



# Semiannual Report To The Congress



October 1, 2006 - March 31, 2007

## Office of Inspector General

DEPARTMENT OF THE TREASURY

## HIGHLIGHTS IN BRIEF

During this semiannual reporting period, our **Office of Audit** issued 37 reports which identified \$6.8 million in monetary benefits. Work by our **Office of Investigations** resulted in 9 convictions by plea agreement, 2 convictions by trial, 9 federal indictments, 2 State charges, 2 local charges, and 14 referrals accepted for prosecution. Investigative activities also resulted in \$32.6 million in court-ordered fines, restitution, and civil settlements, as well as 17 personnel actions. Some of our significant results for this period are described below:

- An Independent Public Accountant, working under our supervision, issued an unqualified opinion on the Department of the Treasury's fiscal year 2006 consolidated financial statements. The audit identified three reportable conditions, related to: (1) financial management practices at the Internal Revenue Service (IRS), (2) electronic data processing controls and information security programs over financial systems, and (3) controls over transactions and balances related to the International Assistance Programs. The reportable condition related to financial management practices at IRS is considered a material weakness. The audit also identified instances of noncompliance with Section 6325 of the Internal Revenue Code, the Federal Information Security Management Act, and the Federal Financial Management Improvement Act. In addition, there were two potential instances of Antideficiency Act violations related to the transactions and activities of the Treasury Franchise Fund and Departmental Offices.
- During fiscal years 2002 through 2005, Treasury's Office of Foreign Assets Controls (OFAC) took enforcement action against approximately 3,800 violators and collected \$10.32 million in civil penalties. We reported, however, that due to a 5-year statute of limitations (SOL) on imposing penalties, OFAC failed to complete enforcement actions during this period for 295 cases. The potential penalty assessments for these 295 cases totaled \$3.87 million. OFAC has taken or planned corrective action which is responsive to our audit recommendations.
- The Office of Management and Budget (OMB) issued OMB M-06-16 which stresses the need for federal agencies to take necessary and reasonable precautions to eliminate significant vulnerabilities to agency sensitive and personally identifiable information (PII). We determined that Treasury had not implemented sufficient safeguards to ensure the protection of agency sensitive information, including PII. In responding to our report, Treasury stated that its Office of the Chief Information Officer planned in March 2007 to assess progress in implementing OMB M-06-16 requirements. We will continue to monitor Treasury's efforts in this area.
- Working jointly with other Inspectors General, the Office of Investigations Improper Payments Initiative (IPI) resulted in the conviction of six individuals who unlawfully obtained federal payments from civilian or military retirement, disability, or survivor programs. In addition, the initiative has resulted in the arrest of ten individuals, with total restitution exceeding \$165,000, and recoveries exceeding \$46,000. Since its inception in July 2006, the initiative has resulted in the identification of more than 90 potential violators who obtained over \$6 million in federal payments. During this period alone, the Office of Investigations opened 57 cases having a total of 65 potential offenders and approximately \$4.5 million in potential losses.
- In November 2006, a senior Treasury official resigned after a Treasury OIG investigation determined that the official engaged in sports gambling activities while on official duty, misused his Government telephone and computer in the furtherance of his illicit activities, and also misused his Government travel charge card.
- In February 2007, a former BEP employee was sentenced to jail and ordered to pay restitution following an investigation that disclosed the individual was in possession of partially printed \$100 Federal Reserve Notes stolen from BEP's Eastern Currency Facility in Washington, DC.



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## OVERVIEW OF OIG AND TREASURY

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The Department of the Treasury's Office of Inspector General (OIG) was established pursuant to the 1988 amendment to the Inspector General Act of 1978.<sup>1</sup> OIG is headed by an Inspector General (IG) who is appointed by the President of the United States, with the advice and consent of the United States Senate. Serving with the IG in the immediate office is a Deputy Inspector General. OIG performs independent and objective reviews of Treasury programs and operations, except for those of the Internal Revenue Service (IRS), and keeps the Secretary of the Treasury and Congress fully informed of problems, deficiencies, and the need for corrective action. The Treasury Inspector General for Tax Administration (TIGTA) performs audit and investigative oversight related to IRS.

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

**OA** performs and supervises audits, attestation engagements, and evaluations. The Assistant Inspector General for Audit has two deputies. One deputy is primarily responsible for performance audits, and the other deputy is primarily responsible for financial management and information technology audits. OA staff are located in Washington, DC, and Boston, Massachusetts.

**OI** performs investigations and conducts proactive initiatives aimed at detecting and preventing fraud, waste, and abuse in Treasury programs and operations. OI also manages the Treasury OIG Hotline System to facilitate reporting of allegations involving programs and activities under the auspices of the Department. The Assistant Inspector General for Investigations is responsible for the supervision and conduct of all investigations relating to the Department's programs and operations and performs integrity oversight reviews within select Treasury bureaus. The Office of Investigations is located in Washington, DC.

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

The **Office of Management** provides a range of services designed to maintain the OIG administrative infrastructure. These services include asset management; budget formulation and execution; financial management; information technology; and officewide policy preparation, planning, emergency preparedness, and reporting for OIG. The Assistant Inspector General for Management is in charge of these functions.

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<sup>1</sup> 5 U.S.C. app. 3.

# OVERVIEW OF OIG AND TREASURY

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As of March 31, 2007, OIG had 115 full-time staff. OIG's fiscal year 2007 appropriation was \$17.0 million.

## ***OIG Values***

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

## ***About Treasury***

The mission of Treasury is to promote the conditions for prosperity and stability in the United States and encourage prosperity and stability in the rest of the world. Organized into bureaus and offices, Treasury encompasses a wide range of programs and operations. Currently, Treasury has approximately 109,000 full-time equivalent (FTE) staff. Approximately 92,900 are employed by IRS and approximately 16,100 are employed by other Treasury bureaus and offices.

## **Treasury Bureaus**

The **Alcohol and Tobacco Tax and Trade Bureau** is responsible for enforcing and administering laws covering the production, use, and distribution of alcohol and tobacco products. It collects alcohol, tobacco, firearms, and ammunition excise taxes totaling approximately \$17 billion annually.

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

The **Bureau of the Public Debt** borrows the money needed to operate the federal government. It administers the public debt by issuing and servicing U.S. Treasury marketable, savings, and special securities.

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

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

# OVERVIEW OF OIG AND TREASURY

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

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

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

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

## Treasury Offices

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

The **Office of Terrorism and Financial Intelligence (TFI)** uses Treasury's intelligence and enforcement functions to safeguard the financial system against illicit use and to combat rogue nations, terrorist facilitators, money launderers, drug kingpins, and other national security threats. TFI is headed by an Under Secretary and includes two major components: the Office of Terrorist Financing and Financial Crime (TFFC) and the Office of Intelligence and Analysis (OIA). An Assistant Secretary oversees each of these offices.

- **TFFC** is responsible for integrating FinCEN, the Office of Foreign Assets Control (OFAC), and the Treasury Executive Office for Asset Forfeiture (TEOAF). OFAC administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign countries, terrorists, international narcotics traffickers, and those engaged in activities related to the proliferation of weapons of mass destruction. TEOAF administers the Treasury Forfeiture Fund, the receipt account for the deposit of nontax forfeitures made by IRS Criminal Investigation (IRS-CI) and the Department of Homeland Security, TFFC also works closely with IRS-CI to enforce laws against terrorist financing and money laundering, including the Bank Secrecy Act (BSA).
- **OIA** is responsible for the receipt, analysis, collation, and dissemination of foreign intelligence and foreign counterintelligence information related to the operation and responsibilities of Treasury.

The **Office of Management** is responsible for the Department's internal management and policy in the areas of budget, planning, human resources, information and technology management, financial management and accounting, procurement, and administrative services to DO. It is headed by the Assistant Secretary for Management

## OVERVIEW OF OIG AND TREASURY

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and Chief Financial Officer (CFO). The Office of DC Pensions, which is within the Office of Management, makes federal benefit payments associated with District of Columbia retirement programs for police officers, firefighters, teachers, and judges.

The **Office of International Affairs** advises on and assists in formulating and executing U.S. international economic and financial policy. Its responsibilities include developing policies and guidance in the areas of international financial, economic, monetary, trade, investment, bilateral aid, environment, debt, development, and energy programs, including U.S. participation in international financial institutions.

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

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

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

# TREASURY MANAGEMENT AND PERFORMANCE CHALLENGES

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The IG annually provides the Secretary of the Treasury with his perspective on the most serious management and performance challenges facing the Department in accordance with the Reports Consolidation Act of 2000. Among other things, the Secretary must include these challenges in the Department's annual Performance and Accountability Report. As discussed in a memorandum to Secretary Paulson dated October 16, 2006, the IG noted that while some progress had been made, the following previously identified challenges continued to represent significant risks to the Department.

- Corporate Management This is an overarching management challenge. Treasury needs to provide effective corporate leadership in order to resolve serious bureau and program office deficiencies that adversely affect the performance of Treasury as a whole. In particular, Treasury needs to assert strong leadership and supervision over IRS to resolve the longstanding material weaknesses and system deficiencies that hamper the timely and reliable information necessary to effectively manage IRS operations. In addition, while progress has been made, the Department has not fully implemented a corporate-level control structure to ensure that capital investments are properly managed, information about government operations and citizens is adequately secured, and financial resources used by Treasury can be linked to its operational results. The increasing emphasis on agencywide accountability envisioned in the management reform legislation of the past decade and the President's Management Agenda has underscored the need for effective corporate management at Treasury. With nine bureaus and many program offices, Treasury is a highly decentralized organization. As such, Treasury management should ensure consistency, cohesiveness, and economy among all bureaus and program offices in achieving Treasury's goals and objectives.

As we discussed in the October 2006 memorandum, the Department's senior leadership has asserted more direct and substantive involvement in developing and implementing Treasury-wide policies and initiatives across a number of fronts. Also, the Deputy Secretary had issued a memorandum requiring that internal control programs (programs to ensure accountability and promote effective management and stewardship) be included in all fiscal year 2007 senior leadership performance plans. In the future, this type of direct involvement by senior leadership needs to be maintained so that progress continues.

- Management of Capital Investments Treasury needs to better manage large acquisitions of mission-critical systems and other capital investments. In the past, serious problems have been identified with the recently cancelled Treasury Communications Enterprise procurement, Treasury's HR Connect system, and the Treasury and Annex Repair and Restoration project. During 2006, new problems were brought to light with BSA Direct, and the Web-based Electronic Fraud Detection System (Web EFDS). Specifically, in July 2006, after nearly 2 years in development and \$15 million spent, FinCEN terminated its contract for the storage and retrieval component of BSA Direct after significant concerns were raised about schedule delays and project management. IRS had similar problems with Web EFDS, a system costing more than \$20 million intended to prevent fraudulent refunds. In April 2006, after a significant delay, IRS stopped all development activities for Web EFDS. IRS also was unable to use Web EFDS to prevent fraudulent refunds during processing-year 2006. TIGTA reported that without Web EFDS, more than \$300 million in fraudulent refunds may have been allowed. The Deputy Secretary has emphasized the need

## TREASURY MANAGEMENT AND PERFORMANCE CHALLENGES

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to better manage information technology capital investments to the heads of Treasury bureaus, noting that this is a responsibility of all senior management and not just that of the Chief Information Officer (CIO). Involvement and accountability at the top is a critical factor to ensure the successful implementation of systems.

At the end of this semiannual reporting period, we had audits in progress looking at the acquisition planning and project management for the failed BSA Direct component as well as the ongoing redesign and modernization of the Treasury Foreign Intelligence Network (TFIN). The Department identified the TFIN redesign and modernization as its top priority capital investment for fiscal year 2007.

- Information Security Despite some notable accomplishments, the Department needs to improve its information security program and practices to achieve compliance with the Federal Information Security Management Act of 2002 (FISMA) and Office of Management and Budget (OMB) requirements. In the past, we reported that Treasury's systems inventory was not accurate, complete, or consistently reported. During the past year, the Department overcame this weakness in its security program by providing direction to the bureaus in developing a Department-wide inventory of information systems. Although the Department still needs to implement additional actions to further improve the system inventory, we believe the inventory is substantially complete and generally conforms to applicable requirements. Nevertheless, we reported that information security deficiencies at Treasury, in the aggregate, constitute substantial noncompliance with FISMA. Improvements are needed in a number of areas, such as certification and accreditation, tracking corrective actions, and incident response. Also, during 2006 OMB required agencies to perform specific actions to protect certain personally identifiable information (PII). Treasury faces significant challenges to meet these requirements. In this regard, the Department needs to ensure that security controls pertaining to PII are addressed Treasury-wide. In a July 2006 memorandum to Treasury bureaus, the Department provided implementation guidance and required bureaus to identify their specific actions taken and planned, including dates, to address weaknesses in security controls pertaining to PII.

During this semiannual period, we reported that the Department had not implemented sufficient safeguards to ensure the protection of agency sensitive information, including PII. We also reported on disaster recovery exercises conducted by the Mint and BEP noting some areas where improvement was needed. These reports are discussed in more detail later in this document.

- Linking Resources to Results Because the Department has not fully developed and incorporated managerial cost accounting (MCA) into its business activities, the Department cannot adequately link financial resources to operating results. This inhibits comprehensive program performance reporting and meaningful cost benefit analyses of the Department's programs and operations. MCA involves the accumulation and analysis of financial and nonfinancial data, resulting in the allocation of costs to organizational pursuits such as performance goals, programs, activities, and outputs, and should be a fundamental part of a financial/performance management system. In response to a critical Government Accountability Office (GAO) report on MCA at Treasury, the Department developed a high-level MCA implementation plan. This plan focuses on (1) clarifying and reaffirming the

## TREASURY MANAGEMENT AND PERFORMANCE CHALLENGES

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Department's MCA policy for all bureaus; (2) identifying MCA needs across the Department; (3) ensuring that MCA needs are linked to the Department's strategic plan, budget, and performance measures; (4) identifying gaps between Department and bureau needs and existing MCA capabilities; and (5) developing plans to eliminate these gaps. During this semiannual reporting period, the Department initiated a number of actions under the MCA implementation plan.

- Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement Treasury faces unique challenges in carrying out its responsibilities under BSA and the USA Patriot Act to prevent and detect money laundering and terrorist financing. To effectively prevent and detect financial crimes and terrorist financing, it is necessary to have (1) strong control environments at financial institutions to ensure that business is conducted with reputable parties and that large currency transactions and suspicious activities are properly and timely reported to Treasury; (2) strong federal and state regulatory agencies that examine and enforce BSA and USA Patriot Act requirements at financial institutions; and (3) strong analytical capacity to identify, and refer to law enforcement, leads provided through reports filed by financial institutions. While FinCEN is the Treasury bureau responsible for administering BSA, it relies on other Treasury and non-Treasury agencies to enforce compliance with the Act's requirements. OFAC, the Treasury office responsible for administering U.S. foreign sanction programs, also relies on other Treasury and non-Treasury agencies to ensure compliance with OFAC requirements. Past audits and Congressional hearings, however, have identified serious regulatory gaps in the detection of or timely enforcement action against financial institutions for BSA and related violations. In an attempt to improve compliance and address some of these gaps, Treasury created TFI through which FinCEN and OFAC now report. In addition, FinCEN, beginning in 2004, (1) created a compliance office to improve BSA oversight and coordination with financial institution regulators and (2) entered into memoranda of understanding (MOU) with the federal banking regulators, IRS, and most states to enhance communication and coordination.

Given the importance of this management challenge to the Department's mission, we will continue to devote a significant portion of our audit resources to this management challenge. During this semiannual period, we issued a report on OFAC's civil penalties program, noting that OFAC did not complete action on many penalty cases before the statute of limitation expired. This report is discussed in more detail later in this document.

In response, Secretary Paulson issued a memorandum dated November 13, 2006, to the IG providing information on the actions completed in fiscal year 2006 and actions planned for fiscal year 2007 to address the five challenges. We will assess the Department's progress in addressing these challenges when we issue our next management challenges memorandum in October 2007.

# SIGNIFICANT AUDITS AND EVALUATIONS

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## FINANCIAL MANAGEMENT

### *Financial Audits*

#### **Consolidated Financial Statements**

An Independent Public Accountant (IPA), working under OIG supervision, issued an unqualified opinion on Treasury's fiscal years 2006 and 2005 consolidated financial statements. The audit identified three reportable conditions related to (1) financial management practices at IRS, (2) electronic data processing controls and information security programs over financial systems, and (3) controls over transactions and balances related to the International Assistance Programs. The reportable condition related to financial management practices at IRS is considered a material weakness. The IPA also reported that the Department's financial management systems are not in substantial compliance with the Federal Financial Management Improvement Act of 1996. In addition, the audit identified two other instances of reportable noncompliance with laws and regulations related to section 6325 of the Internal Revenue Code and to the FISMA. Also, two instances of possible Antideficiency Act violations were reported. Management indicated that it concurred with the findings included in the report. **(OIG-07-010)**

Also, in connection with its audit of Treasury's consolidated financial statements, the IPA issued a management letter that identified other matters where Treasury could improve the quality and efficiency of financial reporting. Specifically, (1) succession planning must be implemented immediately; (2) financial reporting standards for Department component entities should be consistent; (3) the Exchange Stabilization Fund budgetary accounting methodology should be clarified; (4) financial reporting processes and procedures at the Department level need improvement to enable timely preparation and issuance of the Department's financial statements and Performance and Accountability Report; (5) OMB Circular No. A-123 implementation procedures, transactions testing, and reporting need improvement; (6) intragovernmental transactions and activities reconciliation procedures should be strengthened; (7) management and maintenance of supporting documentation for performance measures should be improved; (8) policies and procedures for the identification and monitoring of deferred maintenance on a Department-wide basis should be implemented; (9) backup tapes for the Treasury Information Executive Repository (TIER) system and CFO Vision Production Servers should be stored in an environmentally secure and stable environment; (10) disaster recovery procedures for TIER and CFO Vision should be established; (11) segregation of duties between TIER developers and system administrators needs to be implemented; (12) TIER user access controls should be strengthened; and (13) procedures for timely removal of user accounts of former employees and contractors should be consistently followed. Management indicated that it concurred with the findings included in the report. **(OIG-07-029)**

#### **Other Financial Audits**

The Chief Financial Officers Act (CFO Act), as amended by the Government Management Reform Act of 1994 (GMRA), requires annual financial statement audits of Treasury and OMB-designated entities. In this regard, OMB has designated IRS for annual financial statement

# SIGNIFICANT AUDITS AND EVALUATIONS

audits. The financial statements of certain other Treasury component entities are audited pursuant to other requirements, or due to their materiality to Treasury's consolidated financial statements. The following table shows audit results for fiscal years 2006 and 2005.

Treasury Audited Financial Statements and Related Audits						
Entity	Fiscal Year 2006 Audit Results			Fiscal Year 2005 Audit Results		
	Opinion	Material Weakness	Other Reportable Conditions	Opinion	Material Weakness	Other Reportable Conditions
<b>GMRA/CFO Act Requirements</b>						
Treasury Department	UQ	1	2	UQ	1	1
Internal Revenue Service (A)	UQ	4	1	UQ	4	2
<b>Other Required Audits</b>						
Bureau of Engraving and Printing	UQ	0	1	UQ	0	1
Community Development Financial Institutions Fund	UQ	0	2	UQ	0	0
Office of DC Pensions	UQ	0	0	UQ	0	0
Exchange Stabilization Fund	UQ	0	0	UQ	0	0
Federal Financing Bank	UQ	0	0	UQ	0	0
Office of the Comptroller of the Currency	UQ	0	1	UQ	0	0
Office of Thrift Supervision	UQ	0	0	UQ	0	0
Treasury Forfeiture Fund	UQ	0	1	UQ	1	1
<b>Mint</b>						
Financial Statements	UQ	0	1	UQ	0	1
Custodial Gold and Silver Reserves	UQ	0	0	UQ	0	0
<b>Other Audited Accounts that are Material to Treasury Financial Statements</b>						
<b>Bureau of the Public Debt</b>						
Schedule of Federal Debt (A)	UQ	0	0	UQ	0	0
Government Trust Funds	UQ	0	0	UQ	0	0
<b>Financial Management Service</b>						
Treasury Managed Accounts	UQ	0	0	UQ	0	0
Operating Cash of the Federal Government	UQ	0	1	UQ	0	1
<b>Management Initiated</b>						
FinCEN	UQ	0	0	UQ	1	0
UQ Unqualified opinion.						
(A) Audited by the Government Accountability Office.						

The fiscal year 2006 IPA audits of Treasury component entities, performed under our supervision, identified the following reportable conditions:

- BEP's controls over inventory held by others **(OIG-07-004)**,
- The Mint's controls over financial accounting and reporting **(OIG-07-022)**,
- Community Development Financial Institutions Fund's controls over accounting for software in development and grants monitoring **(OIG-07-011)**,
- FMS's effectiveness of computer controls **(OIG-07-015)**,
- OCC's information technology general controls over financial systems **(OIG-07-020)**,
- Treasury Forfeiture Fund's recording and accounting for indirect overhead expenses of the national seized property contractor to the line item level **(OIG-07-027)**

# SIGNIFICANT AUDITS AND EVALUATIONS

We also issued management letters that identified other matters that were not required to be included in the reports on the fiscal year 2006 (1) financial statements of the Mint (OIG-07-023), Federal Financing Bank (OIG-07-012), and Treasury Forfeiture Fund (OIG-07-028); (2) FMS's Schedule of Non-Entity Assets, Non-Entity Costs and Custodial Revenue (OIG-07-014); and (3) FMS's Schedule of Non-Entity Government-Wide Cash (OIG-07-019).

## Federal Financial Management Improvement Act of 1996

The following instances of noncompliance with the Federal Financial Management Improvement Act of 1996 (FFMIA) were reported in connection with the audit of the Department's fiscal year 2006 consolidated financial statements. All instances relate to IRS. Because of the length of time that it will take to implement IRS's system modernization effort, many of the planned timeframes exceed the 3-year resolution period specified in FFMIA. As a result, and in accordance with FFMIA, IRS received a waiver from this requirement from OMB. The current status of these FFMIA noncompliances, including progress in implementing remediation plans, will be evaluated as part of the audit of Treasury's fiscal year 2007 financial statements.

Entity	Condition	Fiscal Year First Reported	Type of Noncompliance
IRS	Financial management systems do not provide timely and reliable information for financial reporting and preparation of financial statements. IRS had to rely extensively on resource-intensive compensating procedures to generate reliable financial statements. IRS also lacks a subsidiary ledger for its unpaid assessments and lacks an effective audit trail from its general ledger back to subsidiary detailed records and transaction source documents for material balances such as tax revenues and tax refunds.	1997	Federal Financial Management Systems Requirements
IRS	Deficiencies were identified in information security controls, resulting in increased risk of unauthorized individuals being allowed to access, alter, or abuse proprietary IRS programs and electronic data and taxpayer information.	1997	Federal Financial Management Systems Requirements
IRS	Material weaknesses were identified related to controls over unpaid tax assessments, tax revenue, and refunds.	1997	Federal Accounting Standards
IRS	Financial management system cannot routinely accumulate and report the full costs of its activities.	1998	Federal Accounting Standards
IRS	General ledger system lacks an effective audit trail to detailed records and transaction source documents for material balances such as tax revenues and tax refunds.	1997	Standard General Ledger

## Attestation Engagement

An IPA, working under OIG supervision, issued an unqualified opinion that the assertions pertaining to the BPD Trust Fund Management Branch schedules for selected trust funds for the period October 1, 2005, to September 30, 2006, are fairly stated. These schedules relate to the functions performed by the Trust Fund Management Branch as custodian of the following monies and investments: Federal Supplementary Medical Insurance Trust Fund, Federal Hospital Insurance Trust Fund, Highway Trust Fund, Airport and Airway Trust Fund, Hazardous Substance Superfund Trust Fund, Leaking Underground Storage Tank Trust Fund,

## SIGNIFICANT AUDITS AND EVALUATIONS

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Oil Spill Liability Trust Fund, Harbor Maintenance Trust Fund, Inland Waterways Trust Fund, and the South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund. The attestation examination did not identify any deficiencies in internal control or instances of reportable noncompliance with laws and regulations. (OIG-07-005)

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### INFORMATION TECHNOLOGY

#### Evaluation of Treasury's Compliance with OMB M-06-16

*We determined that Treasury had not implemented sufficient safeguards to ensure the protection of agency sensitive information, including PII.*

In June 2006, OMB issued M-06-16, *Protection of Sensitive Agency Information*, which contains OMB's guidance and recommendations pertaining to sensitive agency information, including PII. Agencies were required to take actions to ensure that safeguards were in place and reviewed by August 7,

2006. OMB also stated its intent to work with the IG community to review agencies' actions. In response to the memorandum, the President's Council on Integrity and Efficiency/Executive Council on Integrity and Efficiency developed a review guide and data collection instrument to be completed by OIGs for their agencies by September 22, 2006.

We determined that Treasury had not implemented sufficient safeguards to ensure the protection of agency sensitive information, including PII. In addition, we noted that Treasury had not completed actions to address OMB's recommendations in M-06-16 pertaining to encryption, remote access, "time-out" functions, and computer readable data extracts. We recommended that the Treasury CIO implement actions to achieve compliance with M-06-16 as well as address the four OMB recommendations included in the memorandum. The CIO concurred with the recommendation and proposed appropriate corrective actions.

(OIG-CA-07-003)

Related Matter The Transportation, Treasury, Independent Agencies, and General Government Appropriations Act, 2005, includes certain requirements in Title V – General Provision, Section 522, pertaining to privacy and data protection policies and procedures that are applicable to Treasury and other agencies covered by this Act. Additionally, the Act requires our office, at least every 2 years, to contract with an independent, third party to evaluate Treasury's use of information in identifiable form, evaluate Treasury's privacy and data protection procedures, and recommend strategies and specific steps to improve privacy and data protection management. The first contracted review by our office was required in December 2006.

In letters dated December 8, 2006, the IG informed the appropriations committees of the United States Senate and U.S. House of Representatives that we believed the work we did in connection with M-06-16 provided sufficient information as to the current status of Treasury's privacy and data protection policies and procedures and would serve as a benchmark for future reviews of this critical area by our office. With this review, along with a recent assessment by a Treasury contractor of Treasury's privacy program, we also informed the committees that we did not see a benefit to engage an independent third-party contractor at

## SIGNIFICANT AUDITS AND EVALUATIONS

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considerable expense to perform the review described in Section 522 for 2006. That being said, we advised that we would monitor Treasury's progress in establishing and maintaining privacy and data protection policies and procedures and conduct audit work in this area as necessary. In our letters, we also noted that pending fiscal year 2007 appropriations legislation in the Senate included a provision to amend Section 522 to allow affected inspectors general to conduct the biennial reviews themselves or by a contractor. As a subsequent event, it should be noted this appropriations legislation was not enacted.

### **OIG Observations of Bureau Disaster Recovery Exercises Identified Several Areas Needing Improvement**

We observe select disaster recovery exercises (DRE) of information technology systems scheduled by Treasury bureaus and offices to determine whether the disaster recovery capability being tested is successfully demonstrated. In doing this work, we use Federal Preparedness Circular 65, "Continuity of Operations"; NIST 800-34, "Contingency Planning Guide for Information Technology Systems"; and OMB Circular A-130, Appendix III, "Security of Federal Automated Information Resources," as criteria to assess the results of the exercise. During this semiannual period, we issued reports on three DREs, as summarized below:

- The Mint successfully met the primary objectives of a limited-scope DRE in June 2006. However, we found that certain critical information technology resources had not been identified.
- Although BEP met the primary objectives of a September 2006 DRE, we found that improvements were needed. Specifically, BEP needed to (1) establish explicit test objectives, (2) establish remote access, and (3) improve its DRE after-action reporting.
- BEP met the primary objectives of an October 2006 DRE. However, we noted that a "warning" occurred during several of the test segments. As a result, one segment of the DRE could not be completed. This had been a recurring integration problem for the past four DREs and had not been resolved.

Mint and BEP management concurred with our findings and recommendations and had proposed appropriate corrective actions. Because of the sensitivity of certain information in our reports on the DREs, we designated the reports as "limited official use." (**OIG-07-002**, **OIG-07-030**, and **OIG-07-031**)

### **Additional Actions Needed to Improve Treasury's System Inventory**

Among other things, FISMA requires that (1) agencies maintain an inventory of major systems and (2) inspectors general perform an annual independent evaluation of their respective agencies' information security program and practices. In our prior semiannual

*...we issued a report to the Treasury CIO on additional improvements needed with Treasury's information system inventory in the areas of system categorization and the inventory review process.*

report, we discussed the results of the 2006 independent evaluation of Treasury under FISMA, which was performed by a contractor under our supervision. We reported that, despite notable

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progress, Treasury had deficiencies that, in the aggregate, constituted substantial noncompliance with FISMA. We also noted that, as an area where Treasury improved its information security program and practices, we now generally agreed with the Office of the Chief Information Officer on the total number of Treasury systems.

During this semiannual period, we issued a report to the Treasury CIO on additional improvements needed with Treasury's information system inventory in the areas of system categorization and the inventory review process. We recommended that the CIO ensure that his or her office (1) review the system inventory periodically and in a timely manner, (2) address the completeness and categorization of information systems during compliance reviews, and (3) properly document compliance reviews. Management generally concurred with our findings and recommendations. (OIG-CA-07-001)

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### PROGRAMS AND OPERATIONS

#### **OFAC Did Not Complete Hundreds of Enforcement Actions Within the Statute of Limitations**

*...due to a 5-year statute of limitations on imposing penalties, the Civil Penalties Division failed to complete enforcement actions during this period for 295 cases. The potential penalty assessments for these 295 cases totaled \$3.87 million.*

During fiscal years 2002 through 2005, OFAC's Civil Penalties Division took enforcement action against approximately 3,800 violators and collected \$10.32 million in civil penalties. Nonetheless, due to a 5-year statute of limitations on imposing penalties, the Civil Penalties Division failed to complete enforcement actions during this period for 295 cases. The potential penalty

assessments for these 295 cases totaled \$3.87 million. In three other cases, the expiration or impending expiration of the statute of limitations adversely affected the amount of penalties assessed and collected. Out of \$3.79 million in potential penalties for these cases, which involved multiple violations, \$2.70 million was not pursued because the statute of limitations expired for some of the violations. After applying mitigating factors, Civil Penalties settled for about \$0.29 million of the \$1.09 million of assessed penalties on these three cases. Two cases related to frequent illegal commercial exportations to Cuba. The third involved a travel company sponsoring prohibited trips.

Several factors contributed to the failure to take timely penalty action. Civil Penalties Division managers were hampered in monitoring and handling penalty cases by the lack of sufficient, accurate, and reliable information about case status and disposition. In addition, OFAC management cited the following: (1) OFAC resources were not adequate to address the number of sanction programs and violations, which increased from 21 to 29 programs (as of fiscal year 2004) and by a reported 900 cases over a 4-year period; (2) administrative law judges were not always available when needed to conduct required hearings; and (3) the time other divisions or agencies took to review the cases reduced the time available for the Civil Penalties Division to complete its work. We believe these additional factors could be alleviated

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if managers had sufficient, accurate, and reliable data from an improved case database to use in making more informed case management decisions.

We recommended that OFAC take the necessary steps to assure that enforcement actions are completed prior to expiration of the statute of limitations. These steps include (1) improving the civil penalty case database, (2) developing and implementing new policies and procedures and associated monitoring systems and reports to ensure that penalty cases are adjudicated timely and within the statute of limitations period, (3) implementing an effective case tracking mechanism to ensure that penalty cases are being addressed by the appropriate OFAC offices in a timely manner, and (4) ensuring that resources needed to process penalty cases are available in a timely manner.

The OFAC Director generally agreed with the recommendations and has taken, or planned, actions that generally meet the intent of our recommendations. However, the Director stated in his response that the purpose of the penalty program is to maximize enforcement and compliance and not to assess the maximum penalty allowed by statute. We agree that maximizing revenue should not be a goal of OFAC's penalty program. He also asserted that OFAC used a reasoned decision-making process to close cases approaching the statute of limitations deadline without imposing sanctions or taking other enforcement action. We did not see evidence during our review to support this assertion. (OIG-07-032)

### **FedSource Needs to Improve Compliance with Defense Procurement Requirements**

As required by the National Defense Authorization Act for Fiscal Year 2006 (NDAA), we audited, in coordination with the Department of Defense (DoD) OIG, fiscal year 2005 Treasury franchise fund procurements made on behalf of DoD. That year, FedSource, a component of the Treasury franchise fund and the principal focus of our audit, issued approximately 19,700 contract actions consisting of task orders and modifications on behalf of DoD valued at \$405.1 million. Our audit was initiated shortly after GAO issued a report that was critical of FedSource contracting assistance to DoD.

We found that FedSource issued policies and procedures that are responsive, if implemented as described, to address GAO's recommendations. Among other things, FedSource (1) established policy in July 2005 pertaining to ethical conduct and proper use of contract vehicles; (2) established an acquisition performance measurement program in August 2005 to measure, evaluate, and improve management practices in the delivery of contract administration services to FedSource customers; and (3) established a standard checklist in July 2005 for documenting task order files.

*Because deficient conditions were found by this audit, NDAA requires that DoD OIG and our office conduct a second concurrent review of Treasury's fiscal year 2006 procurements on behalf of DoD. A determination of noncompliance by this second review...could result in a significant curtailment by DoD in procuring property and services through Treasury.*

Our review of 64 task orders, which were awarded before the above actions were taken, found conditions that were consistent with GAO's findings. Specifically, we found that

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FedSource did not adequately compete all tested task orders. The task order files also lacked complete documentation required by federal procurement regulations and FedSource policies and procedures. We noted that 1 task order was incrementally (partially) funded, but lacked the required clause limiting the government's payment for and the contractor's provision of services to the amount that was funded. We also found that many task orders lacked a quality assurance surveillance plan, or the plans were inadequate. Additionally, Contracting Officer's Technical Representative designation letters were not consistent with quality assurance surveillance plan instructions with respect to who was responsible for performing quality assurance surveillance.

For DoD procurements made through 21 FedSource task orders, DoD OIG identified instances where incorrect DoD appropriations were used and where the bona fide need rule was potentially violated. These deficiencies represent potential violations of the Antideficiency Act. While DoD OIG's findings were principally directed at DoD, they point to a need for FedSource to identify the due diligence it performs when accepting orders to help prevent the use of incorrect appropriations. Accordingly, we reported that FedSource should work with DoD in establishing a common set of indicators that it should use to determine which procurement requests require more intense FedSource scrutiny. Furthermore, in accordance with a recent DoD directive, FedSource needs to ensure that the task orders for severable services (services that are continuing and recurring in nature) have periods of performance that do not exceed 1 year from the date of accepting DoD's order for the services.

We made five recommendations in our report. Treasury management concurred with three recommendations and partially concurred with two recommendations. However, the corrective actions stated by management, if implemented as described, were generally responsive to the intent of the recommendations. The partial concurrences related to certain procurements cited as potential violations of the Antideficiency Act and the extent of due diligence necessary on the part of FedSource.

Because deficient conditions were found by this audit, NDAA requires that DoD OIG and our office conduct a second concurrent review of Treasury's fiscal year 2006 procurements on behalf of DoD. A determination of noncompliance by this second review, which was in progress at the end of the reporting period, could result in a significant curtailment by DoD in procuring property and services through Treasury. **(OIG-07-26)**

### **Control Weaknesses Need To Be Addressed at BEP's Western Currency Facility**

*...while BEP has taken corrective actions to address issues identified following the theft, additional steps should be taken to enhance internal controls.*

In an audit performed at the Western Currency Facility, we concluded that failure to follow existing internal control procedures facilitated an October 2004 theft by an employee who removed at least \$5,000 of \$50 Federal Reserve Notes slated for

destruction. In addition, while BEP has taken corrective actions to address issues identified following the theft, additional steps should be taken to enhance internal controls.

BEP management concurred with our six recommendations to address the issues identified in the report, and stated that Western Currency Facility employees are being held accountable for

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failure to adhere to policies and procedures and that controls have been strengthened. BEP also implemented a pilot program that reduces the number of times mutilated currency is handled, provides for 100 percent verification, and maintains a clear chain of custody through destruction. A final decision regarding the new approach is expected by July 2007, by which time revised policies and procedures will be issued and tracking and accountability documents will be modified. **(OIG-07-035)**

### **OTS Could Further Strengthen Its Ability to Assess Risks to Thrifts Following Emergencies**

Following Hurricanes Katrina and Rita, we conducted an audit to determine how prepared OTS was to address the needs of thrifts and their customers during and immediately after the two hurricanes and OTS's plans and abilities to assess and manage increased risks to thrifts following emergencies. OTS determined that Hurricanes Katrina and Rita had posed risks to thrifts in the Gulf Coast Region. Short-term risks were primarily to the thrifts' operations, while long-term risks were primarily to the thrifts' financial condition. OTS evaluated these risks by obtaining assessments from thrift management and subsequently performing analyses and examinations. OTS identified 19 thrifts as affected. On average, it took OTS 13 days after hurricane landfall to obtain information on liquidity, 68 days to obtain information on capital, 62 days to obtain earnings-related information, and 50 days to obtain information on asset quality.

*We found that OTS guidance did not specifically address obtaining critical financial information from affected thrifts in a consistent manner, nor did the guidance specify timeframes for analyzing the effects of the hurricanes on the affected thrifts' financial condition.*

We found that OTS guidance did not specifically address obtaining critical financial information from affected thrifts in a consistent manner, nor did the guidance specify timeframes for analyzing the effects of the hurricanes on the affected thrifts' financial condition. We also found areas where OTS could improve its operational risk assessment of affected thrifts following emergencies as OTS lacked continuity of operations plans for field offices in two of its four regions and OTS had difficulty establishing communication with certain thrifts following Hurricane Katrina.

In its response, OTS concurred with our recommendations. Its supervision staff in Washington plans to work with the Regional offices to develop a structured approach for collecting critical information from thrifts following an emergency. OTS also agreed to establish appropriate timeframes, based on the gravity of the situation, for analyzing the effects on affected thrifts financial condition and indicated that it has initiated efforts to develop continuity of operations plans and maintain alternative contact information for thrift personnel. **(OIG-07-034)**

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### **Few Exceptions Found With Treasury Building and Annex Repair and Restoration Program Payments**

*Overall, TBARR payments were generally spent for the purposes and within the time periods specified by Congress.*

Overall, Treasury Building and Annex Repair and Restoration (TBARR) program payments were generally spent for the purposes and within the time periods specified by Congress. However, we found that the Office of Financial Management inappropriately charged TBARR appropriations accounts for two payments totaling \$68,358. One of the payments should have been charged to a Treasury Working Capital Fund account; the other payment should have been charged to an OFAC account. The Acting CFO concurred with our recommendation to correct the accounting records for these errors. **(OIG-07-033)**

This is our fifth and final audit report issued in connection with various Congressional mandates that we comprehensively audit the TBARR program. As highlighted in previous semiannual reports to Congress, our prior audit reports addressed project planning, contract award and administration, costs associated with delays in employee moves during renovations, and building code compliance of the renovation.

### **FMS Policy to Charge Agencies for Plastic Card Network Costs Has Been Developed But Not Yet Implemented**

Treasury and bureau management are responsible for implementing concurred audit recommendations made by our office. We select recommendations from prior OIG audit reports and verify whether management has taken corrective action that is responsive to the intent of the selected recommendations.

*...in July 2004, FMS's Assistant Commissioner of Federal Finance approved a policy for charging agencies for PCN costs in limited circumstances... no participating federal agencies have been charged for PCN costs.*

During this semiannual reporting period, we completed a corrective action verification related to a recommendation in our report *Government-Wide Financial Management Services: Additional Control and Oversight Needed to Reduce Costs and Improve the Plastic Card Network* (OIG-03-088; July 11, 2003).

FMS implemented the Plastic Card Network (PCN) in 1987 to expedite the collection and deposit of revenues from federal agencies' credit and debit card sales. Any federal agency that accepts such cards in the sale of goods and services to the public can elect to join the PCN. In our July 2003 report, we recommended that the FMS Commissioner and the Fiscal Assistant Secretary jointly consider having PCN member agencies pay their own transaction fees and charges for PCN services. We estimated that implementation of this recommendation could yield a monetary benefit to the federal government of nearly \$800 million, the amount of FMS's projected PCN costs over 5 years. In October 2004, FMS closed the recommendation in the Department's audit resolution tracking system, indicating that corrective action had been taken.

Our corrective action verification found that in July 2004, FMS's Assistant Commissioner of Federal Finance approved a policy for charging agencies for PCN costs in limited

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circumstances that would be effective with the next rebid of PCN services scheduled for fiscal year 2005. This did not occur until August 2006 and had not yet been implemented at the time of our corrective action verification. Therefore, no participating federal agencies have been charged for PCN costs. We also found that FMS was considering a different approach for administering the collection services it provides federal agencies. If implemented, this new approach would effectively supersede the July 2004 policy. Under the new approach, FMS would provide agencies, at no charge, collection services, including PCN services, that it has determined it can provide most cost-effectively. FMS would charge an agency for collection services only if the agency elected to use services considered less efficient. A timeline has been established for conducting a pilot test of the approach, but we noted that an overall timeline for completing the approach design, finalizing agreements with agencies, and obtaining the pilot test results has not been established.

While we concluded that FMS met the intent of our recommendation to consider charging agencies for PCN costs, we reported that it is too early to assess FMS's planned new approach. We will continue to monitor FMS's development of this approach and will conduct follow-up audit work as appropriate. **(OIG-07-016)**

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### IMPROPER PAYMENTS INITIATIVE

As highlighted in our last semiannual report, in July 2006, OI initiated a project to proactively identify potentially fraudulent federal benefit and assistance payments warranting further investigation. This investigative initiative directly supports the President's Management Agenda, which specifically identified the erroneous disbursement of federal payments as a key problem to be addressed under one of the Agenda's five governmentwide initiatives, Improved Financial Performance. OI continues to work jointly with other investigative agencies to identify and investigate potential violators. These agencies include the OIGs of the Departments of Veterans Affairs (VA) and Homeland Security (DHS), the Railroad Retirement Board (RRB), the Social Security Administration (SSA), the U.S. Postal Service (USPS), and the Office of Personnel Management (OPM). Also participating in this effort is the Defense Criminal Investigative Service (DCIS).

The Initiative has resulted in the conviction of six individuals who unlawfully obtained federal payments from civilian or military retirement, disability, or survivor programs. In addition, the initiative has resulted in the arrest of 10 individuals, with total restitution exceeding \$165,000, and recoveries exceeding \$46,000. Since its inception, the initiative has identified more than 90 potential violators, who obtained over \$6 million in federal payments. During this period, OI opened 57 cases having a total of 65 potential offenders and approximately \$4.5 million in potential losses. Details on convictions, guilty pleas, indictments, and arrests during this period resulting from the initiative are as follows:

*...Stanley Foster, Jr., unlawfully received military retirement benefits that were initially intended for his father, who died in August 1989.*

A joint **Treasury OIG and DCIS investigation** revealed that Stanley Foster, Jr., unlawfully received military retirement benefits initially intended for his father, who died in August 1989. Foster had forged certificates of eligibility and received an estimated \$168,000 in federal payments. In October 2006, Foster was arrested in Hyattsville, Maryland, pursuant to an arrest warrant issued by the United States District Court for the Eastern District of New York. He was subsequently indicted and pled guilty to one count of theft of government property. Foster is scheduled for sentencing on May 25, 2007.

*Harris defrauded the federal government of an estimated \$182,241 from 1992 to 2006, having forged his deceased father's signature when cashing the benefit checks.*

Another joint **Treasury OIG and DCIS investigation** disclosed that Simpson Harris III unlawfully received his father's military retirement benefit payments after his father's death. Harris defrauded the federal government of an estimated \$182,241 from 1992 to 2006, having forged his deceased father's signature when cashing the benefit checks. The federal payments were processed through FMS. Harris was arrested in November 2006 and, on February 1, 2007, pled guilty in New York State Court (Kings County) to one count of attempted forgery. On March 7, 2007, Harris was sentenced to 6 months of incarceration and 5 years of supervised probation.

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*...Kathleen Cook unlawfully received VA payments initially intended for her mother, who died in June 2003.*

A joint **Treasury OIG and VA OIG investigation** revealed that Kathleen Cook unlawfully received VA payments initially intended for her mother, who died in June 2003. It was determined that after the mother's death an estimated \$38,495 was improperly paid into her bank account. Cook then unlawfully accessed those funds, withdrawing more than \$34,000 in VA benefits through a series of debit card and over-the-counter transactions. In September 2006, Cook was indicted on a Georgia State theft violation. On January 18, 2007, she pled guilty and was sentenced to 10 years of supervised probation and ordered to pay restitution in the amount of \$34,495.

*...Thomas B. Hatchell fraudulently obtained Civil Service Retirement benefits that were initially intended for his mother....*

A joint **Treasury OIG and OPM OIG investigation** confirmed that Thomas B. Hatchell fraudulently obtained Civil Service Retirement benefits that were initially intended for his mother, who died in October 1997. OPM determined that since the mother's death, an overpayment of \$156,429 was made via electronic funds transfer to her account. Hatchell then wrote several checks to himself against the account to illegally access the funds. On January 29, 2007, Hatchell pled guilty in the United States District Court for the Eastern District of Virginia to one count of theft of government funds. Sentencing is scheduled for April 27, 2007.

*From the time of their mothers' deaths in 2003, until the payments were discontinued in 2006, Byrd improperly received approximately \$22,000 and Kimbrough improperly received approximately \$12,000.*

Joint **Treasury OIG and VA OIG investigations** revealed that Hope Byrd and Cleophas Kimbrough, Jr., residents of Mobile County, Alabama, received, possessed, and converted to their own use VA benefit checks that were sent to their respective deceased mothers. From the time of their mothers' deaths in 2003, until the payments were discontinued in 2006, Byrd improperly received approximately \$22,000 and Kimbrough improperly received approximately \$12,000. In January 2007, Byrd and Kimbrough were separately indicted by a federal grand jury in the Southern District of Alabama each on 10 counts of mail fraud. In March 2007, Byrd and Kimbrough entered guilty pleas in the United States District Court for the Southern District of Alabama. On March 20, 2007, Byrd pled guilty to one count of mail fraud. Byrd's sentencing is scheduled for June 18, 2007. On March 22, 2007, Kimbrough pled guilty to one count of mail fraud. Kimbrough's sentencing is scheduled for June 15, 2007.

*...the subject allegedly negotiated the Treasury-issued checks over a 3-year period and fraudulently received over \$33,000 in federal funds.*

A joint **Treasury OIG and SSA OIG investigation** resulted in the November 2, 2006, arrest of a District of Columbia resident relating to the fraudulent receipt and negotiation of his deceased mother's social security checks. The investigation determined that the subject allegedly negotiated the Treasury-issued checks over a 3-year period and fraudulently received over \$33,000 in federal

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funds. A criminal complaint was filed and the warrant was issued in the Superior Court of the District of Columbia, resulting in the defendant's arrest for first degree theft. While pending further judicial action and the pursuit of an additional suspect, the defendant remains in custody on other unrelated violations.

*...the subject allegedly negotiated over \$13,000 in Treasury checks by forging her deceased mother-in-law's signature.*

A joint **investigation by Treasury OIG, SSA OIG, and the Baltimore County Police Department** resulted in the March 15, 2007, arrest of a Baltimore, Maryland, resident. She was charged with violating Maryland Code, Theft-Scheme: \$500 Plus, for the fraudulent receipt and negotiation of her deceased mother-in-law's social security benefits. The joint investigation revealed that the subject allegedly negotiated over \$13,000 in Treasury checks by forging her deceased mother-in-law's signature.

*The subject allegedly used fraudulent identification documents to assume the identity of another individual and apply for SSA benefits.*

A joint **investigation by Treasury OIG, SSA OIG, U.S. Immigration and Customs Enforcement, and U.S. Postal Inspection Service** resulted in the March 28, 2007, arrest of a North Carolina resident, who was earlier indicted by a federal grand jury in the Eastern District of North Carolina on charges of theft of government funds and aggravated identity theft. The subject allegedly used fraudulent identification documents to assume the identity of another individual and apply for SSA benefits. Using the fraudulently obtained identity, he allegedly collected over \$26,000 in improper federal benefits.

*One subject was charged...for her alleged negotiation of Treasury checks issued in the name of her deceased mother. The other subject was charged... for her unlawful receipt of RRB unemployment payments....*

On March 27, 2007, two individuals were indicted by a federal grand jury in the Northern District of Ohio for the theft of government funds after two joint **Treasury OIG and RRB OIG investigations** revealed that the individuals had unlawfully received federal payments. One subject was charged with the theft of government funds for her alleged negotiation of Treasury checks issued in the name of her deceased mother. Since her mother's death, in November 1994, the subject allegedly assumed the identity of her mother and unlawfully obtained RRB widow-annuitant benefits totaling more than \$186,000. In the second indictment, the other subject was charged with the theft of government funds for her unlawful receipt of RRB unemployment payments totaling more than \$7,000, relating to her alleged filing of false unemployment claims.

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*Treasury OIG assisted SSA OIG with the arrest of two fugitive felons in South Carolina for their improper receipt of or application for benefit payments.*

**Treasury OIG assisted SSA OIG** with the arrest of two fugitive felons in South Carolina for their improper receipt of, or application for, SSA benefit payments. The two individuals were arrested pursuant to the issuance of arrest warrants for violating conditions of probation imposed under state law, making them ineligible to receive such benefits. Under SSA's Fugitive Felon Program, the matter will be referred to the local SSA office for overpayment calculation and suspension of benefits.

*...a USPS employee was participating in physically arduous outside employment activities, while at the same time claiming a disability from a back injury...*

A joint **Treasury OIG and USPS OIG investigation** resulted in the December 19, 2006, indictment by a federal grand jury in the District of South Carolina on one count of workers' compensation fraud. The investigation revealed that a USPS employee was participating in physically arduous outside employment activities, while at the same time claiming a disability from a back injury and certifying to the Office of Workers' Compensation Program that she had not received any wages while claiming disability. The employee received an estimated \$100,000 in workers' compensation benefits.

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## OTHER SIGNIFICANT INVESTIGATIONS

### Senior-Level Treasury Official Resigns After Found Gambling While on Duty

*...it was also discovered that the Treasury official knowingly, and without authority, used his Citibank Government Travel charge card to withdraw \$1,800 in cash advances....*

A Treasury OIG investigation determined that a senior-level official of Treasury's Community Development Financial Institution Fund engaged in sports gambling activities while on duty and misused government property (phones and computers) in furtherance of his illicit activities.

The investigation also disclosed that the Treasury official knowingly, and without authority, used his Citibank Government Travel charge card to withdraw \$1,800 in cash advances, which were used for personal expenses unrelated to official government travel. The United States Attorney's Office was briefed on the results of the investigation but declined to initiate a criminal prosecution against the official. The investigation was subsequently referred to Treasury management for appropriate administrative action, and termination of the official was proposed. Upon receiving a notice of proposed removal, the official resigned from his position with Treasury effective November 11, 2006.

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### **Treasury OIG Participates in Metro Richmond Identity Theft Task Force Operation**

During November 2006, Treasury OIG, in conjunction with other federal, state, and local law enforcement agencies, participated in the arrest of several individuals suspected of identity theft and related fraud offenses in the Metro-Richmond, Virginia, area. The operation resulted in the indictment of 51 defendants on federal charges of identity theft and other related charges. The charges stem from "Operation Reconcile," an initiative led by the Richmond Identity Theft Task Force, which was established in 2004 to deal with identity theft and fraud in and around Richmond. This task force, which Treasury OIG had a lead role in creating, consists of 14 federal, state, and local law enforcement agencies that operate out of the U.S. Postal Inspection Service facility in Richmond.

*The operation resulted in the indictment of 51 defendants on federal charges.*

### **Joint Fraud Investigation Leads to Indictment**

*In October 2006, as a result of a joint Treasury OIG and U.S. Secret Service investigation, a Maryland resident was indicted by a federal grand jury in the District of Columbia.*

In October 2006, as a result of a joint Treasury OIG and U.S. Secret Service investigation, a Maryland resident was indicted by a federal grand jury in the District of Columbia. In the three-count indictment, it was alleged that the defendant attempted to defraud the Treasury Department Federal Credit Union when he tried to negotiate

two fictitious obligations (in the amounts of \$2.9 million and \$5.5 million) at two of the credit union's locations in Washington, DC. The defendant was indicted on one count of bank fraud and two counts of fictitious obligations. When the case went to trial in April 2007, the jury was unable to reach a unanimous verdict, resulting in a mistrial. Further disposition of this case is pending.

### **Maryland Resident Convicted for Identity Fraud**

A joint investigation by Treasury OIG and local law enforcement agencies resulted in the conviction of Maryland resident Shalonda Jackson related to her involvement in an identity fraud scheme. The investigation determined that Jackson used fraudulently obtained and compromised identities to obtain credit and file false income tax returns. Jackson was convicted in both Prince George's County and Charles County, Maryland. On October 27, 2006, Jackson was sentenced to 5 years of incarceration (with all but 6 months suspended), 5 years of supervised probation, and ordered to pay restitution of \$40,592. Upon her release from incarceration in Prince George's County, Jackson was turned over to Charles County where on February 23, 2007, she was sentenced to 50 years of incarceration with 39 years suspended to be followed by 5 years of supervised probation.

*The investigation determined that Jackson used fraudulently obtained and compromised identities to obtain credit and file false income tax returns.*

## SIGNIFICANT INVESTIGATIONS

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### **Maryland Resident Convicted and Sentenced for Theft**

*Tanjudeen negotiated an altered Blue Cross Blue Shield check for \$16,644 at a financial institution....*

A Treasury OIG investigation revealed that Maryland resident Ayinde Giwa Tanjudeen negotiated an altered Blue Cross Blue Shield check for \$16,644 at a financial institution in Ports Town, Maryland. After determining that the

intended payee was FMS, Tanjudeen was arrested by Treasury OIG. In January 2007, Tanjudeen pleaded guilty to two counts of theft in the Circuit Court for Prince George's County. He was sentenced to 10 years of incarceration (with all but 8 months suspended) and was ordered to pay restitution of \$16,644 to Bank of America.

### **Proposed Debarments of Two Treasury Contractors**

A Treasury OIG investigation revealed that a former Treasury contractor knowingly created false invoices relating to his relocation expenses, which resulted in excessive, erroneous charges to the government. A second investigation revealed that another former Treasury contractor submitted false certification in connection with his contract with Treasury. The results of both

*A Treasury OIG investigation revealed that a former Treasury contractor knowingly created false invoices relating to his relocation expenses, which resulted in excessive, erroneous charges to the government.*

investigations were referred to Treasury's Office of the Procurement Executive, which proposed debarments in January 2007 and February 2007, respectively. If debarred, the former contractors would be excluded from future contracting with the executive branch of the federal government for a period not exceeding 3 years. It is expected that decisions for both debarments will be made during the next reporting period.

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*The following are updates on investigative activities from previous semiannual reports.*

### **Former BEP Employee Sentenced in the Theft of Partially Printed \$100 Federal Reserve Notes**

As previously reported, Treasury OIG, with the assistance of BEP investigators and the U.S. Secret Service, and the Federal Bureau of Investigation, conducted an investigation following the discovery of incomplete \$100 Federal Reserve Notes that had entered commerce and were subsequently recovered from the Philadelphia Federal Reserve Bank and various casinos in Delaware, New Jersey, and West Virginia. The investigation revealed that the partially printed \$100 notes were stolen from BEP's Eastern Currency Facility in Washington, DC, and were in the possession of David Faison, who was at the time a stock control recorder at BEP. Faison was arrested in August 2006 and pled guilty on September 6, 2006, in the U.S. District Court for the District of Columbia, to one count of possession of tools and materials for counterfeiting purposes. Following his arrest, Faison retired from BEP.

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**Update:** On February 26, 2007, Faison was sentenced to 9 months of incarceration, 3 years of supervised release, and ordered to pay restitution of \$37,200.

### **Former BEP Employee Convicted of a Scheme to Defraud the Federal Employee Workers' Compensation Program**

As previously reported, Treasury OIG, the Department of Labor OIG, and the Federal Bureau of Investigation jointly investigated the fraudulent receipt of workers' compensation by former BEP employee Sherman Berry. The investigation determined that Berry, who had been receiving workers' compensation since approximately March 1992, submitted fraudulent documentation in support of his claim and fraudulently received over \$270,000 in an extensive workers' compensation fraud scheme. In February 2006, Berry was indicted by a federal grand jury in the District of Columbia on three counts of making false statements to obtain federal employees' compensation, three counts of wire fraud, and one count of making false statements.

**Update:** On February 1, 2007, in the U.S. District Court for the District of Columbia, a jury returned a guilty verdict on all seven counts. Berry remains in custody pending his sentencing, which is scheduled for May 4, 2007.

### **Three Maryland Residents Sentenced in Bank Fraud Scheme**

As reported previously, Treasury OIG, as a member of the Baltimore Financial Fraud Task Force, participated in an investigation that led to the conviction of Cleveland Kilgore, Eric Wiggins, and Donna Spencer. All three were convicted of crimes arising from a conspiracy to defraud Bank of America through unauthorized use of PII of legitimate account holders in California. The investigation revealed that Kilgore, Wiggins, and Spencer obtained account holders' bank account numbers and balances, as well as their names, addresses, and driver's license numbers, which was then used to manufacture fraudulent identification documents bearing the names and addresses of the account holders, with photographs of themselves or their associates. The three individuals fraudulently obtained approximately \$268,930 from Bank of America branches in Maryland, Virginia, North Carolina, and Florida. Charges that they were convicted of include bank fraud, aggravated identity theft, conspiracy, and aiding and abetting.

**Update:** In December 2006, Kilgore and Wiggins were sentenced in the U.S. District Court for the District of Maryland. Kilgore was sentenced to 149 months of incarceration, followed by 5 years of supervised release. Wiggins was sentenced to 45 months of incarceration, followed by 5 years of supervised release. In March 2007, Spencer was sentenced to 31 days of incarceration, 2 years of supervised release, 12 months of home detention with electronic monitoring, and 50 hours of community service. All three defendants were ordered to pay restitution in the total amount of \$268,930.

## SIGNIFICANT INVESTIGATIONS

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### **Individual Sentenced for Defrauding the Federal Emergency Management Agency**

As previously reported, Jeffrey Rothschild was arrested and pled guilty in the U.S. District Court for the District of Columbia to a three-count criminal information charging him with bank fraud, mail fraud, and money laundering relating to his involvement in a scheme to defraud the Federal Emergency Management Agency of more than \$100,000 in relief funds intended for victims of Hurricanes Katrina and Rita. In addition to the disaster relief fraud, the joint investigative effort by Treasury OIG, the DC Metro Area Fraud Task Force, the U.S. Postal Inspection Service, the U.S. Secret Service, and the Department of Homeland Security OIG revealed that Rothschild used compromised or fraudulent identities in additional credit card fraud and check-kiting schemes.

**Update:** On February 5, 2007, Rothschild was sentenced to 102 months of incarceration and 36 months of supervised release. He was also ordered to pay restitution of \$129,139, which will be paid to the victims of his fraud schemes, including the federal government. In addition, Rothschild was ordered to forfeit a 2005 Mazda automobile and barred from computer or Internet access while incarcerated.

### **District of Columbia Resident Sentenced for Fraudulently Obtaining Hurricane Relief Aid**

As previously reported, District of Columbia resident Charles Washington pled guilty in the U.S. District Court for the District of Columbia to a false statement charge relating to the fraudulent filing of a federal application for Hurricane Katrina disaster assistance. In his application for financial aid, Washington falsely claimed that he was renting and living in a single-family residence in New Orleans, Louisiana, during the Hurricane Katrina disaster. He further claimed that he had damage to his home and lost personal property as a result of the hurricane. As a result of his fraudulent claim, Washington was issued three Treasury checks totaling \$14,749.

**Update:** On November 7, 2006, Washington was sentenced to 10 months of incarceration, 3 years of supervised probation, 100 hours of community service, and ordered to pay restitution of \$4,358.

### **Chicago Resident Convicted of Bank Fraud**

As previously reported, Treasury OIG, in conjunction with the U.S. Secret Service, commenced an investigation in September 2003 concerning the alleged unauthorized use of the Treasury Seal and alleged forging of the signature of the Treasury Secretary. Further investigative activity, including the execution of a search warrant at the Chicago residence of Carey Portman, resulted in Portman's arrest and indictment for his alleged involvement in schemes to defraud financial institutions and various individuals by fraudulently obtaining loans or attempting to negotiate counterfeit or falsely altered checks.

**Update:** In an amended seven-count indictment, Portman was charged with bank fraud and possessing and uttering a falsely altered security. On November 20, 2006, Portman was found

## SIGNIFICANT INVESTIGATIONS

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guilty on all seven counts in a jury trial in the U.S. District Court for the Northern District of Illinois, Eastern Division. Sentencing is scheduled for June 8, 2007.

### **Four Individuals Involved in Identify Theft and Bank Fraud Scheme Sentenced**

As previously reported, Treasury OIG worked jointly with other federal, state, and local law enforcement agencies on an investigation of a complex bank fraud scheme wherein the participants created counterfeit checks by using names, identification numbers, and bank account numbers stolen from a number of victims, and used the routing codes assigned to six different financial institutions to legitimize the checks. The checks were used to purchase a variety of merchandise, including jewelry, electronics, and furniture. For his part in this scheme, John Caulder, of Richmond, Virginia, pled guilty in the U.S. District Court for the Eastern District of Virginia in August 2006 to conspiracy, bank fraud, and aggravated identity theft charges. At the same time, his mother, Susan Caulder, pled guilty to obstruction of justice. In July 2006, his sister, Katharine Caulder Staton, and an associate, Heather Nicole Weston, pled guilty to conspiracy to commit bank fraud and aggravated identity theft.

**Update:** In November 2006, John Caulder was sentenced to 129 months of incarceration and 5 years of probation; Weston was sentenced to 65 months of incarceration and 5 years of probation; and Staton was sentenced to 57 months of incarceration and 5 years of probation. The three were ordered to pay \$238,951 in restitution to 52 identified victims. Susan Caulder was sentenced to 5 months of incarceration and 5 months of home detention.

### **Former Hamilton Bank Executives Ordered to Pay Restitution**

As previously reported, Treasury OIG, in conjunction with the Federal Deposit Insurance Corporation (FDIC) OIG, conducted an investigation that led to the indictment and conviction of three former Hamilton Bank executives – Eduardo Masferrer, former Chief Executive Officer of Hamilton Bancorp and Hamilton Bank, Juan Carlos Bernace, former President and Director of Hamilton, and John Jacobs, Senior Executive of Hamilton – for their participation in a scheme to fraudulently inflate the reported results of operations and financial condition of Hamilton Bank and defraud the investing public and bank/securities regulators. In 2005, in the U.S. District Court for the Southern District of Florida, Bernace and Jacobs pled guilty to securities fraud. In addition, Jacobs pled guilty to obstruction of an OCC examination. Bernace and Jacobs were each sentenced to 28 months of incarceration. A May 2006 jury trial found Masferrer guilty of obstruction of an OCC examination, conspiracy, wire fraud, defrauding a financial institution, false statements, and securities fraud. He was sentenced to 30 years of incarceration.

**Update:** On October 20, 2006, Masferrer, Bernace, and Jacobs were ordered to make restitution in the aggregate amount of \$14,546,569 during a restitution hearing in the U.S. District Court for the Southern District of Florida. In addition, Masferrer was ordered to make further restitution of \$17,233,345, of which \$16,127,414 is to be made to FDIC, and \$1,106,020 is to be made to an insurance company.

## SIGNIFICANT INVESTIGATIONS

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### **FinCEN Employee Suspended for Misuse of the Government Travel Card**

As previously reported, a Treasury OIG investigation disclosed that a FinCEN program manager used a government-issued travel card for personal charges of \$2,635 between April and August 2004. In response to a referral for administrative action, FinCEN management proposed a 10-day suspension.

**Update:** The proposed suspension was mitigated and the FinCEN employee served a 5-day suspension without pay in October 2006.

## OTHER OIG ACCOMPLISHMENTS AND ACTIVITY

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### **Treasury OIG Ranked Highest in Employee Satisfaction and Engagement**

Treasury OIG ranked first out of 222 federal agency subcomponents for best places to work in the federal government in 2006, according to the Partnership for Public Service and American University's Institute for the Study of Public Policy Implementation. Released in April 2007, the list reflects the responses of more than 221,000 randomly selected federal employees who completed the Office of Personnel Management's 2006 Federal Human Capital Survey. The list compares agencies in 10 categories: employee skills/mission match, strategic management, teamwork, effective leadership, performance based rewards and advancement, training and development, support for diversity, pay and benefits, family friendly culture and benefits, and work/life balance. Treasury OIG ranked in the top ten for 7 categories including: first in employee skills/mission, first in teamwork, fourth in effective leadership, first in performance based awards and advancement, first in training and development, eighth in family friendly culture and benefits, and first in work/life balance.

### **Treasury OIG Hosts Ukrainian Officials**

On November 1, 2006, Inspector General **Harold Damelin**, Counsel to the IG **Rich Delmar**, Assistant Inspector General for Audit **Marla Freedman**, and Assistant Inspector General for Investigations **Nick Swanstrom** met with two officials of the Trade and Economic Mission of the Embassy of Ukraine, **Yevgen Burkat**, Chief, and **Volodymyr Kuchyn**, Deputy Chief. We discussed the mission of the Inspector General community and the Treasury OIG.

### **Treasury OIG Co-Hosts Symposium on Emerging Banking Issues**

In October 2006, Treasury OIG co-hosted the Fourth Symposium on Emerging Issues in Banking with the OIGs of FDIC, the Board of Governors of the Federal Reserve System (FRB), and the National Credit Union Association. In what has become a premier training event for the banking IG community, the symposium's theme was "Protecting Consumers, Banks, and the Nation." Our keynote speaker was Robert Werner, former Director of FinCEN. Presenters included Richard Brown, FDIC Chief Economist, who gave an overview of the economic outlook; Amy Friend, OCC Assistant Chief Counsel, who discussed consumer privacy; Martin Gruenberg, FDIC Vice Chairman, who addressed consumer protection issues; and Arthur Murton, FDIC Director, who spoke on deposit insurance pricing and reform. The symposium also featured a panel on Congressional perspectives with staff from the Senate Committee on Banking, Housing, and Urban Affairs and the House Committee on Financial Services, and a panel on emerging risks as seen by senior supervision officials from OCC, OTS, FDIC, and FRB. Over 130 personnel from 10 agencies attended this 1 ½-day symposium, which was held at FDIC's Seidman Center in Arlington, Virginia.

### **2007 President's Council on Integrity and Efficiency/GAO Financial Statement Audit Roundtable Co-Sponsored by Treasury OIG**

Deputy Assistant Inspector General for Audit **Joel Grover** served on an interagency team that organized the Fourth Annual President's Council on Integrity and Efficiency (PCIE)/GAO Financial Statement Audit Roundtable, which was held on February 28, 2007, in Washington,

## OTHER OIG ACCOMPLISHMENTS AND ACTIVITY

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DC. This year, over 250 persons from the IG community, OMB, GAO, and several public accounting firms attended the event. The purpose of the roundtable was to provide federal financial statement auditors with information that will be beneficial to them when they conduct fiscal year 2007 financial audits of federal agencies.

### **Update on the Inspectors General Auditor Training Institute**

The Inspectors General Auditor Training Institute (IGATI) was created by PCIE in December 1990 as a reimbursable program within Treasury OIG. The purpose of IGATI was to provide training for enhancing the skills, abilities, and knowledge of auditors in the federal IG community. In prior semiannual reports, we discussed plans to consolidate IGATI with the Inspector General Criminal Investigator Academy and the Inspector General Management Institute to become the Inspector General Institute. This initiative was discontinued during 2006. As a result, the PCIE Audit Committee re-established IGATI to continue offering classes through December 2006, with Treasury OIG as the cognizant agency. With the retirement of the Director of IGATI in January 2007, the PCIE Audit Committee and Treasury OIG decided to suspend IGATI operations effective February 2007 for the balance of fiscal year 2007. The PCIE Audit Committee and Treasury OIG are working in conjunction with the DoD OIG to provide introductory auditor training for the IG community for the balance of fiscal year 2007.

As we also reported previously, an IGATI Curriculum Review Board was formed in fiscal year 2005 under the leadership of Assistant Inspector General for Audit **Marla Freedman** to assist the PCIE Audit Committee in achieving its strategic goal to identify and provide useful, relevant, and cost-effective auditor training. During this semiannual reporting period, the Board completed reviews of 6 IGATI courses, bringing to 17 the number of courses reviewed since the Board's inception. The Board also provided the PCIE Audit Committee a final summary report on its activities and recommendations for improving or discontinuing the reviewed courses. Participating in the Board were the OIGs of DoD, Interior, Commerce, Energy, Education, Housing and Urban Development, and Treasury, the U.S. Agency for International Development, the General Services Administration, the Environmental Protection Agency, and SSA. Also participating was the Naval Audit Service.

Working through the Federal Audit Executive Committee, the PCIE Audit Committee is considering various ways to support auditor training going forward.

### **Hurricane Katrina Fraud Task Force**

Treasury OIG continued its participation in the Hurricane Katrina Fraud Task Force, whose mission remains the detection, deterrence, prevention, and punishment of those who engage in criminal conduct in the wake of the devastation caused by Hurricanes Katrina, Rita, Wilma, Frances, and Jeanne. Since the task force was established in September 2005, more than 400 people have been charged for various hurricane fraud-related crimes involving millions of dollars. These prosecutions were made possible by the cooperative investigative and audit efforts of federal, state, and local law enforcement, including the IG community.

## OTHER OIG ACCOMPLISHMENTS AND ACTIVITY

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Among the cases highlighted in the Hurricane Katrina Fraud Task Force's First Year Report to the Attorney General was Treasury OIG's joint investigation of Jeffrey Rothschild (described earlier in this report), who was successfully prosecuted and sentenced in February 2007.

### **Federal Employees' Compensation Act**

In keeping with the objectives of the Improper Payments Initiative, OI continues to work with OA to identify potential instances of fraud in the Federal Employees' Compensation Act program within Treasury. This project is part of a larger initiative being pursued by the IG community. OI has recovered approximately \$18,000 in lost workers' compensation funds for Treasury and, as discussed earlier in this report, an OI investigation resulted in the conviction of a former BEP employee who submitted fraudulent documentation in support of his workers' compensation claim and unlawfully received over \$270,000 in federal payments.

### **OIG Participation in SSA's Fugitive Felon Program**

The SSA OIG instituted a program to identify fugitive felons, parole violators, and probation violators who are improperly receiving SSA benefits. Working with other law enforcement agencies throughout the United States, SSA OIG matches wanted persons files provided by participating law enforcement agencies against SSA computer files of individuals receiving Title XVI payments (Grants to States for Aid to the Aged, Blind, or Disabled), Title II benefits (Federal Old-Age, Survivors, and Disability Insurance Benefits), and/or serving as representative payees. When a match is identified, SSA OIG verifies the identity of the individual; ensures that the arrest warrant is active; works with federal, state, or local law enforcement to locate the person; and refers the case to the local Social Security program office for suspension of benefits. In connection with this program, OI assisted with the March 2007 arrests of two fugitive felons in South Carolina, as discussed on earlier in this report.

### **OIG Participation in U.S. Secret Service–Sponsored Fraud Task Forces**

The OIG continued its participation in fraud task forces sponsored by the U.S. Secret Service. These task forces include agents and officers from a number of federal, state, and local law enforcement agencies in the Washington, DC, and Baltimore, Maryland, metropolitan areas. The primary objective of these task forces is to combat cases of large-scale fraud and identity theft that transcend jurisdictions or have a significant community impact.

As described earlier in this report, a recent Baltimore Fraud Task Force investigation resulted in the successful prosecution of three individuals for crimes arising from a conspiracy to defraud a major financial institution. The three individuals, who fraudulently used the PII of bank customers to withdraw funds from their accounts, were convicted on various charges, including bank fraud and aggravated identity theft. Upon conclusion of the investigation, a Treasury OIG Special Agent received special recognition from the U.S. Secret Service for his efforts and contributions during this cooperative investigation.

# STATISTICAL SUMMARY

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## **Summary of OIG Activity**

*For the 6 Months Ended March 31, 2007*

OIG Activity	Number or Dollar Value
<b>Office of Counsel Activity</b>	
Regulation and Legislation Reviews	8
Instances Where Information was Refused	0
<b>Office of Audit Activities</b>	
Reports Issued (Audits and Evaluations)	37
Disputed Audit Recommendations	0
Significant Revised Management Decisions	0
Management Decision in Which the IG Disagrees	0
<b>Monetary Benefits (Audit)</b>	
Questioned Costs	\$6,866,516
Funds Put to Better Use	\$0
Revenue Enhancements	\$0
Total Monetary Benefits	\$6,866,516
<b>Office of Investigations Activities</b>	
Reports of Investigation	6
Closing Memorandums to File	79
Number of OIG Hotline Calls Processed	156
Allegations – Total Number Processed	309
Referrals Initiated in the Reporting Period	191
Case Investigations	
Open at the Start of Reporting Period	173*
Opened in the Reporting Period (Includes Inquiries Converted to Cases)	82
Closed in the Reporting Period	39
Open at the End of the Reporting Period	216
Inquiries	
Open at the Start of the Reporting Period	111*
Opened in the Reporting Period	73
Closed in the Reporting Period (Includes Inquiries Converted to Cases)	102
Open at the End of the Reporting Period	82
<b>Judicial Actions</b>	
Cases Referred for Prosecution	36
Cases Accepted for Prosecution	14
Arrests	20
Search Warrants	0
Indictments/Information	13
Pleas	9
Conviction by Trial	2
Imprisonment (Months)	722
Home Detention (Months)	5
Probation (Months)	798
Community Service (Hours)	150

# STATISTICAL SUMMARY

<b>Administrative Sanctions</b>	
Adverse Personnel Actions Taken (Investigations)	17
Adverse Personnel Actions Taken (Referrals)	28
Contractor Suspensions/Debarments	0
<b>Oversight Activities</b>	
Quality Assessment Reviews	0
Management Implication Reports	0
Prevention and Detection Briefings	4
<b>Monetary Benefits</b>	
Fines	\$300
Restitution	\$32,550,225
Recoveries	\$46,974
Settlements	\$0
Total Monetary Benefits	\$32,597,499

\* Value adjusted from prior semiannual report. During this semiannual reporting period, we completed a verification of reportable data concurrent with the continued implementation of an improved case management system.

## **Significant Unimplemented Recommendations**

*For Reports Issued Prior to March 31, 2007*

<u>Number</u>	<u>Date</u>	<u>Report Title and Recommendation Summary</u>
OIG-03-007	10/02	<p><b>INFORMATION TECHNOLOGY: Controls Over FinCEN's Law Enforcement Data Need Improvement</b></p> <p>The FinCEN Director should establish a formal process for approving, transmitting, and maintaining system access authorization forms to reduce the risks associated with granting excessive or unauthorized access privileges, alterations, misunderstandings, and mishandled forms. (1 recommendation)</p>
OIG-03-038	12/02	<p><b>PROTECTING THE PUBLIC: Treasury Departmental Offices' Control Over Computers Needs To Be Improved</b></p> <p>DO should re-evaluate the method for reporting lost or stolen computers to ensure all losses are reported to the proper authorities. This should include periodic reconciliations between the CIO, Treasury Office of Security and Critical Infrastructure Protection, and OIG OI. (1 recommendation)</p>
OIG-04-035	6/04	<p><b>GENERAL MANAGEMENT: Controls Over Security Need to be Improved at the Bureau of Engraving and Printing</b></p> <p>The BEP Director should complete plans for its Integrated Security Systems and install its security upgrade systems expeditiously. (1 recommendation)</p>

## STATISTICAL SUMMARY

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- OIG-05-032 3/05 *TERRORIST FINANCING/MONEY LAUNDERING: Office of Terrorist Financing and Financial Crimes Needs to Refine Measures for Its Performance Budget and Implement a Data Collection and Reporting System*  
The Assistant Secretary for Terrorist Financing should ensure that TFFC (1) implements the recently proposed performance measures, adjusted as appropriate based on planned discussions with OMB, and include the measures in the Department's fiscal year 2006 budget submission; (2) implements routine data collection and reporting procedures to help manage its operation and report on its performance measures; (3) creates a mechanism that will allow the office to regularly gather reliable data for organizations outside of Treasury; and (4) develops methods to assess the completeness and reliability of its performance measurement data. (4 recommendations)
- 
- OIG-05-043 8/05 *INFORMATION TECHNOLOGY: Effective Security Controls Needed to Mitigate Critical Vulnerabilities in Departmental Offices' Networked Information Systems*  
Due to the sensitive nature of the findings and recommendations, we designated the report Limited Official Use. Four recommendations in the report have not been implemented.
- 
- OIG-06-001 10/05 *INFORMATION TECHNOLOGY: The TCS Disaster Recovery Exercise Was Not Successful*  
The Treasury CIO should conduct a DRE during a peak utilization period that includes all TCS components requiring connection to Treasury Communication System in the event of a service disruption. (1 recommendation)
- 
- OIG-06-010 12/05 *BILL AND COIN MANUFACTURING: The Bureau of Engraving and Printing Should Ensure That Its Currency Billing Rates Include All Costs and That Excess Working Capital Is Deposited in the General Fund*  
BEP should ensure that currency billing rates consider the full cost of operations, including imputed costs such as the imputed cost of employee benefits paid by OPM. To the extent the currency rates result in excess monies to the BEP revolving fund, they should be deposited as miscellaneous receipts to the Treasury general funds. (1 recommendation)
- 
- OIG-06-020 12/05 *Management Letter for Fiscal Year 2005 Audit of the Federal Financing Bank's Financial Statements*  
FFB should formally document its system development methodology and configuration management plans. (1 recommendation)
- 
- OIG-06-021 1/06 *Management Letter for Fiscal Year 2005 Audit of the Department of the Treasury's Financial Statements*  
The CFO should prepare detailed policies and operating procedures for the reconciliation of the Combined Statement of Budgetary Resources to the President's Budget. The CIO should (1) develop and implement policies to require storage of these backup tapes in fireproof boxes so that they will be protected in the event of a disaster and (2) develop, implement, and test a continuity of

## STATISTICAL SUMMARY

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operations plan and a disaster recovery plan for the TIER and CFO Vision applications. Additionally, this plan should be tested annually upon implementation. (3 recommendations)

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OIG-06-023 1/06 *Audit of the Department of the Treasury Forfeiture Fund's Fiscal Years 2005 and 2004 Financial Statements*  
TFF should (1) for all common support costs not directly traceable to individual seizures, develop and implement an allocation process, and (2) pursue the enhancement of the Seized Assets and Case Tracking System capabilities to record and report total expenses at the asset level. (2 recommendations)

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

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### ***Summary of Instances Where Information Was Refused*** *October 1, 2006, through March 31, 2007*

There were no such instances during this period.

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### ***Listing of Audit and Evaluation Reports Issued*** *October 1, 2006, through March 31, 2007*

#### **Financial Audits and Attestation Engagements**

Report on the United States Mint's Schedule of Custodial Deep Storage Gold and Silver Reserves as of September 30, 2006 and 2005, OIG-07-003, 10/23/06

Report on the Bureau of Engraving and Printing's Fiscal Years 2006 and 2005 Financial Statements, OIG-07-004, 11/1/06

Report on the Bureau of the Public Debt Trust Fund Management Branch Schedules for Selected Trust Funds as of and for the Year Ended September 30, 2006, OIG-07-005, 11/4/06

Report on the United States Mint's Fiscal Year 2005 Financial Statements, OIG-07-006, 11/11/06

Management Letter for the Fiscal Year 2005 Audit of the United States Mint's Financial Statements, OIG-07-007, 11/11/06

Report on the Financial Management Service's Fiscal Years 2006 and 2005 Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue, OIG-07-008, 11/15/06

Report on the Federal Financing Bank's Fiscal Years 2006 and 2005 Financial Statements, OIG-07-009, 11/15/06

## STATISTICAL SUMMARY

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Report on the Department of the Treasury's Fiscal Years 2006 and 2005 Financial Statements, OIG-07-010, 11/15/06

Report on the Community Development Financial Institutions Fund's Fiscal Years 2006 and 2005 Financial Statements, OIG-07-011, 11/15/06

Management Letter for Fiscal Year 2006 Audit of the Federal Financing Bank's Financial Statements, OIG-07-012, 11/15/06

Report on the Department of the Treasury's Special Purpose Financial Statements for Fiscal Years 2006 and 2005, OIG-07-013, 11/17/06

Management Letter for Fiscal Year 2006 Audit of the Financial Management Service's Schedule of Non-Entity Assets, Non-Entity Costs and Custodial Revenue, OIG-07-014, 11/20/06

Report on the Financial Management Service's Fiscal Years 2006 and 2005 Schedules of Non-Entity Government-Wide Cash, OIG-07-015, 11/20/06

Report on the Exchange Stabilization Fund's Fiscal Years 2006 and 2005 Financial Statements, OIG-07-017, 12/5/06

Report on the Office of D.C. Pensions' Fiscal Years 2006 and 2005 Financial Statements, OIG-07-018, 12/5/06

Management Letter for Fiscal Year 2006 Audit of the Financial Management Service's Schedule of Non-Entity Government-wide Cash, OIG-07-019, 12/6/06

Report on the Office of the Comptroller of the Currency's Fiscal Years 2006 and 2005 Financial Statements, OIG-07-020, 12/12/06

Report on the Office of Thrift Supervision's Fiscal Years 2006 and 2005 Financial Statements, OIG-07-021, 12/13/06

Report on the United States Mint's Fiscal Years 2006 and 2005 Financial Statements, OIG-07-022, 12/21/06

Management Letter for the Fiscal Year 2006 Audit of the United States Mint's Financial Statements, OIG-07-023, 12/21/06

Report on the Financial Crimes Enforcement Network's Fiscal Year 2006 Financial Statements and Fiscal Year 2005 Balance Sheet, OIG-07-024, 1/8/07

Report on Agreed-Upon Procedures for the Department of the Treasury's Fiscal Year 2006 Intragovernmental Activity and Balances, OIG-07-025, 1/16/07

Report on the Department of the Treasury Forfeiture Fund's Fiscal Years 2006 and 2005 Financial Statements, OIG-07-027, 1/25/07

Management Letter for the Fiscal Year 2006 Audit of the Department of the Treasury Forfeiture Fund's Financial Statements, OIG-07-028, 1/25/07

Management Letter for the Fiscal Year 2006 Audit of the Department of the Treasury's Financial Statements, OIG-07-029, 2/9/07

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## Information Technology Audits and Evaluations

INFORMATION TECHNOLOGY: The United States Mint Disaster Recovery Capability Needs Improvement, OIG-07-002, 10/10/06

INFORMATION TECHNOLOGY: BEP Disaster Recovery Procedures Need To Be Improved, OIG-07-030, 2/9/07

INFORMATION TECHNOLOGY: The Bureau of Engraving and Printing's Disaster Recovery Capability Needs Improvement, OIG-07-031, 2/9/07

INFORMATION TECHNOLOGY: Additional Actions Needed for System Inventory, OIG-CA-07-001, 10/2/06

INFORMATION TECHNOLOGY: Evaluation of Treasury's Compliance with OMB M-06-016, OIG-CA-07-003, 11/3/06

## Performance Audits

GOVERNMENT-WIDE FINANCIAL MANAGEMENT: FMS Policy to Charge Agencies for Plastic Card Network Costs Has Been Developed But Not Yet Implemented (Corrective Action Verification on OIG-03-088), OIG-07-016, 11/30/06

ACQUISITIONS: Treasury Franchise Fund Needs to Improve Compliance with Department of Defense Procurement Requirements, OIG-07-026, 1/16/07

FOREIGN ASSETS CONTROL: Hundreds of OFAC Civil Penalty Cases Expired Before Enforcement Action Could Be Completed, OIG-07-032, 3/2/07

GENERAL MANAGEMENT: Few Exceptions Found With TBARR Payments, OIG-07-033, 3/12/07

SAFETY AND SOUNDNESS: OTS Could Further Strengthen Its Ability to Assess Risks to Thrift Following Emergencies, OIG-07-034, 3/28/07

BILL AND COIN MANUFACTURING: Control Weaknesses Need To Be Addressed at BEP's Western Currency Facility, OIG-07-035, 3/30/07

## Supervised Contract Audits

CONTRACT AUDIT: Crane And Company, Inc. Firm Fixed Price Proposal for Currency Paper Solicitation BEP-06-0001, OIG-07-001, 10/5/06, **\$6,866,516 Q**

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## STATISTICAL SUMMARY

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### ***Audit Reports Issued with Questioned Costs***

*October 1, 2006, through March 31, 2007*

Category	Total		
	No. of Reports	Questioned Costs	Unsupported Costs
For which no management decision had been made by beginning of reporting period	1	\$5,566,577	0
Which were issued during the reporting period	1	\$6,866,516	0
Subtotals	2	\$12,433,093	0
For which a management decision was made during the reporting period	0	\$0	0
dollar value of disallowed costs	0	\$0	0
dollar value of costs not disallowed		\$0	0
For which no management decision had been made by the end of the reporting period	2	\$12,433,093	0
For which no management decision was made within 6 months of issuance	1	\$5,566,577	0

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

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### ***Audit Reports Issued With Recommendations That Funds be Put to Better Use***

*October 1, 2006, through March 31, 2007*

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

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

*As of March 31, 2007*

We have one previously issued audit report pending a management decision: CONTRACT AUDIT: Audit Report on Technical Graphics, Inc. Fixed Price Indefinite Delivery/Indefinite Quantity Proposal for NCD and NezGen Security Thread Substrate, Solicitation dated August 28, 2006, with \$5,566,577 in questioned costs. We are working with BEP management to resolve this matter.

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## STATISTICAL SUMMARY

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### ***Significant Revised Management Decisions***

*October 1, 2006, through March 31, 2007*

There were no significant revised management decisions during the period.

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### ***Significant Disagreed Management Decisions***

*October 1, 2006, through March 31, 2007*

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

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## REFERENCE TO THE INSPECTOR GENERAL ACT

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Reference	Requirement	Page
Section 4(a)(2)	Review of legislation and regulations	32
Section 5(a)(1)	Significant problems, abuses, and deficiencies	8-28
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies	8-28
Section 5(a)(3)	Significant unimplemented recommendations described in previous semi-annual reports	33-35
Section 5(a)(4)	Matters referred to prosecutive authorities	32
Section 5(a)(5)	Summary of instances where information was refused	35
Section 5(a)(6)	List of audit reports	35-37
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## ABBREVIATIONS

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BEP	Bureau of Engraving and Printing
BSA	Bank Secrecy Act
CFO	Chief Financial Officer
CIO	Chief Information Officer
DCIS	Defense Criminal Investigative Service
DO	Departmental Offices
DoD	Department of Defense
DRE	Disaster Recovery Exercise
FDIC	Federal Deposit Insurance Corporation
FFMIA	Federal Financial Management Improvement Act of 1996
FinCEN	Financial Crimes Enforcement Network
FISMA	Federal Information Security Management Act of 2002
FMS	Financial Management Service
GAO	U.S. Government Accountability Office
IG	Inspector General
IGATI	Inspectors General Auditor Training Institute
IPA	Independent Public Accountant
IRS	Internal Revenue Service
MCA	managerial cost accounting
NDAA	National Defense Authorization Action for Fiscal Year 2006
OA	Office of Audit
OCC	Office of the Comptroller of the Currency
OFAC	Office of Foreign Assets Control
OI	Office of Investigations
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OTS	Office of Thrift Supervision
PCIE	President's Council on Integrity and Efficiency
PCN	Plastic Card Network
PII	personally identifiable information
RRB	Railroad Retirement Board
SSA	Social Security Administration
TBARR	Treasury Building and Annex Repair and Restoration
TFFC	Office of Terrorist Financing and Financial Crime
TIER	Treasury Information Executive Repository
USPS	United States Postal Service
VA	Department of Veterans Affairs
Web EFDS	Web Based Electronic Fraud Detection System



*A Treasury seal, circa 1800, depicts a watchdog guarding the key to a strongbox. According to legend, the dog is Nero, the first watchdog of the U.S. Mint in 1793. The key and scales are also incorporated in the official Treasury seal. (Department of the Treasury)*

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