DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

FEB - 9 2001

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FEB 15 2001

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

FROM: Joseph G. Kehoe
Commissioner, Small Business/Self-Employed Division

SUBJECT: Audit Report – The Program for Ensuring Compliance with Anti-Money Laundering Reporting Requirements Should Be Improved

I am responding to your report titled "The Program for Ensuring Compliance With Anti-Money Laundering Reporting Requirements Should Be Improved." The report is a review of the IRS' responsibility to ensure that businesses which routinely exchange or handle money comply with the Bank Secrecy Act (BSA). Though the final report was issued on December 26, 2000, we are providing our comments on both the draft and final reports at this time.

The overall Anti-Money Laundering (AML) Program objective is to detect and deter money laundering by individuals, trades or businesses and financial institutions under IRS jurisdiction. The AML program consists of both Title 31 and Title 26 (Form 8300) compliance activities. Please note that the direct labor costs of $15.6 million are for the entire AML program, which include Title 26 and Title 31.

As a result of the new IRS reorganization, SB/SE is currently conducting a thorough review of the AML program to enable us to provide better educational products and services, improve compliance, and appropriately address non-compliance. Generally, we concur with your recommendations, and numerous actions are already in progress to address them. Our comments on the specific recommendations in this report are as follows:

IDENTITY OF RECOMMENDATION 1:
Establish AML program and Title 31 oversight responsibility for the field Title 31 operations in the new business units.

ASSESSMENT OF CAUSE
The report concludes that without changes, there is a significant risk of undetected non-compliance and increasingly inconsistent program delivery.

CORRECTIVE ACTION
The Office of Reporting Compliance within Headquarters, Small Business/Self-Employed (SB/SE), is now responsible for overseeing the Title 31 Civil Compliance Program. Within the Reporting Compliance Office, the program has been assigned to the National Fraud Program Director, who reported December 12, 2000. We are changing the way we monitor program objectives by monitoring the Anti-Money Laundering Quarterly Reports, please see Attachments A and B, which we will refer to again in this response, and which will aid our monitoring efforts. Collection of selected data began on January 1, 2000.

IMPLEMENTATION DATE
October 1, 2000, Completed

RESPONSIBLE OFFICIAL
Commissioner, Small Business/Self-Employed

CORRECTIVE ACTION MONITORING PLAN
The Office of Reporting Compliance will evaluate quarterly the above referenced reports and provide feedback to area compliance directors. We are hiring additional headquarters staff to evaluate program directions and accomplishments.

IDENTITY OF RECOMMENDATION 2:
Expand significantly the information available to covered businesses on their BSA reporting responsibilities by developing and delivering, via creative methods (mailout, internet, industry associations, etc.), a concise education/information package to all identified or potential BSA reporting entities.

ASSESSMENT OF CAUSE
We could not provide complete, updated information to TIGTA on the extent of historical educational outreach efforts the field AML examiner had made to assist and educate covered entities. However, in January 2000 we began to capture the number of educational visits made by field personnel.

CORRECTIVE ACTION
In addition to one-on-one visits, we mailed notification materials, attended seminars at trade association meetings, conducted workshops at industry conferences, and participated in question and answer sessions at company meetings and IRS small business workshops. We will continue to participate in these activities. In addition, with our new organization's priorities to focus on educating businesses up front, before they file, we are implementing a communication and education strategy to ensure businesses are educated about their obligations and more importantly to ensure businesses are advised of the new registration requirements.

IMPLEMENTATION DATE
June 1, 2001

RESPONSIBLE OFFICIAL
Commissioner, Small Business/Self-Employed

CORRECTIVE ACTION MONITORING PLAN
Attachments A and B provide quarterly data on outreach efforts that headquarters staff will monitor. New headquarters staff will allow SB/SE compliance to resume field assistance visits. Additionally, we have selected a long term detailee to act as the IRS FinCEN liaison, who will, as part of his duties, oversee the Money Service Business (MSB) registration process.

IDENTITY OF RECOMMENDATION 3:
Establish measurable performance-based indictors for Title 31 activities in accordance with GPRA guidance.

ASSESSMENT OF CAUSE
The report indicates that we have not established performance indicators for the AML program. The lack of performance data makes it difficult to determine the effectiveness of the program.

CORRECTIVE ACTION
We have program expectations and deliverables, however the sensitivity over the misuse of statistics may have contributed to this perception of a lack of indicators. The mission of our AML program is – identification, notification and enforcement. To accomplish this mission, the FY 2001 plan includes 173 FTE's devoted to the AML program nationwide.

IMPLEMENTATION DATE
October 1, 2000, Completed

RESPONSIBLE OFFICIAL
Commissioner, Small Business/Self-Employed

CORRECTIVE ACTION MONITORING PLAN
SB/SE will continue to track program expectations and deliverables.

IDENTITY OF RECOMMENDATION 4:
Improve tracking of productivity and achievement of performance indicators by ensuring reliable Title 31 information is timely provided by field units.

ASSESSMENT OF CAUSE
Because of regional and national office staffing shortages, we have not been able to monitor this program as carefully as we would like to.

CORRECTIVE ACTION
We have started a new AML Quarterly Report format and reporting process, see Attachments A and B. Management focus and oversight over the AML program will be increased in FY 2001. Additional headquarters staffing will result in additional program oversight and headquarters visits to field operations.

IMPLEMENTATION DATE
March 1, 2001

RESPONSIBLE OFFICIAL
Commissioner, Small Business/Self-Employed

CORRECTIVE ACTION MONITORING PLAN
The Office of Reporting Compliance will review the new quarterly report to ensure that Title 31 information is received quarterly from the field coordinators. We will schedule headquarters visits to area offices as soon as staffing is in place and trained.

IDENTITY OF RECOMMENDATION 5:
Track achievement in the area of education separately if it remains a primary objective.

ASSESSMENT OF CAUSE
TIGTA observed that some field offices combined educational statistics with examined statistics.

CORRECTIVE ACTION
Our new quarterly reports capture educational and outreach statistics separately. Please also see our response above to Corrective Action and Monitoring Plan to Recommendation #1.

IMPLEMENTATION DATE
January 1, 2001

RESPONSIBLE OFFICIAL
Commissioner, Small Business/Self-Employed

CORRECTIVE ACTION MONITORING PLAN
We will review the new quarterly reports for education efforts.

IDENTITY OF RECOMMENDATON 6:
Assign more analysts to AML program oversight responsibility, ensuring time is allocated to overseeing the Title 31 activities.

ASSESSMENT OF CAUSE
Lack of staffing attributed to lack of oversight in National Office (now HQ).

CORRECTIVE ACTION
We have selected a new National Program Manager for fraud and AML and are filling additional analyst positions. We will make more field assistance visits as soon as headquarters staff is hired and trained.

IMPLEMENTATION DATE
March 1, 2001

RESPONSIBLE OFFICIAL
Commissioner, Small Business/Self-Employed

CORRECTIVE ACTION MONITORING PLAN
The National Program Director is currently in the process of conducting an evaluation of our AML program and strategy. In addition to the program changes noted above, he is considering and evaluating the propriety of expanding headquarters AML staff, to ensure adequate program oversight.

IDENTITY OF RECOMMENDATION 7:
Ensure managers over field AML program examiners are more accountable for achieving Title 31 objectives, perhaps by ensuring AML program objectives are included in annual performance standards or directing field managers to more closely monitor the effectiveness, quality, and consistency of AML efforts.

ASSESSMENT OF CAUSE
We conducted few National Office or regional reviews to ensure accountability. The size and nature of this program contributes to its perception as relatively lower priority.

CORRECTIVE ACTION
Increased oversight and dedication of additional resources will help us accomplish this recommendation. Please see our above response to Recommendation #1 and #2 on our new reporting program and the selection of our FinCEN liaison, and additional headquarters staffing.

IMPLEMENTATION DATE
March 1, 2001

RESPONSIBLE OFFICIAL
Commissioner, Small Business/Self-Employed

CORRECTIVE ACTION MONITORING PLAN
Monitoring will occur through quarterly review of reports. We would like to note that the implementation of the revised report will be enacted with a thorough training session to impacted area compliance managers. Our changes in this critical area must be with their input and consensus.

IDENTITY OF RECOMMENDATION 8:
Ensure more field employees are committed to the AML program and not redirected into telephone answering or other non-compliance efforts.

ASSESSMENT OF CAUSE
Recent budgetary restrictions and increased focus on customer service decreased resources devoted to enforcement.

CORRECTIVE ACTION
We are redirecting resources to compliance activities for FY 2001. The examination plan recommends reducing by 45% compliance sponsored filing season support and additional reductions for FY 2002. The examination plan for the AML program in FY 2001 recommends 173 FTE's.

IMPLEMENTATION DATE
October 1, 2000

RESPONSIBLE OFFICIAL
Commissioner, Small Business/Self-Employed

CORRECTIVE ACTION MONITORING PLAN
Completed

IDENTITY OF RECOMMENDATION 9:
Ensure sufficient training is provided nationwide on a timelier basis.

ASSESSMENT OF CAUSE
Budget reductions and staff turnover impacted delivery of AML program training.

CORRECTIVE ACTION
In FY 2001, the training budget for AML was increased from FY 2000 by $68,000. At this time, we are planning 4 classes in AML basic training, one class in Casino Bank Secrecy training, and are developing a national IVT on Money Service Business training scheduled to air on August 2, 2001.

IMPLEMENTATION DATE
January 1, 2001

RESPONSIBLE OFFICIAL
Commissioner, Small Business/Self-Employed

CORRECTIVE ACITON MONITORING PLAN
We will review the AML training plan to ensure that training is provided in a timely manner.

Again, thank you for the opportunity to respond to the report. If you have any questions, please call Sharon Oliver at 202-622-3217 or Marty Malarkey at 202-343-0035.

Attachments (2)

Attachment A

ANTI-MONEY LAUNDERING (AML)
QUARTERLY ACTIVITY REPORT
DISTRICT _____

QUARTER ENDING:
_____

Part One – Title 31

1. Inventory

Category:	Beginning	Identified	Deleted	Ending
Currency Exchanger	0	0	0	0
Check Casher				0
Issuer of Monetary Instruments				0
Seller/Redeemer of Monetary Instruments				0
Money Transmitter				0
Casino/Card Club				0
Agent of Foreign Bank				0
Unregulated Banks & Credit Unions				0
Other				0
Total:	0	0	0	0

2. District Actions

Category:	Outreach/Education					Disposition of Examinations:				
		Seminars						Referrals:		Closed
	Visits	#	Partic	Mailings	Other	No Issue	L-1112	Civil	Criminal	Total:
Currency Exchanger										0
Check Casher										0
Issuer of Mon. Inst.										0
Sell/Rdmr of M. Inst.										0
Money Transmitter										0
Casino/Card Club										0
Agent of F. Bank										0
Unreg. Bs & C.U.s										0
Other										0
Total:	0	0	0	0	0	0	0	0	0	0

3. Information Items

# of F5346s prepared	
# of F5346s forwarded to PSP	
# of completed income tax exams	

4. AMLARs

# Interdistrict requests sent	
# Interdistrict requests rcvd	

5. Plan Time (in DESYs)

	Annual Plan Time	YTD Prorated Amt	Amt Realized	% of Time Met
RA's				######
TA's				######
Total				######

6. Significant Program Activities (use Continuation Sheet)

Attachment B

ANTI-MONEY LAUNDERING (AML)
QUARTERLY ACTIVITY REPORT
DISTRICT _____

QUARTER ENDING:
_____

Part Two – Form 8300

1. Inventory and Compliance Activity

Category:	Inventory	Outreach/Education Visits	Seminars #	Seminars Partic	Mailings	Other	Disposition of Reviews: No Issue	Penalty	CI Ref	Closed Total:
Attorney										0
Casino/Card Club										0
Construction										0
Court Clerks										0
Escrow/Title										0
Mobile/Mfg. Housing										0
Other Service Occupations										0
Other Retail -Auction Houses										0
-Precious Metals										0
-Jewelers										0
-Others										0
Retail Vehicles -Auto Dealers										0
-Boats										0
-Motorcycles										0
-Others										0
Wholesale Distributors										0
Other										0
Total:	0	0	0	0	0	0	0	0	0	0

2. Penalties

Delinquent Forms 8300:

# Secured	
$ Value	

Penalties:

# Failure to File/Furnish		# Intentional Disregard	
$ Amount $		$ Amount	

3. Information Items

# of F5346s prepared	
# of F5346s forwarded to PSP	
# of completed income tax exams	

4. AMLARs

# Interdistrict requests sent	
# Interdistrict requests rcvd	

5. Plan Time (in DESYs)

	Annual Plan Time	YTD Prorated Amt	Amt. Realized	% of Time Met
RA's				#####
TA's				#####
Total				#####

6. Significant Program Activities (Use Continuation Sheet)