Audit Report

OIG-12-077

TERRORIST FINANCING/MONEY LAUNDERING: FinCEN's BSA IT Modernization Program Is Meeting Milestones, But Oversight Remains Crucial

September 27, 2012

Office of Inspector General

Department of the Treasury

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Abbreviations

BSA	Bank Secrecy Act
BSA Direct	BSA Direct Retrieval and Sharing
BSA IT Mod	BSA Information Technology Modernization Program
CIO	Chief Information Officer
EVM	earned value management
FinCEN	Financial Crimes Enforcement Network
H. Rept.	House Report
IRS	Internal Revenue Service
IT	Information Technology
MITRE	MITRE Corporation
OCIO	Office of the Chief Information Officer
OIG	Office of Inspector General
PMO	Project Management Office
SOR	system of record
TEOAF	Treasury Executive Office of Asset Forfeiture
WebCBRS	Web-based Currency and Banking Retrieval System

OIG

The Department of the Treasury
Office of Inspector General

Audit
Report

September 27, 2012

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Financial Crimes Enforcement Network

The Financial Crimes Enforcement Network (FinCEN) administers the Bank Secrecy Act (BSA), which established the framework to combat criminal use of the financial system. BSA requires financial institutions to report certain financial transactions made by their customers. FinCEN oversees the management, processing, storage, and dissemination of BSA data.

In November 2006, FinCEN began a system development effort, the BSA Information Technology Modernization Program (BSA IT Mod), to improve the collection, analysis, and sharing of BSA data. The intent of the system was, among other things, to transition BSA data from the Internal Revenue Service (IRS) to FinCEN.[1] BSA IT Mod is estimated to cost $120 million and is to be completed in 2014.

Pursuant to a Congressional directive, we conducted a second in a series of audits of FinCEN's BSA IT Mod.[2] Consistent with the Congressional directive, the objectives of the audit were to determine if FinCEN is (1) meeting cost, schedule, and performance benchmarks for the program and (2) providing appropriate oversight of contractors. The period covered by this audit is June 2011 through May 2012. We interviewed FinCEN

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[1] Until recently, the processing, storage, and dissemination of BSA data was maintained at IRS's Enterprise Computing Center in Detroit, Michigan.
[2] House Report (H. Rept.) 112-331 directed our office to report on BSA IT Mod, including contractor oversight and progress regarding budget and schedule, semiannually. Our first report under this requirement was due March 31, 2012, and was issued on March 26, 2012.

program officials, Department of the Treasury Office of the Chief Information Officer (Treasury OCIO) officials, and IRS officials involved with managing and using BSA data. We interviewed representatives from Deloitte Consulting, LLP (Deloitte), and MITRE Corporation (MITRE), the contractors involved with the program.[3] We also reviewed applicable program documentation. We performed our fieldwork from March 2012 to August 2012. Appendix 1 provides a more detailed description of our audit objectives, scope, and methodology.

In March 2012, we reported on FinCEN's BSA IT Mod program as of May 2011.[4] We found that the program was generally within scheduled milestones though certain projects had been delayed by more than the 10 percent of schedule. We concluded that FinCEN prepared a credible business case before beginning development of BSA IT Mod but did not report $11.2 million of planning costs. We also found that FinCEN had restructured to strengthen management and oversight of the program, and the Treasury OCIO was actively overseeing BSA IT Mod.

In the March 2012 report, we also cautioned that the successful and timely completion of BSA IT Mod was, in part, dependent on the successful completion of the system of record (SOR). The SOR is the information storage system for BSA data. FinCEN had extended the SOR's completion date because of complexities encountered during its development. In addition, we found that certain IRS users had expressed concerns over the potential impact to their operations as they transitioned from being a supplier of BSA data to being a receiver of BSA data. To address this, FinCEN decided to provide the data in the same format that Web-based Currency Banking and Retrieval System (WebCBRS) had been using and mapping the data

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[3] FinCEN contracted with Deloitte to oversee the systems development and integration effort. Deloitte is the prime contractor in the BSA IT Mod effort. MITRE is a not-for-profit organization chartered to work in the public interest with expertise in systems engineering, information technology, operational concepts, and enterprise modernization. FinCEN engaged MITRE as a subject matter expert on program and project management and BSA IT Mod business capabilities.
[4] Treasury Office of Inspector General (OIG), *FinCEN's BSA IT Modernization Program Is on Schedule and Within Cost, But Requires Continued Attention to Ensure Successful Completion* (OIG-12-047; Mar. 26, 2012).

contained in the newly planned BSA forms to WebCBRS.[5] This was not part of FinCEN's original development plan as it was initially expected that all IRS users would transition to the new system.

Results in Brief

As of May 2012, similar to what we reported in March 2012, we found that the BSA IT Mod program was on schedule and within budgeted cost. Development of the program met all major scheduled milestones, though the planned completion dates for certain projects were extended. During the scope of this review, FinCEN became the authoritative source for BSA data when it transitioned the collection, processing, and storage of all BSA data from IRS in January 2012.

FinCEN tested the performance of BSA IT Mod projects completed as of our review, and resolved many significant issues identified during the testing. To address previously reported concerns with the new SOR, FinCEN was able to provide BSA data from its E-Filing system in the same format IRS used. That is, it was able to successfully map the data from the new BSA forms to the legacy IRS WebCBRS system format. FinCEN tested and completed mapping to both legacy and new BSA forms. Both FinCEN and IRS signed off on the data mapping with no major concerns identified.

While the above are notable accomplishments, potential risks still remain to the successful implementation of BSA IT Mod. One potential risk is the interdependency between the component projects. For example, changes made to one project are likely to result in changes to other projects. There is also risk in that additional costs and schedule delays could occur if project resources are reallocated and used to resolve defects, conduct additional testing, or enhance projects during development.

FinCEN maintained oversight of the BSA IT Mod program. For example, it continued to monitor BSA IT Mod contractor

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[5] WebCBRS is IRS's BSA data warehouse and information retrieval system.

performance through status review meetings. However, we did identify an area of concern related to the program's oversight. FinCEN discontinued independent program assessments by its Project Management Office (PMO). The PMO turned its focus on providing technical assistance for BSA IT Mod's configuration management[6] after completing two assessments. While we did not identify any adverse impact to the BSA IT Mod program so far as a result of the PMO's reduced independent oversight, we plan to follow up on this area in our upcoming audits of the program. With respect to Treasury OCIO, we found that the office's monitoring of the program continued, primarily through reviews of FinCEN-prepared documentation of program progress.

This audit, our second in a series, did not identify the need to make any new recommendations to FinCEN. Our first audit identified two recommendations for which corrective action has been taken. Appendix 2 provides further details on these recommendations and FinCEN's corrective actions.

In its management response, FinCEN agreed with our report findings and conclusions, and emphasized among other things actions it had taken to manage the BSA IT Mod program. The FinCEN management response is provided in appendix 4. We also received comments from the Treasury Chief Information Officer's (CIO) provided in an email. In our draft report, we expressed concern that since our last audit, Treasury OCIO had reduced and limited its oversight activities of the BSA IT Mod program to a review of program documentation. In her comments, the CIO stated that the draft report overstated the change in oversight by her office and that she believed oversight of FinCEN's BSA IT Mod program in the period we reviewed was appropriate. The CIO also noted that going forward, she plans to increase the level of interaction with the bureau CIOs and take a more proactive approach to continually

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[6] Configuration management is a process for establishing and maintaining consistency of a system's performance and functional and physical attributes with its requirements, design, and operational information throughout its life. The process includes the detailed recording and updating of information that describes an enterprise's hardware and software. It allows computer technicians to see what is currently installed, make a more informed decision about upgrades needed, and make sure any changes made to one system do not adversely affect any of the other systems.

improve oversight. While we acknowledge the CIO's perspective on her office's level of oversight, we plan to continue assessing that oversight in our future audits.

Finding 1   **BSA IT Mod Program Is Generally Meeting Schedule and Cost Milestones But Some Projects' Completion Dates Have Been Extended**

As of May 2012, we found that BSA IT Mod program was on schedule and within budgeted cost. Development of the program met all major scheduled milestones, though the planned completion dates for certain projects were extended. Also, FinCEN became the authoritative source for BSA data upon transitioning the collection, processing, and storage of all BSA data from IRS in January 2012.

Figure 1 provides a timeline of significant events in the BSA IT Mod program.

Figure 1. Timeline of Significant Events in FinCEN's BSA System Modernization Efforts
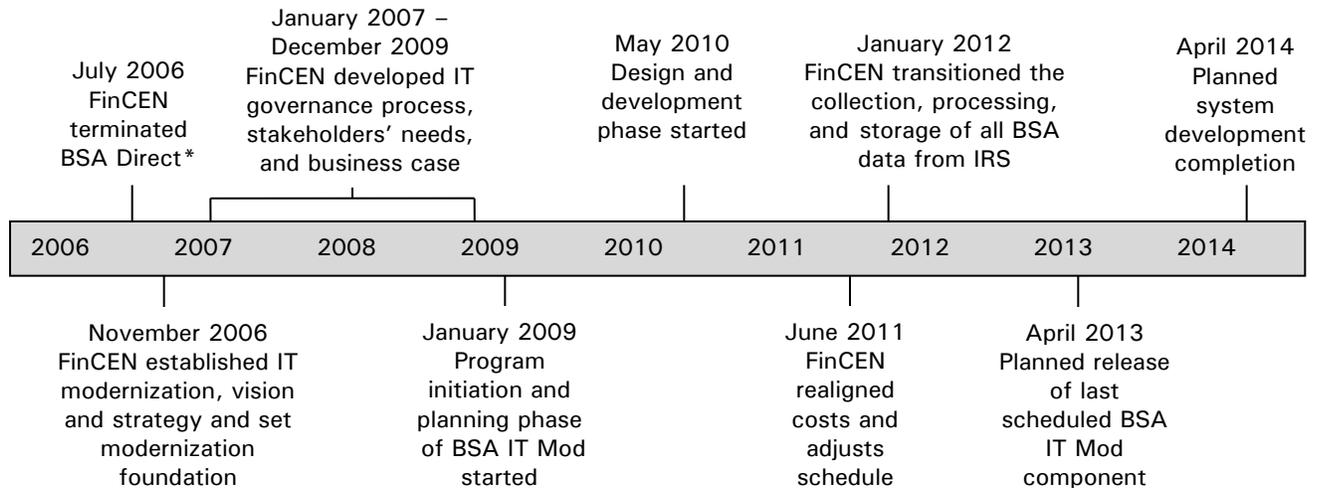
Source: OIG review of FinCEN data.

*FinCEN terminated BSA Direct Retrieval and Sharing (BSA Direct) after concluding the project had no guarantee of success. We reviewed that failure and found that FinCEN poorly managed the predecessor project, insufficiently defined functional and user requirements, misjudged project complexity, and established an unrealistic completion date. We also found that the Treasury OCIO did not actively oversee the project, as required by the Clinger-Cohen Act of 1996. OIG, *The Failed and Costly BSA Direct R&S System Development Effort Provides Important Lessons for FinCEN's BSA Modernization Program* (OIG-11-057: Jan. 5, 2011).

BSA IT Mod Generally Met Scheduled Milestones

As of May 31, 2012, FinCEN met all major scheduled milestones, although the planned completion dates for certain projects had been extended. FinCEN management officials told us that the extensions were needed for further development, testing, and resolution of noted defects. Dates were also extended because resources were reallocated and used to resolve those defects and make changes to the SOR project after it was initially deployed. In this regard, because individual BSA IT Mod component projects are dependent on one another, changes to one project, such as the SOR, required programing changes to other projects. Table 1 displays the status of BSA IT Mod by project. See appendix 3 for project descriptions.

Table 1: BSA IT Mod Schedule Status as of May 31, 2012

Project	Planned Completion Date at May 2010[1]	Revised Completion Date at June 2011[2]	Actual or planned Completion Date[3]	Status at May 31, 2012
System of Record (SOR)				
Release 1	9/30/2011	12/1/2011	12/15/2011	Complete
Release 2	6/30/2012	7/1/2012	7/31/2012[6]	Ongoing
Shared Filing Services				
Release 1	9/30/2011	12/1/2011	12/15/2011	Complete
Release 2	6/30/2012	7/1/2012	7/1/2012[6]	Ongoing
Third Party Data				
Release 1	9/30/2011	12/1/2011	12/15/2011	Complete
Release 2	6/30/2012	7/1/2012	7/1/2012[6]	Ongoing
Data Conversion	12/31/2011	1/1/2012	1/6/2012	Complete
E-Filing				
Release 1	6/30/2011	7/1/2011	7/1/2011	Complete
Release 2	10/31/2011	7/1/2012	7/31/2012[6]	Ongoing
FinCEN Query				
Release 1	2/28/2012	6/1/2012	6/30/2012	Ongoing
Release 2	9/30/2012	10/1/2012	12/1/2012[6]	Ongoing
Advanced Analytics				
Release 1	10/31/2010	10/31/2010	10/31/2010	Complete
Release 2	4/30/2011	4/30/2011	4/30/2011	Complete
Release 3	7/31/2012	9/1/2012	9/1/2012[6]	Ongoing
SCIF[4]	n/a	12/1/2012	10/1/2012[6]	Ongoing
Register User Portal	3/31/2011	3/31/2011	3/31/2011	Complete
Identity/Access Control Management	3/31/2011	3/31/2011	3/31/2011	Complete
Broker Information Exchange				
314A,B Release 1	5/31/2011	5/31/2011	5/31/2011	Complete
314A,B Release 2	12/31/2012	4/1/2013	4/1/2013[6]	Ongoing
Alerts	9/30/2012	1/1/2013	1/1/2013[6]	Ongoing
Bulk Data Dissemination				
Release 1	9/30/2011	3/1/2012	4/17/2012	Complete
Release 2	6/30/2012	7/1/2012	7/1/2012[6]	Ongoing

Table 1: BSA IT Mod Schedule Status as of May 31, 2012

Project	Planned Completion Date at May 2010[1]	Revised Completion Date at June 2011[2]	Actual or planned Completion Date[3]	Status at May 31, 2012
Infrastructure & Portal				
Security Develop and Test	9/30/2010	9/30/2010	9/30/2010	Complete
Release 1	3/31/2011	3/31/2011	3/31/2011	Complete
Release 2	9/30/2011	9/30/2011	9/30/2011	Complete
Release 3	6/30/2012	n/a[5]	n/a[5]	n/a[5]

Source: OIG analysis of FinCEN documentation.

[1] The dates displayed were the initial planned completion dates when in May 2010, FinCEN began the design and development of projects after receiving Office of Management and Budget approval.

[2] FinCEN submitted a baseline change request (BCR) to the Treasury CIO to adjust selected project milestone schedule dates and realign costs to keep the overall program on track. The baseline change was implemented in June 2011. See appendix 3 for additional information regarding the BCR.

[3] Dates displayed represent the actual completion dates if the project was completed, or the planned completion date as of the cutoff date of our review (May 31, 2012).

[4] A sensitive compartmented information facility (SCIF) has formal access controls and is used to hold information concerning or derived from intelligence sources, methods, or analytical processes. FinCEN plans to provide its SCIF with advanced analytics capability, which was not part of the initial plan.

[5] Not applicable - The work planned for Infrastructure Release 3 was removed from the project and will be done as part of BSA IT Mod's on-going operations and maintenance.

[6] We plan to determine the status and report on the milestone in our next semiannual report pursuant to H. Rept. 112-331.

One major accomplishment for FinCEN was its completion of the SOR and successful conversion of 11 years of historical BSA data, about 850 million records, from IRS's WebCBRS data base into the new BSA IT Mod SOR in January 2012.[7] It was with that event that FinCEN assumed the role as the authoritative source of BSA data as it successfully transitioned the collection, processing, and storage of all BSA data from IRS.

The SOR and data conversion projects had only small schedule extensions. The SOR's scheduled completion date was delayed by 2 weeks to incorporate changes and fix defects. Actual costs exceeded budgeted costs by approximately $240,000, or 3 percent. The scheduled completion date for the conversion of

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[7] The SOR is a major project and part of a wider effort of BSA IT Mod program's Data Collection Storage and Dissemination (DCSD) effort. DCSD focused on the development of the technical design specifications for the first release of the system components to receive and store data from the E-Filing system and load that BSA data to the Shared Filing Services and to SOR. Third Party Data is also a project in DCSD. Shared Filing Services and Third Party Data experienced the same schedule slippage as the SOR and are also reflected in the cost increase described above.

11 years of BSA data was extended by just under 1 week, and costs were within the project's budget plan.

The completion date for release 1 of the Bulk Data Dissemination project was delayed by approximately 7 weeks because the project's resources were reallocated to the SOR to complete its development and resolve defects.

The completion dates of release 2 of the SOR and release 2 of E-Filing were delayed 4 weeks. The SOR was delayed because resources intended for completing its development were reallocated to address development issues and outstanding defects in the first release of the SOR, which needed to be addressed prior to deploying FinCEN Query.[8] FinCEN program management officials told us that E-Filing was extended because of delays in awarding the contract.

The next major BSA IT Mod milestone was the completion of FinCEN Query. FinCEN extended its completion date from June 1, 2012, to June 30, 2012, with deployment to external users delayed until enhancements requested by law enforcement were included. These enhancements were being incorporated into the schedule as the first interim milestone of release 2. FinCEN planned to complete development and start deployment in September 2012. The final milestone of release 2 was scheduled for completion on December 1, 2012. FinCEN also added approximately $500,000 to the project's budget for increased testing. FinCEN extended the schedule completion date for FinCEN Query to incorporate changes after FinCEN made changes to the SOR.

FinCEN plans to enhance FinCEN Query in response to law enforcement user requests. FinCEN program management officials told us that users thought FinCEN Query, in its current state, produced too many results and was too challenging to use. Approximately $400,000 was added to the planned budget to cover these enhancements. IRS agreed to support data querying through its WebCBRS until December 1, 2012, while FinCEN enhances FinCEN Query. IRS initially planned to support

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[8] At the time of our review, a FinCEN official stated that the cost impact to release 2 of the SOR was approximately $200,000.

that function until September 2012, when FinCEN Query was supposed to become available to users.

BSA IT Mod Was Within Budgeted Costs

As of May 31, 2012, FinCEN reported that it had spent approximately $63.7 million developing BSA IT Mod from its overall $120 million, 4-year plan. Not included in this amount was approximately $11.2 million in program planning costs, which we addressed in our March 2012 report. In that regard, FinCEN's actual program costs incurred through May 2012 were approximately $75 million. A breakdown by category of the actual costs incurred is provided in Table 2 below.

Table 2: BSA IT Mod Costs as of May 31, 2012 (in millions)

Category	Amount
Initial Planning	$11.2
Development	
Hardware and Software	9.3
Contractor Services	31.3
Other[1]	10.2
Operations and Maintenance	8.5
FTE[2]	4.5
Total	$75.0

Source: OIG analysis of FinCEN data.

[1] Other costs are comprised of (1) program management and program engineering performed by Deloitte and MITRE, (2) a contract office fee of 4 percent for the Department of the Interior's National Business Center Acquisition Services Directorate for support of the BSA IT Modernization Program, and (3) a management reserve for potential additional work to be performed within the authorized work scope of the contract or to accommodate rate changes for future work.

[2] FTE is the estimated costs associated with FinCEN employees working on the BSA IT Mod program.

FinCEN was funding BSA IT Mod through $96.4 million received from both its annual appropriations and supplemental funding from the Treasury Executive Office of Asset Forfeiture (TEOAF). TEOAF provided funding for the BSA IT Mod Program consistent with its authority to provide funds for law enforcement-related

expenditures.[9] Table 3 below identifies the program's funding sources by year.

Table 3: BSA IT Mod Funding Sources as of May 2012 (in millions)

Fiscal Year	TEOAF	Appropriation	Total
2009	$3.7	$2.5	$6.2
2010	11.7	18.5	30.2
2011	11.5	18.5	30.0
2012	6.5	23.5	30.0
Total	$33.4	$63.0	$96.4

Source: OIG analysis of FinCEN and TEOAF documentation.

Finding 2   FinCEN Conducted BSA IT Mod Project Performance Testing and Resolved Significant Issues

In a process referred to as government acceptance testing,[10] FinCEN tested the performance of the BSA IT Mod projects completed as of our review. It also resolved issues identified during the testing.

As shown in Table 4 below, FinCEN tested Shared Filing Services, Third Party Data, and Data Conversion. FinCEN also completed testing of data processed through E-Filing into the SOR.

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[9] TEOAF administers the Treasury Forfeiture Fund, which is the receipt account for the deposit of non-tax forfeitures made as a result of law enforcement actions by participating Treasury and Department of Homeland Security agencies. The Treasury Forfeiture Fund is established under 31 U.S.C. § 9703. The Fund can provide money to other federal entities to accomplish specific objectives for which the recipient bureaus are authorized to spend money and toward other authorized expenses. Distributions from this Fund in excess of $500,000 cannot be used until Appropriations Committees from both houses of Congress are notified. TEOAF submits its planned release of funds to Congress annually.

[10] Government acceptance testing is the government's opportunity to validate that project requirements were met. It includes testing functionality, system usability, permissions and security, compatibility testing, and traceability to business requirements through test script execution, demonstrations and inspections. Performance and response time are also observed.

Table 4: BSA IT Mod Project Testing Status as of June 27, 2012

Project	Completion Date of Testing	Total Defects[1]	Closed Defects	Open Defects

Daily Processing of Data:
 System of Record
  Release 1
 Third Party Data
  Release 1
 Shared Filing Services
  Release 1
	12/14/2011	362	355	7

Data Conversion	12/14/2011	544	544	0
E-Filing				
Release 1	6/7/2011	7	7	0
Release 2	3/8/2012	361	301	60
FinCEN Query				
Release 1	6/27/2012	1,142	931	211
Advanced Analytics				
Release 1	10/18/2010	70	66	4
Release 2	4/14/2011	50	49	1
Register User Portal, Identity/Access Control Management	3/22/2011	33	24	9
Broker Information Exchange				
314A Release 1	5/26/2011	23	23	0

Source: OIG analysis of FinCEN data.

[1]A defect is when the actual test results do not match the expected results. Defects are also commonly referred to as bugs, issues, problems, or incidents.

As shown in Table 4, the FinCEN Query testing was ongoing as of May 31, 2012, and FinCEN was actively working to resolve defects. Based on our review of sample test results, we found open defects included, for example, browser incompatibilities between different versions preventing some information from displaying. Another example of a type of open defect resulted from the way business rules were written in that there was an overlap in states and countries. For example, both the code for California and Canada is "CA" resulting in a resident of California also being displayed as a resident of Canada.

The Infrastructure project did not undergo independent government acceptance testing. However, for the Infrastructure project, FinCEN determined that the servers, the network, and databases were operational. The Bureau of the Public Debt performed an independent third-party certification and

accreditation of the infrastructure.[11] FinCEN developed a Plan of Actions and Milestones to address identified risks.[12]

Testing of the Bulk Data Dissemination project, release 1, also had not undergone government acceptance testing. Instead, FinCEN provided users with sample bulk data files to test and validate. FinCEN collected user comments and updated bulk data specifications accordingly. Government acceptance testing is planned for release 2 of the project.

FinCEN program management officials and representatives from Deloitte and MITRE told us that all issues identified during project testing severe enough to adversely impact the program had been resolved prior to project deployment. FinCEN program management officials also told us that they knew of no defects that they considered to be "icebergs" or "showstoppers," or had any concerns with software performance. FinCEN program management officials told us defects remaining open after testing were considered low severity, and a process was in place to resolve the open defects.

Defects discovered during the government acceptance testing were reviewed by FinCEN and classified into levels of severity, from 1 to 5, with 1 being the most severe (a "showstopper") and 5 being minimal. Level 1 and 2 defects were returned to the respective developer for correction. Prior to accepting the correction, FinCEN performed regression testing to either accept

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[11] FinCEN has an interagency agreement with the Bureau of the Public Debt to house the BSA IT Mod infrastructure and to perform certification and accreditation testing of the BSA IT Mod projects. The certification phase includes system analysis to identify weaknesses in operating the system with specified counter-measures in a particular environment, as well as an analysis of the potential vulnerabilities of these weaknesses. Accreditation is the formal approval by an appropriate official that an automated information system is allowed to operate in a particular security mode using a prescribed set of safeguards and should be strongly based on the residual risks identified during certification.

[12] A Plan of Actions and Milestones identifies tasks to be accomplished in support of certification and accreditation. It details resources required to accomplish the elements of the certification and accreditation, any milestones and dates in meeting the tasks, and scheduled completion dates for the tasks.

or reject the correction.[13] Level 3 through 5 defects are to be resolved in future project releases.[14]

MITRE officials told us that as of the end of May 2012, all requirements and functionality that had been planned were achieved. MITRE officials also told us that they were satisfied with FinCEN's BSA IT Mod project and program management, and stated that FinCEN had matured in its capabilities to plan, execute, and document testing.

FinCEN Addressed SOR Formatting Concerns

In our March 2012 report, we reported that IRS officials were concerned about the new SOR format not being compatible with WebCBRS. To address this concern, FinCEN decided to provide BSA data from its E-filing system in the same format IRS uses and map back the data from the new BSA forms to the legacy form format in WebCBRS.[15] FinCEN completed and tested the mapping to the legacy forms in January 2012 and from the new BSA forms in March 2012. FinCEN program management officials and IRS officials told us both organizations signed off on the mapping. Additionally, in July 2012, IRS's Assistant Chief Information Officer for Applications Development told us that no major problems had been brought to her attention.

Risks to BSA IT Mod's Successful Completion

Although FinCEN management has dedicated itself to the success of BSA IT Mod and to date has demonstrated good leadership and commitment to the program, successful completion is not without risk. A continuing risk concerns the program's high-level of dependency between the component

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[13] Regression testing consists of rerunning the tests against the modified software code to determine whether the changes created adverse effects to prior working software code.
[14] A priority 3 (major) defect limits functionality but an acceptable workaround exists. Resolution of a priority 4 (minor) defect can be delayed without impacting testing efforts. A priority 5 (minimal) defect involves a requested enhancement to a project.
[15] On March 29, 2012, FinCEN released and began to accept a new Currency Transaction Report form and a new Suspicious Activity Report form into FinCEN's BSA E-Filing System. FinCEN also released the new Registration of Money Services Businesses and Designation of Exempt Person forms.

projects and the close coordination required as a result. Programing changes to one project, such as the SOR, require programing changes to other projects. Additionally, other project schedules could be impacted if resolving defects or development takes longer than planned, or if resources need to be reallocated to resolve issues as they are identified. In this regard, FinCEN project management must continue to closely monitor the projects.

Finding 3   FinCEN Maintained Oversight of the BSA IT Mod Program

In our March 2012 report, we reported that FinCEN restructured to strengthen management and oversight of the BSA IT Mod program. Overall, management and oversight remained strong during the scope of this review. We also reported in March 2012 that Treasury OCIO had been actively involved overseeing BSA IT Mod during the program's initial planning and early development phases. Since then, we found that Treasury OCIO's oversight was primarily accomplished through a review of FinCEN-prepared program documentation.

Several Parties Exercise Oversight of the Program

Deloitte provided FinCEN with monthly BSA IT Mod program management reviews. The monthly reviews focused on the program status using earned value management (EVM) and provided a forum for a comprehensive program overview, including risks and mitigation plans.[16] MITRE officials told us that to date FinCEN handled the program in an acceptable manner and MITRE had no significant concerns. Additionally, overall the program has stayed within cost and met scheduled targets.

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[16] EVM measures the value of work accomplished in a given period. Differences in these values are measured in both cost and schedule variances. Explanations must be provided for variances of 10 percent and are subject to corrective action plans, baseline change requests, or termination. The use of EVM satisfies Office of Management and Budget requirements on programs classified as major acquisitions as well IT projects. FinCEN contracted with MITRE to provide an independent validation to ensure the accuracy of EVM data.

Since the period covered by our March 2012 report, we found that FinCEN's PMO changed its oversight regime for BSA IT Mod.[17] Specifically, we found that the PMO no longer conducted formal documented independent assessments on BSA IT Mod.[18] Instead, the PMO changed its focus to providing technical assistance on BSA IT Mod configuration management. The PMO's change in focus occurred after its assessment in March 2011. That assessment found, among other things, weaknesses in the program's configuration management. The PMO concluded that configuration management was key to keeping development of the SOR and other projects aligned. It should be noted that PMO officials told us that assessments were no longer considered necessary because of the strong management of the BSA IT Mod program.

FinCEN's BSA IT Mod program management plan states that the BSA IT Mod program is subject to reviews from the PMO. As it pertains to BSA IT Mod, the PMO is to perform scheduled and ad hoc process reviews and assessments on the program and its projects. We believe that although the PMO did not perform assessments after March 2011, its continued configuration management technical assistance was necessary in controlling risk associated with the program.

Treasury OCIO's Oversight

In our March 2012 report, we reported that Treasury OCIO had been actively involved overseeing BSA IT Mod. At the time, OCIO's involvement was evident during the initial planning and early development phases. During the period covered by our review, Treasury OCIO officials told us that the office reviewed program documentation, including performance plans, cost submissions, and schedule and performance reporting; the officials characterized the reviews as being at the "macro-level." OCIO officials also told us that OCIO representatives have not

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[17] The PMO is charged with ensuring that FinCEN projects are compliant with project management standards and processes. The office performed process reviews and assessments on bureau-specific projects, including BSA IT Mod program.
[18] The PMO conducted two assessments which produced a number of recommendations aimed at improving the project's management processes mainly in the areas of quality, scheduling, requirements, and change management. The last report issued was March 2011.

attended FinCEN's BSA IT Mod monthly program status meetings for some time. In this regard, we were told that the OCIO desk officer assigned to the BSA IT Mod program could not attend all the monthly meetings because the office did not have the resources to send staff to every meeting. The assigned OCIO desk officer stated that he contacted FinCEN's program manager whenever there were questions concerning FinCEN's monthly reporting submissions. OCIO officials told us that they had no reason to question the BSA IT Mod program data because FinCEN has been reporting results and the program has been performing very well.

The Treasury CIO is a member of both the BSA IT Mod Modernization Executive Group and Executive Steering Committee, which was to meet on a quarterly basis or when a major decision or approval was sought. While neither group had formally met, face-to-face, in the 6 months prior to May 31, 2012, FinCEN communicated with these groups via emails about the BSA IT Mod program confirming, among other things, the map-back to WebCBRS consistent with the recommendation in our previous audit report. In addition, FinCEN provided the Treasury CIO with an update briefing in May 2012.

Looking forward, the Treasury CIO told us that the Treasury OCIO was working to strengthen the analytical skills of its desk officers. The office also planned to increase the level of interaction with bureau CIOs by instituting quarterly investment status meetings rather than annual investment reviews.

For the period covered by our review, we did not identify any adverse impact to the BSA IT Mod program by the reduced independent oversight by the FinCEN PMO or the oversight by the Treasury OCIO. That said, we plan to continue to review the program oversight exercised in our future audits of the program.

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We appreciate the cooperation and courtesies extended to our staff during the audit. If you wish to discuss the report, you may contact me at (617) 223-8640 or, Audit Manager Mark

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Sharon Torosian
Audit Director

This is the second in a series of audits of the Financial Crimes Enforcement Network's (FinCEN) Bank Secrecy Act (BSA) Information Technology Modernization Program (BSA IT Mod). Our objective was to determine if FinCEN is (1) meeting cost, schedule, and performance for this program and (2) providing appropriate oversight of contractors. For this second audit, we determined the status of the program's cost, schedule, and performance through May 31, 2012.

To accomplish our objective, we interviewed a variety of officials, including FinCEN program officials, Department of the Treasury (Treasury) Office of Chief Information Officer (OCIO) officials, Internal Revenue Service (IRS) officials involved with using BSA data. We also reviewed applicable program documentation and testing procedures. We performed our fieldwork from March 2012 to August 2012.

At FinCEN, officials we interviewed included the following:

- The Chief Information Officer (CIO) and the BSA IT Mod program manager to obtain an update on the BSA IT Mod, a perspective on each individual's knowledge and level of involvement, cost and schedule concerns, and overall progress of the program.

- The Chief Technology Officer to obtain his perspective, level of involvement, schedule and performance concerns, and overall progress of the program.

- The Deputy Chief Financial Officer and lead budget analyst to gain an update of the cost and funding for the BSA IT Mod.

- The Assistant Director and the lead assessor of FinCEN's Project Management Office to discuss their assessments of the program's practices.

- The project managers, project leaders, and contracting officer technical representatives responsible for each BSA IT Mod project release to obtain an understanding of their perspective, level of involvement, schedule and performance concerns, and overall progress of their respective project.

External to FinCEN, we interviewed the following officials.

- Deloitte LLP's managing director and Deloitte's program manager for BSA IT Mod at the contractor's office in Rosslyn, Virginia, to obtain an update on their perspective of the BSA IT Mod and ascertain the program's status.

- MITRE representatives in McLean, Virginia, to obtain an update of MITRE's role as the federally funded research and development contractor, its level of involvement with the program, as well as issues, any concerns, and other significant matters observed.

- The Treasury CIO, the Treasury OCIO Associate Director of Information Technology Capital Planning, and the Treasury OCIO desk officer assigned to the BSA IT Mod program to gain an update on their roles in overseeing BSA IT Mod, as well as issues, any concerns, and other significant matters.

- IRS officials in Detroit, Michigan. We spoke with officials from IRS's Small Business/Self-Employed Unit, Modernization, Information Technology and Security Services Division, and Criminal Investigation Division to gain an update on their perspective and any concerns as future users of FinCEN's modernized system.

- IRS's Associate CIO, Applications Development Group, to obtain an update of her role with BSA IT Mod, coordination between IRS and FinCEN, and any concerns regarding the program.

We reviewed program-related information that FinCEN provided to us, including management reports; minutes from executive, management, and technical meetings; planning documentation; program and project level documentation; and various FINCEN presentations.

We reviewed program management briefings and status reports, internal and external program performance assessment reports, and related documentation to assess program performance status, risks, and issues.

We substantiated through a review of documentation that testing was performed. We reviewed project testing results in FinCEN's issue and project management software used to track defects and issues found during testing. We randomly selected test cases to determine if testing had been performed and defects were resolved or closed.[19] We observed actual testing performed of two test cases, and corresponding entries to the issue and project management software.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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[19] A test case is a scenario made up of a sequence of steps and conditions or variables, where test inputs are provided and the program is run using those inputs, to see how it performs. An expected result is outlined and the actual result is compared to it. Certain working conditions are also present in the test case, to see how the program handles the conditions.

The status of the two audit recommendations in our prior report on the Bank Secrecy Act (BSA) Information Technology Modernization Program are presented in Table 5 below.

Table 5: Corrective Actions on Prior Audit Recommendations

Recommendation	FinCEN Corrective Actions
In conjunction with IRS, ensure in the short term that IRS's WebCBRS data needs are met and; in the long term, assist IRS to ensure data requirements are incorporated into IRS's modernization efforts.	The Financial Crimes Enforcement Network (FinCEN), in the short term, will provide Bank Secrecy Act (BSA) data to the Internal Revenue Service's (IRS) Web-based Currency and Banking Retrieval System (WebCBRS) via the current E-Filing system and formats. In support of the longer-term goal, FinCEN was asked to participate on the IRS's Integrated Project Team to define the IRS BSA data end-state solution. FinCEN's involvement on the team includes providing the technical specifications for bulk data distribution, answering questions related to new BSA data structures, and providing support as requested. FinCEN closed the short term action on March 28, 2012. The BSA Information Technology (IT) Modernization Executive Group consisting of the FinCEN Director, Treasury Chief Information Officer, and IRS Deputy Commissioner for Operations and Maintenance, approved the mapping back of new Suspicious Activity Report (SAR) and Currency Transaction Report (CTR) data from FinCEN's E-Filing system to WebCBRS in the legacy format. Subsequently, on March 29, 2012, FinCEN released the new SAR and CTR reports to the filing institutions for submission. We confirmed during our second audit that FinCEN was able to provide BSA data from its E-Filing system in the same format IRS used. The long term action is considered closed by FinCEN with its ongoing participation on IRS's Integrated Project Team.
Ensure that, for future major capital investments, required submissions to OMB include full life-cycle cost estimates in accordance with OMB Circular A–11 and that thorough documentation supporting estimates is maintained.	FinCEN responded to the audit recommendation that it did not have a future major capital investment planned. However, when such a time comes, FinCEN will ensure that required submissions to Office of Management and Budget (OMB) comply with OMB's Circular A-11 and that required documentation supporting costs estimates are maintained. FinCEN closed the action on April 10, 2012. FinCEN's commitment to ensure future compliance and maintain supporting documentation met the intent of the audit recommendation.

Source: Treasury Office of Inspector General (OIG), *FinCEN's BSA IT Modernization Program Is on Schedule and Within Cost But Requires Continued Attention to Ensure Successful Completion* (OIG-12-047; Mar. 26, 2012). OIG obtained the status of the recommendations through Treasury's Joint Audit Management Enterprise System (JAMES).

Baseline Change of the Bank Secrecy Act Information Technology Modernization Program (BSA IT Mod)

Our first audit found the Financial Crimes Enforcement Network (FinCEN) was reporting that as of May 2011, the 4-year, $120 million, BSA IT Mod was on schedule and within an acceptable 10 percent cost threshold. At that time, we found the program to be generally within scheduled milestones, though certain projects had exceeded scheduled milestones by 10 percent.

In June 2011, FinCEN adjusted selected project milestone schedule dates and realigned costs to keep the overall program on track. The baseline change resulted in no increase to overall costs and no extension to the 4-year program schedule. However, a major adjustment was made to the Contractor Services budget, which was increased by approximately $12.7 million dollars or 37 percent. This budget increase was offset by a reduction to the budgets for Other and Operations and Maintenance costs. Table 1 displays the impact the baseline change had on the major program elements.

Table 1: BSA IT Mod Program Baseline Change Comparison (in millions)

Element	May 2010 Initial Plan	June 2011 Baseline Change	Change
Hardware and Software	$16.8	$16.8	$0
Contractor Services	34.2	46.9	12.7
Other	22.7	19.3	(3.4)
Operations and Maintenance	46.9	37.6	(9.3)
Total	$120.6	$120.6	$0

Source: OIG review of FinCEN data. FTEs are not included in the above cost estimates.

Contractor Services was increased to provide additional iterations to the building and testing of the system of record (SOR) and other projects that had to be changed because of the changes to the SOR. Increased data conversion testing was required because of the volume and complexity of the data and business rules, and to ensure that the integration, system performance, and data integrity was correct.

BSA IT Mod Program has Multiple Projects

The BSA IT Mod program is made up of multiple projects with specific components. The projects are summarized below.

- BSA Data System of Record/Data Dissemination/Third Party Data — Implements the data storage and architecture for all BSA-related data. Implements the distribution of large quantities of BSA data to external consumers.

- Shared Filing Services — Assists in the validation of BSA data based on external data sources, such as validating addresses with the U.S. Postal Service.

- Data Conversion — Completes the conversion of 11 years of BSA data from the legacy system to the new SOR.

- BSA E-Filing — Is the system by which BSA filers will submit all required documentation to FinCEN.

- FinCEN Query — Implements a tool designed to improve authorized users' ability to access and analyze BSA data. The tool will be used by FinCEN internal users and by registered external users and customers to retrieve and analyze BSA data. The tool is to support traditional structured BSA data queries, and provide narrative search capabilities and options to coordinate and collaborate with users on queries performed.

- Advanced Analytics — Implements complex search and retrieval functionality required by internal and external users to support analytical, law enforcement, and regulatory activities. Provides advanced analytical capabilities such as geospatial, statistical analysis, social networking, semantic interchange, and visualization capabilities.

- Register User Portal/Identity Management/Access Control Management — Provides a common user interface and authentication process through which authorized users will gain access to all future BSA IT Mod applications. Registered users will include both internal and external customers.

- Broker Knowledge Exchange — Provides content management and collaboration support for internal and external stakeholder

communities. 314A allows law enforcement agencies to submit requests through FinCEN to financial institutions for information about financial accounts and transactions of persons or businesses that may be involved in terrorism or money laundering. 314 B allows financial institutions to share information with one another through FinCEN to identify and report suspicious money laundering or terrorist activities to the federal government.

- Alerts - Provides the ability to automatically alert analysts to any suspicious activity based on pre-defined criteria.

- Infrastructure — Provides the design, development, procurement, and implementation of the development and test environments, storage area network(s), and disaster recovery capabilities required to support the other BSA IT Mod projects.

Contractors Engaged by FinCEN

In March 2008, FinCEN awarded a 5-year indefinite delivery, indefinite quantity (IDIQ) contract to BearingPoint, Inc., in connection with the BSA IT Mod.[20] The contract was subsequently transferred to Deloitte Consulting, LLP (Deloitte).[21] The contract ceiling is a maximum of $144 million and a minimum of $1 million over the contract's 5-year life. The contractor is to support FinCEN's Technology Solutions and Services Division by providing a full range of information technology services, custom applications, maintenance support, and infrastructure support necessary to implement the FinCEN IT operational objectives that will evolve over the course of the contract. Numerous program-related task orders associated with the contract are to be issued during the 5-year contract period, which includes BSA IT Mod. FinCEN also contracted with MITRE Corporation (MITRE) to provide

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[20] An IDIQ contract provides for an indefinite quantity of services during a fixed period of time. This type of contract is used when it cannot be predetermined, above a specified minimum, the precise quantities of supplies or services that the government will require during the contract period. IDIQ contracts are most often used for service contracts and architect-engineering services. An IDIQ contract is flexible, especially when not all the requirements are known at the start of a contract and is conducive to a modular approach, which would be one with phases or milestones.

[21] The IDIQ contract was transferred from BearingPoint, Inc., to Deloitte Consulting, LLP on October 1, 2009 after Deloitte Consulting, LLP, purchased substantially all of the assets of Bearing Point, Inc., Public Service Division.

management guidance, coordination, and evaluation support for BSA IT Mod.[22] MITRE is a subject matter expert on program and project management, and BSA IT Mod business capabilities.

FinCEN is using the Acquisitions Services Directorate of the U.S. Department of the Interior as the contract office to administer the contract. FinCEN chose this office because of its prior experience handling large, complex procurements.

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[22] MITRE is a not-for-profit organization chartered to work in the public interest with expertise in systems engineering, information technology, operational concepts, and enterprise modernization. Among other things, it manages federally funded research and development centers, including one for IRS and U.S. Department of Veterans Affairs (the Center for Enterprise Modernization). Under Treasury's existing contract with MITRE, Treasury and its bureaus, with permission of the IRS sponsor, may contract for support in the following task areas: strategic management, technical management, program and project management, procurement, and evaluation and audit to facilitate the modernization of systems and their business and technical operation.

DEPARTMENT OF THE TREASURY
FINANCIAL CRIMES ENFORCEMENT NETWORK

DIRECTOR

September 18, 2012

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FREEDMAN

FROM: James H. Freis, Jr. /s/

SUBJECT: *Management Response to the Draft Report –BSA IT Modernization*
                Program Is Meeting Milestones, But Oversight Remains Crucial

Thank you for the opportunity to review the Office of Inspector General (OIG) draft audit report on the bureau's BSA IT Modernization Program. I appreciate the OIG's recognition that FinCEN is meeting the major schedule and cost milestones, and has maintained appropriate oversight of the BSA IT Modernization Program. FinCEN's continued success reflects the ongoing dedication and efforts of our team members.

As noted in the report, several parties exercise oversight of the program. We are very grateful for the support of the IRS leadership and Treasury Office of the Chief Information Officer and their close attention to the Program and any issues requiring their guidance or decision. In addition, FinCEN also reviews major milestones for the BSA IT Modernization Program on a quarterly basis with Treasury's Deputy Secretary and Assistant Secretary for Management, along with other FinCEN priorities.

Finally, we acknowledge the potential risk that is involved in a large IT program consisting of interdependent component projects. However, potential risk is not unique to FinCEN's BSA IT Modernization, rather it is inherent in virtually any large IT modernization. Organizations successfully mitigate this potential risk through careful oversight. Thus, we are all the more pleased that the report recognizes the management attention and oversight FinCEN has dedicated to the success of this highly complex and important project.

If you have any questions or need additional information, please contact Becky Martin, Assistant Director, Office of Financial Management, on 703-905-3860.

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Financial Crimes Enforcement Network

Director

Office of Management and Budget

OIG Budget Examiner

U.S. Senate

Chairman and Ranking Member
Committee on Appropriations

Chairman and Ranking Member
Subcommittee on Financial Services and General Government
Committee on Appropriations

U.S. House of Representatives

Chairman and Ranking Member
Committee on Appropriations

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