



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

October 24, 2005

MEMORANDUM FOR SECRETARY SNOW

FROM:

Harold Damelin
Inspector General

SUBJECT:

Management and Performance Challenges Facing
the Department of the Treasury

The Reports Consolidation Act of 2000 requires that we provide you with our perspective on the most serious management and performance challenges facing the Department of the Treasury, for inclusion in the Department's annual performance and accountability report.

Last year we identified six challenges that we believed seriously impeded the Department's ability to conduct its program responsibilities and ensure the integrity of its operations. This year, we are removing one challenge, *Management of Classified and Other Sensitive Information*, based on the Department's actions to strengthen policies, controls, and training on the proper handling of sensitive information. However, continued management attention to this area is needed. While some progress on the other five challenges has been made, we continue to believe that they represent significant risks to the Department. The five challenges are summarized as follows:

Challenge 1 - Corporate Management

The increasing emphasis on consolidated agency-wide reporting and accountability, as embodied 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. Treasury needs to provide effective corporate leadership in resolving serious deficiencies at the bureau level that adversely impact the performance of Treasury as a whole. In particular, Treasury needs to assert strong leadership and supervision over the Internal Revenue Service (IRS) to resolve longstanding material weaknesses and system deficiencies that

continue to inhibit the timely and reliable information necessary to effectively manage IRS operations. Since the IRS is such a large component, the ability of Treasury to meet its management goals and objectives is heavily dependent on major progress at the IRS. Treasury also needs to ensure consistency, cohesiveness, and economy among all bureaus in achieving Treasury's goals and objectives. Specific challenges in this area include establishing clear lines of accountability between corporate and bureau level management, providing enterprise solutions for core business activities, ensuring consistent application of accounting principles, and providing effective oversight of information technology investments and security. There has been little progress in corporate management during the past year, due in part to the fact that several key executive positions were vacant for a significant part of the year and have just recently been filled.

Challenge 2 - Management of Capital Investments

Treasury needs to better manage large, multiyear acquisitions of systems and other capital investments. Last year, we reported that the Department has incurred significant cost escalations in its HR Connect system and the Treasury and Annex Repair and Restoration project. We also reported that another major capital investment that we plan to focus on in the coming years was the Department's transition from the Treasury Communication System to the Treasury Communications Enterprise (TCE). In this regard, we have an on-going audit of the business case for this investment. However, the transition to TCE has been delayed due in part to a successful protest of the bid award, and the Department changing course on how it plans to address the bid protest decision.

Challenge 3 - Information Security

The Department faces serious challenges in bringing its systems into compliance with information technology security policies, procedures, standards, and guidelines. In our fiscal year 2005 Federal Information Security Management Act (FISMA) evaluation, we continued to report that the Department has significant deficiencies in information security that constitute substantial non-compliance with the FISMA requirements. A core issue continues to be the need to establish and maintain a system inventory. We reported last year that Treasury's system inventory was not accurate, complete, or consistently reported.

In our fiscal year 2005 FISMA evaluation, we reported that Treasury is still in the process of gathering data to develop its system inventory. In addition to the need for a system inventory, our FY 2005 FISMA report identified deficiencies in certification and accreditation, contractor oversight, plans of action and milestones, tracking corrective actions, training, and security configuration policies. The Department has made some progress in addressing information security issues during the past year; however, major improvements are still needed in order to meet information security requirements.

Challenge 4 - Linking Resources to Results

The Department generally has not developed and incorporated managerial cost accounting into its business activities; and, therefore, financial resources cannot be adequately linked to operating results. This inhibits comprehensive program performance reporting and meaningful cost benefit analyses of the Department's programs and operations. It could also result in inaccurate or incomplete cost information in evaluating competitive sourcing activities. Managerial cost accounting is designed to provide reliable and timely information on the full cost of programs, activities and outputs, and should be a fundamental part of a financial management system. Cost information is needed by federal executives and stakeholders in making decisions about allocating resources and evaluating program performance. It is also needed by program managers to improve operating economy and efficiency. The Department has made progress during the past year by introducing more efficiency measures in its performance reporting; however, it needs to make underlying systemic changes to integrate cost accounting with financial and performance reporting.

Challenge 5 - Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement

The Financial Crimes Enforcement Network (FinCEN) is responsible for administering the Bank Secrecy Act (BSA), but largely relies on other Treasury and non-Treasury regulatory agencies to enforce the requirements of the BSA, including the enhanced terrorist financing provisions in the USA PATRIOT Act. Past audits and a series of Congressional hearings have surfaced regulatory gaps in either the detection of BSA violations or its timely enforcement. The Department has continued efforts to strengthen BSA administration and taken significant enforcement

actions against several financial institutions. As reported last year, the Department created the Office of Terrorism and Financial Intelligence (TFI). Additionally, FinCEN, which reports to TFI, created an Office of Compliance to improve BSA oversight and coordination with financial institution regulators. FinCEN also entered into a memorandum of understanding (MOU) with the five federal banking regulators to enhance communication and coordination, and now has similar agreements in place with the IRS and many states. While recent audit work by our office found that the federal banking regulators have provided information to FinCEN in a timely manner as prescribed by the MOU, it is still too soon to assess the effectiveness of these agreements to achieve improved BSA compliance by financial institutions. In response to other recent work by our office, FinCEN is taking action to improve the data quality of suspicious activity reporting, encourage greater e-filing of BSA reports, and enhance its money services business registration program. This management challenge will continue to be a major focus of our audit program, and we currently have audit work on-going at TFI, FinCEN, the Office of Foreign Assets Control, and the Office of the Comptroller of the Currency.

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

cc: Sandra L. Pack
Assistant Secretary for Management
and Chief Financial Officer