



DEPARTMENT OF THE TREASURY
WASHINGTON

November 12, 2003

INSPECTOR GENERAL

MEMORANDUM FOR SECRETARY SNOW

FROM: Jeffrey Kush, Jr.
Inspector General

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

The Reports Consolidation Act of 2000 requires that we provide you with our perspective on the most serious management and performance challenges facing the Department of the Treasury, for inclusion in the Department's annual performance and accountability report. Although this memorandum is due on December 31, 2003, I am providing it to you now in recognition of the Department's accelerated reporting initiative.

Last year we identified six challenges that we believe seriously impeded the Department's ability to conduct its program responsibilities and ensure the integrity of its operations. We have dropped one challenge from last year, Treasury's divestiture of resources to the Departments of Homeland Security and Justice. Treasury appears to have effectively executed the divestiture. However, after-effects from the divestiture have contributed to two new challenges, the need to strengthen the Department's anti-money laundering efforts and the need to fill vacancies in a number of significant leadership positions. We also combined last year's challenge of inadequate financial management systems into the challenge of prompt corrective action, which is now focused primarily on longstanding material weaknesses at the Internal Revenue Service (IRS) and the Financial Management Service (FMS). Therefore, this year we have again identified six challenges. The six current challenges are summarized as follows:

Challenge 1 – Linking Resources to Results

The Department has not developed and incorporated managerial cost accounting into its business activities. Thus, financial resources cannot be linked to operating results. This undermines the accuracy, reliability, and usefulness of program performance reporting. Financial management systems need to be integrated with performance measurement and budgetary reporting systems to enable meaningful cost benefit analyses of the Department's programs and operations. Very little progress has been made in this area since the Government Performance and Results Act was passed in 1993.

Challenge 2 – Prompt Correction of Material Weaknesses

The Department has not taken sufficient action to address longstanding material weaknesses and other serious deficiencies in programs and operations, particularly at the IRS. The number of material weaknesses reported by the Department decreased from 20 to 9 over the past year, however 6 of this decrease was attributable to the divestiture of the U.S. Customs Service to the Department of Homeland Security. Six of the remaining material weaknesses relate to the IRS and have been outstanding for as long as 15 years. FMS also has two longstanding material weaknesses.

Challenge 3 – Information Security

The Department has not corrected serious information security deficiencies. Most systems have been allowed to operate without a reasonable assurance of secure operations or adequate safeguards. The Department had reported to the Office of Management and Budget that it would have 70 percent of its systems certified and accredited by the end of Fiscal Year (FY) 2003. Based on the Department's FY 2003 Federal Information Security Act (FISMA) report, only 24 percent of the Department's systems were certified and accredited, a decline from 32 percent of the Department's systems certified and accredited in FY 2002. Material weaknesses and other reportable conditions in electronic data processing controls are included in our FY 2003 financial statement audit reports.

Challenge 4 – Duplicated, Wasteful Practices

Treasury has not successfully adapted enterprise solutions to its core business activities. Two efforts, HR Connect and the Corporate Systems Management program, have proven to be expensive and will be the subject of increased audit attention in both FY 2004 and FY 2005. Thus, rather than realize the economy, efficiency, and effectiveness of consolidation and sharing, Treasury bureaus and offices continue to either operate individual costly bureau systems or participate in Treasury wide corporate systems that have evolved into high cost projects. We believe that Treasury management should continue to pursue cost savings by looking for opportunities to eliminate duplicate personnel, payroll, travel, and procurement activities, while also better managing the corporate wide systems they are currently implementing.

Challenge 5 – Anti-Money Laundering/Bank Secrecy Act Enforcement

Recent audits at the Office of Thrift Supervision (OTS) and the Financial Crimes Enforcement Network (FinCEN) disclosed serious weaknesses in the Department's anti-money laundering efforts. We believe the Department needs to address Bank Secrecy Act enforcement efforts by ensuring that banks, thrifts, and other financial institutions improve the accuracy and timeliness of their reports. We also believe that all the supervisory agencies need to devote additional examination attention to this critical law enforcement effort.

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Challenge 6 - Vacant Senior Leadership Positions

During the past year the Department has operated with key, senior leadership positions remaining vacant for extended periods due to delays in both the appointment and the confirmation process. Most notably, the Deputy Secretary position has been vacant since February 2003. And, as a result of the establishment of the Department of Homeland Security (DHS), the Department has no senior law enforcement officials at a time when it is responsible for leading national anti-terrorist financing and anti-money laundering efforts. The Treasury Inspector General for Tax Administration position has been vacant since August 2002 and other senior officials have either recently left the Department or have announced their intentions to leave. The leadership turnover, compounded by divestiture of Departmental Offices staff and resources to the DHS has reduced the ability of Treasury to achieve its missions and manage its daily business operations.

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

cc: Teresa Mullett Ressel

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