

**PROTECTING THE PUBLIC:
Treasury's Counterterrorism Funding
Reports Were Inaccurate**

OIG-01-081

July 26, 2001



Office of Inspector General

The Department of the Treasury

Contents

| | |
|---|----|
| Audit Report | 2 |
| Results in Brief..... | 3 |
| Background | 4 |
| Finding and Recommendations | 6 |
| Treasury Reports on Counterterrorism Funding Needed Improvement | 6 |
| Recommendations | 13 |

Appendices

| | |
|--|----|
| Appendix 1: Objectives, Scope, and Methodology | 16 |
| Appendix 2: Finding Matrix | 17 |
| Appendix 3: Management Response | 18 |
| OIG Comments to Management Response | 36 |
| Appendix 4: Major Contributors to this Report | 39 |
| Appendix 5: Report Distribution | 40 |

Abbreviations

| | |
|----------------|---|
| Act | National Defense Authorization Act of FY 1998 |
| ATF | Bureau of Alcohol, Tobacco and Firearms |
| BDR | Budget Data Request |
| Customs | U.S. Customs Service |
| FY | Fiscal Year |
| GAO | U.S. General Accounting Office |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |
| PDD | Presidential Decision Directive |
| Secret Service | U.S. Secret Service |
| Treasury | The Department of the Treasury |

*The Department of the Treasury
Office of Inspector General*

July 26, 2001

James Sloan
Acting Under Secretary for Enforcement

Steven App
Acting Chief Financial Officer

Acts of domestic terrorism have resulted in deaths to American citizens, while terrorism overseas has taken an even heavier toll. The Administration has made the fight against terrorism a top national security priority and has sought more Federal resources to ensure the safety and security of the public and the Government from these devastating criminal acts. The Department of the Treasury (Treasury) plays an active role in counterterrorism activities.¹ As such, Treasury is subject to reporting requirements under the National Defense Authorization Act of Fiscal Year (FY) 1998 (Act). This Act required the Office of Management and Budget (OMB) to provide an annual report to Congress describing counterterrorism-related programs, activities, priorities, and duplication of efforts government-wide.

We completed an audit to evaluate the counterterrorism funding reports Treasury submitted to OMB. The Administration's FY 2001 budget provided an estimated \$9.3 billion for government-wide efforts to combat terrorism. OMB's most recent report to Congress, in May 2000, showed that \$440 million was requested in the FY 2001 President's Budget for Treasury's counterterrorism activities. This was almost 5 percent of the total requested government-wide.

We performed our audit work from October 1999 through December 2000 at Treasury's Departmental Offices, U.S. Customs Service (Customs), Bureau of Alcohol, Tobacco and Firearms (ATF), U.S. Secret Service (Secret Service), and OMB. See Appendix 1 for a

¹ In this report, we use the term 'counterterrorism' to mean all efforts to combat terrorism, including antiterrorism activities.

more detailed description of the audit objectives, scope, and methodology.

Results in Brief

Treasury's counterterrorism funding reports, as submitted to OMB, needed improvement. The submissions included inaccuracies that may have impacted the decisions Congress and others made while relying on the data. We identified several reasons Treasury's reports were inaccurate, including: (1) program and budget personnel at both the Departmental and bureau levels did not work together to prepare the reports, (2) bureaus may not have used reliable methods for estimating counterterrorism funding, (3) oversight and review of the reports was not adequate, (4) guidance for report compilers was lacking, and (5) Treasury and bureau officials did not make the reports a high priority.

Accordingly, we recommend that Treasury Office of Enforcement and Office of Management officials place a higher priority on providing accurate information to OMB by: (1) ensuring budget and program personnel work together to prepare responses, (2) establishing reliable methods for estimating counterterrorism funding, (3) defining oversight responsibilities, and (4) providing guidance and training to report compilers.

Treasury management agreed with the recommendations made in this report, as indicated in the Department's consolidated response included as Appendix 3. When future OMB requests are received, Treasury will convene a meeting of interested parties to discuss the requests, resolve differing interpretations of issues, and lay the groundwork to ensure the data provided to OMB are as accurate and consistent as possible. Also, the Office of Enforcement will add to its Policies and Procedures Manual a discussion on the requests, including requirements for reporting, documentation, and oversight, as well as the meeting mentioned above. Enforcement will also send a memorandum to the bureaus explaining roles and responsibilities in the reporting process and expectations for documentation the bureaus should develop and maintain. All of these actions will be completed by September 30, 2001.

ATF and Customs also provided comments to our draft report indicating disagreement with certain factual information and conclusions. In addition, we received comments from the Acting Under Secretary for Enforcement, who expressed concern that our draft report did not fully reflect improvements the Department had made in its reporting of counterterrorism funding. Finally, we received comments from the Departmental Budget Director containing a number of observations about the counterterrorism reporting process. We considered each response and, where appropriate, made changes to our report. However, these changes did not affect our overall conclusions. These other comments by the bureaus and Treasury officials, and our evaluation of the specific points raised, are also included in Appendix 3.

Background

Over the last several years, funding to combat terrorism has steadily increased. The FY 2001 President's Budget provided \$9.3 billion for government-wide efforts to combat terrorism, a 43 percent increase from 4 years ago. Treasury's funding for counterterrorism has also increased from \$341 million in FY 1998 to \$440 million in the FY 2001 President's Budget.

In a 1997 report to Congress, the U.S. General Accounting Office (GAO) found that the amount of Federal funds being spent on programs and activities to combat terrorism was unknown and difficult to determine for several reasons.² These reasons included (1) a lack of a uniform definition of terrorism and (2) the inclusion of these expenditures within larger categories that did not readily allow separation. Federal agencies were not required to isolate or separately account for their terrorism-related programs and activities. The lack of allocation made it difficult to determine how much the Federal government budgeted and spent to combat terrorism.

Following the GAO report, it became apparent that more effort was needed government-wide to review counterterrorism activities and funding data. To address these concerns, Congress amended the Act to require that OMB obtain national information on counterterrorism.

² *COMBATING TERRORISM: Spending on Governmentwide Programs Requires Better Management and Coordination* (GAO/NSIAD-98-39; December 1997).

The Act required OMB to establish and use a reporting system for executive agencies on the budgeting and expenditure of funds for counterterrorism programs and activities. The President is required to submit an annual report to Congress containing the information OMB collects. The report is also to identify any priorities and duplication of efforts with respect to the programs and activities. To meet the requirements of the Act, OMB uses the Budget Data Request (BDR) process.

OMB's process for collecting counterterrorism data through a BDR was designed to review programs and make funding recommendations for high priority national security issues that cross agency lines. The crosscut ensures that recommendations are made in a government-wide context rather than agency by agency. Besides using the data for its own budget review, OMB also provides the data to interagency working groups, led by the National Security Council. The working groups use the data to: (1) identify gaps and duplications in the national effort, and (2) develop detailed programmatic initiatives to increase the Government's effectiveness in countering unconventional threats. The working groups also prioritize the initiatives and make funding recommendations to affected agencies.

Since Congress passed the Act, OMB has prepared three *Annual Reports to Congress on Combating Terrorism*. Each report describes terrorism-related programs and activities, priority areas, and duplication of efforts in implementing such programs.

In addition to the Act, the President has issued directives to executive agencies on terrorism. Specifically, Presidential Decision Directives (PDD) 39, 62, and 63 address counterterrorism issues. These PDD requirements are summarized in Chart 1.

Chart 1: Presidential Decision Directives

| PDD Number | Requirements |
|------------------------------|---|
| PDD 39 (June 1995) | Established a central blueprint for counterterrorism. Directed the Secretary of Treasury to: (1) prevent unlawful traffic in firearms and explosives, (2) protect the President and other officials, and (3) enforce laws related to imports and exports. |
| PDD 62 (May 1998) | Reinforced the mission of many U.S. agencies in defeating terrorism and created a new, more systematic approach to fighting terrorism. |
| PDD 63 (May 1998) | Established an approach to ensure the U.S. has the ability to protect its critical infrastructure to preserve the Government's ability to perform national security missions and ensure general public health and safety. |

Reducing violent crime and the threat of terrorism is one of Treasury's strategic goals. Counterterrorism activities are inherent in many bureau activities. Approximately 75 percent of Treasury's counterterrorism-related activities are conducted by the Secret Service, which provides physical security for the President, the Vice President, and other dignitaries. The Secret Service gathers intelligence, performs analyses, and conducts investigations involving threats against its protectees. The Secret Service also protects the national financial infrastructure through its financial crime and counterfeiting investigations. Other counterterrorism-related activities Treasury conducts include: (1) investigating explosives-related crimes (ATF); and (2) monitoring potential terrorist threats involving import of illegal and dangerous articles, including weapons of mass destruction, and the export of technology that could be misused by terrorists (Customs).

Finding and Recommendations

Finding

Treasury Reports on Counterterrorism Funding Needed Improvement

Treasury's reports on counterterrorism funding, as submitted to OMB, were not accurate. Consequently, they did not help OMB meet the intent of the Act. Also, Treasury bureaus did not always follow OMB instructions when preparing the reports. As a result, Treasury's

inaccurate data may have impacted the decisions of Congress and other users of the OMB Annual Report who relied on the data for program planning and budgetary purposes. Many factors contributed to Treasury's reporting problems, including: (1) program and budget personnel at both the Departmental and bureau levels did not work together to prepare the reports, (2) bureaus may not have used reliable methods for estimating counterterrorism funding, (3) oversight and review was not adequate, (4) Treasury officials did not provide guidance or training to report compilers, and (5) officials did not consider the counterterrorism BDR to be a priority.³

Treasury Reports Did Not Meet Intentions of the Act or Follow OMB Instructions

The Act intended that OMB would collect accurate data from all Federal agencies participating in counterterrorism activities to be used in programmatic and budgetary decision-making. To meet the intent of the law, all Federal agencies need to submit complete and accurate data through the BDR process. Treasury's submissions to OMB, however, contained material errors. Our review of the existing BDR response files for counterterrorism funding and our inquiries with report compilers found the following discrepancies:

- One report compiler combined spreadsheet subtotals with column aggregate totals which inflated the actual amount included in one report by \$161.4 million.
- One bureau over-reported its counterterrorism funding. In 1997, the bureau reported single amounts for both antiterrorism and counterterrorism because they could not distinguish amounts for the two. However, in 1998, the bureau appeared to double-count some numbers, once as counterterrorism and once again as antiterrorism. Although bureau officials stated they split the numbers evenly between the two categories, rather than double-counting, our analysis of the reports does not support this. The bureau could not provide records to explain how the numbers were calculated. Furthermore, bureau staff told us the numbers may have been duplicated because the compiler did not see counterterrorism and antiterrorism as being mutually exclusive. Without supporting documentation, it is not possible to determine

³ See Appendix 2 for a matrix showing the weaknesses or discrepancies we identified at Departmental Offices and three Treasury law enforcement bureaus.

how the numbers were generated. It appears that the bureau over-reported funding by at least \$33.5 million and possibly as much as \$156.9 million.

- One report contained two spreadsheet-input entry errors. The first error resulted in understating one bureau's funding by \$20 million. The other error overstated another bureau's funding by \$190 million.
- One report compiler reclassified \$4 million of research and development expenditures from a previous report and combined it with a different category in the current report because he could not provide the required description of the research and development activity.

OMB provided specific instructions in its BDRs, with the intention of gathering comparable data from all Federal agencies. Treasury bureau officials, however, did not always follow OMB's instructions when reporting counterterrorism funding. For example, employees at one bureau stated that OMB's definition of Weapons of Mass Destruction was not clear compared to a definition in the United States Code.⁴ If the program was limited to OMB's definition, then the bureau had no resources dedicated to the program. However, if the United States Code definition was used, then the bureau would have funding for the program. Rather than following OMB's definition, the bureau reported funding based on the Code definition. Furthermore, OMB specifically requested that each bureau provide a narrative explaining the methodology used to determine counterterrorism funding. In 1997 and 1998, one bureau did not explain its methodology. Two other bureaus included an explanation in their 1997 reports, but did not include the narrative in the 1998 reports. In 1999, OMB revised its method of collecting data to use Microsoft Access databases to make reporting consistent. As a result, all bureaus were able to follow OMB's instructions in 1999.

OMB officials also stated that methodologies for compiling the data changed each year. Accordingly, they expected each agency and bureau to reevaluate its methodology for identifying counterterrorism funding and reporting. However, at least one Treasury bureau did not revise its methodology, as needed. Instead, the bureau continued to use the data collected in prior years as baseline information for future

⁴ Title 18 United States Code 2332a "Use of Weapons of Mass Destruction."

reports. We found significant errors in the prior year data that were carried forward to later reports. Using outdated methodology could corrupt the data reported for future years and prevent it from being easily combined with other counterterrorism funding reports government-wide.

Inaccuracies in Treasury Reports Impact Congress and Others

The decisions of Congress and other users of OMB's *Annual Report to Congress on Combating Terrorism* may have been impacted by relying on inaccurate data Treasury reported for program planning and budgetary purposes. If Treasury does not provide accurate information on both the ongoing counterterrorism programs and the amount of funding these programs receive, it could impact the decisions of the National Security Council working groups and, ultimately, the funding that Treasury receives for its programs.

In March 1999, GAO officials testified before Congress that the executive branch had made progress toward improving the way it managed and coordinated the nation's counterterrorism efforts since implementation of the OMB reporting process.⁵ They stated that OMB's reports provided unprecedented and helpful insights into enacted funding and budget requests. GAO noted, however, that it had not fully evaluated the processes or methodologies associated with the OMB reports and, thus, could not comment on whether they accurately and fully captured the costs to combat terrorism. In this audit, we attempted to evaluate Treasury's processes and methodologies for compiling and reporting data to OMB. However, bureau officials could not provide adequate supporting documentation used to compile the BDR responses, nor could they explain the amounts reported or the methodologies used. Officials explained that high staff vacancy rates, turnover in budget formulation personnel, and poor record documentation and filing complicated their retrieval of files supporting BDR responses. Because we could not obtain the needed supporting documentation or an understanding of the methodologies used to compile the data, we were also unable to fully evaluate the information Treasury provided to OMB.

⁵ *COMBATING TERRORISM: Observations on Federal Spending to Combat Terrorism* (GAO/T-NSIAD/GGD-99-107; March 11, 1999).

Unless bureaus maintain adequate supporting documentation, as required by the United States Code, OMB, and the Treasury Department, Treasury officials will be unable to verify the validity of reported data and manage the BDR response process.⁶ Consequently, Treasury senior officials are less likely to identify issues quickly and take timely corrective actions. Treasury needs to ensure that bureaus appropriately preserve all records as evidence of the decisions and activities of the Government.

Given the mathematical errors we identified, we believe Treasury's reports materially misstated the Department's funding. For example, in the 1998 report to OMB, Treasury may have overstated its funding levels by up to 15 percent, based upon the estimated \$488.3 million in errors that we identified, as shown in Chart 2.

**Chart 2: Estimated Overstatements
In 1998 Report⁷
(in millions)**

| | |
|--------------------------|-----------|
| Total Reported | \$3,171.0 |
| Estimated Overstatements | \$488.3 |
| Percentage Overstated | 15.4% |

Many of these errors were carried forward to the 1999 report as well. Because of these misstatements, we believe that Treasury officials need to make a greater effort to ensure future counterterrorism funding reports are accurate and useful.

Several Factors Prevented Accurate Reporting

We identified several reasons why Treasury reporting on counterterrorism funding was not accurate. Most importantly, the budget and program personnel within Treasury did not always work together to prepare the reports. At the Departmental level, the Offices of Enforcement and Management did not coordinate with each other to

⁶All Treasury bureaus are required to maintain adequate records by: (1) 44 United States Code Section 3101, *Records Management by Federal Agencies*; (2) OMB Circular A-130, *Management of Federal Information Resources*; and (3) Treasury Directive 80-05, *Records and Information Management Program*.

⁷Includes Customs, ATF, and Secret Service, for FYs 1997-2000 as reported in Treasury's 1998 report to OMB.

provide bureaus with instructions or guidance for responding to the BDRs or to review the bureaus' responses. This type of coordination also did not occur at the bureau level. In one bureau, for instance, budget staff prepared reports with little or no input from program staff. At another bureau, special agents prepared the response without budget staff input or review. This could lead to (1) some counterterrorism programs or activities being inadvertently excluded from the reports, if budget staff were not aware of them, or (2) improper reporting of budget amounts, if program personnel were not familiar with them. In fact, OMB instructed comptrollers to work closely with bureaus to collect data on activities to address this concern.

Even when budget and program staff work together, they need to carefully consider the data they use. In 1999, a budget staff member relied on funding information program staff provided to him, even though the estimates were created in 1997. He did not verify the accuracy of the numbers or seek more up-to-date data. We determined that the numbers used were not always accurate. When working together, program personnel should ensure that all counterterrorism programs are included in the report and adequately explained, while budget staff should ensure that the funding reported is accurate and based on a sound methodology.

Another factor that limited the accuracy of Treasury's submissions was that the methods Treasury officials used to estimate counterterrorism funding may not have been reliable. OMB allowed agencies to pro-rate funding in their counterterrorism reports because they recognized that most agencies did not have programs and activities solely devoted to combating terrorism. At Treasury, the bureau officials needed to pro-rate funding because their accounting systems did not accumulate data on counterterrorism activities. However, bureau staff did not document and could not explain their methodologies for pro-rating funding. As a result, it was not possible for us to evaluate whether their estimates were reasonable.

We also noted that there was not adequate oversight and review of the data Treasury reported to OMB. We identified several errors during our review that neither bureau nor Treasury officials had corrected. Although the Assistant Secretary for Management and Chief Financial Officer was required to clear all budget-related submissions before

they were transmitted to OMB, we learned that staff in the Office of Management did not substantiate bureau responses. An official from the Office of Management stated that his office did not have enough staff to review the bureaus' supporting documentation. However, staff from one bureau stated that they expected Treasury Departmental officials to review the counterterrorism information. Because departmental officials did not take issue with the bureau's responses, bureau staff were confident that their BDR responses were adequate.

Another issue we identified was that bureau staff needed guidance and training from Treasury to prepare more accurate and consistent reports. Our review found several instances where report compilers needed a greater understanding of reporting definitions and acceptable compiling methodologies. For example:

- Some staff stated that they did not know how to accurately report their bureau's activities because they were not sure if or how firearms trafficking fit within the OMB definition of counterterrorism.
- Compilation of data to respond to the BDRs may not have been consistent from year to year. At one bureau, a different analyst prepared each BDR response. The analysts who compiled prior years' BDR responses generally were not available to explain their methodologies. Neither Treasury nor the bureaus provided written guidance to report analysts explaining compilation and reporting methods. Also, as previously discussed, bureaus did not always maintain complete and properly documented files for the BDR reporting process to help new analysts follow prior years' processes.

If Treasury Enforcement and Management officials worked together to address these issues in internal guidance and training, then bureau personnel could more accurately respond to OMB's requests for data, and OMB could be assured that the data it received from Treasury were consistent.

Taken together, all of these issues lead us to believe that Treasury and some bureau officials did not consider the counterterrorism BDR to be a high priority. Some officials told us that responding to the counterterrorism BDR was not as high a priority as other work that they had to do. Because they did not place a priority on this action, they did

not give it adequate attention to ensure the accuracy of the reported information. One Treasury official explained to us, however, that the counterterrorism BDR is, in fact, very important, because the data is used by the White House, Congress, and OMB to determine policy and program needs.

Unless Treasury and bureau officials improve the reporting process, Treasury will likely continue to incorrectly report counterterrorism funding. Treasury Enforcement and Management officials need to review how BDR responses are compiled and calculated and improve internal controls to ensure accurate reporting. Taking these steps would help ensure that Congress and other decision-makers are provided accurate funding information on Treasury counterterrorism programs.

Recommendations

Treasury Office of Enforcement and Office of Management officials should place a higher priority on providing complete and accurate information in response to OMB's requests for counterterrorism funding data. Specifically, the Under Secretary for Enforcement and the Assistant Secretary for Management and Chief Financial Officer should:

1. Ensure that budget and program personnel work together to prepare counterterrorism BDR responses.

Management Comments

Treasury concurred with this recommendation. When future BDRs are received, Treasury will convene a meeting of appropriate budget and program representatives from the enforcement bureaus, the Office of Enforcement, Departmental Budget, and Departmental Budget Execution. The purpose of the meeting will be to discuss the request, resolve differing interpretations of issues, and ensure the data provided to OMB is as accurate and consistent as possible. Additional meetings will be held as needed. These actions will be completed by the end of this fiscal year.

OIG Comment

We consider this recommendation to have a management decision with a projected final action date of September 30, 2001.

2. Establish reliable methods for estimating counterterrorism expenses.

Management Comments

Treasury concurred with this recommendation and stated that the above referenced meeting(s) should address this recommendation as well.

OIG Comment

We consider this recommendation to have a management decision with a projected final action date of September 30, 2001.

3. Clearly define oversight and review responsibilities to ensure that staff preparing the reports follow OMB directions and report accurate information.

Management Comments

Treasury concurred with this recommendation. To address it, the Office of Enforcement will assume the lead on the counterterrorism issue now and in the future, with the Office of Budget continuing to function as the interface with OMB. Office of Enforcement officials will also include an addition to its Policies and Procedures Manual, addressing the meeting, reporting, documentation, and oversight requirements for BDRs. They will do this by September 30, 2001. Prior to the end of September, Enforcement will also send a memorandum to the bureaus explaining roles and responsibilities in the BDR process and will include Enforcement's expectations of methods/procedures documentation for the bureaus to develop and maintain.

OIG Comment

We consider this recommendation to have a management decision with a projected final action date of September 30, 2001.

4. Provide guidance to ensure report compilers understand reporting definitions and acceptable compilation methodologies.

Management Comments

Treasury concurred with this recommendation. A number of the actions planned for other recommendations should combine to address the concerns with guidance. Through documenting responsibilities and bringing all parties together under the leadership of the Office of Enforcement, Treasury expects future requests to be handled with a high degree of accuracy, consistency, and reliability.

OIG Comment

We consider this recommendation to have a management decision with a projected final action date of September 30, 2001.

* * * * *

We appreciate the cooperation we received from Treasury officials during this audit. If you wish to discuss this report, you may contact me at (202) 927-5400 or Ms. Roberta N. Rickey, Regional Inspector General for Audit (Chicago), at (312) 886-6300. Major contributors to this report are listed in Appendix 4.

Marla A. Freedman
Assistant Inspector General for Audit

The overall objective of this audit was to evaluate the counterterrorism funding reports Treasury submitted to OMB. Specific objectives were to determine whether: (1) Treasury bureaus followed OMB guidance to determine, compile, and report funding for counterterrorism; and (2) Departmental officials provided appropriate oversight over bureau activities to ensure coordination.

Although most Treasury bureaus reported counterterrorism funding, this review focused on ATF, Customs, and the Secret Service, because these bureaus reported the greatest percentage of counterterrorism funding.

Chart 3: Treasury Counterterrorism Funding⁸

| Bureaus | Percent |
|-------------------|---------|
| Secret Service | 79 |
| ATF | 8 |
| Customs | 6 |
| All Other Bureaus | 7 |
| Treasury Total | 100 |

Our review generally covered each bureau's activities and funding to combat terrorism for FY 1997 through FY 1999 and estimates for FY 2000.

We reviewed counterterrorism funding reports and supporting documentation, when available, at each of the three bureaus. We compared these reports to OMB's budget data requests. We also reviewed Treasury's consolidated reports submitted to OMB. We interviewed officials at OMB, Treasury, and the three bureaus regarding the BDR reporting process. We also interviewed Treasury Departmental officials to discuss their roles and responsibilities for overseeing counterterrorism activities and BDR reporting.

We conducted our audit between October 1999 and December 2000 in accordance with generally accepted government auditing standards. Identified weaknesses and discrepancies in the reporting process are noted accordingly.

⁸ Supporting data obtained from OMB in December 1999.

Appendix 2
Finding Matrix

| Issue | Departmental Offices | ATF | Customs | Secret Service |
|---|-----------------------------|------------|----------------|-----------------------|
| Mathematical errors (in millions) | | | | |
| <i>Subtotals included in column aggregate totals, overstated by \$161.4</i> | | 1998 | | |
| <i>Duplicated antiterrorism and counterterrorism funding, overstated by at least \$33.5 and possibly as much as \$156.9</i> | | 1998-99 | | |
| <i>Spreadsheet-input entry error, overstated by \$190.0</i> | 1998 | | | |
| <i>Spreadsheet input entry error, understated by \$20.0</i> | | 1998-99 | | |
| <i>Reclassified unknown funding into another category, \$4.0</i> | | 1999 | | |
| Did not follow BDR instructions | | | | |
| <i>No or inadequate narrative explaining the source and methodology of reported funding</i> | | 1997-98 | 1998 | 1998 |
| <i>No distinction made between antiterrorism and counterterrorism funding</i> | | 1997-99 | | |
| Lack of documentation | | 1997-99 | 1997-99 | 1999 |
| Budget and program staff did not work together | 1997-99 | 1997-99 | | 1997-99 |
| Potentially unreliable methodology used | | 1997-99 | 1997-99 | |
| Lack of review/oversight | 1997-99 | 1998-99 | 1997, 1999 | 1999 |
| Guidance needed | | | | |
| <i>Employees were confused with OMB's definitions</i> | | 1997-99 | | |
| <i>Inconsistent data compilation from year to year</i> | | 1997-99 | 1997-99 | |
| Lack of priority | 1997-99 | 1997-99 | | |

Note: OIG
Comments
appear at the
end of this
Appendix.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

MEMORANDUM FOR DENNIS SCHINDEL
DEPUTY INSPECTOR GENERAL

FROM: Steven O. App *Steven O. App*
Acting Chief Financial Officer

SUBJECT: Draft Audit Report Response
Treasury's Counterterrorism Funding Reports

This memorandum represents the Department's consolidated response to the referenced report. I have attached copies of the individual responses previously prepared and sent by Enforcement, ATF, Customs and Departmental Budget. Combined, these responses comment on a number of valid issues both within and beyond the Department's control in working with the Office of Management and Budget. I trust you will give these issues due consideration when preparing the final report.

Management agrees with the four recommendations contained in the report and will take the following corrective actions:

1. Ensuring budget and program personnel work together to prepare responses

When future budget data requests (BDR) are received, a formal meeting of interested parties will be convened. At a minimum, this will include appropriate budget and program representatives from enforcement bureaus, the Office of Enforcement, Departmental Budget and Departmental Budget Execution. The purpose of the meeting will be to discuss the request, resolve to the extent possible differing interpretations of issues within the BDR, and otherwise lay the groundwork to ensure that the data ultimately provided to OMB is as accurate and consistent as possible. Additional meetings will be held as deemed necessary.

2. Establishing reliable methods for estimating counterterrorism funding

Although existing methods can continue to be improved, they are for the most part responsive to the programmatic context of Congressional intent. The above-referenced meeting(s) should facilitate the preparation of relevant information.

3. Defining oversight responsibilities

The Office of Enforcement will assume the lead on the counterterrorism issue now and in the future, with the Office of Budget continuing to function as the entry and exit interface with OMB. Moreover, this issue, to include meeting, reporting, documentation and oversight requirements, will be included in Enforcement's Policies and Procedures Manual. That manual

2

currently is scheduled to be completed by August 31, 2001, and this additional item will be added to the manual by September 30, 2001. Prior to the end of September, Enforcement also will send a memorandum to appropriate bureaus explaining roles and responsibilities in the BDR process for enforcement issues, to include Enforcement's expectations of methods/procedures documentation to be developed and maintained by bureaus.

4. Providing guidance and training to report compilers

A number of current and planned actions should combine to assuage audit concerns about guidance and training on the BDR process. Foremost among this is the fact that the basic BDR process and the knowledge base thereon for enforcement issues have improved since the period encompassed by the audit. In conjunction with this, I am confident that, by documenting responsibilities and bringing all interested parties together under the proactive leadership of the Office of Enforcement, future requests can be handled with a high degree of accuracy, consistency and reliability.

All necessary actions to prepare the Department to process future BDRs in an optimal manner will be completed by the end of this fiscal year.

Attachments

cc: Office of Enforcement
Office of Departmental Budget
Office of Budget Execution
/ Roberta Rickey



DEPARTMENT OF THE TREASURY
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS
WASHINGTON, DC 20226

APR 13 2001

404032:MLM
1960.26

MEMORANDUM TO: James F. Sloan
Acting Under Secretary (Enforcement)

FROM: Assistant Director (Management)/CFO

SUBJECT: Draft Report - Criminal Enforcement:
Treasury's Counterterrorism Funding
Reports Were Inaccurate

Thank you for the opportunity to respond to the Treasury OIG draft report on counterterrorism funding. As stated in our memo of January 9, 2001 the official position of the Bureau of Alcohol, Tobacco and Firearms (ATF) is that counterterrorism is a priority and we make every effort to ensure we report as accurately as possible. Bureau responses are prepared and coordinated by the program office and budget office to ensure a comprehensive response.

We would like to take this opportunity to make note of the structure of the report. The report identifies a finding with several points. The points identify discrepancies for spreadsheet and typographical errors, reporting methodology, maintenance of data and files and guidance/oversight. We have taken this opportunity to provide ATF's response to the points and recommended restatements of these points. The restatements are attached.

As identified in previous published statements, spreadsheet errors identified in the report were corrected in Budget Data Request (BDR) 99-47. The \$20m typographical error will be corrected with the submission of the next BDR.

ATF Comments to Treasury OIG Draft Report

**CRIMINAL ENFORCEMENT: Treasury's Counterterrorism
Funding Reports Were Inaccurate, November 21, 2000**

**Finding I Treasury Reports on Counterterrorism Funding
Needed Improvement**

**Treasury Reports Did Not Meet Intentions of the Act or
Follow OMB Instructions**

1. **OIG:** One bureau over-reported its counterterrorism funding because the budget analyst could not distinguish between antiterrorism and counterterrorism funding. Instead of reporting a single amount for both types, the analyst reported the same amount for both antiterrorism and counterterrorism, thereby inflating reported funding by \$247.6 million.

ATF Response: In ATF's first submission on counterterrorism/antiterrorism funding data (Budget Data Request (BDR) 97-70), ATF indicated to Treasury that the Bureau was "unable to distinguish" between counterterrorism and antiterrorism categories in its methodology. This audit finding concludes that subsequent BDR's (i.e. BDR 98-60 and 99-47) likewise were unable to distinguish between the two categories, thereby resulting in over-inflation of funding data. This conclusion is drawn based upon similar data appearing under both categories and in like fiscal years. However, ATF revised its methodology in BDR 98-60 to identify 50% of the Weapons of Mass Destruction (WMD) resources as supporting counterterrorism efforts with the remaining 50% supporting antiterrorism efforts. This portrayed roughly equivalent amounts under each category. The auditor concluded that ATF was "double counting" the same funding under antiterrorism as was captured under counterterrorism thus leading to \$247.6 million in errors. This conclusion was premised on an assumption that ATF continued to be "unable to distinguish" between counterterrorism and antiterrorism categories. Based upon the

Comment 1.

"50%/50%" criteria, there was not a reporting duplication for counterterrorism and antiterrorism resources, but rather a similar distribution between the two categories.

Restatement: Counterterrorism funding may have been over-reported in some instances. Spreadsheet and typographical errors overstated funding in some Bureau reports. Bureaus must also clearly define and document the methodology used in reporting counterterrorism funding in order to preclude possible misinterpretation of funding data contained within the reports.

2. OIG: One report compiler combined spreadsheet subtotals with column aggregate totals, which inflated the actual amount reported by \$161.4 million.

ATF Response: ATF acknowledges two (2) spreadsheet formatting errors, resulting in over-reporting of counterterrorism and antiterrorism funding totals. These errors in the spreadsheet submitted in the 1998 BDR inadvertently added line item amounts with subtotals, thereby leading to over-reporting of funding data at an aggregate level. A recent review of the data indicates that net over-reporting due to this spreadsheet error was approximately \$141.4 million (between FY 1997-2000). It should be noted that the database forwarded to Treasury during BDR 99-47 did not carry the inflated errors forward and did not contain any inaccurate data from FY 1997. Therefore, the finding that ATF over-reported funding was corrected in the subsequent submission to Treasury.

Restatement: Counterterrorism funding may have been over-reported in some instances. Spreadsheet and typographical errors overstated funding in some Bureau reports. Bureaus must also clearly define and document the methodology used in reporting counterterrorism funding in order to preclude possible misinterpretation of funding data contained within the reports.

3. OIG: One report contained two spreadsheet-input errors. The first error resulted in understating one bureau's funding by \$20M (ATF). The other error overstated another bureau's funding by \$190 million (USSS).

ATF Response: ATF acknowledges that an input error in the BDR 98-60 resulted in an under-reporting of counterterrorism funding for ATF in the FY 1998 field under "antiterrorism". This error will be corrected during the next BDR submission.

Restatement: An input error in the BDR 98-60 resulted in an under-reporting of counterterrorism funding. This error will be corrected during the next BDR submission.

4. OIG: One report compiler reclassified \$4 million in research and development expenditures from a previous report and combined it with a different category in the current report, because he could not provide the required description of the research and development activity.

ATF Response: During the development of BDR 99-47, it was determined that research and development (R&D) funding for the Explosive Taggant Study and the Car Bomb Study had been enacted in FY 1996 and FY 1997, respectively, and that the Bureau did not have base R&D funding. The BDR in FY 1999 requested enacted funding levels. Therefore, the BDR 99-47 response was adjusted to reflect no enacted base funding for R&D, since this funding was appropriated in prior years, and was available until expended. ATF's transmittal memorandum to Treasury identified this issue as part of BDR 99-47. During the preparation of BDR 99-47, resources associated with Explosives and Arson Investigations were identified as a component of the "Law Enforcement and Investigative Activities" category. Therefore, BDR 99-47 included \$4 million in that category.

Restatement: Due to changes in reporting requirements, criteria, and definitions between

Comment 2.

Comment 3.

BDRs, more emphasis should be placed on guidance in preparing and completing BDR submissions.

Several Factors Prevented Accurate Reporting

5. OIG: Employees at one bureau were confused by OMB's definition of Weapons of Mass Destruction versus a definition in the United States Code⁶. If the program was limited to OMB's definition, then the bureau had no resources dedicated to the program. However, if the United States Code definition was used, then the bureau would have funding for the program.

ATF Response: This finding highlights the definitional problems associated with the Office of Management and Budget (OMB) terminology in identifying WMD, and that of Title 18 USC 2332a(c). There is no confusion on the definitions -- they are both clear. Since ATF investigates crimes pursuant to United State Code, we relied on the definition outlined in the law.

OMB defines WMD as those containing chemical, biological, radiological or nuclear (CBRN) agents. The definition under Title 18 USC 2332a(c) includes CBRN, and "any destructive device" as defined in Title 18 USC 921, including bombs, grenades, improvised explosive devices, and certain large-bore firearms. This disparity in defining WMDs was discussed in a General Accounting Office (GAO) Report #99-3 "Combating Terrorism." This report outlines the fact that uniform definitions of WMD are lacking Government-wide. Additionally, the Department of Justice 5-Year Coordinated Counterterrorism Plan further identifies WMDs to include "conventional explosives," which is contrary to the OMB definition. When OMB proposed the definitions, ATF went on record citing the varying definitions of WMDs.

For purposes of identifying counterterrorism/WMD resources, ATF relied on the language contained in 18 USC, 2332a(c), and therefore identified resources in the BDRs dedicated to combating terrorism and WMDs.

Comment 4.

Restatement: Treasury Bureaus are oftentimes confronted with conflicting definitions and guidance in the preparation of BDRs. Consistent guidance should be developed and applied across all Bureaus. Definitions and guidance should be clear and concise, and be clarified as necessary.

6. OIG: Some officials did not know how to accurately report their bureau's activities because they were not sure if or how firearms trafficking fit within the OMB definition of counterterrorism.

ATF Response: The OMB guidance on the relationship of unlawful trafficking of firearms clearly identifies this component as part of the "Law Enforcement and Investigative" category, further identified as either antiterrorism or counterterrorism activities. Our BDR submissions have been consistent with this overall guidance. Whether these crimes include terrorist motives involving firearms trafficking, arson or the criminal use of explosives, ATF investigates crimes pursuant to its mission. Investigations are perfected based on facts and evidence. Motives (including terrorist motives) are not always evident. Therefore, activities are not tied to terrorism, unless there is evidence to substantiate it.

Restatement: BDR definitions should be clear and concise and clarified as necessary.

7. OIG: One bureau did not report no-year funds spent during the BDR reporting period, even though they were for counterterrorism projects. Bureau officials stated they did not need to report the funds because Congress had granted the appropriations for special projects in prior years. Not including the no-year funds reduced the reported funding by more than \$18 million.

Comment 5.

ATF Response: During the development of BDR 99-47, it was determined that research and development (R&D) funding for the Explosive Taggant Study and the Car Bomb Study had been enacted in FY 1996 and

FY 1997, respectively, and that the Bureau did not have base R&D funding. The BDR in FY 1999 requested enacted funding levels. Therefore, the BDR 99-47 response was adjusted to reflect no enacted base funding for R&D, since this funding was appropriated in prior years, and was available until expended. ATF's transmittal memorandum to Treasury identified this issue as part of BDR 99-47.

Restatement: Due to changes in reporting requirements, criteria, and definitions between BDRs, more emphasis should be placed on guidance in preparing and completing BDR submissions.

8. OIG: Compilation of data to respond to the BDR's may not have been consistent from year to year. At one bureau, a different analyst prepared each BDR response. The analysts who compiled prior years' BDR responses generally were not available to explain their methodology. Neither Treasury nor the bureaus provided written guidance to report analysts explaining compilation and reporting methods. Also, as discussed on page 10, bureaus did not always maintain complete and properly documented files for the BDR reporting process to help new analysts follow prior years' processes.

ATF Response: ATF budget personnel are afforded opportunities to participate in all facets of the budget process. By rotating assignments ATF develops well-rounded personnel. There is a high turnover in the budget office and therefore analysts who compiled prior year responses were not available. High turnover also contributed to ATF files not being readily available for review. The Bureau acknowledges that proper maintenance of data should be enforced.

Restatement: More emphasis should be placed on guidance in completing BDR's. Data in support of BDR reporting must be complete and properly documented.



U.S. Customs Service

Memorandum

DATE: **May 18, 2001**

FILE: AUD-1-OP SM

MEMORANDUM FOR DENNIS S. SCHINDEL
ASSISTANT INSPECTOR GENERAL
FOR AUDIT

FROM: Director, Office of Planning

SUBJECT: Treasury's Counterterrorism Funding Reports
Were Inaccurate

Thank you for providing a copy of the draft report entitled "Protecting the Public: Treasury's Counterterrorism Funding Reports Were Inaccurate" and the opportunity to discuss the issues in this report.

We generally concur with the statements in the body of the report. However, we have significant concerns about the information presented in the reports final table (comments attached). These concerns were discussed during the closing audit conference.

We appreciate the opportunity to respond to the draft report. If you have any questions, please have a member of your staff contact Sandy Manuel at (202) 927-2096.

A handwritten signature in black ink, appearing to read "William F. Riley".

William F. Riley

Attachment

Cc: Chief of Staff
Chief Counsel
G. Zawadski

TRADITION



SERVICE



HONOR

A. Comments on the Substance of the Report

Overall, the Office of Finance believes that the context of the materials contained in this report are sufficient in that it brings attention to Treasury's Office of Inspector General (OIG) concerns over the counterterrorism reporting. This report attempts to objectively highlight the scope and severity of the problem of accountability in Treasury's Counterterrorism activities. It provides information on the background and historical perspective of the reporting requirements for counterterrorism. In addition, this report provides specific findings for each of the Treasury bureaus and provides recommendations for improving the way the bureaus should report.

Although the report may be correct in its assumptions that the counterterrorism reporting requirements need improvement, this office believes that additional collaboration and coordination is needed among the bureaus, the Department, and OMB to clearly define the instructions and oversight responsibilities for the reporting process.

B. Concurrence/ Non- concurrence with the findings and recommendations of the report.

After a thorough review of the draft document, this office generally does not concur with most of the findings as they relate to the Customs Service. However, we do agree that extra effort needs to be taken to strengthen our process through better coordination within the organization.

The Office of Finance places a high priority on responding to a Budget Data Request (BDR) in an accurate and timely manner. Working with the functional areas and program managers, this office expends a great deal of effort to capture all of the costs associated with the Customs Service Counterterrorism activities.

The draft report listed six major areas in which the Customs Service showed weaknesses and discrepancies in the reporting process. Those areas are (1) did not follow Budget Data Request (BDR) instructions, (2) lack of documentation, (3) unreliable methodology, (4) lack of review/oversight, (5) guidance needed, (6) lack of priority for the reporting process.

The following sections address each item of concern.

Comment 6.

Issue 1: The Customs Service did not follow the OMB BDR instructions in Fiscal Year 1998. Specifically, the Customs Service had no or inadequate narrative explaining the source and methodology of reported funding.

Response: The Customs Service cannot concur with this issue. To the best of our knowledge and ability, the Office of Finance followed the instructions as prescribed by OMB. In the future, the Customs Service responses to BDR's will provide a documented methodology demonstrating how the information in our Counterterrorism reports is prepared.

Comment 6.

Issue 2: The Customs Service counterterrorism activities lack documentation in Fiscal Year 1997-1999.

Response: The Customs Service cannot concur on this issue. There was a process and a well-documented methodology in place. However, the documentation was not formatted in a step by step process.

In the future, the Customs Service responses to BDR's will provide a documented methodology demonstrating how the information in our Counterterrorism reports is prepared.

Issue 3: The Customs Service used a potentially unreliable methodology in Fiscal Years 1997-1999.

Response: In preparing our response to this BDR, we relied on the opinions and knowledge of the subject matter experts. This was our best and most reliable source of information. Given the nature of the work of the Customs Service, making the delineation between such things as counterterrorism and anti-terrorism activities can be difficult. For example, it is difficult to estimate the time an Inspector spends working counterterrorism cases as opposed to other activities within the same day. Our ability to capture this information is challenging.

In the future, our methodology will be fully documented to give a better explanation of how we arrived at the data.

Comment 7.

Issue 4: The Customs Service Lack of review/oversight of the counterterrorism activities.

Response: The Customs Service does not concur with this finding. The Customs Service strives to provide timely and accurate responses to all BDR's issued by the Office of Management and Budget. All BDR responses are prepared consistent with the established guidelines, and are thoroughly coordinated and vetted within the organization.

Issue 5: Guidance needed- Customs had inconsistent data compilation from year to year from Fiscal Year 1997-1999.

Response: In preparing our response to this BDR, we relied on the opinions and knowledge of the subject matter experts. This was our best and most reliable source of information. Given the nature of the work of the Customs Service, making the delineation between such things as counterterrorism and anti-terrorism activities can be difficult. For example, it is difficult to estimate the time an Inspector spends working counterterrorism cases as opposed to other activities within the same day. Our ability to capture this information is challenging.

In the future, our methodology will be fully documented to give a better explanation of how we arrived at the data.

Comment 8.

Issue 6: The Customs Service showed a lack of priority with respect to the counterterrorism funding reporting requirements.

Response: The Customs Service does not concur with this finding. The Customs Service places a high priority on responding to all BDR's in an accurate and timely manner. We will continue to monitor and provide quality information on the Customs Service counterterrorism activities. The requirement of responding to a BDR is balanced by Customs Service managers within the context of overall workload demands which may shift during the course of business on any given day or week.

C. Identify any information for Freedom of Information Act concerns.

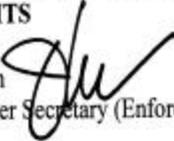
The Office of Finance has not identified any Freedom of Information Act concerns in this response. Therefore, we have no comment for this issue.


1789

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.
June 22, 2001

UNDER SECRETARY

MEMORANDUM FOR DENNIS SCHINDEL
ASSISTANT INSPECTOR GENERAL
FOR AUDITS

FROM: James Sloan 
Acting Under Secretary (Enforcement)

SUBJECT: Response to the Draft Audit Report on the Treasury's
Counterterrorism Funding Reports

This is in response to your memorandum of March 2, 2001, and the subject draft report. We appreciate the opportunity to comment on the draft report. This is an issue that we consider very important and one on which we are diligently working. To that end, Treasury's Office of Enforcement (OE) is committed to strengthening its financial management and reporting practices relating to counterterrorism funds.

We appreciate the draft report's suggestions for improving our counterterrorism funding reporting practices. Nonetheless, it is our view that the draft report does not present the full range of improvements Treasury has made in this area. We believe that the draft report could provide a more complete picture of OE's and the Treasury law enforcement bureaus' efforts in reporting on counterterrorism funding. We suggest additional language be inserted in the "Results in Brief" and "Finding" sections of the draft report as follows:

- Regarding math/accounting errors, the report gives the impression that errors were prevalent in all of the bureaus that were reviewed, when in fact, it was primarily one bureau that accounted for the errors. We suggest you include the following language on page 3 paragraph 2, and page 6 paragraph 1 of the report, *"although accounting errors were identified at one bureau, Treasury's overall accounting of counterterrorism funds was satisfactory."*
- Regarding following the Office of Management and Budget's (OMB) Budget Data Request (BDR) instructions, we suggest you include the following language on page 6 paragraph 2 of the report, *"the majority of the bureaus that were reviewed have improved in following OMB BDR instructions. For instance, while all three bureaus that were reviewed did not follow the BDR instructions in 1998, two of the three bureaus followed the instructions in 1999."*

Comment 9.

Comment 10.

Comment 11.

- Regarding the issue of guidance needed, we suggest you include the following language on page 3 paragraph 3, and page 6 page 1 of the report, *"overall Treasury bureaus received the guidance they needed to complete the BDR, however one bureau in particular needs to improve in following the guidance provided."*

Your draft report identifies four recommendations for improvement in Treasury's counterterrorism funding reports. Overall we agree with your recommendations. However, the following comments are provided:

Comment 12.

- Recommendation 1: OE concurs with the OIG recommendation that budget and program personnel should work together to prepare counterterrorism BDR responses. However, again it is our view that the report should indicate that progress has been made by Treasury in this area.

Comment 13.

- Recommendation 2: OE concurs that reliable methods for estimating counterterrorism expenses should be established. However, it is our view that because counterterrorism funds are spread throughout the Federal government, OMB should take the lead in establishing a method for estimating expenses that could be transferable to all Federal departments.

Comment 11.

- Recommendation 3: OE concurs that clearly defined oversight and review responsibilities should be established to ensure that staff preparing the reports follow OMB directions and report accurate information.

- Recommendation 4: OE concurs that the guidance provided could be enhanced to ensure all report compilers understand reporting definitions, the types of funds to report, and acceptable compilation methodologies. To help round out the picture, it should be noted that overall the guidance provided by OMB through Treasury was adequate. We will work with the bureau that has developed a trend of having difficulty understanding and following the guidance provided.

We will continue our efforts to assess ourselves to ensure any new weaknesses in this area are identified and corrected. I appreciate the opportunity to provide you with our comments on the draft report. If you need further information regarding this response, please have a member of your staff contact Ms. Anna Dixon, Director, Office of Finance and Administration (Enforcement), at (202) 622-1478.



DATE: May 23, 2001

NOTE TO: Mr. Schindel
Assistant Inspector General for Audit

Mr. Schindel:

The Office of was asked to respond to your memo of March 2, 2001 to Mr. Jim Sloan and Mr. Steve App regarding the Draft Audit Report on Treasury's Counterterrorism Funding. We have officially responded to your report and have federal expressed our response to Ms. Roberta Rickey in Chicago, per her request. A copy of our response is attached for your files.

If you have any questions, feel free to call me at 622-2238.

Thanks,


Kelly Snyder

cc: Steve App ✓
Acting CFO

Kelly B. Snyder
Management Analyst
US Department of Treasury
1500 Pennsylvania Avenue, NW
6156 Met Square
Washington, DC 20220
(202) 622-2238
(202) 622-2232 fax



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

May 23, 2001

Ms. Roberta Rickey
U.S. Department of Treasury
Office of the Inspector General
55 West Monroe
Suite 510
Chicago, IL 60604

Dear Ms. Rickey:

Thank you for the opportunity comment on your report on the counter-terrorism resource planning. We apologize for the delay. We had communicated a response to Steve App in his coordinated role on these reports, but, subsequently, he asked that we get back to you directly.

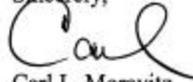
On January 3, 2001, the Office of Budget staff participated in a conference call discussion with OIG Chicago staff assigned to this draft report. Comments within that conference were very similar to those in the current version of the draft report, and the Office of Budget offered the following observations:

- The Office of Budget acknowledges the significance assigned to estimates of counter-terrorism efforts by key players in counter-terrorism program planning.
- The realistic expectation of most participants in BDR exercises, in terms of the reliability of the information developed, is that BDRs are used for "gross directional steering" of major policy areas rather than very fine tuning of resource allocation.
- Budget data requests, originating within OMB, are first addressed to OMB program branches. These offices, in turn, transmit BDRs to departments and agencies, typically with no further program-specific guidance attached. Such was the case with the subject counter-terrorism BDRs in this audit.
- Although captioned "budget data request," most data solicitations of this nature do not in any respect rely on, nor are they validated by, any budget or financial systems, categories, or methods. This pertains to both budget formulation and execution contexts. In effect, budget data requests on counter-terrorism would be more accurately captioned as "request of estimated program effort."

- Program “level-of-effort” estimates are typically conducted by field program practitioners and subject matter experts. The depth of their programmatic understanding is well outside the expertise of budget analysts to challenge. When requested to make estimates of programmatic effort in categories that are not accounted for in either financial or labor allocation systems, the estimating methodology of field experts appears to rely principally on experienced-based intuition.
- Because such estimates do not derive from financial or other resource allocation systems, they do not lend themselves to becoming institutionalized methodologies. Instead, they result from the individual perspectives of a succession of program officials that may be available to perform the currently assigned exercise.
- It is within this framework that Treasury Management (Office of Budget) expressed substantial deference to bureau program personnel to conduct estimates on counter-terrorism level-of-effort, and to assume the responsibility of expert in complying with the BDR. To do otherwise would have required Management staff to conduct its own field surveys as a validation approach.
- With regard to the technical errors reportedly made by bureau estimators, it appears that neither Treasury nor OMB program branch examiners believed that additional coverage to check bureau arithmetic was a priority use of time, given that the BDR process typically occurred during periods of heavy workload on budget policy formulation. Both Treasury and OMB branch examiners likely moved the paperwork to the next control point, with the expectation that bureaus had assigned the BDR to personnel with sufficient competence to ensure basic arithmetic integrity.
- With regard to the lack of narrative estimating methodology, it is quite possible that either Treasury or OMB reminded bureaus of that deficiency. However, neither Treasury Management nor OMB were in a position to fabricate something that only the bureaus could provide.
- We are assuming your review also sought comments from OMB, the originator of BDR requests to Agencies.

If you have any questions, feel free to contact me at (202) 622-8614.

Sincerely,



Carl L. Moravitz
Departmental Budget Director

- OIG Comments:
1. While ATF officials stated in their response that they did not double-count funds in both the antiterrorism and counterterrorism categories, they were unable to provide documentation to support this. In fact, ATF staff told us that the numbers may have been duplicated because the compiler did not see counterterrorism and antiterrorism as being mutually exclusive. Also, our analysis of ATF's reports does not support their contention. We were able to track a total of \$33.5 million from the 1997 report forward to the 1998 report, where it was reported twice, once in each category. Had ATF split the amount 50/50, ATF would have reported only \$16.75 million in each category, rather than \$33.5 million. Because ATF did not have adequate documentation supporting its counterterrorism funding reports, we were unable to track other numbers through the reports, but have no reason to believe they were split 50/50, rather than double-counted. We made some changes to our example to better clarify our concerns and to quantify the potential dollars involved.
 2. We did not change this example, because while ATF's explanation may be correct, the report compiler originally explained to us what he did and why he did it. He did not provide the explanation that ATF now offers and no documentation was provided to us to explain the reclassification.
 3. We modified our report to reflect that ATF did not agree with OMB's definition and that they used the United States Code definition instead.
 4. While ATF's response indicates that OMB's guidance on firearms trafficking is clear and that they have followed that guidance, we did not make changes to our report. As stated in our example, ATF staff responsible for the BDR reports told us they were not sure if firearms trafficking was applicable to counterterrorism reporting. Furthermore, there were no records with which to verify how or if ATF included trafficking expenditures in its funding reports, so it was not possible for us to know if the ATF submissions were consistent with OMB's guidance.
 5. We modified our report to address ATF's concerns by deleting this example.

6. While Customs states that it does not concur on these issues, the response does indicate that future counterterrorism funding reports will address our reported concerns.
7. Although Customs response states that all BDR responses are thoroughly coordinated and vetted, we were not provided with any evidence of coordination or review/oversight activities. Thus, we did not modify our report.
8. We modified our report to remove references to Customs lack of priority with respect to BDR reports.
9. While we agree that we found errors primarily at one bureau, our audit objective was to evaluate Treasury's processes and methodologies for compiling and reporting counterterrorism funding data to OMB. Accordingly, the scope of our audit was more limited than an audit designed to render an opinion on Treasury's overall accounting of counterterrorism funds. Nevertheless, we concluded that as a result of the mathematical errors identified by our audit, Treasury's reports to OMB materially misstated the Department's funding of counterterrorism activities. As discussed in our finding, Treasury did not have adequate controls to identify and correct these errors before including the bureau's information in its overall reports.
10. We modified our report to reflect that the bureaus followed OMB instructions in 1999.
11. In both of these cases, the Office of Enforcement states that guidance was adequate. While OMB's instructions to Treasury, and in turn the bureaus, may have been clear, Departmental guidance to the bureaus for implementing the instructions was not adequate in some areas. These areas include program and budget coordination, establishment and documentation of methodologies, clarification of reporting definitions, and oversight and review responsibilities.
12. We did not change the report to indicate that progress has been made in having budget and program personnel work together to prepare counterterrorism BDR responses, because we have received no evidence of such progress.

13. While we understand the Office of Enforcement's point that OMB should take the lead in establishing methodology, we are not able to direct recommendations to OMB. However, we do encourage Treasury to consult with OMB when establishing departmental reporting methodologies as appropriate to ensure they meet OMB's needs.

Chicago Regional Office

Roberta Rickey, Regional Inspector General for Audit
Janice Miller, Audit Manager
Lynn Richardson, Acting Audit Manager
Patrick Nadon, Auditor
Claire Schmidt, Auditor
Gary Wilk, Auditor

Department of the Treasury

Office of the Under Secretary of the Treasury for Enforcement
Office of the Assistant Secretary of the Treasury for
Management and Chief Financial Officer
Office of Accounting and Internal Control
Office of Strategic Planning and Evaluations
Office of Budget

Bureau of Alcohol, Tobacco and Firearms

Director
Assistant Director, Office of Inspection

United States Secret Service

Director
Special Agent in Charge, Office of Inspection

United States Customs Service

Acting Commissioner
Director, Evaluations Oversight, Office of Planning

Office of Management and Budget

Budget Examiner