INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON

November 5, 2002

MEMORANDUM FOR SECRETARY O'NEILL

FROM: Jeffrey Rush, Jr.
Inspector General

SUBJECT: Management and Performance Challenges Facing the Department of the Treasury

The Reports Consolidation Act of 2000 requires that we provide you with our perspective on the most serious management and performance challenges facing the Department of the Treasury, for inclusion in the Department's annual performance and accountability report. Although this memorandum is due on January 1, 2003, I am providing it to you now in recognition of the Department's accelerated reporting initiative.

Last year we identified five challenges that we believe seriously impeded the Department's ability to conduct its program responsibilities and ensure the integrity of its operations. Although some progress has been made, these same challenges remain in place and must be overcome to realize the goals and objectives of the President's Management Agenda. This year we have identified an additional challenge related to the proposed creation of a Department of Homeland Security. The six challenges are summarized as follows:

Challenge 1 – Prompt Corrective Action

Treasury has not taken sufficient action to address longstanding material weaknesses and other serious deficiencies in programs and operations. The number of longstanding material weaknesses has been reduced; however, in several cases this was accomplished through consolidation of several material weaknesses that had been reported separately. While some progress has been made, it is likely that additional material weaknesses will be reported as a result of our audit of fiscal year 2002 operations.

Challenge 2 – Linking Resources to Results

Treasury has not integrated managerial cost accounting into its business activities, and thus resources cannot be linked to results. This undermines the accuracy, reliability, and usefulness of program performance reporting and precludes meaningful cost benefit analysis of the Department's program activities. Very little progress has been made in this area during the past year.

Challenge 3 – Financial Management Systems

Treasury continues to operate financial management systems that are not capable of producing timely, accurate, and reliable information. Some progress was made as a result of the "3-day close" initiative for monthly financial reporting. This was a significant accomplishment in producing more timely financial data; however this data needs to be reviewed, analyzed, refined, and correlated with other financial and non-financial data in order to be reliable and useful for managing operations. More fundamentally, core integrated financial systems must be implemented to replace outdated, inefficient and unreliable systems.

Challenge 4 – Information Security

Treasury has not corrected longstanding information security problems. Our recent work under the Government Information Security Reform Act disclosed numerous vulnerabilities that have not received adequate attention. Most of the Department's systems have been allowed to operate without a reasonable assurance of secure operations or adequate safeguards. Only 32 percent of the Department's systems have been accredited, including 9 percent that only have interim authority to operate. Although this represents some progress over the 18 percent reported last year, it is far short of the Department's FY 2002 performance goal of 65 percent of its systems accredited.

Challenge 5 – Duplicated, Wasteful Practices

Treasury has not adapted enterprise solutions to its core business activities. Thus, rather than realize the economy, efficiency, and effectiveness of consolidation and sharing, Treasury bureaus and offices continue to operate as autonomous agencies. We reiterate that Treasury should consider the cost of inter-bureau personnel, payroll, travel, and procurement activities and look for opportunities to eliminate duplicate systems and business processes.

Challenge 6 – Homeland Security Divestiture

The Administration and the Congress have proposed legislation to create a Department of Homeland Security. The proposals are likely to result in the divestiture of certain Treasury law enforcement bureaus. Treasury will need to plan for a smooth transition of these functions while at the same time ensuring that the bureaus and components slated for divestiture stay mission-focused. Although the weaknesses and systems deficiencies don't change with divestiture, the solutions must be re-evaluated. These expected changes further highlight the need for enterprise solutions.

We would be pleased to discuss our views on these management and performance challenges in more detail.

Attachment

cc: Ed Kingman, ASM/CFO