCC acted after finding that the bank, which had assets of \$1.4 billion at the time of its closing, was undercapitalized and suffered from deteriorating asset



---

---

quality, poor earnings, a high level of nonperforming loans, and sharply declining capital levels. As mandated by section 38(k) of the Federal Deposit Insurance Act, we are responsible for conducting a material loss review because the failure is estimated to cost the Bank Insurance Fund approximately \$140 million.

**Audit Objective/Key Question(s):** Why did the bank's problems result in a material loss to the insurance fund? Did the OCC adequately and effectively detect problems and administer enforcement actions in a timely manner? If applicable, how may such failures be avoided in the future? We estimate 800 hours will be needed to complete this project during FY 2003.

***Material Loss Review of NextBank, N.A. (In Progress)***

**Contact Person:** Benny Lee (415) 977-8810

**Background:** OCC closed NextBank, N.A., of Phoenix, Arizona, on February 7, 2002, upon determining that NextBank was significantly undercapitalized and suffered from deteriorating asset quality, poor earnings, and high operating expenses. NextBank was a credit card bank operating through an Internet delivery platform with a business focus on subprime lending. As mandated by section 38(k) of the Federal Deposit Insurance Act, the Treasury OIG is responsible for conducting a material loss review of NextBank given its estimated material loss to the Bank Insurance Fund, which possibly could range from \$300 million to \$400 million.

**Audit Objective/Key Question(s):** Why did the bank's problems result in a material loss to the insurance fund? Did the OCC adequately and effectively detect problems and administer enforcement actions in a timely manner? If applicable, how may such failures be avoided in the future? We estimate 1,200 hours will be needed to complete this project during FY 2003.

***Assertions Included in the FY 2002 Annual Reports of Drug Control Funds to the Office of National Drug Control Policy***

**Contact Person:** Mike Fitzgerald (202) 927-5789  
Louis King (202) 927-5774

**Background:** Office of National Drug Control Policy (ONDCP) Circular: *Annual Accounting of Drug Control Funds*, requires National Drug Control Program agencies to prepare a detailed accounting of obligations for National Drug Control Program activities. The Circular also requires us to conduct attestation reviews expressing a conclusion about the reliability of each assertion made in the agencies' reports.

**Audit Objective/Key Question(s):** Are the assertions made in Treasury bureau reports to ONDCP about obligations for National Drug Control





---

---

Program activities reliable? We estimate 200 hours will be needed to complete this project during FY 2003.

***Treasury Payments for Water and Sewer Services Provided by the District of Columbia***

Contact Person: Mike Fitzgerald (202) 927-5789

Background: The Consolidated Appropriations Act of 2001 requires OIG to report quarterly to the Senate and House Appropriations Committees on the promptness of payments for water and sewer services received by the Department from the District of Columbia. These reports are due no later than the 15<sup>th</sup> day of the month following each quarter.

Audit Objective/Key Question: Have Treasury components made required payments for District of Columbia water and sewer services in a timely manner? We estimate 200 hours will be needed for this project during FY 2003.



---

---

## ***Priority 2 – Audit Products that Support the President’s Management Agenda***

### ***Management of HR Connect***

Contact Person:

Thomas Byrnes (202) 927-5904

**Background:** The Department is currently engaged in implementing a multi-year \$297 million automated, integrated Human Resources (HR) system called “HR Connect.” This Department-wide system is intended to bring about significant changes in human resources practices.

Specifically, HR Connect is expected to: (1) provide the Department and bureau executives with more accessible, accurate, timely, and integrated data; (2) eliminate the need to create new HR systems within each bureau; and (3) reduce costs compared to the approximately 90 “stand alone” human resource systems currently in use by the bureaus. Furthermore, it should greatly enhance HR and HR-related services the bureaus currently provide to their employees and managers. Appropriated funding to support this initiative is maintained at the Department and managed by the HR System Program Office (HRSPPO). In1999, ATF and OCC prototyped HR Connect. DO, FMS and Secret Service implemented HR Connect in FY 2000. The remaining bureaus will implement the system through FY 2003.

**Audit Objectives/Key Questions:** Is the Department providing sufficient control and oversight to ensure HR Connect will achieve its intended purposes? We estimate 2,000 hours will be needed for this project. *(PMA initiative supported: Strategic Management of Human Capital)*

### ***Employee Safety and Health***

Contact Person:

John Lemen (202) 927-5012  
Inez Jordan (202) 927-6835

**Background:** The issues of health and safety are an implied Treasury strategic goal of improving employee satisfaction, as noted in the following passage:

“The need to measure employee satisfaction is based on the premise that our employees are in the best position to assist us in identifying the organizational strengths and weaknesses that either enhance or diminish their ability to do their jobs well. In other words, **employees know the extent to which their work environment is healthy** and supports high performance, and they also know when they are being effectively led, trained, equipped, and rewarded.”  
(Emphasis added)



---

---

Despite the implied relationship between a healthy work environment and improved employee satisfaction it's unclear whether Treasury has attempted to measure health and safety issues within the context of improved employee satisfaction.

Evaluation Objective/Key Question(s): What is the current level of health and safety knowledge and concerns of Treasury employees? We estimate that 1,000 hours will be needed for this project. *(PMA initiative supported: Strategic Management of Human Capital)*

### **Employee Job Satisfaction**

Contact Person: John Lemen (202) 927-5012  
Inez Jordan (202) 927-6835

Background: The Secretary of the Treasury has stated:

"The paramount goal of our efforts should be to create a work culture of performance, challenge, meaning, and dignity. Employees should be able to ask themselves the following three questions: Am I treated with dignity and respect at work by everyone I encounter? Do I have the tools I need to do my job so that the work I do gives meaning to my life? And did anybody notice?"

In years past, OPM co-sponsored yearly employee satisfaction surveys and some Treasury offices and bureaus used surveys to gauge employee contentment.

Evaluation Objective/Key Question(s): How does the Department measure Treasury employee satisfaction with their jobs, and how is this information used? We estimate that 1,000 hours will be needed for this project. *(PMA initiative supported: Strategic Management of Human Capital)*

### **Employee Recruitment Systems and Methods**

Contact Person: John Lemen (202) 927-5012  
Inez Jordan (202) 927-6835

Background: The non-postal Federal civilian workforce has decreased from about 2.3 million employees in FY 1990 to fewer than 1.9 million employees by FY 1999. At the same time, the number of new hires has decreased from 118,000 during FY 1990 to about 74,000 during FY 1999. Many predict an impending shortage of qualified and experienced employees as increasing numbers of employees become eligible to retire in the next 4 years.

To fill job openings and retain current employees, Treasury bureaus and offices have implemented new recruitment approaches and systems.



---

---

The ability to efficiently attract and effectively recruit new employees remains essential to Treasury operations. Opportunities for sharing the benefits of different approaches and systems may likely exist.

Evaluation Objective/Key Question(s): How do Treasury offices and bureaus recruit employees and do best practices exist that can be shared amongst the bureaus? We estimate that 1,000 hours will be needed for this project. *(PMA initiative supported: Strategic Management of Human Capital)*

### ***Telecommuting and Flexible Workplace Arrangements***

Contact Person: John Lemen (202) 927-5012  
Inez Jordan (202) 927-6835

Background: Telecommuting and flexible workplace arrangements have seen increased use in the Federal government as managers seek greater flexibility to recruit and retain workers. Some studies have found that telecommuting programs may lead to decreases in the number of people crowding the roadways and transit systems, and may improve employee productivity if managed properly. Since the Office of Personnel Management (OPM) completed a pilot program in these areas in 1992, their use and acceptance in the Federal government workplace has grown. In addition, U.S. law requires that (1) agencies establish policies to allow eligible employees to telecommute and (2) OPM ensure that 25 percent of the Federal workforce participates in telecommuting.

Evaluation Objective/Key Question(s): What are the current telecommuting and flexible workplace policies across Treasury and are the objectives of these policies being met? We estimate that 1,000 hours will be needed for this project. *(PMA initiative supported: Strategic Management of Human Capital)*

### ***Customs Resource Allocation Model (RAM)***

Contact Person: John Lemen (202) 927-5012  
Inez Jordan (202) 927-6835

Background: Using a contractor, Customs developed the RAM in March 1999 at a cost of \$556,000. The RAM predicts, based on two methodologies, what staffing levels are needed bureau-wide and locally by occupation on a yearly basis. Customs had been working with the RAM to support budget requests, planning, and analysis. As of January 2002, the model had been designed and Customs was in the process of populating the database.

Evaluation Objective/Key Question(s): How is Customs using the Resource Allocation Model to manage its operations? We estimate





---

---

### ***Secret Service's Role at National Special Security Events***

Contact Person:

Roberta Rickey (312) 886-6300

**Background:** The Secret Service is the lead Federal agency for the planning, designing and implementation of security plans at events designated as National Special Security Events (NSSEs). Since January 2002, the Secret Service has implemented security for the following NSSEs: the 2002 Winter Olympics and Super Bowl XXXVI. Other recent events last year declared NSSEs included the 2001 Presidential Inauguration and the 56<sup>th</sup> United Nations General Assembly. With the completion of the Winter Olympics, the Secret Service coordinated and implemented security plans at 13 events declared NSSEs since 1998.

The goal of the cooperating Federal, state and local agencies is to provide a safe and secure environment for Secret Service protectees, other dignitaries, event participants, and the general public. As part of its FY2000-FY2005 Strategic Plan, the Secret Service wants to enhance the NSSE Staffing and Response Plan to provide for a rapid response team to gather and analyze investigative information relevant to its NSSE responsibilities.

**Audit Objective/Key Question(s):** Because of the sensitivity and importance of this area, we will present information on the impact of NSSEs to Secret Service personnel and other resources. We estimate that 2,000 hours will be needed for this project. *(PMA Initiative Supported: Strategic Management of Human Capital)*

### ***Treasury's Implementation of the Federal Activities Inventory Reform (FAIR) Act***

Contact Person:

Thomas Byrnes (202) 927-5904

**Background:** Public Law 105-270, Federal Activities Inventory Reform Act of 1998, requires Federal agencies to prepare annual lists of government activities that are not inherently governmental in nature. Agencies submit their lists to OMB each June; OMB then reviews the lists and releases them to Congress and the public. In 2000, Federal agencies reported that there are 850,000 Federal jobs that could be performed by contractors—about half the Federal workforce. OMB, in a March 2001 memorandum, directed agencies to put up for competition or outsource at least 5 percent, or 40,000 positions by October 2002. By October 2003, the percentage increases another 10 percent.

**Audit Objective/Key Question(s):** Has Treasury identified government activities that are “commercial in nature” in accordance with the FAIR and taken action to meet OMB requirements to compete or outsource the commercial activities? We estimate that 2,000 hours



---

---

will be needed to complete this project. *(PMA initiative supported: Competitive Sourcing)*

### ***Treasury Use of Government Purchase Cards (In Progress)***

Contact Persons:                      Thomas Byrnes (202) 927-5904  
    George Tabb (713) 706-4613  
    Benny Lee (415) 977-8810

Transactions purchased through purchase orders, blanket purchase agreements, and imprest funds cost the Government about \$54 each. As a cost-cutting measure, in December 1993, the Department directed all bureaus to begin using purchase cards for all small purchases. Purchase cards are similar to personal credit cards, and are used to buy products and services with less paperwork involved than processing individual requisitions through the traditional procurement process. The bureaus were to provide their employees with the necessary training and written procedures.

Treasury's use of purchase cards has been increasing over the years. During FY 2001, approximately 6,600 purchase cards were in use Department-wide. For FYs 1999 through 2001, purchase card transactions totaled approximately \$253 million.

Audit objective/Key Question: Do adequate controls exist to ensure that purchase cards are used for their intended purpose? We initiated work in this area at Customs, and plan to perform a series of audits at Departmental Offices and at headquarters and/or field locations at ATF, FMS, the Mint, OCC, OTS, and Secret Service. We estimate 4,000 hours will be needed for this project. *(PMA initiative supported: Improved Financial Performance)*

### ***ATF Controls over Imports of National Firearms Act (NFA) Weapons (In Progress)***

Contact Person:                              Roberta Rickey 312-886-6300

Background: ATF's principal firearms regulatory responsibilities are to (1) process and review firearms license applications and inspect applicants to determine their qualifications under the Gun Control Act (GCA) for licenses, (2) conduct periodic compliance inspections of licensees, and (3) support ATF's investigators in their efforts to curb the illegal possession and/or use of firearms. ATF criminal investigators perform criminal investigations concerning firearms and other violations.

ATF enforces provisions of the GCA, the National Firearms Act (NFA), and certain provisions of the Arms Export Control Act (AECA), as they relate to the importation of firearms. The GCA and AECA impose controls on all firearms, including NFA firearms. NFA firearms cannot



---

---

be imported or brought into the United States unless the person importing the firearms establishes that the firearms are to be imported or brought in for: (1) the use by the United States government, any state, and any possession or political subdivision of the United States; (2) scientific or research purposes; or (3) testing or use as a model by a registered manufacturer or solely for use as a sample by a registered importer or registered dealer.

**Audit Objective/Key Question(s):** Is ATF controlling and monitoring importation of NFA firearms in an effective manner? We estimate that 2,000 hours will be needed to complete this project during FY 2003. *(PMA initiative supported: Improved Financial Performance)*

### ***ATF Youth Crime Gun Interdiction Initiative (YCGII) Expenditures (In Progress)***

**Contact Person:** Roberta Rickey (312) 886-6300

**Background:** The Youth Crime Gun Interdiction Initiative (YCGII) was established in July 1996. The initiative consists of partnerships with state and local law enforcement agencies in the tracing of every crime gun recovered in those localities. The main focus and goals of YCGII are: (1) working with U.S. attorneys and state/local prosecutors to intensify efforts to investigate and incarcerate individuals who illegally traffic in firearms to youth, (2) ensuring that local police departments trace all crime guns recovered, and (3) developing new methods of mapping illegal firearms trafficking patterns and practices.

In FY 2001, YCGII was funded at \$76.4 million with the participation of 50 cities in the program. ATF's FY 2002 budget request for YCGII was \$85 million. YCGII funds approximated 10 percent of ATF's total budget for FY 2002.

The OIG issued an audit report (*Bureau of Alcohol, Tobacco and Firearms' Expenditures for the Youth Crime Gun Interdiction Initiative*; OIG-00-087) on YCGII expenditures during FYs 1996 through 1998. This audit will review the expenditures during FYs 2000 through 2002.

**Audit Objective/Key Question(s):** Has ATF (1) accounted for funds received to ensure that they were efficiently spent and supported YCGII; and 2) adhered to Federal and ATF requirements for awarding contracts and monitoring contractors who provided goods and services for YCGII? We estimate 1,200 hours will be needed to complete this project during FY 2003. *(PMA initiative supported: Improved Financial Management)*





---

---

## ***ATF Gang Resistance Education and Training (G.R.E.A.T.) Program Expenditures***

Contact Person: Roberta Rickey (312) 886-6300

Background: G.R.E.A.T. is a gang prevention program designed to educate youth about the dangers associated with joining street gangs and participating in violent crime. Students in the G.R.E.A.T. program learn about: The impact that crime, drugs and gangs have on victims and neighborhoods; the cultural differences and harmful behaviors resulting from prejudice; how to resolve conflicts without violence; how to become better equipped to meet basic needs; responsibilities as individuals in their community; and the importance of setting goals in life.

ATF agents train police officers to provide instruction to grade and middle school aged children. Training may be provided to any Federal, state, or local law enforcement agency to the extent that allocated funds allow. From the program's inception in 1991 to June 2001, approximately 4,900 law enforcement officers from over 1,600 agencies had been certified to instruct G.R.E.A.T.; nearly 3 million students have been taught.

Under the program, ATF provides funding through grants to state and local law enforcement agencies or municipal governments to set up G.R.E.A.T. programs. ATF supplies money for instructor salaries and other expenses such as computers, cell phones, tee shirts and classroom supplies.

For FYs 2000, 2001, and 2002, Congress designated \$13 million to ATF each year for disbursement through grants, cooperative agreements, or contracts to local governments for G.R.E.A.T. programs. Congress also designated \$3 million to ATF for administering the G.R.E.A.T. program in FY 2000 and again in FY 2001. For the period January 2001 through January 2002, ATF provided \$14.5 million to 199 agencies. In its FY 2003 Budget submission, ATF requested that previous language which earmarked funds for the G.R.E.A.T. program be deleted because it "limits use of the funds in the most efficient manner."

Audit Objective/Key Question(s): How has ATF managed and controlled funds appropriated for the G.R.E.A.T. Program? We estimate that 1,600 hours will be needed for this project. *(PMA Initiative Supported: Improved Financial Performance)*



---

---

## ***ATF Controls over the Domestic Sale of Tobacco Products Labeled for Export***

Contact Person:

Donald Benson (617) 223-8638

**Background:** Effective February 2001, businesses may incur civil or criminal penalties if they sell or hold for sale any U.S. manufactured tobacco products for domestic consumption when they are labeled for exportation. The new law, the Imported Cigarette Compliance Act of 2000, provides for a civil penalty of at least \$1,000 and the tobacco products being subject to forfeiture. Larger civil penalties may be imposed if the amount of the Federal excise tax on the tobacco products exceeds \$200 million. To comply with the law, ATF suggested that businesses examine the packages of tobacco products, cigarette papers and tubes in their inventory for any products that may be marked for exportation.

**Audit Objectives/Key Questions:** Has ATF established controls over tobacco products manufactured in the United States to ensure that tobacco products marked for exportation are not held or sold in United States? We estimate 1,600 hours will be needed for this project. *(PMA initiative supported: Improved Financial Management)*

### ***ATF Revenue Inspection Targeting***

Contact Person:

Donald Benson (617) 223-8638

**Background:** In FY 2001, ATF collected \$14 billion in Federal excise taxes imposed on alcohol, tobacco, firearms, and ammunition. In its mission to *Collect the Revenue* and to ensure all taxes are properly determined and paid, ATF conducts tax compliance inspections of Distilled Spirits Producers (DSPs), wineries, breweries, tobacco product factories, and manufacturers and importers of firearms and ammunition. However, over the last decade, ATF has expended fewer and fewer resources in this area. For example, in FY 1990, ATF devoted 138 staff years to revenue examinations. During FY 1999, ATF expended 57 staff years.

In FY 2000, ATF implemented a new inspection-targeting program. Under this program, industry members were selected for inspection in one of two ways: (1) "Determined at Risk Taxpayers" (DART) or (2) from a random sample of taxpayers. With the DART program, the Revenue Division made an effort to develop and distribute to the field, meaningful and effective risk-based inspection strategies for FY 2000. Taxpayers are selected for inspection under DART if one "automatic trigger" (such as repeated gains in finished products inventory) or three or more "common indicators" (such as taxpayer has never been inspected) are noted. In addition to ensuring proper payment of tax, the intent of the randomly selected taxpayers is to refine the targeting indicators.



---

---

Audit Objectives/Key Questions: Is ATF effectively targeting for inspection those industry members that pose a high risk of jeopardizing the collection of tax revenue? We estimate 1,800 hours will be needed for this project. *(PMA Initiative Supported: Improved Financial Performance)*

### ***ATF Revenue Inspection Quality***

Contact Person: Donald Benson (617) 223-8638

Background: During FY 2001, ATF collected approximately \$14 billion in alcohol, tobacco, firearms, and ammunition excise taxes. ATF conducts revenue inspections of DSPs, wineries, breweries, tobacco product factories, and manufacturers and importers of firearms and ammunition. For manufacturers, the focus of the revenue inspections is to determine if the plant's internal controls provide assurance against material misstatements of excise tax liability, and if the plants comply with applicable Federal excise tax, laws, and regulations.

Recently, ATF established a new Tax Audit Division within the Office of Alcohol and Tobacco. The new division will, when fully implemented, assume responsibility for field audits of excise taxpayers with annual tax liabilities of over \$250,000. ATF plans to implement the first office in Greensboro, North Carolina, in FY 2002, and phase in the entire Tax Audit Division over a 4 to 5 year period.

Audit Objectives/Key Questions: Does the Tax Audit Division plan and conduct its audit work in conformance with applicable auditing standards? We estimate 1,500 hours will be needed for the project. *(PMA Initiative Supported: Improved Financial Performance)*

### ***Customs Payment of Antidumping and Countervailing Duty Claims (In Progress)***

Contact Person: Roberta Rickey (312) 886-6300

Background: Antidumping duties are imposed upon imported merchandise the U.S. Department of Commerce (Commerce) has found is, or is likely to be, sold in the U.S. at less than its fair value. Countervailing duties are imposed upon imported merchandise that Commerce determines benefits from actionable subsidies bestowed by a foreign government. The Continued Dumping and Subsidy Offset Act of 2000 requires that antidumping and countervailing duty assessments be distributed to affected domestic producers within 60 days of the end of the fiscal year in which assessed. This program has been in effect for one year, and Customs distributed approximately \$188 million for FY 2001 claims.

Audit Objective/Key Question(s): Has Customs established appropriate controls to comply with this Act, and to prevent erroneous payments?



---

---

We estimate that 1,600 hours will be needed for this project. *(PMA Initiative Supported: Improved Financial Performance)*

### ***Customs Reconciliation Program (In Progress)***

Contact Person: Donald Benson (617) 223-8638

Background: Reconciliation is a program developed in response to the Customs Modernization and Informed Compliance Act. Reconciliation allows the importer, using reasonable care, to file entry summaries with Customs with the best available information. This is done with the mutual understanding that certain elements, such as declared value, remain outstanding. When an importer files an entry summary while certain elements remain undeterminable, the entry is flagged, thereby providing Customs a notice of intent to file a reconciliation at a later date. When the information becomes available the importer files a reconciliation entry no later than 12 months of the earliest import date for North American Free Trade Act (NAFTA) entries and within 15 months of the earliest entry summary date for all other issues. When the reconciliation entries are filed, the payment of additional duties, taxes, fees and interest (or claim for refund) is made. The reconciliation entry is then liquidated with a single bill or refund. Customs implemented the Reconciliation Prototype in October 1998 as the exclusive means for making post-entry adjustments to value, NAFTA eligibility, U.S. component value and classification.

Thirteen Customs ports process reconciliations. As of Fall 2001, over 4.5 million entries have been identified for reconciliation with over 1,700 importers participating in the program. Over 44,000 reconciliations have been received, closing out over 2.8 million entries.

Audit Objectives/Key Questions: Does Customs have adequate controls to ensure that reconciliations are timely filed, the appropriate duties are collected, and other Customs requirements met? We estimate that 1,600 hours will be needed to complete this project during FY 2003. *(PMA initiative supported: Improved Financial Performance)*

### ***Implementing Contractor Recommendations***

Contact Person: John Lemen (202) 927-5012  
Inez Jordan (202) 927-6835

Background: Each year, Treasury awards contracts for consulting advice in many areas including, but not limited to, management, leadership, automated systems, process analysis, training, law enforcement, customer service, telecommunications, health screening, and manufacturing. These procurements result in many recommendations for changes and improvements.



---

---

Evaluation Objective/Key Question(s): How many and what types of consulting services contracts are awarded each year and at what cost? How many contractor recommendations are made each year and are they implemented? If not, are there common or recurring reasons why (e.g., funding, regulations, staff constraints, etc.)? We estimate that 2,000 hours will be needed for this project. *(PMA initiative supported: Improved Financial Performance)*

### ***Pledge of Approved Collateral in Lieu of a Required Surety Bond***

Contact Person: John Lemen (202) 927-5012  
Inez Jordan (202) 927-6835

Background: Firms doing business with the Federal government are often required to provide a surety bond, or as an alternative, pledge certain collateral to guarantee performance. As an example, importers provide Customs surety bonds or pledge collateral to guarantee payment of additional duties that might be assessed when import entries are liquidated. Legislation was proposed that would allow firms doing business with the Federal government to pledge a broader range of collateral in lieu of a required surety bond. This proposal has been narrowed to address only the proper valuation of collateral pledged for this program.

The substantive terms of collateral requirements have not changed since 1935. The proposed legislation would modernize the law and also require that pledged collateral used in lieu of a surety bond, as determined by the Secretary, have a current market value that is equal to or greater than the amount of the required surety bond. This change would be consistent with a recommendation made by GAO with respect to other programs involving a pledge of collateral to the Federal government.

Evaluation Objective/Key Question(s): What are the risks to guarantee performance associated with the proposed legislation? How would Treasury assure that the collateral is properly valued to protect the United States' interest? We estimate that 1,000 hours will be needed to complete this project. *(PMA initiative supported: Improved Financial Performance)*

### ***FMS Use of Compensating Balances to Acquire Banking Services***

Contact Person: Donald Kassel (202) 927-6512

Background: FMS pays for some banking services it receives by the use of compensating, or time balances. It imputes a monthly credit of interest to the holders of compensating balances using an Earning Credit Rate based on the rate for the 3-month Treasury bills. That



---

---

interest credit is reduced monthly by the cost of banking services. Interest rates for Treasury securities generally increase as the term to maturity lengthens. The 3-month rate is less than the 6-month rate, which in turn is less than the 12-month rate.

Depending on the length of the service contract, financial institutions hold these balances for 5 or more years. Banks have to put up 100 percent collateral with the Federal Reserve for the compensating balances. The bank can only place collateral securities approved by the Federal Reserve. That list includes Treasury securities and corporate securities, which provide higher returns than Treasuries. FMS placed about \$13 billion in compensating balances with financial agent banks.

It should be noted that projects funded through compensating balances do not go through the OMB and Congressional oversight process for appropriated activities.

**Audit Objective/Key Question(s):** Are FMS controls adequate to ensure the financing of banking services through compensating balances is cost effective? We estimate 2,000 hours will be needed to complete this project. *(PMA initiative supported: Improved Financial Performance)*

***Federal Agency Referral of Delinquent Non-Tax Debt under the Debt Collection Improvement Act (DCIA) of 1996***

Contact Person: Donald Kassel (202) 927-6512

**Background:** The Debt Collection Improvement Act of 1996 (DCIA) authorizes the Secretary of the Treasury to collect delinquent non-tax debt owed to the Federal government. FMS, which is responsible for the collection of delinquent debt, applies a variety of debt collection tools and issues regulations.

The DCIA requires that agencies turn over to FMS for collection any non-tax debt that has been delinquent for a period of 180 days. FMS works closely with Federal agencies, such as the Departments of Education, Housing and Urban Development, and Health and Human Services, to identify eligible debts and encourage referral to FMS for collection. Since the passage of the DCIA, Treasury has collected more than \$12 billion in delinquent debt owed to states and to the Federal government. Agency cooperation is crucial to the continued effectiveness of Federal debt collection efforts.

**Audit Objective/Key Question(s):** Are creditor Federal agencies referring debt when appropriate to FMS for collection in accordance with the DCIA? We estimate 2,000 hours will be needed for this project. *(PMA initiative supported: Improved Financial Performance)*



---

---

### ***FMS Cross-Servicing Efforts to Collect Non-Tax Delinquent Debts***

Contact Person: Donald Kassel (202) 927-6512

Background: Cross-servicing is the process whereby Federal agencies refer delinquent debts to Treasury for collection. The DCIA assigns to Treasury the responsibility for collecting delinquent debts Government wide. To effectively collect the debts that agencies refer, FMS issues demand letters, conducts telephone follow-up, initiates skip tracing, refers debts for administrative offset, performs administrative wage garnishment, and refers debts to private collection agencies (PCA's).

FMS collects fees that are a percentage of referred debt and intended to cover operating costs. Fees paid to PCAs are computed as a percentage of actual collections. During FY 2001, debt referred for cross-servicing was \$3.6 billion, while collections were \$27.8 million.

Audit Objective/Key Question(s): Does FMS have adequate oversight over its cross-servicing operations and over PCAs to ensure that they are operating efficiently and effectively, and in accordance with the DCIA? We estimate 2,000 hours will be needed for this project. *(PMA initiative supported: Improved Financial Performance)*

### ***FMS Processing of Limited Payability Funds Follow-Up***

Contact Person: Donald Kassel (202) 927-6512

Background: The Competitive Equality Banking Act (CEBA) of 1987 limited liability (and therefore payability) for an issued Federal government check to 12 months, after which time Treasury is to automatically cancel the check and return the funds to the agency that authorized the payment. This return of funds is to occur during the 14th month after issuance.

Audit Objective/Key Question(s): Does FMS have appropriate procedures and oversight controls to properly and timely account for and return limited payability funds to Federal program agencies? We estimate that 600 hours will be needed for this project. *(PMA initiative supported: Improved Financial Performance)*

### ***Treasury Offset Program (TOP)***

Contact Person: Donald Kassel (202) 927-6512

Background: The DCIA requires that agencies notify the Treasury of all non-tax debts over 180 days delinquent for the purpose of offsetting Federal payments, including tax refunds, and provides authority for disbursing officials to conduct payment offsets. TOP



---

---

is a centralized debt collection program developed by the FMS and operated through its Regional Financial Centers. TOP, designed to assist agencies in the collection of delinquent debt owed to the Federal government, currently contains \$25.2 billion in Federal non-tax debts and \$64.1 billion in child support debts eligible for offset.

FMS is responsible for disbursing over 850 million payments a year on behalf of over 400 Federal agencies. TOP matches these Federal payments against debts owed to the Government. When a match occurs, the payment is reduced, or offset, by the amount of the debt or payment. The delinquent debt information remains in the debtor data base for continuous offset until debt collection activities for that debt is terminated because of full payment, compromise, write-off, or other reasons justifying termination.

FMS currently offsets OPM retirement, Federal income tax refunds, vendor payments, Social Security Title II payments, and some Federal salary payments. FMS is also in the process of adding the remaining Federal salary and non-Treasury-disbursed payments to the TOP system.

**Audit Objective/Key Question(s):** Is TOP effective in implementing all DCIA offset provisions, including tax refunds, Federal salaries, and other Federal payments streams to recover delinquent debt and preventing the release of payments to delinquent debtors? We estimate that 2,000 hours will be needed for this project. *(PMA initiative supported: Improved Financial Performance)*

### ***FMS Credit Card Transaction Fees***

Contact Person: Donald Kassel (202) 927-6512

**Background:** FMS pays the transaction fees associated with credit card payments made by citizens for government agencies' services and products. The FMS pays these fees on behalf of the government agencies that accept payments by credit card. From 1998 to 2001, FMS paid over \$124 million in transaction fees for one program alone (Plastic Card Network). In the private sector, such fees are often negotiable based upon dollar or transaction volume. Even a slight savings per transaction could result in substantial annual savings to the Federal government.

**Audit Objective/Key Question(s):** What steps has FMS taken to ensure that credit card transaction fees are the lowest possible? We estimate that 1,600 hours will be needed for this project. *(PMA initiative supported: Improved Financial Performance)*





---

---

## ***BPD Special Purpose Securities Program***

Contact Person: Donald Kassel (202) 927-6512

Background: BPD's Division of Special Investments (DSI) is responsible for issuing State and Local Government Series (SLGS) Securities (time deposit and demand deposit). Subscriptions for SLGS Securities were received and processed at 12 Federal Reserve Bank sites until early in 1995, when the function of processing SLGS Securities was centralized in DSI. The Special Purpose Securities System (SPSS) was implemented during October 1999. SPSS is a client server system designed to establish, maintain, pay, and report on SLGS and other special purpose securities. SPSS was intended to improve transaction-processing efficiency, customer service to investors, management information, and controls over personnel and system resources. It was also intended to provide greater operational flexibility. As of May 31, 2002, there was a balance of \$146 billion maintained in these types of securities.

Audit Objective/Key Question(s): Has the automated system for SLGS securities achieved its objectives? Are these securities being purchased only by those for whom the program was designed (e.g., state and local governments)? We estimate that 2,000 hours will be needed for this project. *(PMA initiative supported: Improved Financial Performance)*

## ***Mint Procurement Operations***

Contact Person: Thomas Byrnes (202) 927-5904

Background: The Mint purchases over \$730 million worth of goods and services annually. This amount includes approximately \$564 million (78 percent) related to coin production, and \$166 million (22 percent) for other goods and services. These goods and services range from ADP hardware and software to furniture and custodial services. Public Law 104-52, enacted in 1995, established a Public Enterprise Fund, which allows the Mint to follow its own policies in making procurements.

Audit Objectives/Key Questions: Is the Mint conducting its procurement operations in a manner that ensures integrity and maximizes return to General Fund? We estimate that 2,000 hours will be needed for this project. *(PMA initiative supported: Improved Financial Performance)*



---

---

### ***Mint's 50 State Quarters Program***

Contact Person: Thomas Byrnes (202) 927-5904

**Background:** On December 1, 1997, the President signed into law the legislation to produce commemorative quarters. The program will run for 10 years and commemorate all the states. Five new quarters will be issued each year in the order that the states entered the Union. Each new quarter requires that the Mint select a design, purchase adequate production materials, retool its production equipment, perform prototype testing, project demand, and ultimately go into full-scale production to develop an adequate inventory. Any delays or problems in producing the quarters could have a ripple effect on all facets of the Mint's production activity.

**Audit Objective/Key Questions:** Has the Mint adequately identified commercial and Federal Reserve Bank requirements for the new commemorative quarters? Is it meeting these requirements in a cost effective manner? We estimate that 1,600 hours will be needed for this project. *(PMA initiative supported: Improved Financial Performance)*

### ***Employees' Use of Travel Credit Cards***

Contact Person: John Lemen (202) 927-5012  
Inez Jordan (202) 927-6835

**Background:** The General Services Administration (GSA) established the Government Travel Charge Card Program as a travel payment and expense control system to help make Federal travel more efficient and less costly. Employees use their individually assigned travel credit card for specific and defined reimbursable expenses occurring while on official travel. Employees incurring expenses submit claims for reimbursement to their agencies and are paid directly. The employee is responsible for making a payment in full to the credit card company. Recent reports indicate that employees government-wide have accrued significant unpaid travel charge card debts. Payment delinquencies increase the contractors' costs of providing card services and reflect poorly on the Federal government.

Treasury bureaus reported that travel card charges during FY 1999 through FY 2001 totaled approximately \$248 million.

**Evaluation Objective/Key Question(s):** Have Treasury bureaus implemented appropriate travel card management controls? We estimate that 800 hours will be needed for this project. *(PMA initiative supported: Improved Financial Performance)*



---

---

## **Contract Audits**

Contact Person: Louis King (202) 927-5774

Background: In accordance with Treasury Directive 76-06, OIG is the Department's focal point for obtaining pre-award, costs incurred, and other contract audits requested by Treasury's Departmental Offices and the bureaus (except for the Internal Revenue Service). These audits are performed by either OIG staff or the Defense Contract Audit Agency under our oversight. During FY 2001, approximately \$32.8 million of pre-award/proposed contract costs and \$63.3 million of incurred contract costs were audited.

Audit Objective/Key Question(s): The purpose of contract auditing is to assist in achieving prudent contracting by providing those responsible for government procurement with financial information and advice relating to contractual matters and the effectiveness, efficiency, and economy of contractors' operations. Contract audit activities include providing professional advice on accounting and financial matters to assist in the negotiation, award, and administration, re-pricing, and settlement of contracts. We estimate 2,400 hours will be needed for this activity during FY 2003. *(PMA initiative supported: Improved Financial Performance)*

## **Treasury Implementation of E-Government**

Contact Person: Ed Coleman (202) 927-5007

Background: To reform the government and improve the government's performance, the President's Management Agenda promotes the use of information technology through the expansion of E-government. The Administration will advance the E-government strategy by supporting projects that offer performance gains across agency boundaries, such as e-procurement, e-grants, e-regulation, and e-signatures. OMB scrutinizes Federal investments to ensure that they maximize the interoperability and minimize redundancy. The President's budget proposes a \$20 million E-government fund for 2002 (\$100 million over the three years 2002 through 2004) to pay for collaborative E-government activities across agency lines.

Audit Objective/Key Question(s): How effective is Treasury in establishing E-government within the Department in response to the President's Management Agenda. We estimate 1,600 hours will be needed for this project. *(PMA Initiative Supported: Expanded Electronic Government)*



---

---

## ***Treasury Implementation of the Government Paperwork Elimination Act (GPEA)***

Contact Person: John Lemen (202) 927-5012  
Inez Jordan (202) 927-6835

**Background:** GPEA (Public Law 105-277) requires that, when practicable, Federal agencies must use electronic forms, electronic filing, and electronic signatures to conduct official business with the public. According to GPEA, Treasury must, in consultation with its bureaus and OMB, develop policies and practices for the use of electronic transactions, authentication techniques for use in Federal payments and collections, and ensure that they fulfill the goals of GPEA. The deadline for compliance is October 21, 2003.

**Evaluation Objective/Key Question(s):** What is the status of Department and bureaus' efforts to meet the requirements of GPEA? We estimate that 1,000 hours will be needed for this project. *(PMA Initiative Supported: Expanded Electronic Government)*

### ***FMS Electronic Transfer Accounts***

Contact Person: Donald Kassel (202) 927-6512

**Background:** The DCIA requires Treasury to ensure that any individual required to have an account at a financial institution in order to receive electronic Federal payments has access to an account at a reasonable cost and with the same consumer protection provided to other account holders at the same financial institution. The Department designed Electronic Transfer Accounts (ETA) as low-cost accounts offered at Federally insured financial institutions to allow Federal payment recipients to take advantage of Direct Deposit. Financial institutions choosing to offer ETA, which became available in September 1999, are required to enter into a contractual agreement with Treasury.

The dollar volume of ETA activity is unknown at this time. However, after 2 years in operation, there are approximately 600 financial institutions certified for the ETA program, with 18,000 branch locations.

**Audit Objective/Key Question(s):** Have ETAs been effective in allowing Federal payment recipients to take advantage of Direct Deposit? We estimate that 2,000 hours will be needed for this project. *(PMA Initiative Supported: Expanded Electronic Government)*



---

---

## ***FMS Implementation of Pay.gov***

Contact Person: Donald Kassel (202) 927-6512

Background: *Pay.gov* is a secure Government-wide payment and collection portal with the potential to process 80 million transactions totaling \$125 billion each year. *Pay.gov* can perform services for: (1) Automated Clearing House (ACH) collections, (2) forms processing and bill presentment, (3) authentication services, and (4) agency reporting.

*Pay.gov* is structured to provide citizens, businesses, and Federal agencies with the option of processing, via the Internet, transactions such as Government collection of fees, fines, sales, leases, donations, and certain taxes, as well as related forms and documents. These transactions are currently processed through paper lockbox collections, the ACH system, and over the counter.

*Pay.gov*, developed by the Federal Finance Division at FMS, began its first pilot program at ATF during October 2000. Since then, more than \$1 billion has been collected through the system, which has been implemented at several Federal agencies.

As part of an effort to help Federal agencies modernize cash management activities, *Pay.gov* is intended to benefit the Government by reducing Treasury's collections costs and eliminating paper processing at both Treasury and Federal agencies. The new Internet portal will also allow Treasury to provide more timely and extensive accounting information to agencies, and will help agencies automate forms processing. Furthermore, *Pay.gov* will provide a Government-wide central infrastructure for processing financial transactions over the Internet, avoiding a duplication of effort across multiple banks, contractors, and agencies.

Audit Objective/Key Question(s): Has FMS incorporated adequate security controls into *Pay.gov* to ensure that transactions are protected against loss, misuse, or unauthorized access or modification? Have the anticipated savings and efficiencies been realized? We estimate that 2,000 hours will be needed for this project. (*PMA Initiative Supported: Expanded Electronic Government*)

## ***Electronic Filing of Bank Secrecy Act Reports***

Contact Person: Alexander Best, Jr. (202) 927-5591

Background: FinCEN's regulatory mission – administration of the Bank Secrecy Act (BSA) – serves as the foundation for FinCEN's ability to carry out its primary function of providing support to law enforcement investigations. The USA PATRIOT Act, enacted during October 2001, formally established FinCEN as a Treasury bureau



---

---

and added numerous responsibilities and accelerated deadlines in the regulatory area. Section 362 of the Act requires FinCEN to develop a highly secure network to allow for the electronic filing of BSA forms and to provide financial institutions with alerts and other information regarding suspicious activities that warrant immediate and enhanced scrutiny. Section 362 also requires the secure network to be fully operational by July 25, 2002.

Accordingly, FinCEN announced in May 2002, that it had begun pilot testing of the PATRIOT Act Communications System (PACS) that is designed to allow participating financial institutions to quickly and securely file BSA reports over the Internet. Approximately 30 financial institutions, ranging from large national banks to small credit unions, will pilot the system. All BSA information submitted to PACS is encrypted for protection. Phase one of the system will allow for the filing of the Suspicious Activity and the Currency Transaction Reports.

More than 13 million BSA reports are filed with FinCEN each year through the IRS Detroit Computing Center, which processes the reports for FinCEN. Prior to the development of PACS, financial institutions could file their reports either on magnetic tape or on paper. The PACS system will provide the third option of electronic filing. The electronic filing of BSA reports is expected to expedite the reporting process and make the information available to law enforcement more rapidly. Use of PACS is also expected to reduce processing costs associated with paper and magnetic filing.

**Audit Objective/Key Question(s):** Has FinCEN established and made fully operational a secure network that allows financial institutions to file BSA reports in accordance with requirements and deadlines prescribed by the USA PATRIOT Act? Is FinCEN providing financial institutions with alerts and other information regarding suspicious activities that warrant immediate and enhanced scrutiny? We estimate that 2,400 hours will be needed for this project. *(PMA Initiative Supported: Expanded Electronic Government)*

### ***ATF Comprehensive Firearms Tracing***

Contact:                      Roberta Rickey (312) 886-6300

**Background:** Firearm tracing is the systematic tracking of the history of recovered crime guns from the manufacturer or importer through the chain of distribution to the first individual purchaser. It helps solve violent crimes by linking the suspect with the crime gun, supports investigations of illegal traffickers, and provides essential information about crime gun trends. ATF views firearm tracing as an important means to focus regulatory and investigative efforts.



---

---

ATF's National Tracing Center (NTC) is the only operation of its kind in the world. The facility conducts traces of firearms recovered at crime scenes and from youth for any Federal, state, local, or international law enforcement agency. The NTC processed about 209,000 trace requests during each of FY 1999 and 2000. It processed about 232,000 trace requests in FY 2001. During those same years, the average trace response time was 11.4, 10.2, and 12.8 days, respectively. The annual budget for FY 2002 and FY 2003 is \$10.9 million. ATF's goal is to increase the number of trace requests by providing increased electronic access to NTC information while continuing to decrease the average response time.

ATF's current Strategic Plan (FY 2000 - FY 2005) includes a commitment to "promote comprehensive firearms tracing by all law enforcement agencies." This includes an expanded effort to support state and local law enforcement capability to trace recovered firearms and to speed up trace responses to state and local law enforcement agencies. ATF requested and received \$9.9 million and 10 FTE for its Comprehensive Crime Gun Tracing efforts in the FY 2001 appropriations to provide: (1) comprehensive tracing capability for 250 state and local law enforcement agencies, (2) faster trace results, and (3) preliminary funding to begin indexing gun identification information from out-of-business records.

Audit Objective/Key Question(s): Is ATF providing adequate guidance/management oversight to the field for tracing firearms in the performance of investigations and encouraging state and local law enforcement participation in comprehensive firearms tracing? We estimate 1,600 hours will be needed for this project. *(PMA Initiative Supported: Expanded Electronic Government)*

### ***Treasury's Enterprise Environment***

Contact Person: Ed Coleman (202) 927-5007

Background: The growth in network and communication systems has increased opportunities for gathering information from numerous systems. As a result, systems need to be developed with an enterprise view to improve data sharing and reduce maintenance. The Department developed the Treasury Enterprise Architecture Framework (TEAF) to provide a means for producing an Enterprise Architecture (EA) for the bureaus and the Department. An EA formalizes the identification, documentation, and management of interrelationships among business organization and supports the management and decision processes. The EA provides substantial support for the evolution of an enterprise as it anticipates and responds to the changing needs of its customers and constituents. The direction for the TEAF derives from the Treasury IT Strategic Plan 2000-2003, and Federal legislation and guidance, including the Clinger-Cohen Act and OMB Circular A-130. Effective management and strategic decision-making, especially



for information technology investments, require an integrated view of the enterprise.

**Audit Objective/Key Question(s):** Has the Department and the Treasury bureaus aligned their strategic plans and individual business priorities with the EA framework? We estimate 1,600 hours will be needed for this project. *(PMA Initiative Supported: Expanded Electronic Government)*

### ***Adoption of the X.500 Directory Service***

Contact Person: Ed Coleman (202) 927-5007

**Background:** The X.500 Directory Service is a vehicle that will serve the entire Treasury Enterprise population and will ease doing business across and among all Treasury bureaus by offering a central repository that houses telephone and email information. The X.500 Directory Service will allow enterprise-wide applications to become a reality in that the X.500 directory stores information that allows employees to access Treasury-wide applications. The X.500 Directory Services is a lynch pin for public key infrastructure (PKI), HR Connect, and e-mail interoperability across Treasury. The X.500 Directory Services is an integral part of the Treasury's infrastructure for the solution of single sign-on, replacing the need for remembering numerous passwords. The X.500 Directory Services is the storage location for PKI certificates which can replace passwords in PKI-enabled applications.

**Audit Objective/Key Question(s):** Are security controls in place to ensure that information contained in the X.500 Services Directory is protected? Has the Department and Treasury bureaus included all employees in the X.500 directory within the timeframe established by the Secretary of the Treasury? We estimate 1,200 hours will be needed for this project. *(PMA Initiative Supported: Expanded Electronic Government)*

### ***Treasury Wireless Communications***

Contact Person: John Lemen (202) 927-5012  
Inez Jordan (202) 927-6835

**Background:** In the immediate aftermath of September 11<sup>th</sup>, while cellular telephone use was tied up from millions of users, wireless paging device users were able to quickly and efficiently maintain communications amongst each other. September 11<sup>th</sup> also underscored the need for senior executives and managers all over the United States to be readily accessible, obtain timely information, and make immediate and informed managerial decisions. Each of the Treasury's bureaus and Departmental Offices manage a wide variety of wireless paging systems with a vast array of services for these devices. Technology exists to make messaging systems secure





---

---

allowing one to access email and communicate with others securely, which cannot occur with domestic cell phones.

Evaluation Objective/Key Question(s): Are senior executives and managers able to securely access email and send secure messages via text messaging? We estimate that 1,000 hours will be needed for this project. *(PMA Initiative Supported: Expanded Electronic Government)*

### ***Treasury's Budgeting for Computer Security***

Contact Person: Ed Coleman (202) 927-5007

Background: The Information Technology Management Reform Act/ Clinger-Cohen Act of 1996 directed OMB to develop, as part of the budget process, a process for analyzing, tracking, and evaluating the risks and results of all major capital investments made by an executive agency for information systems. The process shall cover the life of each system and shall include explicit criteria for analyzing the projected and actual costs, benefits, and risks associated with the investments. At the same time that the President submits the budget for a fiscal year to Congress, OMB is required to inform Congress about the net program performance benefits achieved as a result of major capital investments made by executive agencies in information systems and how the benefits relate to the accomplishment of the goals of the executive agencies.

Audit Objective/Key Question(s): Does the Department have an effective process to identify and budget for computer security needs to address weaknesses in its security program? We estimate 1,600 hours will be needed for this project. *(PMA Initiative Supported: Expanded Electronic Government)*

### ***Treasury's Implementation of Network Intrusion Detection Techniques***

Contact Person: Ed Coleman (202) 927-5007

Background: Intrusion detection is the way in which an organization detects and responds to computer attacks originating from outside (intrusion) and from within (misuse) an organization. An Intrusion Detection System (IDS) collects information from a variety of system and network sources, then analyzes the information for signs of intrusion and misuse. An effective IDS will employ both network and host intrusion detection techniques. Network-based systems focus on outsider threats, while a host-based system analyzes data that originates on computers, such as an application or operating system logs. The benefits of network intrusion detection include outsider deterrence, detection, and automated response and notification. The benefits of a host-based IDS include insider deterrence, detection,



notification and response, damage assessment, attack anticipation, prosecution support, and behavioral data forensics.

**Audit Objective/Key Questions:** Has Treasury implemented effective network intrusion detection techniques? We estimate that 2,000 hours will be needed for this project. *(PMA Initiative Supported: Expanded Electronic Government)*

### ***Treasury Network and System Vulnerabilities Assessment (In Progress)***

Contact Person:

Ed Coleman (202) 927-5007

**Background:** Presidential Decision Directive 63 (PDD-63) requires upgrading and enhancing security across the Federal government. This is a long-term and expensive effort for the Federal government, certainly for Treasury and its bureaus. High profile hacker attacks on major computer systems and networks, the spread of the "I LOVE YOU" virus, and worms such as CodeRed, CodeRedII, CodeBlue, and Nimda, demonstrated that computer systems and networks are vulnerable to attacks from interconnected networks and the Internet. Because Treasury and its bureaus' computer systems and networks are highly interconnected with each other and with the Internet, it is extremely important that only authorized users are granted access. Getting inside Treasury and its bureaus' private networks allows unauthorized users an opportunity to exploit weaknesses on computers and to view classified and sensitive information. Once inside, unauthorized users could launch various attacks resulting in deleting and changing data, discovery of user names and passwords, and denial-of-service.

**Audit Objective/Key Question(s):** Are Treasury's computer networks and systems vulnerable to malicious attacks from interconnected networks and the Internet? We estimate 1,600 hours will be needed to complete this project during FY 2003. *(PMA Initiative Supported: Expanded Electronic Government)*

### ***Treasury Firewall Policy and Management***

Contact Person:

Ed Coleman (202) 927-5007

**Background:** A firewall is a system, or network of systems, specially configured to control traffic between two networks. There are several types of firewalls. Firewalls can range from boundary servers that provide access controls on Internet Protocol packets, to more powerful firewalls that can filter the content of the traffic. Modern firewall environments are made up of firewall devices, associated systems, and applications. A firewall is often regarded as an organization's first line of defense to protect its private computer network from being exploited by external and internal entities. Many organizations



---

---

build layers of firewalls and other security systems throughout the network. Unfortunately, a firewall also has weaknesses if not installed properly, or managed in the absence of firewall policy. Firewalls can be vulnerable due to misconfigurations, and failure to apply security patches or enhancements. Firewall configuration and administration must also stay current with the latest vulnerabilities and incidents in order to withstand external threats and to secure its network properly.

**Audit Objective/Key Question(s):** Has Treasury and its bureaus implemented adequate policies and controls over the firewall environment and to effectively protect their information infrastructure from security threats? We estimate 2,000 hours will be needed for this project. *(PMA Initiative Supported: Expanded Electronic Government)*

### ***Security Review of the Bureaus' Data Centers***

**Contact Person:** Ed Coleman (202) 927-5007

**Background:** In recent testimony before Congress, GAO identified Service Continuity Controls as a weakness for Federal agencies, and noted that agencies should have (1) procedures to protect information resources and minimize the risk of unplanned interruptions and (2) a plan to recover critical operations should interruptions occur. In addition, GAO specifically recommended that an agency's plan should consider the activities performed at general support facilities, such as data processing centers.

**Audit Objective/Key Question(s):** Are bureau data center physical and logical controls adequate? Specifically, we will review: (1) organization and management; (2) computer operations; (3) physical security; (4) environmental controls; (5) hardware and software inventory management; and (6) continuity of operations. We estimate 1,600 hours will be needed for this project. *(PMA Initiative Supported: Expanded Electronic Government)*

### ***Security Baseline of the Bureaus' UNIX Operating Systems***

**Contact Person:** Ed Coleman (202) 927-5007

**Background:** The UNIX operating system, although now in widespread use in environments concerned with security, was not really designed with security in mind. UNIX was originally designed by programmers to be used by other programmers. The environment in which UNIX was used was one of open cooperation and not national security. Many government sites have installed UNIX systems, particularly as desktop workstations became more powerful and affordable. To complicate matters, new features have been added to UNIX over the years, making security even more difficult to control. Perhaps the



---

---

most problematic features relate to networking. These problematic features include remote login, remote command execution, network file systems, and electronic mail. All of these features have increased the utility and usability of UNIX. However, these same features, along with the widespread connection of UNIX systems to the Internet and other networks, have opened up many new areas of vulnerability to unauthorized abuse of the system. UNIX is primarily run in a client-server environment. However, a mainframe version of UNIX has been developed and is gaining popularity.

**Audit Objective/Key Question(s):** Are UNIX operating system configurations and controls providing for a secure environment for bureau applications? We estimate 2,000 hours will be needed for this project. *(PMA Initiative Supported: Expanded Electronic Government)*

### ***Treasury Countermeasures for Computer Viruses***

**Contact Person:** Ed Coleman (202) 927-5007

**Background:** Malicious software presents an increasingly serious security threat to computer systems and networks. Malicious software, of which viruses are examples, are programs that have been designed to intrude into functional computer systems. A virus enters a system and then infects programs with malicious code. The results can be both disruptive and expensive. Malicious software also includes Trojan horses and worms. According to Information Security Magazine, despite 90 percent of companies having an Information Technology security system in place, 88 percent of respondents to a survey reported infections by viruses and worms spread over Internet during the last 12 months. A website survey revealed that the impact of Code Red resulted in 150,000 Microsoft-Internet Information Server sites and 80,000 Internet Protocol addresses disappearing from the Internet.

**Audit Objective/Key Question(s):** Does Treasury have adequate countermeasures to protect bureaus' computing resources from the exposure of contamination and the impact of computer virus attacks? We estimate 1,200 hours will be needed for this project. *(PMA Initiative Supported: Expanded Electronic Government)*

### ***Classified Information Systems Security Program***

**Contact Person:** Ed Coleman (202) 927-5007

**Background:** A compromise of classified information can have disastrous consequences. Therefore, an agency must have a well-structured classified information system security program. The cornerstone of a solid classified information system security program is the risk management process. Risk management balances the data



---

---

custodians' perceived value of information and their assessment of the consequences of loss of confidentiality, integrity, and availability against the costs of protective countermeasures and day-to-day operations. A key measure in evaluating classified security programs is establishing a protection level. This protection level is determined by assessing the: (1) clearance levels, formal access approvals, users need to know and (2) level of concern for classification. In addition, the classified security program needs to have adequate certifications and accreditations for its systems. In evaluating a classified information systems security program, auditors would want to make sure that necessary precautions are taken for the back up and restoration of classified data; configuration management; telecommunications processing; and disaster recovery.

Audit Objective/Key Question(s): Does Treasury's classified information systems programs adhere to Federal requirements and guidelines, and provide for the desired level of security/protection? We estimate 2,000 hours will be needed for this project. *(PMA Initiative Supported: Expanded Electronic Government)*

### **Remote Access Dial-up Security**

Contact Person: Ed Coleman (202) 927-5007

Background: Many computer networks allow "remote access" to data, by connecting to the network over a public system such as the Internet or the telephone system by dial-up modem. Unfortunately, networks that allow remote access are targets for hackers. This risk needs to be recognized and every possible step taken to minimize it. One way to do so, particularly if remote access is only needed for a limited range of functions is to isolate the most sensitive data and programs from that part of the network accessible remotely, so that there are no ways to reach the sensitive data other than through a local network. Another way to limit the risks of allowing remote access is to only allow access to copies of data, with no access permitted to the original sets of data.

Audit Objective/Key Question(s): Have adequate security authentication systems been implemented for dial-up access to bureau computer systems? We estimate 1,600 hours will be needed for this project. *(PMA Initiative Supported: Expanded Electronic Government)*



---

---

## ***Evaluation of the Department's Process to Ensure the Reliability of Performance Data (In Progress)***

Contact Person:

John Lemen (202) 927-5012  
Inez Jordan (202) 927-6835

**Background:** To help improve the quality of agencies' performance data, Congress included a requirement in the Reports Consolidation Act of 2000 that agencies assess the completeness and reliability of their performance data. Under the Act, agencies were to begin including this assessment in the transmittal letter with their FY 2000 performance reports. Agencies were also required to discuss in the report any material inadequacies in the completeness and reliability of their performance data and discuss actions to address these inadequacies.

**Evaluation Objective/Key Question(s):** What is the Department's process for assessing the completeness and reliability of performance data? We estimate that 400 hours will be needed to complete this project during FY 2003. *(PMA Initiative Supported: Budget and Performance Integration)*

## ***Integrating Budget and Performance***

Contact Person:

John Lemen (202) 927-5012  
Inez Jordan (202) 927-6835

**Background:** The Government Performance Results Act of 1993 (GPRA) is intended to bring about a fundamental transformation in the way government programs and operations are managed and administered. One of the requirements of GPRA is for OMB to prepare an annual government-wide performance plan based on the agency annual performance plans. In the agency and government-wide performance plans, the level of program performance to be achieved will correspond with the program funding level in the budget.

Trying to determine if funding levels are commensurate with program activity has been a work in progress because there are few useful performance measures that directly link to strategic goals. For instance, Treasury management has not integrated managerial cost accounting into its business activities. Thus, Treasury managers are unable to link resources to results. Managers often report their accomplishments relying on anecdotal performance evidence and out-of-date financial information.

**Evaluation Objective/Key Question(s):** What progress has been made by the Department in linking resources to results? We estimate that 1,200 hours will be needed for this project. *(PMA Initiative Supported: Budget and Performance Integration)*



---

---

### ***ATF Implementation of the Gang Resistance Education and Training (G.R.E.A.T.) Program***

Contact Person: Roberta Rickey (312) 886-6300

Background: G.R.E.A.T. is a gang prevention program designed to educate youth about the dangers associated with joining street gangs and participating in violent crime. Students in the G.R.E.A.T. program learn about: The impact that crime, drugs and gangs have on victims and neighborhoods; the cultural differences and harmful behaviors resulting from prejudice; how to resolve conflicts without violence; how to become better equipped to meet basic needs; responsibilities as individuals in their community; and the importance of setting goals in life.

ATF agents train police officers to provide instruction to grade and middle school aged children. Under the program, ATF provides funding through grants to state and local law enforcement agencies or municipal governments to set up G.R.E.A.T. programs.

ATF measures success of G.R.E.A.T. by the number of training classes given, the number of instructors trained each year, and surveys of program users. The National Institute of Justice has conducted two studies on G.R.E.A.T., one in November 1997 and one in February 2001. The studies found that the program results are positive, but modest. In January 2000, the G.R.E.A.T. program's National Policy Board adopted a 5-year strategic plan to set the direction and identify the goals and objectives that will guide the G.R.E.A.T. program for the next 5 years.

Audit Objective/Key Question(s): Has ATF appropriately implemented G.R.E.A.T. and accurately measured program results to determine the program's impact on reducing youth involvement in gangs and violent crime? We estimate that 2,000 hours will be needed for this project. *(PMA Initiative Supported: Budget and Performance Integration)*

### ***Customs Compliance Measurement Program***

Contact Person: Donald Benson (617) 223-8638

Background: In FY 1995, Customs initiated the Compliance Measurement Program (CMP) to collect objective statistical data on imports. Customs conducts statistically based examinations to determine compliance with trade laws, and to quantify the revenue gaps based on estimated underpayments and overpayments of duties on consumption entries as well as from related fees and taxes. These examinations are performed for a variety of reasons such as to assess the accuracy of carrier reporting of cargo arriving in the U.S. and compliance of bonded warehouse operators, and to determine the accuracy of cargo information for merchandise that moves in-bond in



---

---

the United States. Data from the compliance reviews are accumulated in the Customs Automated Port Profile System (CAPPs). Customs managers can use this system as an analytical tool to identify areas of non-compliance and areas of risk.

The estimated revenue gap through CMPs for FY 2001 was \$418 million for duties, taxes, and fees owed to Customs due to non-compliant filing entries; an estimated \$220 million in duties, taxes, and fees were overpaid to Customs during the period. The “net” revenue gap for FY 2001 was therefore \$218 million, which was down from the \$282 million estimated net revenue gap for FY 2000.

**Audit Objectives/Key Questions:** How has Customs used CMPs to improve compliance with trade laws? We estimate that 2,000 hours will be needed for this project. *(PMA Initiative Supported: Budget and Performance Integration)*

### ***Customs Monitoring of Operation Green Quest***

**Contact Person:** George Tabb (713) 706-4613

**Background:** Operation Green Quest is a multi-agency enforcement initiative led by Customs to target financial systems, organizations, and individuals that serve as sources of funding for terrorists groups worldwide. The agencies include IRS, Secret Service, ATF, the Federal Bureau of Investigation, Office of Foreign Assets Control, Financial Crimes Enforcement Network, U.S. Postal Inspection Service, and Naval Criminal Investigative Service. The expertise of the Treasury Department is utilized to freeze accounts, seize assets, and bring criminal actions against those funding terrorist organizations. The effectiveness of this operation will be based on qualitative, quantitative, and enforcement measurements.

The Operation has already taken actions to attack financial networks tied to terrorists. In various cities, business assets and evidence were seized because of ties to terrorist networks. Numerous entities such as illegal charities, and corrupt financial institutions have been targeted. Also, activities such as credit card fraud, identity theft, counterfeiting, and fraudulent import and export schemes are also targeted. The techniques to identify these activities include undercover operations, electronic surveillance, and outbound currency operations. The President’s plan to strengthen homeland security includes \$700 million to improve intelligence gathering and information sharing among agencies as well as states and cities.

**Audit Objective/Key Question(s):** Have valid and reliable performance measures been established for Operation Green Quest? We estimate that 2,000 hours will be needed to complete this project at Customs during FY 2003. *(PMA Initiative Supported: Budget and Performance Integration)*





---

---

## ***Adequacy of Customs Investigative Case Management Systems to Support Performance Reporting***

Contact Person: George Tabb (713) 706-4613

Background: Customs' Office of Investigations is responsible for investigating violations of United States laws and trade regulations enforced by Customs, including violations of drug smuggling, currency, neutrality, fraud, general smuggling, exports of arms and critical technology, cargo theft, and child pornography laws. These investigations support Customs efforts against narcotics smuggling, economic crime, and other domestic violations. By emphasizing the development of significant impact investigations, Customs actively pursues the identification and prosecution of sophisticated criminal enterprises in all major program areas.

Customs employs approximately 2,200 Special Agents and 900 Air Interdiction personnel in locations throughout the United States and in selected foreign locations. The cost of Customs enforcement program is about \$1 billion per year.

Audit Objective/Key Question: Do Customs' investigative case management systems provide information that is accurate and timely for performance reporting under the GPRA? We estimate 2,000 hours will be needed for this project. *(PMA Initiative Supported: Budget and Performance Integration)*

## ***Treasury's Asset Forfeiture Activities***

Contact Person: Roberta Rickey (312) 886-6300

Background: The Treasury asset forfeiture program exists to disrupt and dismantle criminal enterprises. Law enforcement bureaus forfeit assets to punish and deter criminal activity by depriving criminals of property used in or acquired through illegal activities. The Treasury Forfeiture Fund produces revenues to fund forfeiture-related expenses and to strengthen law enforcement. The majority of the revenue is from forfeited cash, with lesser amounts coming from the proceeds of seized property sales and interest earned. The Treasury Forfeiture Fund had revenues of \$226 million in FY 2000 and \$254 million in FY 2001.

In April 2000, Congress enacted the Civil Asset Forfeiture Reform Act of 2000 (Public Law 106-185) that established general rules relating to civil forfeiture proceedings. It made some changes to how seizures and forfeitures are carried out. According to Treasury's Executive Office for Asset Forfeiture, the law's provisions may result in a significant shift in cases from administrative-processing by law enforcement bureaus to greater judicial-processing through the Federal courts. There is also concern that insufficient numbers of



---

---

Federal prosecutors to meet additional caseload and more restrictive timeframes may result in the diminished use of asset forfeiture as a penalty in the fight against crime.

**Audit Objective/Key Question(s):** How has the Civil Asset Forfeiture Reform Act impacted Treasury's asset forfeiture activities? We estimate 2,000 hours will be needed to complete this project. *(PMA Initiative Supported: Budget and Performance Integration)*

### ***FinCEN Performance Measures***

Contact Person:

Alexander Best, Jr. (202) 927-5591

**Background:** FinCEN's *Strategic Plan For fiscal years 2000 – 2005*, dated September 30, 2000, outlines objectives and strategies in five areas: (1) providing investigative case support; (2) identifying financial crime trends and patterns; (3) administering the BSA; (4) fostering international cooperation; and (5) strengthening management support. The Strategic Plan includes an explanation on how progress will be measured in each of its five strategic objectives.

**Audit Objective/Key Question(s):** Has FinCEN developed useful relevant performance measures and reliable performance data to evaluate whether it is successfully achieving its mission? We estimate 2,000 hours will be needed for this project. *(PMA Initiative Supported: Budget and Performance Integration)*

### ***Secret Service New York Electronic Crimes Task Force (NYECTF)***

Contact Person:

Roberta Rickey (312) 886-6300

**Background:** In 1995, the New York Electronic Crimes Task Force (NYECTF), a division of the Secret Service, was developed specifically to help companies increase their cyber-security. The Secret Service has overseen the training of more than 20,000 individuals in security awareness, best practices and contingency planning for security crises. It continues to grow in membership and achievements. This task force represents a strategic alliance of more than 250 regional members or groups including: prosecutors; local, state and Federal law enforcement; academia; and companies in private industry with interests in banking, financial services, brokerage, and telecommunications. The common denominator in the NYECTF is that each member, whether law enforcement or industry, is a stakeholder with a business or investigative interest in preventing electronic crime. Since its inception through the third quarter of FY2001, the NYECTF has made 826 state and locally prosecuted arrests investigating an estimated \$514 million in actual and potential loss due to fraud.



---

---

The USA PATRIOT Act requires the Secret Service to establish similar groups in eight other major cities.

Audit Objective/Key Question(s): What progress has been made to establish the NYECTF-type groups as required in the USA PATRIOT Act? We estimate that 1,200 hours will be needed for this project. *(PMA Initiative Supported: Budget and Performance Integration)*

### ***Secret Service Response to Counterfeiting Overseas***

Contact Person: Roberta Rickey (312) 886-6300

Background: Title 18 U.S.C. 470 gives the U.S. international jurisdiction to pursue indictments and arrests for counterfeit acts committed outside the United States. These acts include manufacturing, possession, and distribution of counterfeit items.

There has been an increase recently in 'dollarization' – when residents of a country extensively use foreign currency alongside or instead of the domestic currency. Dollarization can occur unofficially, without formal legal approval, or it can be official, as when a country ceases to issue a domestic currency and uses only foreign currency. Official and unofficial dollarization has occurred in over 30 countries worldwide. The number of dollarized countries and related counterfeiting activities are expected to continue increasing over the next decade.

Within Latin American countries that have recently converted to the dollar, the smuggling and distribution of counterfeit U.S. currency has already been documented; for example, Ecuador dollarized in 2000. During that year \$3.5 million in counterfeit U.S. currency was seized in Ecuador, compared with only \$50,000 seized in 1994.

In February 1996, GAO issued an audit report on counterfeiting abroad. However, GAO was unable to reach conclusions or comment on the adequacy or effectiveness of counterfeit deterrent efforts, because none of the efforts had been fully implemented at that time. Now that several years have passed, we may be better able to evaluate the Secret Service's efforts to address counterfeiting overseas.

Audit Objective/Key Question(s): How does the Secret Service measure its effectiveness in addressing counterfeit activities abroad? We estimate that 1,600 hours will be needed for this project. *(PMA Initiative Supported: Budget and Performance Integration)*



---

---

***Priority 3 – Audit Products that Address Material Weaknesses and Other Known Serious Deficiencies in the Agency/ Department’s Programs and Operations***

***Treasury’s Information Technology Investment Portfolio System (I-TIPS)***

Contact Person:

Ed Coleman (202) 927-5007

**Background:** The Treasury’s Information Technology Investment Portfolio System (I-TIPS) is a Department-owned web-based application used for information technology (IT) investment management and reporting activities. The I-TIPS plays an important role in bureau and Department IT investment management and in attaining the Department’s mission, goals, and objectives. It is also the method the Department will use in timely and accurately reporting budget information to OMB. Furthermore, its use is a move toward a more streamlined, automated process for budget reporting. The I-TIPS is to be used to maintain the cost, schedule, and performance information, on a regular basis, for each of Treasury’s major IT projects, as well as significant non-major projects.

**Audit Objective/Key Questions:** Are controls adequate to ensure information in I-TIPS is accurate and reliable? Are controls over I-TIPS adequate? We estimate 2,000 hours will be needed to complete this project during FY 2003.

***Disaster Recovery Exercises (In Progress)***

Contact Person:

Ed Coleman (202) 927-5007

**Background:** Losing the capability to process, retrieve, and protect information maintained electronically can significantly affect an agency’s ability to accomplish its mission. OMB Circular No. A-130, Appendix III, requires that controls for major applications and general support systems must provide for contingency planning and/or continuity of support. An agency should have a process in place to protect information resources, minimize the risk of unplanned interruptions and a disaster recovery plan to regain critical operations. Disaster recovery plans should consider the activities performed at general support facilities, such as data processing centers and telecommunication facilities, as well as the activities performed by users of specific applications. Disaster recovery plans should be periodically tested to determine whether the plans contain the necessary procedures to successfully restore operations in an emergency situation. In executing disaster recovery plans, managers are able to identify weaknesses and make effective changes accordingly.



---

---

Audit Objective/Key Question(s): Are disaster recovery exercises properly planned and are recovery plans adequately tested to ensure the capabilities of backup IT systems? We estimate 400 hours will be needed for this project.

***Office of D.C. Pensions Replacement of the Automated Pensions Benefit System Project***

Contact Person: Mike Fitzgerald (202) 927-5789

Background: The Department's Office of District of Columbia (D.C.) Pensions is responsible for administering and holding fund assets and distributing pension benefits for three D.C. retirement plans. The Office of D.C. Pensions currently relies on D.C.'s pension benefit payment system to calculate and disburse retirement benefit payments. D.C.'s system is obsolete and beyond its reasonable service life. Consequently, the Office of D.C. Pensions decided to acquire a new system utilizing a commercial off the shelf product, which requires significant modification to meet the joint processing needs of the District and Treasury. A functional requirements document for the replacement system was completed in early FY 2000 with all Treasury and D.C. users contributing to its development.

In January 2000, the Office of D.C. Pensions awarded a task order to a consultant totaling \$4 million for equipment and support services related to the replacement of D.C.'s pension benefit payment system. This task order was awarded as a Cost Plus Fixed Fee (CPFF) contract, and had a completion date of March 31, 2001. By December 31, 2001, several contract modifications brought the total contract amount to \$10.9 million and changed the completion date to August 1, 2002. Subsequently, the project was divided into three releases, one for each retirement plan. Currently, the total awarded amount is \$23.7 million, of which \$18 million is already spent. The \$23.7 million covers Release 1 (the Judges Retirement Plan). Releases 2 and 3 (for the other two plans) will require an additional \$4.5 to \$6.8 million and 6 to 9 months to complete, which will take the project into 2003. In addition, ODCP has hired another contractor to perform independent verification and validation testing for \$1.5 million. At present, total expected costs are approximately \$30 million.

Audit Objective/Key Question: Is there proper oversight/monitoring to ensure that the system will be successfully implemented in a reasonable time without significant additional costs? We estimate 960 hours will be needed for this project.



---

---

## ***ATF Arson and Explosives National Repository***

Contact Person:

Roberta Rickey (312) 886-6300

**Background:** In 1996, after the bombings at the World Trade Center and the Muir Federal Building, Congress directed Treasury to maintain a database of all arson and explosives incidents (18 U.S.C. 846). The Secretary of the Treasury tasked ATF with carrying out this Congressional requirement. In turn, ATF created the Arson and Explosives Information System (AEXIS) within the Arson & Explosives National Repository. AEXIS contains information reported by various law enforcement sources and the U.S. Fire Administration.

In Congressional testimony during February 2002, ATF officials cited AEXIS as an example of important intelligence information that ATF provides in support of joint Federal anti-terrorism efforts. ATF officials testified that this information is available for statistical analysis and research, investigative leads, and intelligence research. It helps authorized investigators identify similarities across cases regarding explosive and incendiary device construction, methods of initiation, types of fuels/explosives used, and methods of operation.

However, ATF Repository officials estimate that they receive only about 30 percent of all incident reports. The other 70 percent are reported to the Federal Bureau of Investigation's (FBI) Bomb Data Center (BDC) whose existence pre-dates ATF's repository.

**Audit Objective/Key Questions:** How effective is ATF in collecting, analyzing, and making available to law enforcement incident reports involving arson and the suspected criminal misuse of explosives? We estimate 1,600 hours will be needed for this project.

## ***ATF Explosives Follow-Up***

Contact Person:

Donald Benson (617) 223-8638

**Background:** Following the events of September 11<sup>th</sup>, ATF sent a letter urging all explosives licensees and permittees to take immediate measures to ensure the security of their explosives inventories. Between October and December 2001, ATF field personnel conducted approximately 7,400 inspections of explosives licensees/permittees (out of a total of 9,400). ATF personnel encouraged the proprietors to emphasize explosives security and accountability following the terrorist attacks, and to report thefts, losses, or suspicious activity to ATF and the appropriate local authorities. ATF carried out these inspections in order to gauge internal security controls and report any unusual purchase attempts; break-ins; or any other anomalies that would indicate a breach to security.



---

---

In connection with these inspections, ATF uncovered over 200 instances of possible criminal violations. ATF also found about 1,800 instances of violations in record keeping, storage, and conduct of business. In one instance ATF issued a notice of revocation and seized approximately four million pounds of explosives materials that were stored in violation of Federal explosives law.

Audit Objectives/Key Questions: Has ATF ensured all licensees and permittees corrected the explosives violations, especially the safety issues? We estimate 2,000 hours will be needed for this project.

### ***ATF National Integrated Ballistic Information Network (NIBIN) Program***

Contact Person: Roberta Rickey (312) 886-6300

Background: ATF's objective for the National Integrated Ballistic Information Network (NIBIN) is to forge partnerships within the law enforcement community to more effectively produce investigative leads on firearms cases. Under the NIBIN program, ATF uses the Integrated Ballistic Identification System (IBIS) to digitize, correlate, and compare bullets and shell casings automatically. IBIS is state-of-the-art equipment designed to greatly reduce the time and manpower needed for ballistic analysis. This technology provides investigators with leads to solve a greater number of crimes in a shorter period of time. ATF's budget for NIBIN grew from \$8 million in FY 2000 to \$27 million in FY 2002.

While ATF owns most IBIS equipment, state and local law enforcement agencies operate it. To implement the program, ATF establishes memoranda of understanding (MOU) with the state and local agencies, called partner agencies. ATF is working on networking all of its users together to link firearms and ballistic evidence throughout the nation into the same database. ATF officials predict that the entire system will be operational by 2003. In FY 2001, 104,500 bullets and casings were entered into the system resulting in 956 hits.

Audit Objective/Key Question(s): Has ATF: (1) provided adequate support to its partner agencies in accordance with the MOUs and ATF guidance; (2) ensured that partner agencies fulfill their responsibilities under the MOUs, including providing sufficient personnel to operate the equipment and enter information into the IBIS database; and (3) implemented valid and reliable performance measures for NIBIN? We estimate 1,600 hours will be needed for this project.



---

---

## ***ATF's National Firearms Registration and Transfer Record (In Progress)***

Contact Person:

Roberta Rickey (312) 886-6300

Background: The National Firearms Act (NFA) requires the Secretary of the Treasury to maintain a central registry of certain types of firearms in the United States, which are not in the possession or under the control of the United States. This registry is known as the National Firearms Registration and Transfer Record (NFRTR). The types of firearms that must be registered under the NFA include machine guns, destructive devices, and certain other weapons.

ATF's NFA Branch maintains the registry, which includes the identification of the firearm, the date of registration, and the identification and address of the person entitled to possess the firearm. The NFA Branch also receives and acts upon all applications to make, export, transfer, and register NFA firearms, and notices of NFA firearms manufactured or imported. The NFA Branch is responsible for making adjustments to the registry to reflect: (1) changes in address of registrants, (2) lost or stolen firearms, (3) modifications to the description of firearms, and (4) destruction of firearms.

ATF is engaged in a project to image and index records of the NFRTR, and then to link such records to its retrieval system in order to meet recommendations by our office in a FY 1999 audit report to ensure accuracy in the NFRTR database. ATF received an additional \$500,000 in FY 2002 appropriations to assist in such efforts as linkage technology, electronic filing, and the use of contract employees with the aim of reducing processing times and ensuring the completeness and accuracy.

Audit Objective/Key Question(s): Has ATF taken appropriate steps to improve the completeness, accuracy, and processing times of the NFRTR? We estimate that 250 hours will be needed for this project.

### ***ATF On-line LEAD***

Contact Person:

Roberta Rickey (312) 886-6300

Background: On-line LEAD is investigative software used by ATF special agents, inspectors, and ATF Firearms Trafficking Task Force police officers throughout the country. It is the result of a developmental process that began with Project LEAD, which became E-LEAD and ultimately On-line LEAD. The software can be used to access, sort, and analyze firearms trace information in a way that identifies trends and patterns that may indicate the illegal trafficking of firearms. Through ATF's National Tracing Center, On-line LEAD can access information on over 1 million traced firearms and more than 430,000 multiple gun sales. On-line LEAD updates crime gun trace





---

---

data every 24 hours. The system was initially released in February 1999, and is now available to all ATF personnel and state and local Task Force officers nationwide via ATF online computer technology.

Investigative leads can be generated through On-line LEAD in a fraction of the time that was previously possible using manual record searches. In fact, On-line LEAD can identify trends and patterns that were impossible to detect using previous methods.

Audit Objective/Key Question(s): Is On-line LEAD an effective tool in ATF's efforts to reduce firearms trafficking? Are state and local law enforcement agencies making use of On-line LEAD's capabilities? We estimate 1,600 hours will be needed for this project.

### ***ATF Use of Firearms Theft Information***

Contact Person: Roberta Rickey (312) 886-6300

Background: Congress declared that the primary purpose of the Gun Control Act of 1968 was to "keep firearms out of the hands of those not legally entitled to possess them." ATF is responsible for investigating firearms trafficking (the illegal diversion of legally-owned firearms from lawful commerce to unlawful commerce, often for profit). Programs designed to deny criminals access to firearms are an integral part of ATF's strategic goal of reducing violent crime. Since criminals often steal firearms for the purpose of trafficking them, reducing the number of stolen firearms is an important part of ATF's firearms trafficking strategy.

Firearms regularly move in interstate commerce. Existing laws and regulations prescribe the manner in which firearms can be shipped, the records required for these shipments, and the method and timing for reporting firearms lost or stolen in-transit. Based on ATF's analysis of cases from July 1996 through December 1999, about 16 percent of trafficking cases involved firearms stolen from Federal Firearms Licensees (FFL) or common carriers. These cases accounted for about 8,100 (about 10 percent) of the firearms diverted in trafficking cases during this period.

The number of stolen firearms has increased over the years. In 1994, 6,760 firearms were reported stolen from either FFLs or interstate carriers. Thefts of 19,361 firearms were reported for 2001. FFLs are required to maintain records of the acquisition and disposition of firearms and report lost or stolen firearms to ATF. However, common carriers are not required to report firearms that are stolen while being transported.

Audit Objective/Key Question(s): Does ATF effectively collect and use existing theft or loss information to optimize regulatory oversight efforts? Does ATF have an effective strategy to encourage voluntary



---

---

reporting by common carriers of lost or stolen firearms? We estimate 1,000 hours will be needed for this project.

***Multi-year Audit Oversight of the Customs Automated Commercial Environment (ACE) Systems Initiative (In Progress)***

Contact Persons: Ed Coleman, Project Manager (202) 927-5007  
George Tabb (713) 706-4613  
Thomas Byrnes (202) 927-5904

Background: The Automated Commercial Environment (ACE) system initiative is an integral part of the Customs Modernization Program to improve its trade, enforcement, and administrative operations. ACE is the replacement for the technologically and operationally obsolete Automated Commercial System, and is also intended to address a longstanding material weakness with Customs' core financial systems. At a currently estimated life-cycle cost of \$1.3 billion, ACE is the largest information technology system being developed by a Treasury entity over which Treasury OIG has oversight.

During FY 2002, we issued two audit reports from our ongoing oversight of ACE development. During March 2002, we reported that Customs did not yet have the people and systems in place to adequately manage the development of ACE. While ACE program management is still a work in progress, this is a critical juncture in setting up the foundation upon which ACE development will be based (OIG-02-058). Our July 2002 report covering Customs ACE program management during the first 6 months disclosed that six management control systems reviewed were not fully implemented, the integrated baseline reviews were not performed, and the initial deliverables from the prime contractor had significant deficiencies which required rework. We noted, however, that Customs long-term program management plans are basically sound and ACE can be successfully developed, if both Customs and its e-Customs Partnership: adequately staff the effort, improve communications, fully implement management control systems, conduct integrated baseline reviews, and improve the quality of future deliverables. Based on this work, we believe the major long-term risk to ACE development would be a continued emphasis on schedule over quality and completeness (OIG-02-100).

Audit Objective/Key Questions: During FY 2003, we plan reviews of ACE development in the following areas:

ACE Requirements. It is critical to establish complete system requirements for each ACE increment prior to the start of programming. Customs plans to start the programming of ACE in late 2002. The requirements for the first increment have been completed and the requirements for the second increment are currently being established. We will determine if the ACE requirements are complete,



---

---

and sufficiently detailed to form the basis for software development. We estimate 2,000 hours will be needed to complete this project during FY 2003.

ACE System Documentation and Change Control. It is important to establish a systematic means of ensuring that documentation is maintained of all actions and changes during the programming and testing of ACE. We will determine if programming documents are maintained and changes tracked for the ACE system. We estimate that 2,000 hours will be needed to complete this project during FY 2003.

ACE Performance Measurement. As the ACE software coding begins, it is important to establish a program that collects, evaluates, and analyzes data in a timely manner about the ACE program and contractor's performance. We will determine if a performance measures program has been implemented to gather, evaluate, analyze and report measures about ACE activities that will allow management to make timely decisions and evaluate contractor performance. We estimate 3,000 hours will be needed to complete this project during FY 2003.

ACE Program Management Reporting Systems. Assisting in the management of the program, there are plans to implement a reporting system and other reporting mechanisms by the contractor, as well as Customs. Ensuring that the reporting programs are properly implemented and working as intended by management will help identify early problems with the program to allow mitigation or contingency plans to ensure that the program goals are met. We will determine if these reporting systems are providing immediate status and oversight of the program with useful information to allow management to make timely decisions. We estimate that 2,000 hours will be needed to complete this project during FY 2003.

ACE Pilot Programs. To accelerate the delivery of functional benefits to the trade community and reduce risks, Customs decided to roll ACE out in a series of pilot projects. The first two projects to be rolled out involve account access (February 2003) and periodic statement and payment processing (August 2003). We will determine if the ACE pilot projects are being rolled out on a timely basis, within costs, and according to functional specifications. We estimate 2,000 hours will be needed to complete this project during FY 2003.

ACE Contractor Incentive and Award Fees. The modernization contract with e-Customs Partnership (eCP) provides for incentive and award fees. We will determine whether (1) Customs has an appropriate incentive and award fee process in place to evaluate contractor performance and (2) incentive and award fee amounts are fully supported through performance measures, verification and



---

---

oversight of contractor’s performance. We estimate 2,000 hours will be needed to complete this project during FY 2003.

***Customs Counter Terrorism Efforts Related to the Processing of International Mail (In Progress)***

Contact Person: Donald Benson (617) 223-8638

**Background:** During a recent audit of Customs’ International Mail Branches (IMB), we noted several enforcement concerns at the IMBs visited. The primary concern was whether all international mail pieces were being properly delivered to the branches to examine for illegal and harmful substances. This planned audit will focus on the controls in the branches we did not visit during the earlier audit, and those IMBs in high-risk border locations to ensure all of the mail arriving from foreign destinations is provided to Customs to examine. In addition, we will determine how Customs is examining the mail parcels for harmful substances, and how these branches are assessing the adequacy of their equipment and/or personnel in order that they can provide proper examination coverage. Congress voiced concern that package carriers could still be used as a “backdoor” in the nation’s security system, and called for screening of all incoming packages. Customs has acknowledged that it needs to increase its ability to detect radioactive material that is shipped into the U.S. In this regard, Customs purchased 3,400 personal radiation detectors, which are about the size of a pager, that are expected to be in place at the end of the year.

**Audit Objectives/Key Questions:** Are controls adequate to ensure all international mail is delivered to the IMBs for Customs inspection? Has Customs established risk assessments to target suspect mail for inspection, and are the inspections done? We estimate that 800 hours will be needed for this project.

***Customs Sensitive Inventory Follow-Up***

Contact Person: Roberta Rickey (312) 886-6300

**Background:** In August of 2002, OIG released a report on Customs controls over sensitive property. This report highlighted weaknesses in Customs controls over computers, badges, and credentials. Each of these items could pose a potential threat to national security, public safety, or ongoing investigations, if lost or stolen.

**Audit Objective/Key Questions:** Has Customs taken action to remedy the control weaknesses? We estimate that 600 hours will be needed for this project.



---

---

### ***Customs Targeting and Inspection Efforts for Vessel Containers (In Progress)***

Contact Person: George Tabb (713) 706-4613

Background: All seaports of entry are required to capture the number of cargo containers arriving in the United States as well as the number of narcotics enforcement examinations performed on these arrivals. This information is retained in the Customs Service Port Tracking System. Customs has acknowledged the high-risk of vessel containers being used as a means for smuggling narcotics. However, since the events of September 11<sup>th</sup>, the Commissioner of Customs announced that terrorism has replaced drug smuggling as the agency's top priority and has, among other actions, redeployed inspectors that were dedicated to searching for illegal drugs to the Canadian border, a known entryway for terrorists to enter the United States. Vessel containers can also be used to smuggle weapons, munitions and other implements of terrorism that affect national security. Adequacy of storage facilities and ease of access to valuable sensitive items such as hazardous materials, arms, ammunition, and explosives is now of heightened concern.

Audit Objectives/Key Questions: How does Customs ensure security of marine containers from entry to release? How does Customs target and inspect marine containers and can its targeting and inspection methodology be improved? During FY 2002, we completed a pilot audit of vessel container security, targeting, and inspection at Port Everglades, Florida, and initiated similar audits at other major seaports. We estimate that 2,000 hours will be needed to complete these projects during FY 2003.

### ***Customs Targeting of Rail Carriers for Inspection (In Progress)***

Contact Person: Roberta Rickey (312) 886-6300

Background: Recently, the Canadian border has been a preferred entryway for terrorists. Additionally, terrorism has replaced drug smuggling as Customs top priority. Since rail cars could be used to bring implements of terrorism into the United States, we believe that a follow-up review of Customs' actions taken both in response to our prior reviews of railcar targeting along the Southern and Northern Border (Reports Nos. OIG-99-006 and OIG-99-077) and to address terrorism threats is appropriate.

Audit Objective/Key Question(s): What measures has Customs taken to address risks associated with rail shipments? We estimate that 2,000 hours will be needed for this project.



---

---

### ***Customs Land Border Carrier Initiative Program (LBCIP) and Border Release Advanced Screening and Selectivity (BRASS)***

Contact Person:

George Tabb (713) 706-4613

**Background:** As prescribed by Customs regulations, the Land Border Carrier Initiative Program (LBCIP) is a program by which commercial carriers voluntarily enter into agreements with Customs to increase security measures and cooperate with the agency to identify and report suspected incidents of drug smuggling. If drugs are found in the shipments of these participating carriers, Customs agrees that special administrative provisions for penalties will be made and violations will be appropriately processed. The commercial carriers agree that their employees will undergo background checks, and will provide an affidavit of business character to ensure the reliability of the parties participating in the program. Customs agrees to provide training to carrier personnel in areas of cargo and security, document review techniques, drug awareness, and conveyance searches.

At ports that are designated as high-risk, the use of expedited release of imports such as the Border Release Advanced Screening and Selectivity (BRASS) are contingent on the carriers' participation in LBCIP. BRASS provides for bar-coded imports to be pre-screened by Customs for importers with highly compliant and high volume cargo in order to release the merchandise more quickly. The program is open to all carriers along the southern and northern borders.

**Audit Objective/Key Question(s):** What controls exist to ensure that only qualified carriers are allowed to participate in the LBCIP? How does Customs measure the success and cost/benefit of LBCIP and BRASS? We estimate 2,000 hours will be needed for this project.

### ***Customs Automated Targeting System for Cargo Inspection***

Contact Person:

George Tabb (713) 706-4613

**Background:** As the principal border agency that ensures all goods and persons entering the United States comply with laws, Customs has a fundamental role to play in the national narcotics strategy. Intelligence sources for this strategy indicate a large drug smuggling threat exists along the southern border of the United States. Seizure statistics show a lot of activity in this area. For example, during FY 2000 Customs seized approximately 1.1 million pounds of marijuana, 33,000 pounds of cocaine, and 250 pounds of heroin along the Southwest border. Also, with NAFTA and the ever-increasing trade and traffic creating additional workload, Customs must rely more and more on systems that selectively target shipments for examination. Two such systems are the Automated Commercial System's (ACS) Cargo Selectivity and the Automated Targeting System (ATS).



---

---

Audit Objective/Key Question: Does Customs maintain, update, and use ATS to effectively target shipments for examination? We estimate 2,000 hours will be needed for this project.

### ***Customs Automated Commercial System Cargo Selectivity Program Follow-Up***

Contact Person: Donald Benson (617) 223-8638

Background: The ACS Cargo Selectivity Program is used to sort high-risk cargo from low-risk cargo, and to determine the type of examination required. In short, it is designed to facilitate the processing of legitimate cargo while attempting to stop fraud, narcotics smuggling, and the importation of other contraband or illegal cargo. In March 2000, we issued a report on cargo selectivity that found the program had successfully facilitated trade but had not been as successful in stopping the smuggling of narcotics. Our report recommended Customs improve the effectiveness of the selectivity program by developing narcotics examination criteria, improving examination procedures, and implementing management controls.

Audit Objective/Key Question(s): Has Customs taken appropriate corrective action to improve the ACS Cargo Selectivity Program? We estimate 1,600 hours will be needed for this project.

### ***Customs Advance Passenger Information System (APIS) Follow-Up (In Progress)***

Contact Person: Donald Benson (617) 223-8638

Background: The Advanced Passenger Information System (APIS) is an automated system capable of performing database queries on air passengers prior to their arrival in the U.S. from foreign locations. The system was developed in 1988 to collect biographical information (e.g., name, date of birth, country of residence, etc.) from air passengers prior to departure for the U.S. from foreign countries. In 1998, the OIG issued a report on APIS that found that Customs needed to (1) improve monitoring of airline passenger data, (2) monitor APIS computer processing trends, and (3) ensure inspectors intercepted high risk passengers and recorded their inspection results. The audit also recommended that Customs and INS formalize an agreement on how to monitor airline submissions of pre-arrival passenger data.

When the APIS program was first introduced, carrier participation was voluntary. However, the Aviation and Transportation Security Act mandates that as of January 20, 2002, all commercial airlines must electronically transmit to Customs for each foreign flight a passenger and crew manifest containing certain information in advance of arrival. Failure to comply with the law could result in fines of \$5,000 against the pilot of each flight and the lack of Customs approval on new



---

---

landing rights requests from carriers not in compliance. In addition, beginning in April 2002, Customs began to fine carriers up to \$5,000 for each flight that does not provide at least 70 percent complete and accurate APIS data. The minimum standard for complete and accurate data increased to 97 percent on June 1, 2002.

**Audit Objectives/Key Questions:** Does Customs use APIS information to identify and inspect high-risk passengers and enforce Aviation and Transportation Security Act mandates for APIS reporting in an effective manner? We estimate that 1,200 hours will be needed for this project.

### ***Customs Use of Radiation Detection Devices (In Progress)***

**Contact Person:** Donald Benson (617) 223-8638

**Background:** A number of Customs inspectors have been issued Personal Radiation Detectors (PRDs) that are intended to alert them to the presence of radioactive materials. The device is about the size of a pager and hooks onto an inspector's belt. Since September 11<sup>th</sup>, the importance, need, and use of PRDs at the U.S. ports of entry have escalated significantly.

Also, during the summer of 2000, we were informed that a large-scale prototype portal radiation detector was in the process of being evaluated. Large detectors can be installed at ports of entry for the purpose of detecting radioactive materials being transported on a large-scale basis (e.g., in a truck passing through a port of entry).

In January 2002, Customs proposed the Container Security Initiative (CSI) to address the vulnerability of cargo containers to the smuggling of terrorists and terrorist weapons. Use of technology to pre-screen high-risk containers is one of the core elements of this initiative. Radiation detectors (as well as the latest x-ray machines) will be available or required by all who participate in the Container Security Strategy.

Customs' FY 2002 Terrorism Supplemental appropriation provided Customs with funding to acquire 172 Portal Radiation devices to enhance their security efforts. Customs is currently exploring new technology – a crane-mounted radiation detection system – to detect radiological materials in containers. This would supplement the 4,000 PRDs currently in use by Customs officers.

**Audit Objectives/Key Questions:** Has Customs deployed PRDs and other radiation detection devices, including training of inspectors in their use, in an effective manner? We estimate that 600 hours will be needed to complete this project during FY 2003.





---

---

### ***Customs Background Investigation Follow-Up***

Contact Person: Benny Lee (415) 977-8810

Background: Customs has over 8,000 inspectors and canine enforcement officers stationed at 301 ports of entry across the U.S. These individuals are involved with sensitive enforcement issues, including trade enforcement, interdicting contraband, drug smuggling, and money laundering. In 1999, we reported that about 23 percent of the inspectors and canine enforcement officers did not have current background investigations. This included a significant number of management and supervisory personnel and individuals with security clearances.

Audit Objective/Key Question(s): Has Customs taken appropriate corrective action to ensure that inspector and canine enforcement officer background investigations are current, and that background investigations are completed for all new inspector hires? We estimate 1,200 hours will be needed for this project.

### ***Customs Passenger User Fee Follow-Up***

Contact Person: Donald Benson (617) 223-8638

Background: The Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) established the passenger user fee. The Government collects user fees to pay the cost of the inspection of arriving air and sea passengers by Customs, the Department of Agriculture's Animal and Plant Inspection Service (APHIS), and the Department of Justice's Immigration and Naturalization Service (INS). These fees generate significant revenues for the Government and help defray the cost of inspection. Customs collected about \$1.7 billion in all user fees, including passenger user fees, in FY 2000. The law does not require air and sea carriers to provide support for the fees collected. As a result, the agencies must rely heavily on their regulatory audit functions to ensure industry compliance.

In 1992 and again in 1998, we reported over \$40 million in potential Government revenue being lost due to the lack of a coordinated single audit approach among the various agencies. We concluded that the single audit approach would allow for broader coverage, increased productivity, reduced audit costs, and more collections, in addition to the reduced burden on the industry. After recommending a coordinated approach in 1992, the 1998 audit found that not enough had been done to improve the process. Customs agreed to execute a Memorandum of Understanding with APHIS and INS and take coordinated action following the 1998 audit.



---

---

Audit Objective/Key Question(s): Did Customs take appropriate corrective action following the 1998 audit? We estimate 400 hours will be needed for this project.

***Customs Mail Entry Duty Collection System (In Progress)***

Contact Person: Donald Benson (617) 223-8638

Background: A recent OIG audit of Customs International Mail Branch operations found that Customs needed an electronic system to better collect mail entry payments from the United States Postal Service (USPS). Customs proposed an electronic data exchange system to provide USPS with a database of mail entry records. The system would extract mail entry records from ACS and send them to USPS so it could use the data to process collections and follow up on outstanding duties and fees owed to Customs.

Audit Objectives/Key Questions: Does the new mail entry collection system and other actions taken in response to the previous OIG audit provide for adequate control to ensure mail entry payments collected by USPS are remitted to Customs? We estimate that 400 hours will be needed to complete this project during FY 2003.

***Customs Hazardous Materials Program (In Progress)***

Contact Person: George Tabb (713) 706-4613

Background: According to a recent GAO report, over 770,000 shipments of hazardous materials are transported across the United States each day. Accidents involving these materials, such as spills, fires, and explosions, cost the United States over \$459 million annually and can have serious consequences for surrounding communities.

Because of this serious threat that unsafe imported products pose to our citizens, public health and safety is a priority area under the Customs' Trade Enforcement Strategy. Customs uses its authority to combat illegal importation, exportation, and transshipment of imported items that pose a threat to U.S. consumers and/or to the environment. Some of these items include contaminated or prohibited foodstuffs, ozone depleting chlorofluorocarbons (CFC), hazardous waste, and standard automotive and aircraft parts.

Audit Objective/Key Question: Does Customs have effective processes in place to ensure the legal and safe transport of hazardous materials across U.S. borders? We plan to perform this audit at a number of ports across the U.S. We estimate 2,000 hours will be needed for this project at each port.



---

---

## ***Customs Trade Partnership Against Terrorism (C-TPAT)***

Contact Person: Donald Benson (617) 223-8638

Background: C-TPAT is a Customs initiative that requests businesses to ensure the integrity of their security practices and communicate these to their business partners. Customs is seeking cooperation from importers, carriers, brokers, warehouse operators, and manufacturers, all of who are eligible to participate in this program. Customs initially invited 200 importers who have been highly compliant with trade regulations to join C-TPAT. Sixty agreements were signed, and 100 additional applications were pending. Beginning in April 2002, Customs was accepting applications from all importers wanting to participate in the C-TPAT initiative.

In order to participate in this initiative, the business must conduct comprehensive self-assessments of security areas such as procedural security, physical security, personnel security, education and training, access controls, manifest procedures, and conveyance security. Any existing security weaknesses would be addressed. The businesses commit to developing security enhancement plans, and if a company fails to uphold their agreements, any benefits would be suspended and participation in the program could be cancelled. The benefit to these companies can include reduced number of border inspections, an assigned Customs account manager, and designated low-risk importer status.

Initially low-risk importers will be accepted in the program upon completion of the agreements, and submission of a Supply Chain Security Profile Questionnaire. Other companies will be accepted after Customs completes a business risk assessment of security and trade compliance. On an ongoing basis, account managers work with the companies to establish and update account action plans to reflect C-TPAT commitments that include making security improvements, communicating security guidelines to business partners, and establishing improved security relationships with other companies.

Audit Objectives/Key Questions: Has Customs implemented adequate management controls over the C-TPAT program to achieve the intended results? We estimate that 2,000 hours will be needed for this project.

## ***Customs Designation of Importers as Low Risk***

Contact Person: Donald Benson (617) 223-8638

Background: In February 2001, Customs announced that 150 importers had been designated as low-risk for trade compliance purposes and would be receiving benefits such as fewer cargo examinations,



---

---

document reviews, and information requests. Additional importers are expected to be added to this list.

The Low-Risk Importer Initiative ties into the Modernization Act (Mod Act), which allows Customs to be selective in its review of imports. This initiative enables Customs to focus their resources on importers that are more likely to be non-compliant.

A Compliance Assessment (CA) is one of the prerequisites to being designated low-risk for trade compliance purposes. A compliance assessment is a type of importer audit performed by a Customs compliance assessment team that uses traditional audit techniques, including statistical testing, and generally covers an importer's most recently completed fiscal year. A CA tests import and financial transactions to determine whether (1) the entries filed by the importer met an acceptable level of compliance with Customs laws and regulations during the period under review and (2) the importer had documented its internal control structure for compliance with Customs requirements. Customs also looks at company compliance measurement exams and data reviews, account manager reports, and other risk data generated within Customs when deciding to allow an importer to be designated as low-risk.

Once an importer has been designated as low-risk, Customs port officials take carefully monitored steps, including supervisory approval, to go beyond minimal examinations and entry reviews. Customs Headquarters approves any examination or review criteria impacting the "low-risk" importers and account managers coordinate all Customs interactions with these importers.

Approximately 450,000 importers comprise the customer base for Customs. As more and more importers are designated low-risk, Customs will be less involved in monitoring compliance with trade regulations. If controls are not in place to ensure these importers deserve continual "low-risk" designation, then this initiative becomes vulnerable to fraud and increases the opportunities for importers to be non-compliant.

**Audit Objectives/Key Questions:** Does Customs have appropriate controls in place for designating importers as "low-risk" and monitoring their continued eligibility for "low-risk" status? We estimate 1,200 hours will be needed for this project.

### ***Customs Container Security Initiative (CSI)***

Contact Person: Donald Benson (617) 223-8638

**Background:** CSI addresses the vulnerability of cargo containers to the smuggling of terrorists and terrorists' weapons. The four major elements of CSI include: establishing security criteria to identify



---

---

high-risk containers; pre-screening containers before they arrive at U.S. ports; using technology to pre-screen high-risk containers; and developing and using secure containers with electronic seals and sensors to show if containers have been tampered with, particularly after being prescreened.

Customs identified the 10 largest ports from which goods are shipped to the U.S. and contacted the related governments to participate in CSI. Risk assessments and trade analysis will be used to determine other high-risk locations for container shipments. Customs will target suspicious goods and target incoming goods for scrutiny. The goal is to pre-screen cargo containers at ports of origin or transit rather than waiting for them to arrive in U.S. ports to inspect.

The advantage to the participating ports is that those that implement pre-screening and increased security are more attractive locations for businesses to conduct their trade. Advanced targeting is beneficial for clearing Customs inspection if there is confidence that proper targeting and pre-inspections have occurred at the ports of origin.

Audit Objectives/Key Questions: To what degree has Customs been successful in implementing CSI? We estimate that 2,000 hours will be needed for this project.

### ***Customs Intelligence Program***

Contact Person: George Tabb (713) 706-4613

Background: Customs basic mission is to ensure that persons and goods entering and exiting the United States do so in compliance with all United States laws and regulations. Enforcement of trade laws and interdiction of contraband are two critical tasks associated with these responsibilities. Customs' strategic objectives regarding its law enforcement responsibilities consist of intelligence, interdiction, and investigative efforts. Of these, intelligence is critical since it is integral to and drives the efforts and associated resources of interdiction and investigative activities.

Customs FY 2002 proposed budget is \$2.4 billion with 17,849 FTE's. The Office of Investigations (OI) has 3,876 positions. OI is responsible for investigation and intelligence, and shares responsibility of anti-smuggling activities with the Office of Field Operations (OFO). Within OI, the Intelligence and Communications Division is responsible for intelligence gathering, analysis, operation, and liaison with the Intelligence Community. Such responsibility also includes functional oversight over Customs' intelligence assets at Headquarters and in the field. The Division produces tactical, operational, and strategic intelligence.



---

---

Audit Objective/Key Question: Is Customs intelligence data being effectively used and shared? We estimate 2,000 hours will be needed for this project.

### ***Customs License Plate Reader Program***

Contact Person: Donald Benson (617) 223-8638

Background: The License Plate Reader (LPR) is a machine that can read and record the rear license plates of vehicles crossing land borders. This data is sent to the Interagency Border Inspection System where checks are done against the Treasury Enforcement Communications System (TECS), the National Criminal Information Center, as well as various Immigration and Naturalization Service databases. If any matches are found, Customs officers are notified within 3 seconds after the LPR's initial plate reading. The system also makes a record in TECS of every vehicle it reads. In 1998, Customs awarded a multi-year contract in the amount of \$45 million to supply, install, and maintain LPRs on the northern and southern borders.

Audit Objectives/Key Questions: Has Customs deployed, used, and maintained LPRs in an effective manner? We estimate that 1,200 hours will be needed for this project.

### ***Customs Targeting of Individuals at Land Border Ports of Entry***

Contact Person: John Lemen (202) 927-5012  
Inez Jordan (202) 927-6835

Background: In FY 2001, Customs processed more than 472 million pedestrians and passengers. Of these arriving persons, 65.9 million arrived via commercial airlines, 11 million arrived by ship, 306.8 million arrived by automobile, and 53 million crossed our borders as pedestrians. Before September 11th, Customs officials had developed sophisticated profiles of likely drug smugglers and searched luggage for hidden narcotics. Now inspectors are more interested in documents—such as blueprints, drawings, photographs, flight manuals, chemical data—that might be carried by terrorists. The need to set new profiles for terrorists could be controversial for Customs.

Evaluation Objective/Key Question(s): What changes have been made to Customs' policies, procedures, and management controls for conducting personal searches at land border crossings in response to September 11<sup>th</sup> and do they appear to reasonably allow for effective targeting while protecting travelers from inappropriate searches? We estimate that 1,600 hours will be needed for this project.



---

---

### ***Treasury's Protection of Physical Critical Infrastructures Follow-up***

Contact Person: Roberta Rickey (312) 886-6300

Background: Certain national infrastructures are so vital that their incapacity or destruction would have a debilitating impact on the defense or economic security of the United States. These critical infrastructures include telecommunications, electrical power systems, gas and oil storage and transportation, banking and finance, transportation, water supply systems, emergency services, and continuity of government. There are two types of threats to critical infrastructures: physical and cyber. To address these threats, Presidential Decision Directive (PDD) 63 was issued in May 1998 with the goal of developing a workable and innovative framework for critical infrastructure by the year 2003, and significantly increases security to government systems by the year 2000.

According to Treasury's Critical Infrastructure Plan, dated November 1998, physical threats are those directed at the underlying physical infrastructure. These threats are intended to gain unauthorized access to equipment, installations, material, and documentation for the purpose of espionage, sabotage, damage, or theft. OIG reviewed the planning of the protection of Treasury's cyber based and physical critical infrastructures in coordination with PCIE/ECIE. The emphasis of this project is on the Department's implementation of those plans.

Audit Objectives/Key Questions: Are Treasury's implementation activities for protecting its critical physical assets adequate? We estimate 2,000 hours will be needed for this project.

### ***Financial Institution Compliance with Foreign Sanction Program – Phase II***

Contact Person: Alexander Best, Jr. (202) 927-5591

Background: The Office of Foreign Assets Control (OFAC) administers a series of laws that impose economic sanctions against hostile targets to further U.S. foreign policy and national security objectives. Economic sanctions are powerful foreign policy tools. However, their success requires the active participation and support of every financial institution. Sanctions may take the form of trade embargos, blocked assets, prohibited commercial and financial transactions, or a combination of these measures. OFAC can impose both civil and/or criminal penalties for non-compliance with the established sanctions. Civil penalties range from \$11,000 to \$275,000 in fines. Criminal penalties range from 2 to 10 years imprisonment and \$10,000 to \$1 million in fines.



---

---

As discussed in a FY 2002 OIG audit report, OFAC is not a financial institution regulator. Accordingly, it does not have regulatory oversight of the financial institutions that are required to implement the various sanctions. OFAC relies on financial institution regulators compliance examinations to provide assurance that financial institutions activities comply with foreign sanction requirements.

**Audit Objective/Key Question(s):** Are financial institutions complying with OFAC foreign sanction requirements? We will test financial transactions to determine whether financial institutions are implementing the necessary measures to ensure foreign sanction requirements are met. We will also determine if the practices and procedures implemented by the financial institutions are adequate to ensure that prohibited transactions are identified. We estimate that 2,400 hours will be needed for this project.

### ***OFAC Trade Sanctions Program***

**Contact Person:** Alexander Best, Jr. (202) 927-5591

**Background:** OFAC administers a series of laws that impose economic sanctions against hostile targets to further United States foreign policy and national security objectives. Various economic sanctions have resulted in trade embargos with a number of countries. These embargo programs prohibit trade with countries including Libya, Iraq, Iran, Sudan, Syria, Cuba and others. Also, embargo programs prohibit trade with international terrorist and narcotics traffickers, along with Specially Designated Nationals who represent prohibited countries and organizations. The sanctions are mandated under the following eight basic statutes: Trading With the Enemy Act, International Emergency Economic Powers Act, Antiterrorism and Effective Death Penalty Act, Iraqi Sanctions Act, United Nations Participation Act, the Cuban Democracy Act, the Cuban Liberty and Democratic Solidarity Act, and the International Security and Development Cooperation.

OFAC has jurisdiction over all U.S. citizens and permanent residents, companies organized in the United States, foreign branches of U.S. companies, individuals and entities located in the United States, and foreign subsidiaries owned or controlled by U.S. individuals or companies. Depending on the program involvement, criminal violations of the statutes administered by OFAC can result in corporate and personal fines of up to \$10 million and 30 years in jail. Each sanctions program is driven by different U.S. foreign policy concerns and involves different levels of restrictions.

**Audit Objective/Key Question(s):** Has OFAC been effective in administering, imposing and enforcing trade sanctions against targeted countries, companies, organizations and individuals? This project is one of several audits planned to focus on compliance with





---

---

OFAC trade sanctions programs. We estimate that 2,000 hours will be needed for this project.

### ***Treasury's Role in Combating Terrorist Financing and Money Laundering***

Contact Person: Alexander Best, Jr. (202) 927-5591

Background: The Money Laundering and Financial Crimes Strategy Act of 1998 called for the development of a 5-year, anti-money laundering strategy. In September 1999, Treasury and the Department of Justice released the first comprehensive National Money Laundering Strategy (Strategy), which has been periodically updated since then.

The events of September 11<sup>th</sup> underscore the need for aggressive and vigilant anti-money laundering efforts that target the movement of funds into this country for the purpose of criminal activity. Dismantling the financial infrastructure of terrorist groups is a top priority of Treasury.

Audit Objective/Key Question(s): Is Treasury obtaining measurable results in combating terrorist financing and other forms of money laundering? We anticipate that a series of audits will be performed to address this objective. We estimate that 4,000 hours will be expended on these audits during FY 2003.

### ***FinCEN's Efforts to Estimate the Magnitude of Money Laundering***

Contact Person: Alexander Best, Jr. (202) 927-5591

Background: Money laundering – the process of introducing the proceeds of crime into the legitimate stream of financial commerce by masking their origin – is a global phenomenon of enormous reach. Money can be laundered through a wide variety of enterprises, from banks and money transmitters, to stock brokerage houses and casinos. While no hard numbers exist on the amount of worldwide money laundering, a former International Monetary Fund (IMF) official has estimated the global volume at between 2 and 5 percent of the world's gross domestic product, some \$600 billion even at the low end of the range.

Because money laundering by its nature defies detection, it is extremely difficult to measure progress in this area without being able to quantify with some degree of precision the amount of money laundered. Existing estimates lack a strong scientific basis. In order to meet the long-standing concerns of the Congress and the OMB, FinCEN has taken a leading role in the related efforts to measure both the domestic and international magnitude of money laundering, and has engaged a contractor in this task.



---

---

Audit Objective/Key Question(s): What is the status of FinCEN's contracted study to estimate the magnitude of domestic and international money laundering, and has a sound methodology been developed? We estimate that 1,200 hours will be needed for this project.

***Efforts to Identify and Investigate Potential Money Laundering through the Black Market Peso Exchange***

Contact Person:

Alexander Best, Jr. (202) 927-5591

Background: Underground financial markets provide criminals with an opportunity to conceal their proceeds and ultimately to mingle them into the legitimate economy or to move them out of the country. The 2001 *National Money Laundering Strategy* identified the Black Market Peso Exchange (BMPE) as one such important underground financial market and called for extensive action against it. The BMPE is the primary system used by Colombian narcotics traffickers to launder billions of dollars of drug money each year. The BMPE is an underground financial system used to evade reporting and record keeping requirements mandated by the Bank Secrecy Act, as well as Colombian foreign exchange and import tax laws and tariffs. The BMPE system is a subject of major concern to Federal law enforcement agencies.

To combat the BMPE, Treasury established an interagency BMPE Working Group that has developed and implemented an aggressive strategic plan to combat money laundering. The BMPE Working Group, overseen by the Treasury Under Secretary for Enforcement, brings together Federal enforcement, banking, and other agencies in an effort to dismantle the BMPE system.

During 1997, Customs created the Money Laundering Coordination Center (MLCC) with assistance from FinCEN. The MLCC is designed to synthesize intelligence from investigations targeting the BMPE. The National Money Strategy for 2001 includes numerous goals and milestones for identifying and targeting major money laundering systems, which are facilitated by the BMPE.

Audit Objective/Key Question(s): Have strategies developed by the BMPE Working Group and the MLCC to combat money laundering resulted in better coordination and integrated anti-BMPE investigations? We estimate that 2,000 hours will be needed for this project.



---

---

### ***FinCEN Efforts to Ensure Compliance by Money Service Businesses with Suspicious Activity Reporting Requirements***

Contact Person: Benny Lee (415) 977-8810

Background: FinCEN issued a final rule requiring suspicious activity reporting by Money Service Businesses (MSB) -- entities which transfer funds, or issue, sell or redeem money orders or travelers checks. The new rule is effective January 1, 2002, and is intended to improve law enforcement's ability to focus its anti-money laundering efforts on illicit financial activity occurring through non-bank financial institutions. One vital aspect to ensuring compliance with the regulation is that MSBs are required to register with FinCEN by the end of 2001. Those failing to comply could be fined up to \$5,000 per day and subject to criminal penalties. FinCEN has requested a budgetary supplement of \$5.5 million for the MSB Regulatory Program for FY 2002.

Audit Objective/Key Question(s): Has FinCEN taken appropriate measures to ensure the full and complete registration of MSBs, including their many agents? We estimate that 2,400 hours will be needed for this project.

### ***FinCEN's Identification of Suspicious Wire Transfers***

Contact Person: Donald Benson (617) 223-8638

Background: The events of September 11<sup>th</sup> have underscored the need to identify large and suspicious financial transactions by agencies that are responsible for monitoring this activity. According to banking officials, detecting suspicious wire transfers is nearly impossible. A large bank can process between 10 and 125,000 wire transfers in a typical business day. About 70 percent of these transfers are usually for amounts under \$500,000, although transfers of \$1 to 4 million are not unusual.

The Department has issued new money-laundering rules that will cover a broader swath of the financial-services industry. The rules go beyond the requirements on banks and securities firms to cover credit-card companies, mutual funds, wire-transfer firms, and commodities dealers. The rules will require firms to implement comprehensive money-laundering compliance programs by designating a special compliance officer, training employees to detect money laundering, commissioning independent audits, and establishing policies and procedures to identify risks and minimize opportunities for abuse. The effective date of the new rules is April 24, 2002.

Audit Objectives/Key Questions: How does FinCEN ensure that credit card firms, mutual funds, wire transfer firms, and commodities dealers are complying with the new regulations? We estimate that 2,000 hours will be needed for this project.



---

---

## ***FinCEN Gateway Program***

Contact Person:

Alexander Best, Jr. (202) 927-5591

**Background:** Under the Annunzio-Wylie Act, FinCEN was tasked with providing to Federal, state, and local law enforcement officials, data and information on activities that may lead to money laundering. FinCEN's Gateway Program is central to Treasury's overall efforts to assist state and local agencies with their anti-money laundering and financial crimes investigations. Through Gateway, state and local law enforcement agencies, working with designated state coordinators who are trained on FinCEN-designated software, have direct access to over 100 million reports filed under the Bank Secrecy Act. There are currently 677 active Gateway users. Gateway users researched 6,932 cases in FY 2001. There were 1,592 alerts issued to Federal, state, and local law enforcement in FY 2001.

**Audit Objective/Key Question(s):** How is FinCEN managing and monitoring the Gateway Program to ensure that state and local law enforcement agencies are utilizing the information effectively to identify and investigate money laundering and other financial crimes? We estimate that 2,000 hours will be needed for this project.

## ***OCC and OTS Exams for Compliance with Sections 312 and 313 of the USA PATRIOT Act***

Contact Person:

Benny Lee (415) 977-8810

**Background:** In response to September 11<sup>th</sup>, Congress enacted the USA PATRIOT Act, which established a wide variety of new and enhanced ways of combating terrorism. Several provisions of the Act affect banks and thrifts that are supervised by OCC and OTS with respect to strengthening the Bank Secrecy Act (BSA). These provisions are intended to identify and deter money laundering that supports international terrorism.

This audit is one in a series of OIG planned audits addressing various provisions of the USA PATRIOT Act affecting OCC's and OTS' oversight responsibility. Section 312 of the Act requires financial institutions with domestic private banking accounts or correspondent accounts for non-US entities to ensure there are adequate if not enhanced due diligence controls to detect and report instances of money laundering. Section 313 of the Act bars certain financial institutions from establishing, maintaining or managing correspondent accounts for foreign "shell" banks. These types of transactions are known to have been avenues of widely publicized money laundering cases and thus vulnerable to international terrorist financing.

**Audit Objective/Key Question(s):** Have OCC and OTS implemented effective BSA examination procedures to ensure that supervised



---

---

institutions comply with Sections 312 and 313 of the USA PATRIOT Act? We estimate that 2,000 hours will be needed at each bureau for this project.

***OCC and OTS Exams for Compliance with Section 326 of the USA PATRIOT Act***

Contact Person: Benny Lee (415) 977-8810

Background: This audit is one in a series of OIG planned audits addressing various provisions of the USA PATRIOT Act affecting OCC's and OTS' oversight responsibility. This audit covers section 326 of the Act, which requires financial institutions to follow Treasury standards to verify the identity of customers, both foreign and domestic, when a customer opens an account.

Audit Objective/Key Question(s): Have OCC and OTS implemented effective BSA examination procedures to ensure that supervised institutions comply with section 326 of the USA PATRIOT Act. We estimate that 2,000 hours will be needed at each bureau for this project.

***OCC and OTS Exams for Compliance with Section 314 of the USA PATRIOT Act***

Contact Person: Benny Lee (415) 977-8810

Background: This audit is one in a series of OIG planned audits addressing various provisions of the USA PATRIOT Act affecting OCC's and OTS' oversight responsibility. This audit covers section 314 of the Act, which requires Treasury to issue regulations to encourage cooperation among financial institutions, financial regulators, and law enforcement officials to share information on individuals, entities, and organizations that is reasonably suspected of engaging in terrorist acts or money laundering. The section also allows sharing information among financial institutions upon notice to Treasury.

Audit Objective/Key Question(s): To what extent has the intent of Section 314 been implemented and are there unanticipated impediments to its effective application? We estimate that 2,400 hours will be needed at each bureau for this project.

***FMS Controls over the Access, Disclosure, and Use of Social Security Numbers by Third Parties (In Progress)***

Contact Person: Alexander Best, Jr. (202) 927-5591

Background: Identity theft is a major concern today. The expanded use of the social security number (SSN) as a national identifier provides a tempting motive for many unscrupulous individuals to acquire a SSN



---

---

and use it for illegal purposes. While no one can fully prevent SSN misuse, Federal agencies have some responsibility to limit the risk of unauthorized disclosure of SSN information.

Due to concerns related to perceived widespread sharing of personal information and occurrences of identity theft, Congress asked GAO to study how and to what extent Federal, state, and local government agencies use individuals' SSNs and how these entities safeguard records of documents containing those SSNs. The Chairman of the House Ways and Means Subcommittee on Social Security asked the Social Security Administration OIG and the President's Council on Integrity and Efficiency (PCIE) to look at the way Federal agencies disseminate and control the SSN. This review is part of the PCIE assessment, in response to the Congressional request, of Federal agencies' controls over the use of SSNs by third parties.

**Audit Objective/Key Question(s):** Does FMS have appropriate controls over the access, disclosure, and use of SSNs by third parties? We estimate that 800 hours will be needed to complete this project during FY 2003.

### ***Mint's Consolidated Information System (COINS)***

Contact Person: Ed Coleman (202) 927-5007

**Background:** Beginning in FY 1996, the Mint started a major effort to establish a fully integrated, enterprise-wide, Mint information management system to address most of their manufacturing, marketing, and financial requirements. COINS was designed to provide accurate, meaningful, and timely information required by Mint management. The primary objective of COINS is to have a one-time capture of information at its source. This one-time capture of information was to provide information to all who need it and are authorized to receive it.

**Audit Objective/Key Question(s):** Does COINS meet current user needs? We estimate 2,000 hours will be needed to complete this project during FY 2003.

### ***BEP Security Measures over Currency and other Documents (In Progress)***

Contact Person: Thomas Byrnes (202) 927-5904

**Background:** BEP is the largest producer of security documents in the United States. Accordingly, the Bureau designs, prints, and furnishes a large variety of security documents, including Federal reserve notes, Treasury securities, identification cards, naturalization certificates, other special security documents and postage stamps. BEP produces over 9 billion Federal Reserve notes each year at its



---

---

facilities in Washington, D.C., and Fort Worth, Texas. In addition, BEP produces over 20 billion stamps for the U. S. Postal Service. The Bureau employs over 2,500 workers and has a budget of about \$641 million.

All products are to be designed and manufactured with advanced counterfeit deterrence features to ensure product integrity. BEP also processes claims for the redemption of mutilated currency.

Audit Objectives/ Key Question(s): Does BEP have adequate controls to prevent and/or deter the theft of currency? We estimate that this project will require 800 hours to complete during FY 2003.

***Treasury's Efforts as the Lead Agency for Banking and Finance Under Presidential Decision Directive (PDD) 63***

Contact Person: Donald Kassel (202) 927-6512

Background: Certain national infrastructures are so vital that their incapacity or destruction would have a debilitating impact on the defense or economic security of the United States. These critical infrastructures include telecommunications, electrical power systems, gas and oil storage and transportation, banking and finance, transportation, water supply systems, emergency services, and continuity of government. To address threats to critical infrastructures, PDD 63 was issued during May 1998, with the goals of significantly increasing security to government systems by the year 2000 and of producing a workable and innovative framework for critical infrastructure by the year 2003.

Under PDD 63, which calls for the protection of physical and cyber-based systems essential to the minimum operations of the economy and government, Treasury is the lead agency for liaison with the banking and finance sector. The related PDD 63 mission is to protect this sector from intentional acts that could significantly impact the sector's ability to provide for the orderly functioning of the financial system and the national economy, and to assure continued public confidence in the sector's ability to prevent, detect, and respond to infrastructure threats and incidents.

The sector, banking and finance, for which Treasury is the lead agency includes banks, financial service companies, payment systems, investment companies, and securities and commodities exchanges. Treasury has designated the Assistant Secretary for Financial Institutions as the Sector Liaison Official, who is responsible for coordinating with the banking and finance private sector entities to: (1) assess the vulnerabilities of the sector to physical or cyber attacks, (2) recommend a plan to eliminate significant vulnerabilities, (3) propose a system for identifying and preventing attempted major attacks, and (4) develop a plan to alert, contain, and rebuff an attack



---

---

in progress and rapidly reconstitute minimum essential capabilities in the aftermath of an attack. In conclusion, the lead agency and private sector counterparts will develop and implement a Vulnerability Awareness and Education Program for the sector.

PDD 63 also strongly encourages each sector to establish a private sector Information Sharing and Analysis Center (ISAC) that could serve as the mechanism for gathering, analyzing, appropriately sanitizing and disseminating private sector information to both industry and the National Infrastructure Protection Center (NIPC). The actual design and functions of the center and its relation to the NIPC will be determined by the private sector, in consultation with, and with assistance from, the Federal Government. Of the eight sectors identified in PDD 63, the banking and finance sector was the first to establish an ISAC.

**Audit Objective/Key Question(s):** To what extent has Treasury, as lead agency for the banking and finance sector, coordinated with private sector entities to meet the objectives of PDD 63? We estimate that 2,000 hours will be needed for this project.

### ***OCC and OTS Examiner's Reliance on the External Auditors' Work (In Progress)***

Contact Person:

Benny Lee (415) 977-8810

**Background:** Prior OIG reviews of bank failures have surfaced a reoccurring weakness with examiners unduly relying on the work of external auditors. This undue reliance has either masked problems from examiners or impeded the timely detection of unsafe and unsound banking practices and bank violations. The reliance on external auditors continues to be an important issue to Treasury, the Congress, and the financial services industry given the recent events such as the collapse of Enron and subsequent investigations of its external auditor. Bank examiners rely on the external auditors' work to assist in the financial analysis of institutions, identify areas of supervisory concern, and detect trends and information not otherwise revealed in the monitoring of institutions. Examiners rely on an institution's annual financial audits to enhance the examination process, and may review external auditors' underlying work papers to plan the scope of a bank examination.

**Audit Objective/Key Question(s):** What controls are in place to ensure that the appropriate level of reliance is placed on the work or assertions supporting audited financial statements during bank examinations?





---

---

Separate audits will be conducted at OCC and OTS. We estimate 2,400 hours for this project will be needed at each bureau.

### ***OCC and OTS Examination Coverage of Financial Institution Third Party Service Providers***

Contact Person: Benny Lee (415) 977-8810

Background: Increasingly, financial institutions are outsourcing key components of its operations to third party service providers. This not only includes outsourcing administrative and marketing functions but also outsourcing of core functions, such as mortgage originations, valuing and modeling high-risk assets, and mortgage servicing. Even though these functions may be performed externally, financial institutions are subject to the same risks with respect to security, privacy, and compliance with applicable bank regulations and consumer protection laws just as if they were conducting the activities directly. Yet, reliance on third parties decreases the institution's management direct control, and therefore requires management's intensified oversight. Prior OIG reviews of failed banks suggest that institutions' controls of the risks associated with third party service providers may be waning.

Audit Objective/Key Question(s): Do OCC and OTS examinations provide adequate coverage of third party service providers and assess the associated risks? We estimate 2,500 hours will be needed for this project at each bureau.

### ***OTS Examinations of Holding Companies and the Related Transactions with Affiliates***

Contact Person: Benny Lee (415) 977-8810

Background: OTS regulates both thrift institutions and their holding companies. The latter has become an increasingly significant part of OTS' supervision of the thrift industry. As of March 2002, OTS supervised 663 holding companies that controlled 511 thrifts. These thrifts represented approximately 50 percent of the industry and accounted for over 78 percent of thrift industry's assets. Many of these holding companies are themselves large businesses from varying sectors such as securities firms, insurance companies, and retail companies. Some holding companies hold more than one holding company along with numerous noninsured subsidiary companies. Unlike banking holding companies, thrift holding companies could engage in a broad range of activities, including commercial, retail, and financial activities. Some of these companies are among the largest and best-known financial and commercial firms such as State Farm, AIG, Merrill Lynch, Lehman Brothers, Archer-Daniels-Midland and Federated Department Stores.



---

---

OTS examinations are risk-focused, meaning that the primary examination objective is to examine the holding company and other affiliates in those areas that pose the greatest risk to the thrift subsidiary. One area of risk that OTS assesses during an examination is the holding company's effect on the thrift's transactions with affiliates. Most thrift holding companies engage in affiliate transactions as part of their ordinary course of business. A review of these transactions with affiliates is a critical component of both thrift and holding company examinations because these might significantly affect the operations and overall financial condition of the thrift.

**Audit Objective/Key Question(s):** Do OTS holding company examinations adequately identify transactions between the subsidiary thrift and the holding company and affiliates to ensure compliance with associated laws and regulations? We estimate 2,400 hours will be needed for this project.

### ***OCC and OTS Background Checks of Directors/Senior Officers***

**Contact Person:** Benny Lee (415) 977-8810

**Background:** OCC and OTS have the authority and responsibility to disapprove new directors and senior executive officers of certain regulated institutions. This regulatory authority serves as a control to ensure key positions such as directors and senior executives are filled by competent individuals with unquestioned integrity. The need for such regulatory controls grew out of the thrift debacle of the late 1980s, and the legislative provisions are under section 914 of the Financial Institutions Reform Recovery and Enforcement Act of 1989 (FIRREA). Background checks are conducted for newly chartered institutions, troubled institutions, or when there has been a change of control as defined by regulation.

Subsequent to FIRREA, the regulatory and industry landscape has changed dramatically. The Gramm-Leach Bliley Financial Services Modernization Act of 1999 (GLBA) enables depositories, securities firms and insurance companies to fall under common ownership, in effect expanding the effective field of potential Directors and Senior Executive Officers of a Federally insured institution.

**Audit Objective/Key Question(s):** How effective are OCC and OTS background checks of directors and senior executive officers of troubled institutions and newly created institutions under GLBA? We estimate that 2,000 hours will be needed at each bureau for this project.



---

---

## ***OCC Examiner Safeguards over Bank Sensitive Information***

Contact Person: Benny Lee (415) 977-8810

Background: Striving to eliminate red tape, OCC announced in September 2000 plans for implementing a new high-tech examination tool. As part of an initiative called "Examination in the 21st Century," OCC developed an online system that allows examiners to remotely view bank documents and analyze data to reduce time spent at institutions doing upfront preparation work. The primary benefit being the added time examiners could then devote onsite to discussions with bank management. Few would deny the associated efficiencies. But, one aspect of the examination that cannot be compromised is the need for examiners to safeguard and protect bank sensitive information from unauthorized disclosure.

Audit Objective/Key Question(s): Does OCC's new high-tech examination tool provide adequate safeguards over bank sensitive information obtained online from unauthorized disclosure and or access? We estimate that 2,000 hours will be needed for this project.

## ***OTS Consumer Protection Compliance Exams***

Contact Person: Benny Lee (415) 977-8810

Background: Since the passing of the Gramm-Leach-Bliley Financial Services Modernization Act (GLBA) of 1999, bank regulators have been assessing the supervisory implications of banks expanding into insurance and securities activities. Aside from the privacy and CRA provisions of GLBA, much of the regulatory focus has understandably been on safety and soundness concerns. For example, OTS recognized the need for a different and heightened supervisory approach for unitary thrifts given the different risks possibly posed by the non-bank owners. With respect to compliance issues, a recent GAO report on suspicious activity reporting at bank-affiliated broker dealers surfaces the regulatory gap arising out of GLBA's functional regulation provisions, that gap being that neither Security and Exchange Commission (SEC) nor the banking regulators have been examining these entities for compliance with applicable Suspicious Activity Reporting rules. These latter conditions suggest that similar regulatory and supervisory gaps may also exist relative to the many consumer protection laws covered during a compliance examination. These consumer laws include, for example, Truth-in-Lending, Real Estate Settlement Procedures Act, and Equal Credit Opportunity Act, and Fair Credit Reporting.

Audit Objective/Key Question(s): Do OTS' current consumer compliance exams adequately address the different structural options



---

---

available under GLBA? We estimate that 2,000 hours will be needed for this project.

### ***OCC and OTS Fee Assessment Practices***

Contact Person: Donald Kassel (202) 927-6512

**Background:** OCC and OTS are funded through assessments on the assets of, and other fees levied on, the national banks and thrift institutions they are responsible for examining and regulating. Both agencies impose semiannual assessments based upon slightly different criteria. OCC's assessments are based upon a bank's total assets held and the condition of the bank. For OTS, three components are considered collectively: size, condition, and complexity of portfolio.

Current assessment regulations allow the OCC to revise its respective rate schedules periodically, depending on external factors such as inflation, or to charge a 50 percent surcharge in the case of banks that require increased supervisory resources. Revisions to the assessment rates on trust assets supervised by OTS are based upon a continuing review of examination costs in order to recover the agency's direct and indirect expenses, as deemed necessary or appropriate by the Director.

In Fiscal Year 2001, fee assessments by OCC and OTS totaled approximately \$395 million and \$106 million, respectively.

**Audit Objective/Key Question(s):** Does the methodology for determining fee assessment amounts for the various categories of financial institutions (e.g., asset size, condition) ensure that the fees charged recover the full cost of the supervision provided? We estimate that 1,000 hours will be needed at each bureau for this project.

### ***Financial Institutions' Anti-Money Laundering Programs***

Contact Person: Benny Lee (415) 977-8810

**Background:** In response to September 11<sup>th</sup>, Congress enacted the USA PATRIOT Act, which includes several provisions aimed at strengthening the BSA and the associated anti-money laundering regulations. One such provision is section 352 of the Act, which requires all U.S. financial institutions to establish anti-money laundering programs by April 2002, including banks, securities firms, insurance companies, credit card companies, investment companies, and money transmitters. One objective of the USA PATRIOT Act is to disrupt money laundering that supports terrorism.

**Audit Objective/Key Question(s):** Have OCC and OTS developed effective BSA examination procedures to evaluate financial



---

---

institutions' compliance with Section 352? We estimate 2,000 hours will be needed to complete this project during FY 2003.

### ***FLETC Environmental Remediation of Outdoor Firing Ranges (In Progress)***

Contact Person: Alexander Best, Jr. (202) 927-5591

Background: In 1975, FLETC moved its operations to a 1,500-acre site near Brunswick, Georgia. To address requirements for firearms training, FLETC used a preexisting outdoor dirt berm firing range constructed by the Navy in the early 1950s. Over the next several years, the Center built three additional dirt berm ranges to quickly provide needed training capacity.

In an internal review conducted pursuant to the requirements of the Federal Managers' Financial Integrity Act (FMFIA), FLETC management in 1991 identified as a high-risk area the "safety, noise, and environmental problem" associated with the outdoor dirt berm firing ranges. Since identifying this material weakness, FLETC has pursued actions to rectify this weakness through coordinated efforts with the Environmental Protection Agency, Georgia Environmental Protection Division, and the Army Corps of Engineers.

Evaluation Objective/Key Question(s): Is FLETC making progress in addressing the environmental and safety issues associated with the ranges and the impact on users of the ranges and surrounding facilities? We estimate that 400 hours will be needed to complete this project during FY 2003.

### ***Treasury's Enforcement of Export Controls (In Progress)***

Contact Person: Alexander Best, Jr. (202) 927-5591

Background: The National Defense Authorization Act (NDAA) for FY 2000 (Public Law 105-65) requires the President to submit a report to Congress by March 30 of each year, through 2007, on the transfer of militarily sensitive technology to countries and entities of concern. The NDAA also requires that the Inspectors General (IG) of the Departments of Commerce, Defense, Energy, and State, in consultation with the Director of the Central Intelligence Agency and the Director of the Federal Bureau of Investigation, conduct an annual review of policies and procedures of the U.S. Government with respect to their adequacy to prevent export of sensitive technologies and technical information to countries and entities of concern. As a result, the IGs from the Departments of Commerce, Defense, Energy, State, and Treasury formed an Interagency Working Group to conduct annual reviews of the export licensing process. The FY 2003 review topic is Enforcement of Export Controls.



---

---

Audit Objective/Key Question(s) : Are Treasury's export enforcement activities concerning the transfers of militarily sensitive technology to countries and entities of concern adequate and effective? Does Treasury have efficient processes and effective controls in place to prevent the illegal export of dual-use items and munitions shipments before they occur? We estimate that 800 hours will be needed to complete this project during FY 2003.



---

---

## **Appendix B Project Narratives**

### ***Office of Audit Projects Under Consideration for Future OIG Annual Plans***

#### ***Treasury Bureaus' Logical Access Controls***

Contact Person: Ed Coleman (202) 927-5007

Background: Logical access controls involve the use of computer hardware and software to prevent or detect unauthorized access by requiring users to input identification numbers, passwords, or other identifiers that are linked to predetermined access privileges. Logical controls should be designed to restrict legitimate users to the specific systems, programs, and files that they need and prevent others, such as hackers, from entering the system. Logical access controls enable an entity to identify individual users or computers that are authorized access to computer networks, data, resources and restrict access to specific sets of data or resources.

Audit Objective/Key Questions: Are Treasury bureaus' logical access controls effective to reduce the risks associated with unauthorized user access? We estimate that 2,000 hours will be needed for this project.

#### ***Bureaus' Private Branch Exchange (PBX) Telecommunication Systems***

Contact Person: Ed Coleman (202) 927-5007

Background: The uninterrupted operation of a company's PBX switches must be maintained for most businesses to continue service. PBX switches are a favorite target of certain unscrupulous outsiders known as "phone phreaks" or "phreakers." Phreakers are people who illegally break into telephone systems to commit fraud and/or evaluate systems' security vulnerabilities. In essence, phone phreaks are computer hackers who attack telephone systems. In addition, there may be others that would benefit from the bureaus inability to communicate via telecommunication systems.

Audit Objective/Key Question(s): Are PBX telecommunication systems secure? Specifically, we will review: (1) telecommunications organization, (2) facility asset management, (3) telecommunication facility security, (4) logical and system access, (5) business continuity planning, and (6) PBX utilization. We estimate that 1,600 hours will be needed for this project.



---

---

## ***Bureau Controls and Security Over Web Servers***

Contact Person:

Ed Coleman (202) 927-5007

**Background:** The World Wide Web is the one of the most important ways for Treasury and its bureaus to disseminate information, interact with users, and establish an e-Commerce business presence. Web servers are applications that make information available over the Internet. The web server is the most targeted and attacked host on an organization’s network. A web site that has been compromised has often served as entry point for intrusions into an entity’s internal network. Examples of security threats to web servers include: (1) the disruption of valid user access by denial of service attacks, (2) the exploitation of software bugs to gain unauthorized access, (3) the transmission and distribution of confidential information on the Web server to unauthorized individuals, (4) the malicious changes of information on web servers, and (5) the use of the web server as distribution point for illegal software and data.

**Audit Objective/Key Question(s):** Are Treasury and bureau security controls adequate to protect against unauthorized access or malicious attacks from outside users? We estimate that 2,000 hours will be needed for this project.

### ***Treasury Telecommunications Connections***

Contact Person:

Ed Coleman (202) 927-5779

**Background:** Not having a vulnerability assessment that encompasses the review of Internet connections and internal networks (including network devices, servers, workstations, services, protocols and operating systems), can lead to unauthorized access, modification, or disclosure of sensitive data. A variety of specialized computer software and hardware is available to limit access by outside systems or individuals through telecommunications networks. Examples of network components that can be used to limit access include: (1) secure gateways—which restrict access between networks (an important tool to help reduce the risk associated with the Internet); (2) teleprocessing monitors—which are programs incorporated into the computer’s operating system that can be designed to limit access; and (3) communications port devices—such as a security modem that requires a password from a dial-in terminal prior to establishing a network connection.

**Audit Objective/Key Question(s):** Are telecommunication controls adequate to reduce the possibility of unauthorized devices being connected to the network. This audit objective can be accomplished by reviewing connections to the Internet by Treasury’s internal networks including network devices, servers, workstations, services,





---

---

protocols and operating systems. We estimate that 2,000 hours will be needed for this project.

### ***Bureau Use of Non-Treasury Systems for Telecommunications***

Contact Person: Ed Coleman (202) 927-5007

Background: The Treasury Communications System (TCS) provides the telecommunications infrastructure for collaboration, communication and computing as required by the Department of the Treasury (Treasury). In addition to enhancing communications, TCS enables the Treasury to respond to the rapid growth and international expansion of the global economy by encouraging the use of electronic money, electronic funds transfer, and electronic commerce itself. As the framework for the Treasury information infrastructure, TCS enables a wide selection of 21<sup>st</sup> century applications, such as simplifying tax and wage reporting, linking law enforcement agencies for public safety, and developing an international trade database. In addition to TCS, bureaus have the option of using other telecommunication services. Outside of TCS, there might be telecommunication service providers that can offer service at a cheaper cost. However, these other telecommunication service providers may not provide the Treasury specific services that TCS can provide. For instance, TCS provides information technology products that are specifically designed for the Treasury programs.

Audit Objective/Key Question(s): Have telecommunication controls been implemented for systems not using TCS? We estimate that 2,000 hours will be needed for this project.

### ***Security Controls for Application Service Providers***

Contact Person: Ed Coleman (202) 927-5007

Background: The creation of the Internet and the World Wide Web provided users access to all types of information and received significant media exposure starting around 1994. One of the business models that was created out of the Web was the application service provider (ASP). ASPs are defined as companies that provide services via the Internet. In most cases, the term ASP is defined as companies that supply software applications and/or software-related services over the Internet. The most common features of an ASP is that the ASP: (1) owns and operates a software application; (2) owns, operates, and maintains the servers that run the application; (3) employs the people needed to maintain the application; (4) makes the application available to customers everywhere via the Internet; and (5) bills for the application either on a per-use basis or on a monthly/annual fee basis.



---

---

Audit Objective/Key Question(s): Have security controls been established on an ASP's system to protect Departmental information against unauthorized access? We estimate that 1,200 hours will be needed for this project.

### ***Safe Software Coding***

Contact Person: Ed Coleman (202) 927-5007

Background: Traditionally, security has been assigned to the information technology staff. There has been little or no security knowledge among system developers. The result, in some cases, is high quality, well designed products based on new technologies that fall short in security, reliability, and other non-functional requirements. Cutting-edge coders tend not to think about security until late in the development process. Secure software coding becomes increasingly important since the Internet has fundamentally, and radically changed the role that software plays in the world. Controls and security awareness should be considered and built into the software during development to eliminate threats and to protect data. The emphasis on security should apply at every stage of the development cycle for all software, from operating systems, desktop applications, to the global web services.

Audit Objective/Key Question(s): Is (1) the practice of safe software coding occurring at Treasury bureaus, and (2) can Treasury bureau's enterprise software and infrastructure be better protected by practicing safe software coding during development? We estimate that 1,600 hours will be needed for this project.

### ***Protection of Mainframe Data Backup***

Contact Person: Ed Coleman (202) 927-5007

Background: Treasury maintains a significant amount of mainframe tape volumes providing all bureau systems (e.g., application, MIS) with data backup for recovery capability, as well as daily processing use. The effective management of data takes into consideration data backups, offsite storage, data retention and disposition. Control over application data ensures that data remains complete, accurate, and available during its input, update, and storage to satisfy business requirements. Losing the capability to retrieve and process information maintained electronically can significantly affect an organization's ability to accomplish its mission. An organization should have procedures in place to (1) protect information resources and minimize the risk of loss and (2) periodically review data back-up provisions. These procedures should consider the activities performed at general IT support facilities, such as the data processing center and the offsite storage location, as well as the activities performed by users and custodians of specific applications. Data backup plans



---

---

should be tested and reviewed periodically to determine that they will work as intended.

Audit Objective/Key Question(s): Has the Department provided adequate controls for physical and logical access to data back-ups? We estimate that 800 hours will be needed for this project.

### ***Treasury Communication System (TCS) Inventory Management***

Contact Person: Thomas Byrnes (202) 927-5904

Background: The TCS is the largest secure, private wide-area network in the Federal civilian government. It integrates the capabilities offered through the Federal Telecommunications linking law enforcement agencies for public safety, and developing an international trade database. It provides a centralized network and management system to support user's missions by integrating their respective information systems, and it supports a wide range of services, including video conferencing, multimedia applications, and Internet/ Intranet access. Users supported by TCS include the Department's bureaus and the Department of Justice. TCS serves over 6,000 nationwide user locations accommodating over 150,000 individuals and employing in excess of 10,000 communicating circuits. For FY 2003, communications cost are expected to be over \$12 million. The office of Corporate Systems Management (CSM) has the overall management responsibility for TCS, including TCS equipment items in inventory.

Audit Objective/Key Question: Does CSM have effective controls over the TCS inventory? We estimate that 1,600 hours will be needed for this project.

### ***Wireless Networking at Treasury***

Contact Person: Ed Coleman (202) 927-5007

Background: Wireless networking frees computer users from the shackles of network cables with three kinds of wireless technologies: (1) 802.11x, (2) Bluetooth, and (3) IrDA-infrared. Today, most laptop computers are equipped with IrDA ports, and more new generation Personal Digital Assistants (PDA) and cellular phones come with built-in Bluetooth technology. Mobile users can access network resource, emails, and the Internet with their laptops, PDAs and cellular phones. Unlimited wireless network access means anyone with a wireless network card could gain access to the network but highly restricted access negates the benefits of going wireless. Hackers in the vicinity can possibly compromise laptops, PDAs, or cellular phones with 802.11x, Bluetooth, and IrDA technologies when they are used in the public. Also, the default setting for IrDA and Bluetooth ports



---

---

is to network automatically with nearby devices without requiring passwords or authentication. Most wireless local area networks (802.11x) products come with basic security feature through the use of Wired Encryption Protocol. However, according to one recent industry article, many corporations fail to turn it on, or they don't change any of the default passwords or settings on their wireless products.

**Audit Objective/Key Question(s):** Have Treasury bureaus employed adequate measures to protect wireless network? Has the Department established adequate policy and oversight regarding wireless networking? We estimate 800 hours will be needed for this project.

### ***Assessing Risk for the Department's Computer Operations***

**Contact Person:** Ed Coleman (202) 927-5007

**Background:** A comprehensive, high-level, risk assessment should be the starting point for developing or modifying an entity's security policies. Such assessments are important because they help make certain that: (1) all threats and vulnerabilities are identified and considered, (2) the greatest risks are identified, and (3) appropriate decisions are made regarding which risk to accept and mitigate through security controls. Risk assessments should consider data sensitivity, integrity, and the range of risks that an entity's systems and data may be subject to, including those risks posed by authorized internal users. In addition, unauthorized outsiders who may try to break into the system should be included when assessing risk.

**Audit Objective/Key Question(s):** Are appropriate risk measures being taken to identify potential vulnerabilities in the Department's computer operations, and are actions being taken to reduce or eliminate those risks? This audit objective will be accomplished by ensuring that risk assessments are provided for at all stages of system development and implementation. We estimate 2,000 hours will be needed for this project.

### ***Record Management Programs, Policies, and Procedures***

**Contact Person:** Ed Coleman (202) 927-5007

**Background:** OMB Circular No. A-130, identifies that the Paperwork Reduction Act of 1995 establishes a broad mandate for agencies to perform their information resources management activities in an efficient, effective, and economical manner. The Paperwork Reduction Act of 1995 further details that OMB will evaluate agency information resource management practices in order to determine their adequacy and efficiency; and determine compliance of such practices with their policies, principles, standards, and guidelines. In addition, agencies records management policies should: (1) ensure that records



---

---

management programs provide for adequate and proper documentation of agency activities, (2) ensure the ability to access records regardless of form or medium, and (3) provide timely training and guidance as appropriate to all agency officials and employees and contractors regarding their Federal records management responsibilities.

Audit Objective/Key Question(s): Does Treasury and its bureaus maintain adequate logical and physical controls over official records and documentation? We estimate that 2,000 hours will be needed for this project.

### ***ATF Project Safe Neighborhoods***

Contact Person: Alexander Best, Jr. (202) 927-5591

Background: In May 2001, the President announced Project Safe Neighborhoods, a comprehensive approach that targets violent offenders and crime guns. Project Safe Neighborhood has been implemented by U.S. Attorneys across the country, working in partnership with communities and state and local law enforcement. The strategy is to combine the five essential elements needed for a vigorous and successful gun violence reduction plan and tailor them to the needs of each individual judicial district and its unique gun violence problem. These elements are partnership, strategic planning, training, community outreach, and accountability. Stronger relationships among Federal prosecutors and agents with the state and local counterparts have strengthened their ability to identify, investigate, and prosecute gun violence.

ATF expanded its Integrated Violence Reduction Strategy (IVRS) in conjunction with the Administration's Project Safe Neighborhoods. Project Safe Neighborhoods combines the core elements from the most comprehensive and effective strategies currently in place, including Project Exile, Project ICE (Isolating the Criminal Element), the Youth Crime Gun Interdiction Initiative (YCGII), Operation Ceasefire, and comprehensive tracing.

The success of Project Safe Neighborhoods is largely dependent upon expanding the role of ATF in firearms enforcement nationwide. As a proactive approach to the President's initiative, ATF identified over 72 locations nationwide that currently lack permanent full-time ATF presence where U.S. Attorney's offices are located. ATF's 2001 National Firearms Strategy calls for the creation of over 40 new satellite offices in these cities over the next 3 years.

Audit Objective/Key Question(s): Has ATF dedicated resources, i.e., new agents, inspectors and support staff, to effectively implement Project Safe Neighborhoods? How is ATF measuring the success of Project Safe Neighborhoods in reducing the gun crime rate in targeted cities? We estimate 2,000 hours will be needed for this project.



---

---

## ***ATF Federal Firearms License Program***

Contact Person:

Alexander Best, Jr. (202) 927-5591

**Background:** ATF issues Federal Firearms Licenses (FFL) to individuals who plan to operate a firearms retail business. Any person that intends to engage in business as a firearms dealer must file an application for license with ATF (ATF Form 7). The application must include photo identification and fingerprints of the applicant. Along with this, the applicant must file a Certification of Compliance with state and Local law enforcement (ATF Form 5300.37), and a Notification of Intent to Apply for a Federal Firearms License (ATF Form 5300.36). In addition, the applicant must pay a licensing fee of \$200, which is good for 3 years, unless the applicant intends to deal in destructive devices, for which the fee is \$1,000. In July 2000, ATF created the FFLeZ Check system, which was designed to aid the firearms industry in preventing the fraudulent use of licenses by individuals who alter a copy of a FFL to illegally obtain a firearm.

**Audit Objective/Key Question(s):** Does ATF have effective controls over FFLs? We estimate that 2,000 hours will be needed for this project.

## ***ATF's Web-Based Applications for Law Enforcement Data***

Contact Person:

Ed Coleman (202) 927-5007

**Background:** ATF awarded several task orders to a contractor to develop, among other things, a web-based application that will allow law enforcement and fire agencies engaged in investigations of arson and the criminal misuse of explosives to enter and retrieve information about past incidents. The contractor will also help transition another ATF law enforcement case management system from a client-server to a web-based architecture, reducing maintenance and deployment costs. The contractor is to enhance the systems' property inventory and evidence-tracking capabilities for improved asset management and reporting. The contractor is also responsible for developing the next increment of capabilities for two additional operational systems: (1) reengineering an ATF compliance enforcement tool used by agency inspectors to regulate the alcohol, tobacco, and firearms industries to a web-based environment; and (2) enhancing a document imaging and retrieval system that uses the latest imaging technologies to support law enforcement operations. These enhanced capabilities will improve the systems' abilities to share and exchange data among ATF systems. Finally, the contractor is to provide general product and implementation support for ATF's critical-incident case management system designed to collect and analyze large volumes of information related to criminal investigations. The task orders awarded to date total \$5.6 million.



---

---

Audit Objective/Key Question(s): Has ATF and the contractor followed a sound SDLC methodology in the development of the law enforcement web-based applications? We estimate that 2,000 hours will be needed for this project.

### ***ATF Collection Procedures***

Contact Person: Donald Benson (617) 223-8638

Background: In FY 2001, ATF's National Revenue Center (NRC) generated nearly 1,400 new tax assessments by the issuance of notice and demand letters. About 550 of the assessments were for bad checks, while others were due to tax returns filed late or without payment, or failure to properly document exported alcohol products. There were about 750 assessments closed during the year. During the period, ATF took three enforcement collection actions in the form of levies on taxpayer bank accounts or income.

ATF recognized an allowance for uncollectible non-entity receivables of \$157 million and \$78 million in FYs 2000 and 2001, respectively. The allowances were based on an analysis of individual receivable balances, historical collections and the application of estimated collectible amounts to categories of receivable balances at year-end.

Audit Objectives/Key Questions: Does ATF have effective collection procedures to ensure prompt payment? We estimate 1,600 hours are needed for this project.

### ***ATF Excise Tax Penalty Collections***

Contact Person: Donald Benson (617) 223-8638

Background: As provided by law, ATF can assess penalties for failure to make timely deposit of taxes. The penalties shall be imposed unless it is shown that the failure to make a timely deposit or payment of tax is due to reasonable cause and not due to willful neglect. There is no such provision for forgiving interest when a tax payment is not paid timely.

According to ATF procedures, taxpayers who are liable during any calendar year for \$5 million or more in excise taxes imposed on distilled spirits, wine, beer or tobacco products are required to pay such taxes during the following year by Electronic Funds Transfer (EFT). Failure to pay the tax by EFT can result in penalties ranging from 2 to 15 percent of the underpayment for deposits.

Audit Objectives/Key Questions: Does ATF ensure all taxpayers whose excise tax liability reaches \$5 million or more in any calendar year pay such taxes during the following year by EFT? Does ATF assess and collect penalties and/or interest when taxpayers fail to



---

---

pay their excise taxes on or before the date prescribed for payment of such tax? We estimate 1,000 hours will be needed for this project.

### ***ATF Enforcement of the Cigarette Contraband Trafficking Act***

Contact Person: Donald Benson (617) 223-8638

Background: The Cigarette Contraband Trafficking Act prohibits the trafficking of contraband tobacco products. ATF investigates violations involving possible tax evasion of Federal, state or local taxes. It is estimated that the illegal practice of going across state lines to buy cigarettes and bringing them back costs the states about \$1.1 billion a year in lost tax revenue.

Audit Objectives/Key Questions: Is ATF adequately addressing the diversion of tobacco products across state lines? We estimate 1,600 hours will be needed for this project.

### ***ATF Alcohol and Tobacco Permit Program***

Contact Person: Donald Benson (617) 223-8638

Background: During FY 2001, ATF's NRC received about 3,000 applications from persons wanting to obtain or amend alcohol or tobacco permits. To ensure that prohibited or unqualified persons do not obtain a permit, the NRC examines and verifies the information on each application and supporting documentation received for an alcohol or tobacco permit. This process includes conducting criminal history checks and making referral of applications to ATF field divisions for inspection as appropriate. The utilization of field checks and field inspection examination resulted in 7 applications denied, 247 applications withdrawn, and 96 applications abandoned.

The applications denied and withdrawn resulted from false information on the application, prohibited persons, questions on funding, history of non-compliance, and failure to meet other qualification requirements. In many cases, the applicant withdrew the application rather than have it formally denied by ATF. The abandoned applications resulted from the applicants failing to provide additional information.

Audit Objectives/Key Questions: Are ATF's controls over the tobacco and alcohol permit program effective? We estimate 1,600 hours will be needed for this project.

### ***ATF Efforts to Prevent Moonshine***

Contact Person: Donald Benson (617) 223-8638

Background: Illegally producing distilled spirits without obtaining prior government approval and/or paying taxes is referred to as





---

---

“moonshining.” Recent news reports have indicated moonshining is making a comeback. A joint Federal and state crackdown on illegal liquor in Virginia, dubbed “Operation Lightning Strike,” broke up a multi-million dollar ring that supplied tons of sugar, bottling supplies, and other ingredients to make thousands of gallons of moonshine. The investigation also shut down a farmer’s exchange that authorities say sold enough sugar to moonshiners to make almost 1.5 million gallons of illegal distilled spirits.

Law enforcement officials who worked on this investigation reported that small backwoods stills are being replaced by larger, more professional operations. Large operators sometimes deal in marijuana and stolen property as well as illegal alcohol production. Law enforcement officials indicated big moonshine operations could have dozens of 800-gallon stills that are capable of producing thousands of gallons of liquor every week.

Audit Objectives/Key Questions: Does ATF have a strategy in place to address illegal moonshining? We estimate 1,200 hours will be needed for this project.

### ***Multi-year Audit Oversight of the Customs Automated Commercial Environment (ACE) System Initiative***

Contact Persons: Ed Coleman, Project Manager (202) 927-5007  
George Tabb (713) 706-4613  
Thomas Byrnes (202) 927-5904

In Appendix A, we discuss six projects to be undertaken by our office during FY 2003 related to the Customs ACE systems initiative. We expect to undertake additional projects in future years as ACE is developed and implemented. At this time, we have identified the ACE risk management, process improvement, and quality assurance programs as areas we plan to review next fiscal year. The audit objectives/key questions related to these areas will be described in our FY 2004 annual plan.

### ***Customs Processing of Currency and Monetary Instrument Report (CMIR) Data***

Contact Person: Alexander Best, Jr. (202) 927-5591

Background: Customs receives over 200,000 Currency and Monetary Instrument Reports (CMIRs) at its ports and headquarters office each year. The ports mail copies of the forms to a data entry contractor who processes and electronically transmits the data to Customs’ National Data Center (NDC). At the NDC, CMIR data are uploaded into the Treasury Enforcement Communication System (TECS) database. This data then becomes available to FinCEN, IRS’ Detroit



Computing Center, and other law enforcement agencies (LEAs) across the country.

**Audit Objectives/Key Questions:** Has Customs implemented appropriate policies and procedures to ensure effective collection and timely processing of CMIR data? We estimate that 2,000 hours will be needed for this project.

***Customs Secure Electronic Network for Travelers Rapid Inspection (SENTRI) Program***

Contact Person:

Donald Benson (617) 223-8638

**Background:** The SENTRI program is a Customs inspection system installed at certain land border ports. It provides for an automated, dedicated commuter lane, using advanced Automatic Vehicle Identification technology modified to meet the stringent law enforcement needs at the border, while at the same time providing a more efficient means of traffic management. SENTRI is a border management process that allows Customs and the Immigration and Naturalization Service (INS) to enforce the laws while allowing for swift movement of travelers who pose little risk to security. SENTRI verifies the low risk status through extensive record checks, and screens approved participants and their vehicles each time they enter the U.S. To accomplish this verification, SENTRI checks (1) the enrollment system computer database (which includes digitized photographs of the vehicles occupants), (2) data accessed by a magnetic stripe reader and the border crosser's PortPass Identification Number, and (3) an inspector's visual comparison of the vehicle and its passengers with data on a computer screen. Simultaneously, automated license plate readers and computers perform queries of the vehicles and their occupants against law enforcement databases that are continually updated. Electric gates, tire shredders, traffic control lights, fixed iron bollards, and pop-up pneumatic bollards ensure physical control of the border crosser and vehicle. SENTRI was first implemented at Otay Mesa, CA, in 1995 and a modified version has since been installed in Buffalo, NY, and Detroit, MI. Over 500,000 inspections have been completed at the Otay Mesa pilot site.

According to Customs, participants in the program wait no longer than 3 minutes to enter the U.S., even at the busiest time of the day. Critical information required in the inspection process is provided to the inspector in advance of the passenger's arrival, thus reducing inspection time from an average of 30-40 seconds to an average of 10 seconds.

**Audit Objective/Key Question(s):** Is SENTRI a reliable and valid inspection system that does not compromise the border inspection process? We estimate 1,600 hours will be needed for this project.



---

---

## ***Customs Procurement Modifications and Change Orders***

Contact Person: Thomas Byrnes (202) 927-5904

Background: Federal agencies are responsible for establishing procedures to ensure that all commitments, obligations, and expenditures on behalf of the Government are made according to the law. Documents required to obligate the Government to an expenditure of appropriated funds include contracts and reimbursable work authorizations (RWA). A RWA is a request for recurring/nonrecurring services, repairs, and/or alterations to GSA facilities. These documents must be approved by an authorized official and recorded in the financial accounting system.

Occasionally, there is surplus funding left after substantial completion of the contract or RWA. The requestor may decide to use these funds by modifying the contract or issuing a change of scope order to the RWA. The requestor must obtain new funding approval from the applicable budget officer and or local property officer.

Customs' obligations for RWAs in fiscal year 2001 totaled approximately \$50 million. Contracts and modifications administered by the Customs Field Procurement Services Group totaled more than \$50 million for fiscal year 2001.

Audit Objective/Key Question(s): Is Customs (1) obtaining new funding approval for remaining surplus funds, before issuing new obligations against a contract or RWA and (2) obtaining approval and properly documenting modifications and change orders to contracts and RWAs? We estimate that 1,600 hours will be needed for the project.

## ***Customs Enforcement Efforts at Foreign Trade Zones (FTZ)***

Contact Person: Donald Benson (617) 223-8638

Background: Foreign trade zones (FTZ) are secured areas under Customs supervision and are located in or near Customs ports of entry. Foreign goods may be admitted to an FTZ without being subject to Customs duties or certain excise taxes. Because zones are considered outside the Customs territory, requirements that would otherwise apply to imported merchandise are suspended as long as the merchandise remains in the FTZ. The usual Customs entry procedures and payment of duties are not required on foreign merchandise until it enters Customs territory for domestic consumption. Domestic goods admitted into the zone are considered exported for purposes of government agency requirements, excise tax, and drawback purposes. General Purpose Zones are usually located in an industrial park on land or in port complexes whose facilities are available for use by the general public. Another type of zone is the single purpose site



---

---

for operations that cannot be feasibly moved to or accommodated in a general-purpose zone, such as oil refineries and automobile manufacturers.

Different Federal agencies regulate storage and handling in the U.S. of certain types of merchandise, such as explosives. Depending on the nature of the requirements and the particular characteristics of the zone facility, such merchandise may be excluded. Most agencies that license importers or issue importation permits may block admission of merchandise that is not licensed or permitted into a zone.

Customs has regulatory control over merchandise moving to and from the zone, and is responsible to ensure that proper revenues are collected, trade laws are enforced, and merchandise is not removed from the FTZ without proper Customs permits.

Many products subject to internal revenue taxes may not be manufactured in a zone. These products include alcoholic beverages, products containing alcoholic beverages, tobacco products, firearms, and clocks and watch movements. Conditionally admissible merchandise is merchandise subject to permits or licenses, or that must be reconditioned to bring it into compliance with the laws administered by various Federal agencies before entering the U.S. An example would be a substance subject to Toxic Substances Control Act that has not received approval by the Environmental Protection Agency.

**Audit Objectives/Key Questions:** How does Customs ensure that activities in the FTZs are properly authorized and that legal requirements for FTZs are met to prevent illegal or harmful merchandise from entering the U.S.? We estimate that 2,000 hours will be needed for this project.

### ***Customs Continuity of Operations***

Contact Person: Donald Benson (617) 223-8638

**Background:** As underscored by the events of September 11<sup>th</sup>, contingency measures are essential to ensure continuity of operations at the Customs ports for a significant interruption. Customs' operations, buildings, records, personnel, systems, contractors, and particularly border enforcement activities and security, could be significantly compromised without adequate Continuity of Operations measures. A disruption of operations can have an extremely negative impact on the financial and service aspects of the Customs, as well as the communities in which the offices are located.

**Audit Objectives/Key Questions:** Does Customs have effective management controls to ensure port continuity of operations plans are





---

---

agencies to ensure that Customs is effectively responding to the threat of terrorism and to other mission priorities

**Audit Objectives/Key Questions:** How does the Customs Office of Anti-terrorism ensure the Threat Response Plan is kept current and includes appropriate actions to secure our borders? We estimate 1,200 hours will be needed for this project.

### ***Customs User Fee Decal Program Accountability***

Contact Person: George Tabb (713) 706-4613

**Background:** The Consolidated Omnibus Budget Reconciliation Act of 1985 authorizes Customs to collect fees on incoming commercial vehicles, private aircraft, and private vessels. The purchase of a User Fee decal allows the displaying commercial vehicle, private aircraft or private vessel an alternative to paying the per-crossing user fee when entering the United States. The decals are purchased annually and affixed to the vehicle, aircraft, or vessel.

Customs annually sends User Fee Decal renewal applications to all customers who purchased them during the previous year. The User Fee Decals may be purchased using the renewal form or may be purchased online to expedite the processing and receipt of the decal. In addition, decals may be purchased at the Port of Entry.

**Audit Objective/Key Question(s):** Has Customs developed adequate controls over the issuance of User Fee Decals? We estimate that 1,600 hours will be needed for this project.

### ***Importers' Selection of Customs Ports of Entry***

Contact Person: Donald Benson (617) 223-8638

**Background:** Importers and manufacturers may enter merchandise through any Customs port. Customs port personnel are required to uniformly implement Customs regulations and policies at each of these locations. Customs port personnel have the ability to utilize ACS modules to review importer and manufacturer activities. Customs has implemented the Trend Analysis and Analytical Selectivity Program (TAP) to help identify and analyze trends using importer and manufacturer names, identification numbers, tariff numbers, and ports of entry.

**Audit Objectives/Key Questions:** How has Customs used TAP to improve importer compliance? We estimate that 1,200 hours will be needed for this project.



---

---

## ***Customs Project Shield America***

Contact Person: Alexander Best, Jr. (202) 927-5591

Background: Project Shield America is one of Customs' major enforcement programs designed to stop the illegal movement of U.S. munitions items and strategic technology having sensitive civil and military applications to proscribed destinations around the world. The emphasis of this initiative is to stop the illegal movement of items to terrorist organizations that pose a threat to the national security of the U. S. and its allies. To achieve success in this endeavor, the cooperation of the exporting community with Customs is essential. As with any illegal trade, the exact volume is difficult to measure or even to estimate. Customs criminal investigations and seizures indicate, however, that such trade could be valued in the tens of millions of dollars annually.

Audit Objective/Key Question(s): Is Customs ensuring that U.S. businesses are aware of and complying with export licensing requirements for militarily sensitive technologies and equipment? We estimate that 2,000 hours will be needed for this project.

## ***Customs Refunds of Duties Resulting from Protests***

Contact Person: Donald Benson (617) 223-8638

Background: An importer is permitted to file a protest with Customs if it disagrees with Customs' determinations on an import entry. For example, the importer may disagree with such things as Customs' appraised value and classification of the imported merchandise, and the duty rate. By filing a protest, an importer requests Customs to reexamine its determinations.

The Customs Modernization Act required the implementation of an electronic protest system as part of the National Customs Automation Program (NCAP). Participants electronically transmit protests and petitions from any location, which are then processed by Customs through the Automated Commercial System. It was expected that the new automated system would eliminate all manual tasks in logging and channeling information. The savings in time, expense, and personnel were expected to free resources for Customs to use in higher priority areas.

In January 1996, Customs announced a test of the electronic protest system. The test was subsequently expanded to include additional ports and extended through December 1997. Data from the test period showed that of about 3,900 protests, 2,900 involved claims for refunds of Customs duties when duty-free treatment was not claimed at the time of entry under NAFTA. The filing of electronic protests is now implemented nationwide.



---

---

Audit Objectives/Key Questions: Are Customs controls over the handling of electronically filed protests adequate? We estimate that 1,200 hours will be needed for this project.

### ***Customs Supervision of Licensed Brokers***

Contact Person: Donald Benson (617) 223-8638

Background: Customs brokers are private individuals or companies, regulated by Customs, who aid importers and exporters in moving their merchandise through Customs, and providing the proper paperwork and payments. Customs brokers must pass a Customs examination and undergo a background investigation before Customs will issue a license. Because of the broker's integral role in the conduct of Customs business, a high standard of performance is critical to the efficiency of the Customs Service and accomplishment of the Customs mission.

Accordingly, the fundamental goal of broker oversight is to promote compliance and a high degree of professional integrity. In order to achieve these goals, Customs' Regulatory Audit Division conducts broker audits while Customs port personnel perform broker compliance reviews designed to identify non-compliance as well as questionable or illegal broker activities. Non-compliance and violations can be addressed through a number of techniques including counseling, warning letters, letters of reprimand, penalties, and the suspension or revocation of the broker's license.

In May 2000, Customs implemented the Port Activity Tracking System (PATSI), which allows ports to track the performance of all filers, importers, and brokers.

Audit Objectives/Key Questions: Does Customs have adequate controls in place to ensure brokers are following trade laws, and maintaining integrity in their business transactions? We estimate that 1,600 hours will be needed for this project.

### ***Customs Examination and Collection from Merchandise for Trade Fair Operators, Admission Temporaire (ATA) Carnets, and Temporary Importation under Bond***

Contact Person: Donald Benson (617) 223-8638

Background: Customs ports receive articles that will be used for trade fair exhibitions or expositions designated by the Secretary of Commerce. Any article imported into the U.S. may be entered under bond for exhibition in the fair or for use in constructing, installing or maintaining foreign exhibits at the fair, if no duty or internal revenue tax has been paid on the article. These articles must either be in Customs continuous custody, in Customs bonded warehouses, not





---

---

entered under the Customs laws and held pending entry or exportation, or be in a foreign-trade zone.

Trade fair operators can use an ATA Carnet that is an international Customs document to temporarily import certain goods into the country without having to pay duty or value-added taxes on the goods. The U.S. allows importation of commercial samples, professional equipment, and certain advertising materials by nonresident individuals. Foreign importers can also use a Temporary Importation Under Bond (TIB). A TIB requires additional Customs forms to be prepared and requires importers to secure a bond from a licensed surety. The port director requires a statement that details the use of the imported articles that qualifies them for entry as claimed, and a declaration that the articles are not to be imported for sale.

A carnet may be used as unlimited exits from and entries into the U.S. and participating foreign countries during the one-year period of validity. Failure to prove exportation on either a carnet or a TIB subjects the importer to liquidated damages equal to 100 percent of the duty and import tax. Also these goods may not be offered for sale.

The fair operators are required to reimburse Customs the actual and necessary charges for labor, services, and other expenses incurred in processing these trade fair articles. Also, charges for salaries of Customs officers and employees in connection with the accounting for, custody of, and supervision over these articles are reimbursed to Customs for deposit in the accounts from which the expenses are paid.

**Audit Objectives/Key Questions:** Does Customs have adequate controls in place to (1) determine whether items imported under an ATA carnet or TIB meet program eligibility requirements, (2) monitor the movement of these items and collect duties when appropriate, and (3) obtain appropriate reimbursement for costs related to the processing of ATA Carnets and TIBs? We estimate that 1,600 hours will be needed for this project.

### ***Customs Clearance of Left Over/Unaccompanied Baggage***

Contact Person: Donald Benson (617) 223-8638

**Background:** Airlines are responsible for presenting all left over/unaccompanied baggage to Customs for inspection within an hour after the flight has been processed and the passengers have left the facility. Customs officers can use their discretion for determining the method of inspection, whether via x-ray machine or physically opening the baggage. A listing of all left over/unaccompanied baggage cleared by Customs is maintained for at least 30 days or until all administrative or operational needs have been met.



---

---

Audit Objective/Key Question(s): Does Customs have adequate controls in place to ensure left over/unaccompanied baggage is presented, handled, and inspected in an appropriate and safe manner? We estimate that 1,200 hours will be needed for this project.

### ***Customs Examination of Outbound Mail***

Contact Person: Donald Benson (617) 223-8638

Background: Section 344 of the Trade Act of 2002 (P.L. 107-210) gives Customs the authority to search certain outbound mail of domestic origin and foreign mail transiting the United States that is being imported or exported by the United States Postal Service. Generally, this authority covers mail exceeding 16 ounces where there is reasonable cause to suspect that the mail contains things like monetary instruments, a weapon of mass destruction, controlled substances, pornography, and merchandise prohibited for export.

Evaluation Objective/Key Question(s): Have appropriate controls been implemented to target and inspect outbound mail under the authority granted in the Act? We estimate that 2,000 hours will be needed for this project.

### ***Customs Accountability of Western Hemisphere Drug Elimination Act (WHDEA) Funds***

Contact Person: George Tabb (713) 706-4613

Background: During fiscal years 1999 - 2001, Congress appropriated over \$721 million for the enhancement of air coverage and operation for drug source and transit countries. At the request of Congress, Customs completed the Air and Marine Interdiction Modernization Plan in 2000. Customs identified priority areas to be addressed with the funding from the Western Hemisphere Drug Elimination Act (WHDEA) consistent with the modernization plan. In fiscal year 2002, Congress provided Customs with \$35 million in new funding to intensify WHDEA activities. These activities included the purchase of new equipment as well as other enhancements, to improve interdiction efforts against drug transit operation in the source zone.

Audit Objective/Key Question(s): Does the Customs Service maintain accountability and control of the WHDEA funds to ensure they are used for the purposes for which they were appropriated? We estimate that 1,600 hours will be needed for this project.



---

---

## ***Customs Technology Contracts and General Procurement***

Contact Person: Thomas Byrnes (202) 927-5904

Background: Customs has developed a 5-year Technology Acquisition Plan. A major portion of the Plan calls for investment in non-intrusive inspection equipment. Customs personnel – primarily from the Applied Technology Division and Office of Field Operations – decide what type of non-intrusive equipment to buy. According to the Custom’s acquisition plan, it intended to buy higher energy container x-ray systems, automated targeted systems, mobile truck x-ray systems, rail inspection systems, vehicle gamma-ray systems, and higher energy pallet x-ray systems. These systems acquisitions are estimated to cost over \$134 million, and as of September 2001, Customs is estimating that an additional \$80 million is required to complete the deployment of non-intrusive inspection equipment outlined in the Five-Year Plan.

Audit Objectives/Key Questions: Is Customs procuring non-intrusive inspection equipment in accordance with Federal Acquisition Regulation provisions concerning award, delivery, and receipt? We estimate that 2,000 hours will be needed for this project.

## ***Customs Use of Federal Supply Schedules***

Contact Person: George Tabb (713) 706-4613

Background: GSA’s Federal Supply Schedules (FSS) are large contracts through which Federal customers can acquire more than 4 million products and services directly from more than 8,000 commercial suppliers. Examples of services include Business Information Services, Engineering Services, Information Technology Product and services, and Management Services. The purpose of the FSS is to facilitate the acquisition of services using a simplified process because GSA has already determined the price to be fair and reasonable. Nevertheless, the FAR requires that for orders exceeding the micro-purchase threshold, but not exceeding the maximum order threshold, Federal customers review the catalogs/pricelists of at least three schedule contractors.

Audit Objective/Key Question(s): Has Customs complied with FAR requirements when making procurements through the FSS? We estimate that 2,000 hours will be needed for this project.



---

---

## ***Customs Performance Measures for the Office of Regulations and Rulings***

Contact Person:

Donald Benson (617) 223-8638

**Background:** Customs' Office of Regulations and Rulings (OR&R) drafts regulations implementing U.S. trade laws; issues rulings on the proper classification, valuation, country of origin, and marking of imported goods; and provides guidance to the trade community and other Customs' units on their compliance responsibilities under the laws and regulations.

**Audit Objective/Key Question(s):** How does Customs measure OR&R performance? We estimate 800 hours will be needed for this project.

### ***Customs Port Operations***

Contact Person:

George Tabb (713) 706-4613

**Background:** The mission of Customs is to ensure that all goods and persons entering and exiting the United States do so in compliance with all U.S. laws and regulations. This mission includes: (1) interdicting narcotics and other contraband; (2) enforcing United States laws intended to prevent illegal trade practices; (3) protecting the American public and environment from the introduction of prohibited hazardous and noxious products; (4) assessing and collecting revenue in the form of duties, taxes, and fees on imported merchandise; (5) regulating the movement of persons, carriers, merchandise, and commodities between the United States and other nations, while facilitating the movement of all legitimate cargo, carriers, travelers, and mail; and (6) enforcing certain provisions of the export control laws of the United States. During FY 2002, Customs expects to process 512 million people and 149 million conveyances at 300 Customs ports throughout the United States. Also, the trade will file 27 million entry summaries involving \$1.3 trillion in international trade, on which Customs will collect approximately \$22 billion in duties, taxes, and fees.

**Audit Objective/Key Question:** Are Customs ports carrying out their responsibilities in an effective manner? We will conduct a pilot audit at one Customs port to develop a standard approach to conducting similar reviews in the future. Among other things, the pilot audit will address: (1) procurement operations, (2) the use of purchase and travel cards, (3) accountability over property and evidence, (4) human resource management, and (5) IT support. We estimate 1,200 hours will be needed for this project at each port.



---

---

## ***Customs Bonded Warehouses***

Contact Person: George Tabb (713) 706-4613

Background: A Customs bonded warehouse is a building or other secured area in which dutiable goods may be stored, manipulated, or undergo manufacturing operations without payment of duty. Authority for establishing bonded storage warehouses is set forth in Title 19 of the United States Code. Upon entry of goods into the bonded warehouse, the importer and warehouse proprietor incur liability under a bond. This liability is canceled when the goods are either (1) exported or (2) withdrawn for consumption and proper entry filed. The goods may remain in the bonded warehouse up to 5 years from the date of importation.

New Customs bonded warehouse regulations changed the procedures warehouse proprietors use to file warehouse inventory reports. Specifically, warehouse proprietors no longer are required to file these documents with Customs' Regulatory Audit Division. This change is intended to simplify inventory record keeping procedures for warehouse proprietors and is consistent with Customs' movement toward a post-audit environment in the spirit of the Customs Modernization Act.

Audit Objective/Key Question: Are Customs' new bonded warehouse processes providing adequate controls to protect the revenue and prevent the diversion of contraband? We estimate 2,000 hours will be needed for this project.

## ***Customs Informed Compliance Strategy***

Contact Person: Donald Benson (617) 223-8638

Background: The Customs Modernization Act of 1993 shifted responsibility for classifying merchandise and assessing its value from Customs to the importer. The classification of merchandise and assessment of its value directly determines how much duty an importer owes. To implement the new responsibilities for ensuring compliance with trade laws, Customs developed an informed compliance strategy involving five initiatives: (1) information programs (basic, and targeted to specific imported commodities), (2) compliance measurement (a process of physical inspections of merchandise and/or entry documentation to determine the rate of compliance), (3) compliance assessment (a mechanism by which Customs evaluates a company's internal control systems to ensure they promote the filing of import paperwork that is in compliance with laws and regulations), (4) account management (Customs' approach to managing its work through accounts, i.e. import companies, rather than individual import transactions), and (5) Customs' responses to noncompliance by importers.



---

---

In December 1999, GAO reported that the key initiatives and actions that make up Customs' informed compliance strategy had not at the time produced the benefits that were expected. Trade compliance rates had remained static at 81 percent and revenue collection rates had decreased from 99.37 percent in FY 1995 to 98.35 percent in FY 1998. This resulted in an estimated increase in projected net revenue underpayments from \$135 million in 1995 to \$398 million in 1998. GAO cited as reasons: the lack of progress Customs had made in compliance assessment, account management, and Customs' responses to noncompliant importers. GAO indicated these three initiatives had not yet reached many of the intended importers. For example, Customs had planned to complete its assessments of 2,100 importers in 8-10 years at a rate of about 210-263 annually, but had completed only 209 assessments between October 1995 and March 1999. In addition, Customs identified 7,405 importers for its account management program, but had assigned account managers to only 604 importers from FY 1995-1999.

As of March 2000, however, Customs reported that it had achieved \$96 million in increased duty revenue from its informed compliance strategy. Customs particularly cited the benefits of its compliance assessment program, in which an auditor, import specialist, account manager, industry expert, and possibly other Customs specialists perform an interdisciplinary review of an importer. Customs said that 65 to 70 percent of the increased revenue came from prior disclosures, in which importers disclosed discrepancies to Customs when a compliance assessment was scheduled.

**Audit Objective/Key Question(s):** Has Customs made progress in implementing its informed compliance program since GAO's 1999 assessment? We estimate 1,600 hours will be needed for this project.

### ***Treasury Compliance with Section 508 of the Rehabilitation Act***

**Contact Person:** Ed Coleman (202) 927-5007  
Thomas Byrnes (202) 927-5904

**Background:** On June 21, 2001, Section 508 of the Rehabilitation Act went into effect. Section 508 outlines that Federal employees with disabilities "have access to and use of information and data comparable" to employees who are not disabled. Further, the Rehabilitation Act details that the same be true for members of the public seeking information or services from a Federal department or agency. Section 508 is a 1998 amendment to the Rehabilitation Act of 1973, which was amended by Section 504 in 1977. Section 504 prohibits excluding people with disabilities from any program or activity that receives Federal funding. That law is generally interpreted to mean that Federal Web sites must be accessible. From June 2001,





---

---

## ***FinCEN Background Investigations***

Contact Person:

Alexander Best, Jr. (202) 927-5591

**Background:** FinCEN is one of Treasury’s primary agencies to establish, oversee and implement policies to prevent and detect money laundering. FinCEN serves as the primary Federal Government source for systematic identification, collection, and analysis of financial information to assist in the investigation of money laundering and other financial crimes.

Agency heads are charged with the responsibility of establishing an effective personnel security program intended to assure that: (1) position sensitivities are designated in accordance with established criteria and supplemental OPM instructions, (2) required entry investigations and periodic reinvestigations are performed, (3) security determinations are consistent with established criteria and procedures, (4) the program’s administrative requirements are complied with, and (5) appropriate position sensitivity designation and adjudicative security training is provided.

**Audit Objective/Key Question(s):** Does FinCEN have controls in place to ensure all employees are subjected to the appropriate background investigation process? We estimate that 800 hours will be needed for this project.

### ***Secret Service Case Prioritization Policy***

Contact Person:

Roberta Rickey (312) 886-6300

**Background:** The Secret Service is responsible for investigations of: counterfeiting of currency and securities, forgery and altering of government checks and bonds, thefts and frauds relating to treasury electronic funds transfers, financial access device fraud, telecommunications fraud, computer and telemarketing fraud, fraud relative to Federally insured financial institutions, and other criminal and non-criminal cases.

In order to meet the challenges of the 21<sup>st</sup> century, the Secret Service has initiated a new case prioritization policy to focus resources on emerging technological schemes and transnational crime. Secret Service field offices must allocate their resources to the most significant cases based on certain case prioritization criteria. The use of these criteria in case screening and initiation enhances investigative effectiveness and allows for the maximum utilization of Secret Service resources.

The Secret Service is expanding other programs like the National Special Security Event Program and the New York Electronic Crimes





---

---

Task Force. An effective method of case prioritization will help the Secret Service meet the challenge of its expanding responsibilities.

Audit Objective/Key Question(s): Has the new case prioritization policy been implemented in the field offices? We estimate that 1,200 hours will be needed for this project.

### ***Secret Service Electronic Crimes Special Agent Program (ECSAP)***

Contact Person: Roberta Rickey (312) 886-6300

Background: Because computers are a tremendous source of both investigative leads and evidentiary material, the Secret Service has established the Electronic Crimes Special Agent Program (ECSAP). This program trains agents to conduct forensic examinations of computers that were used in criminal endeavors. Once trained, these agents can preserve investigative leads within the computer, as well as evidence needed for subsequent prosecutions. The ECSAP, consisting of a number of highly trained special agents qualified as experts in the forensic examination of electronic evidence, is the key component of the Secret Service's effort to address high-tech crime in all areas of its jurisdiction. The ECSAP has evolved to be an essential component of the investigative and protective missions of the Secret Service.

Agents assigned to this program are placed throughout the country, to provide technical assistance to investigators and prosecutors when needed to retrieve evidence or provide additional technical services. The Secret Service Electronic Crimes Laboratory also possesses state of the art equipment that is used for the forensic examination of computers and related investigations.

Audit Objective/Key Question(s): Has the Secret Service set objectives and goals for the ECSAP and are they being met? We estimate 2,000 hours will be needed for this project.

### ***Secret Service National Threat Assessment Center (NTAC)***

Contact Person: Roberta Rickey (312) 886-6300

Background: The Secret Service established the National Threat Assessment Center (NTAC) in 1999 to conduct research and training in the field of threat assessment, specifically in the area of targeted violence. NTAC provides guidance and training to Federal, state, and local law enforcement personnel relative to the various forms of targeted violence, including attacks against public officials, school shootings, stalking, and workplace violence. The benefits derived from these efforts include increased knowledge and understanding of causes and antecedent behaviors of targeted violence, as well as



---

---

enhancements to Secret Service protection and protective intelligence procedures.

Since September 1999, NTAC staff have been conducting the Safe School Initiative, an operational study of 37 U.S. school shootings involving 41 perpetrators that have occurred over the past 25 years. NTAC researchers are examining school shootings, starting from the incident and working backward to development of the original idea. The goal of the Safe School Initiative is to provide accurate and useful information to school administrators, educators, law enforcement professionals and others who have protective and safety responsibilities in schools, to help prevent incidents of school-based targeted violence.

In addition, the NTAC will offer its assistance to organizations interested in developing threat assessment programs.

With school violence appearing to be on the rise, this program would seem to be a valuable tool at the state and local level to help prevent these types of incidents.

**Audit Objective/Key Question(s):** To what degree have Federal, state, and local law enforcement personnel availed themselves of NTAC research and training? We estimate that 1,600 hours will be needed for this project.



---

---

# Index

## Project Narratives

### In Progress and Planned New Audits and Evaluations for FY 2003

#### Project Listing by Bureau

##### *Multi Bureau*

Department-wide Consolidated Financial Statements and Selected Treasury Bureaus	
Financial Statements (In Progress) .....	31
Treasury Progress in Achieving Compliance with the Federal Financial Management	
Improvement Act .....	32
Treasury Government Information Security Reform Act Implementation.....	33
Assertions Included in the FY 2002 Annual Reports of Drug Control Funds to the	
Office of National Drug Control Policy .....	34
Employee Safety and Health .....	36
Employee Job Satisfaction .....	37
Employee Recruitment Systems and Methods .....	37
Telecommuting and Flexible Workplace Arrangements .....	38
Treasury's Implementation of the Federal Activities Inventory Reform (FAIR) Act .....	40
Treasury Use of Government Purchase Cards (In Progress) .....	41
Implementing Contractor Recommendations .....	46
Pledge of Approved Collateral in Lieu of a Required Surety Bond .....	47
Employees' Use of Travel Credit Cards.....	52
Contract Audits .....	53
Treasury's Implementation of the Government Paperwork Elimination Act (GPEA) .....	54
Adoption of the X.500 Directory Service.....	58
Treasury Wireless Communications .....	58
Treasury's Implementation of Network Intrusion Detection Techniques .....	59
Treasury Network and System Vulnerabilities Assessment (In Progress) .....	60
Treasury Firewall Policy and Management .....	60
Security Review of the Bureaus' Data Centers .....	61
Security Baseline of the Bureaus' UNIX Operating Systems .....	61
Treasury Countermeasures for Computer Viruses .....	62
Classified Information Systems Security Program .....	62
Remote Access Dial-Up Security .....	63
Evaluation of the Department's Process to Ensure the Reliability of Performance	
Data (In Progress) .....	64
Integrating Budget and Performance .....	64
Treasury's Protection of Physical Critical Infrastructure Follow-Up .....	89
Treasury's Role in Combating Terrorist Financing and Money Laundering.....	91
Efforts to Identify and Investigate Potential Money Laundering through the Black	
Market Peso Exchange.....	92
OCC AND OTS Exams for Compliance with Sections 312 and 313 of the USA	
PATRIOT Act.....	94
OCC and OTS Exams for Compliance with Section 326 of the USA PATRIOT Act.....	95



---

---

OCC and OTS Exams for Compliance with Section 314 of the USA PATRIOT Act	95
OCC and OTS Examiner’s Reliance on the External Auditors’ Work	98
OCC and OTS Examination Coverage of Financial Institution Third Party Service Providers	99
OCC and OTS Background Checks of Directors/Senior Officers	100
OCC and OTS Fee Assessment Practices	102
Financial Institutions’ Anti-Money Laundering Programs	102
Treasury’s Enforcement of Export Controls (In Progress)	103

### ***Bureau of Alcohol, Tobacco, and Firearms***

ATF Controls over Imports of National Firearms Act (NFA) Weapons (In Progress)	41
ATF Youth Crime Gun Interdiction Initiative (YCGII) Expenditures (In Progress)	42
ATF Gang Resistance Education and Training (GREAT) Program Expenditures	43
ATF Controls over the Domestic Sale of Tobacco Products Labeled for Export	44
ATF Revenue Inspection Targeting	44
ATF Revenue Inspection Quality	45
ATF Comprehensive Firearms Tracing	56
ATF Implementation of the Gang Resistance Education and Training (G.R.E.A.T.) Program	65
ATF Arson and Explosives National Repository	72
ATF Explosives Follow-Up	72
ATF National Integrated Ballistic Information Network (NIBIN) Program	73
ATF National Firearms Registration and Transfer Record (In Progress)	74
ATF On-line LEAD	74
ATF Use of Firearms Theft Information	75

### ***Bureau of Engraving and Printing***

BEP Security Measures over Currency and other Documents (In Progress)	96
---	----

### ***Bureau of the Public Debt***

BPD Special Purpose Securities Program	51
--	----

### ***U.S. Customs Service***

Customs Resource Allocation Model (RAM)	38
Customs Inspector Training	39
Customs Payment of Antidumping and Countervailing Duty Claims (In Progress)	45
Customs Reconciliation Program	46
Customs Compliance Measurement Program	65
Customs Monitoring of Operation Green Quest	66
Adequacy of Customs Investigative Case Management Systems to Support Performance Reporting	67
Multi-year Audit Oversight of the Customs Automated Commercial Environment (ACE) Systems Initiative (In Progress)	76
Customs Counter Terrorism Efforts Related to the Processing of International Mail (In Progress)	78
Customs Sensitive Inventory Follow-Up	78



Customs Targeting and Inspection Efforts for Vessel Containers (In Progress) .....	79
Customs Targeting of Rail Carriers for Inspection (In Progress) .....	79
Customs Land Border Carrier Initiative Program (LBCIP) and Border Release Advanced Screening and Selectivity (BRASS) .....	80
Customs Automated Targeting System for Cargo Inspection .....	80
Customs Automated Commercial System Cargo Selectivity Program Follow-Up .....	81
Customs Advance Passenger Information System (APIS) Follow-Up (In Progress) .....	81
Customs Use of Radiation Detection Devices (In Progress) .....	82
Customs Background Investigation Follow-Up .....	83
Customs Passenger User Fee Follow-Up .....	83
Customs Mail Entry Duty Collection System (In Progress) .....	84
Customs Hazardous Materials Program (In Progress) .....	84
Customs Trade Partnership Against Terrorism (C-TPAT) .....	85
Customs Designation of Importers as Low Risk .....	85
Customs Container Security Initiative (CSI) .....	86
Customs Intelligence Program .....	87
Customs License Plate Reader Program .....	88
Customs Targeting of Individuals at Land Border Ports of Entry .....	88

### ***Departmental Offices***

Treasury Payments for Water and Sewer Services Provided by the District of Columbia .....	35
Management of HR Connect .....	36
Treasury Implementation of E-Government .....	53
Treasury's Enterprise Environment .....	57
Treasury's Budgeting for Computer Security .....	59
Treasury Asset Forfeiture Activities .....	67
Treasury's Information Technology Investment Portfolio System (I-TIPS) .....	70
Disaster Recovery Exercises (In Progress) .....	70
Financial Institution Compliance with Foreign Sanction Program - Phase II .....	89
OFAC Trade Sanctions Program .....	90
Office of D.C. Pensions Replacement of the Automated Pensions Benefit System Project .....	71
Treasury's Efforts as the Lead Agency for Banking and Finance Under Presidential Decision Directive (PDD) 63 .....	97

### ***Federal Law Enforcement Training Center***

Enforcement Terrorist Training .....	39
FLETC Environmental Remediation of Outdoor Firing Ranges (In Progress) .....	103

### ***Financial Crimes Enforcement Network***

Electronic Filing of Bank Secrecy Act Reports .....	55
FinCEN Performance Measures .....	68
FinCEN's Efforts to Estimate the Magnitude of Money Laundering .....	91
FinCEN Efforts to Ensure Compliance by Money Service Businesses with Suspicious Activity Reporting Requirements .....	93



---

---

FinCEN Identification of Suspicious Wire Transfers .....	93
FinCEN Gateway Program .....	94

### ***Financial Management Service***

FMS Use of Compensating Balances to Acquire Banking Services.....	47
Federal Agency Referral of Delinquent Non-Tax Debt Under the Debt Collection Improvement Act (DCIA) of 1996.....	48
FMS Cross-Servicing Efforts to Collect Non-Tax Delinquent Debts .....	49
FMS Processing of Limited Payability Funds Follow-Up.....	49
Treasury Offset Program (TOP) .....	49
FMS Credit Card Transaction Fees.....	50
FMS Electronic Transfer Accounts.....	54
FMS Implementation of Pay.gov.....	55
FMS Controls over the Access, Disclosure, and Use of Social Security Numbers by Third Parties (In Progress) .....	95

### ***U.S. Mint***

Mint Procurement Operations.....	51
Mint's 50 States Quarters Program .....	52
Mint's Consolidated Information System (COINS) .....	96

### ***Office of the Comptroller of the Currency***

Material Loss Review of Hamilton Bank, N.A. (In Progress) .....	33
Material Loss Review of NextBank (In Progress) .....	34
OCC Examiner Safeguards over Bank Sensitive Information .....	101

### ***Office of Thrift Supervision***

OTS Examinations of Holding Companies and the Related Transactions with Affiliates .....	99
OTS Consumer Compliance Exams .....	101

### ***U.S. Secret Service***

Secret Service's Role at National Special Security Events .....	40
Secret Service New York Electronic Crimes Task Force (NYECTF) .....	68
Secret Service Response to Counterfeiting Overseas.....	69



---

---

## Acronyms

ACE	Automated Commercial Environment
ACS	Automated Commercial System
AECA	Arms Export Control Act
AEXIS	Arson and Explosives Information System
ATF	Bureau of Alcohol, Tobacco and Firearms
AIG/A	Assistant Inspector General for Audit
AIG/I	Assistant Inspector General for Investigations
AIG/M	Assistant Inspector General for Management
APHIS	Animal and Plant Inspection Service
APIS	Advanced Passenger Information System
ASP	application service provider
ATA	admission temporaire
ATS	Automated Targeting System
BEP	Bureau of Engraving and Printing
BDC	Bomb Data Center
BMPE	Black Market Peso Exchange
BPD	Bureau of the Public Debt
BRASS	Border Release Advanced Screening and Selectivity
BSA	Bank Secrecy Act
CA	Compliance Assessment
CAPPS	Customs Automated Port Profile System
CDFI	Community Development Financial Institutions Fund
CEBA	Competitive Equality Banking Act of 1987
CFC	chlorofluorocarbons
CFO	Chief Financial Officer
CMIR	Currency and Monetary Instrument Report
CMP	Compliance Measurement Program
COBRA	Consolidated Omnibus Budget Reconciliation Act of 1985
COINS	Consolidated Information System
Commerce	U.S. Department of Commerce
CPFF	Cost Plus Fixed Fee
CRA	Community Reinvestment Act
CSI	Container Security Initiative
CSM	Corporate Systems Management
C-TPAT	Customs Trade Partnership Against Terrorism
Customs	U.S. Customs Service
DART	Determined at Risk Taxpayers
D.C.	District of Columbia
DCIA	Debt Collection Improvement Act of 1996
Department	Department of Treasury
DIG	Deputy Inspector General
DO	Departmental Offices
DSI	Division of Special Investments
DSP	Distilled Spirits Producers
ECSAP	Electronic Crimes Special Agent Program
eCP	e-Customs Partnership
EFT	Electronic Funds Transfer
ETA	Electronic Transfer Accounts



---

---

FBI	Federal Bureau of Investigation
FDIC	Federal Deposit Insurance Corporation
FIL	Federal Firearms Licensee
FFMIA	Federal Financial Management Improvement Act of 1996
FinCEN	Financial Crimes Enforcement Network
FIRREA	Financial Institutions Reform Recovery and Enforcement Act of 1989
FLETC	Federal Law Enforcement Training Center
FMS	Financial Management Service
FOIA	Freedom of Information Act
FSS	Federal Supply Schedule
FTE	full-time equivalents
FTZ	foreign trade zones
FY	fiscal year
GAO	U.S. General Accounting Office
GISRA	Government Information Security Reform Act
GLBA	Gramm-Leach-Bliley Financial Services Modernization Act
GMRA	Government Management Reform Act
GPRA	Government Performance Results Act of 1993
G.R.E.A.T.	Gang Resistance Education and Training
HR	Human Resources
HRSP0	Human Resources System Program Office
IBIS	Integrated Ballistic Identification System
ICE	Isolating the Criminal Element
IDMS	Investigation Data Management System
IDS	Intrusion Detection System
IG	Inspector General
IMB	International Mail Branches
IMF	International Monetary Fund
INS	Immigration and Naturalization Service
IPA	Independent Public Accounting
IRS	Internal Revenue Service
ISAC	Information Sharing and Analysis Center
IT	information technology
I-TIPS	Information Technology Investment Portfolio System
IVRS	Integrated Violence Reduction Strategy
LBCIP	Land Border Carrier Initiative Program
LEA	law enforcement agency
LPR	License Plate Reader
Mint	U.S. Mint
Mod Act	Modernization Act
MOU	memoranda of understanding
MLCC	Money Laundering Coordination Center
MLR	material loss review
MSB	Money Service Businesses
NAFTA	North American Free Trade Act
NDAA	National Defense Authorization Act
NFA	National Firearms Act
NIBIN	National Integrated Ballistic Information Network
NICS	National Instant Criminal Background Check System
NIPC	National Infrastructure Protection Center





---

---

NRC	National Revenue Center
NSSE	National Special Security Events
NTAC	National Threat Assessment Center
NTC	National Tracing Center
NTP	National Training Plan
NYECTF	New York Electronic Crimes Task Force
OASIA	Office of the Assistant Secretary for International Affairs
OCC	Office of the Comptroller of Currency
OCU	Operations Control Unit
OFAC	Office of Foreign Assets Control
OFO	Office of Field Operations
OI	Office of Investigations
OIG	Office of Inspector General
OMB	Office of Management and Budget
ONDCP	Office of National Drug Control Policy
OPM	Office of Personnel Management
OR&R	Office of Regulations and Rulings
OST	Office of Strategic Trade
OTS	Office of Thrift Supervision
PATS	Port Activity Tracking System
PACS	PATRIOT Act Communications System
PBX	Private Branch Exchange
PCA	private collection agencies
PCIE	President's Council on Integrity and Efficiency
PDD	Presidential Decision Directive
PEF	Public Enterprise Fund
PKI	public key infrastructure
PMA	President's Management Agenda
PRD	Personal Radiation Detectors
RAM	Resource Allocation Model
RWA	reimbursable work authorizations
SAIC	Special Agent in Charge
SEC	Security and Exchange Commission
Secret Service	U.S. Secret Service
SENTRI	Secure Electronic Network for Travelers Rapid Inspection
SES	Senior Executive Service
SIU	Special Investigations Unit
SLGS	State and Local Government Series
SPSS	Special Purpose Securities System
SSN	social security number
Strategy	National Money Laundering Strategy
TAP	Trend Analysis and Analytical Selectivity Program
TCS	Treasury Communications System
TEAF	Treasury Enterprise Architecture Framework
TECS	Treasury Enforcement Communications System
TIB	Temporary Importation Under Bond
TIGTA	Treasury Inspector General for Tax Administration
TIU	Treasury Inspection Unit
TOD	Treasury Oversight Division
TOP	Treasury Offset Program



Treasury  
USA PATRIOT Act  
USPS  
WHDEA  
YCGII



Department of the Treasury  
Uniting and Strengthening America by Providing Appropriate Tools Required to  
Intercept and Obstruct Terrorism Act  
United States Postal Service  
Western Hemisphere Drug Elimination Act  
Youth Crime Gun Interdiction Initiative



# Contact Us

## Headquarters

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

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

Office of Counsel  
740 15th Street, N.W., Suite 110  
Washington, D.C. 20220  
Phone: (202) 927-0650; Fax (202) 927-5418

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

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

## Regional and Field Offices

Washington Field Office  
Special Agent-in-Charge  
2850 Eisenhower Avenue, Plaza 100  
Alexandria, Virginia 22314  
Phone: (703) 274-2000; Fax (702) 274-2099

Central Region  
55 W. Monroe Street  
Chicago, Illinois 60603  
Regional Inspector General for Audit, Suite 510  
Phone: (312) 886-6300; Fax (312) 886-6308  
Special Agent-in-Charge, Room 520  
Phone: (312) 886-2800; Fax (312) 886-2804

Central Regional Field Office  
Regional Inspector General for Audit  
5915 Lakeside Boulevard  
Indianapolis, Indiana 46278  
Phone: (317) 298-1596; Fax (317) 298-1597

Northeastern Regional Office  
Regional Inspector General for Audit  
408 Atlantic Avenue  
Captain J.F. Williams Federal Building  
Boston, Massachusetts 02110  
Phone: (617) 223-8640; Fax (617) 223-8651

Northeastern Regional Field Office  
5002 Lincoln Drive West, Suite D  
Marlton, New Jersey 08053  
Regional Inspector General for Audit, 5002D  
Phone: (856) 968-4907; Fax (856) 968-4914  
Special Agent-in-Charge, Suite B  
Phone: (856) 968-6600; Fax (856) 968-6610

Southern Regional Office  
5850 San Felipe Road  
Houston, Texas 77057  
Regional Inspector General for Audit  
Phone: (713) 706-4611; Fax (713) 706-4625  
Special Agent-in-Charge, Suite 300  
Phone: (713) 706-4600, Fax (713) 706-4622

Southern Regional Field Office  
3401 SW 160th Ave., Suite 401  
Miramar, Florida 33027  
Regional Inspector General for Audit  
Phone: (954) 602-1980; Fax (954) 602-1033  
Special Agent-in-Charge, Suite 401  
Phone: (954) 602-1980; Fax (954) 602-1033

Western Regional Office  
333 Market Street  
San Francisco, California 94105  
Regional Inspector General for Audit, Suite 275  
Phone: (415) 977-8810; Fax (415) 977-8811  
Special Agent-in-Charge, Suite 275  
Phone: (415) 977-8810 x223; Fax (415) 977-8811

Western Regional Field Office  
222 N. Sepulveda Boulevard  
El Segundo, California 90245  
Regional Inspector General for Audit, Suite 1680  
Phone: (310) 665-7300; Fax (310) 665-7302  
Special Agent-in-Charge, Suite 1640  
Phone: (310) 665-7320; Fax (310) 665-7309

## Treasury OIG Hotline

### Call Toll Free: 1.800.359.3898

## Treasury OIG Web Page

OIG reports and other information are now available via the Internet. The address is <http://www.treas.gov/oig>