Department of the Treasury

Fiscal Year 2007

Performance & Accountability Report

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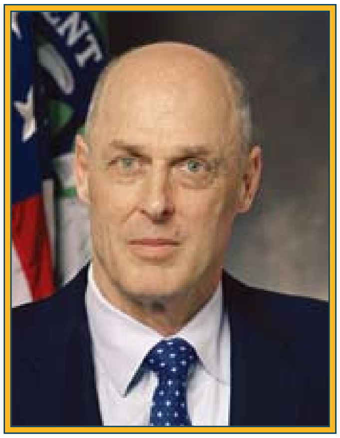
Message from the Secretary



November 15, 2007

On behalf of the Department of the Treasury, I am pleased to submit the Fiscal Year 2007 Performance and Accountability Report. This annual report provides our stakeholders with insight into the Department's broad leadership role for the economic and financial activities of the U.S. Government. Currently, the United States has a fundamentally healthy economy. Our unemployment rate remains low and real incomes are rising. In industry after industry, we innovate and create new opportunities.

The Treasury Department continues to work on maintaining a healthy economy. Our mission is to promote the conditions for prosperity and stability in the United States, and in the world's economies.

To meet our mission and focus our efforts, the Treasury Department released its Strategic Plan for fiscal years 2007-2012. This plan outlines the Department's priorities in the coming years and identifies the desired outcomes that will guide us to effectively manage and leverage resources across the Department.

Measuring performance is paramount to keep the Department of the Treasury accountable to the American people. In fiscal year 2007, the Department met 72 percent of its performance targets; an increase of 13 percent over last year. The Department continues to address performance challenges, and is developing meaningful performance measures that align resources to deliver outcomes and help ensure taxpayer dollars are spent effectively.

The President's Management Agenda is the central focus for the Treasury Department's effort in management improvement. The Department maintained its scores in Performance Improvement, Human Capital, Credit Management, E-Government, and Competitive Sourcing, while improving its score in the Financial Performance initiative.

During fiscal year 2007, the Department of the Treasury achieved progress on many fronts; however, the effective administration and oversight of information technology systems continues to be one of our major challenges, representing risk to our operations and mission responsibilities. Significant advancements were made in addressing ongoing challenges by building an integrated and consolidated information technology infrastructure, successfully managing large IT investments, and improving information security. In fiscal year 2007, the Treasury Department concentrated on expanding its oversight of the bureau IT governance process, and progressed in safeguarding privacy information and related assets.

The Department of the Treasury has again received an unqualified opinion on its financial statements, which validates the accuracy, completeness, and reliability of the financial data in this report. Likewise, the performance data presented herein are complete and reliable. The Department has continued to make progress in reducing management control weaknesses. We also established corrective action plans to satisfy federal financial systems and control objectives.

The successes and challenges of this fiscal year will serve as a foundation for our future efforts. Looking ahead, the Treasury Department will continue to work to keep the economy strong, tackle long-term issues such as entitlement reform, maintain our competitiveness, protect the global financial system from illicit use, and strengthen trade and investment policies that can provide better jobs and higher wages to American workers.

Sincerely,

Henry M. Paulson, Jr.
Secretary of the Treasury

Message from the Assistant Secretary for Management and Chief Financial Officer

November 15, 2007

Secretary Paulson's message describes the Department of Treasury's broad management role as the economic and financial leader for the U.S. Government. The Department's vast and complex responsibilities are reflected in its financial statements — $9.5 trillion in assets and liabilities, $2.7 trillion in gross revenues, and $436 billion in net outlays.

To effectively manage the Department's $17 billion operating budget in support of these efforts, senior department leaders meet regularly to prioritize activities, discuss emerging issues, and review long term strategies. Our key functional leaders in the areas of procurement, human capital, information technology, and finance have each formed robust councils that oversee compliance, best practices, and new initiatives across the Department.

In fiscal year 2007, the Department maintained or improved its results in all of the President's Management Agenda initiatives, most notably in the Financial Management initiative, and consistently closed its books within three days following the end of each month, enabling prompt delivery of reliable financial information to key decision makers.

Other important developments in fiscal year 2007 included the release of Treasury's revised five-year Strategic Plan, a strengthened investment review process for information technology projects, an initiative to establish an office to address privacy issues, and a methodology to link proprietary costs to budget activities and their associated performance measures.

Despite our successes, we have ongoing challenges to address. In 2003, the Department of the Treasury had fourteen material management control weaknesses under the Federal Managers' Financial Integrity Act of 1982 (FMFIA). Through continuous senior level attention over the past several years, the Department has been able to close eight of these, leaving six material weaknesses open as of September 30, 2007. Due to these six weaknesses, the Department provides only qualified assurance that it is meeting Federal management control objectives. Moreover, due to one of the weaknesses, the Department is not in full compliance with Federal financial systems requirements. Nevertheless, the Department of the Treasury again received an unqualified opinion on its consolidated financial statements – the eighth consecutive unqualified opinion.

Looking ahead, continued oversight and emphasis is needed as we work toward eliminating the Department's six material weaknesses. The Department expects to close one such weakness in fiscal year 2008. The remaining five are complex systems issues requiring several years to rectify. The last of the Department's material weaknesses is scheduled to be closed in fiscal year 2011. Similarly, constant attention to the Management Challenges outlined by the Department's Inspectors General is required. While these challenges do not necessarily indicate deficiencies in performance, they represent inherent risks that must be monitored continuously. Finally, continued progress toward our goal of "Making Treasury a Great Place to Work" will ensure the Department is able to attract, develop, and retain the diverse talent it requires to meet its mission today and into the future.

The Department of the Treasury has a rich and proud 218-year history as the steward of the Nation's financial resources. The staff of the Assistant Secretary for Management and Chief Financial Officer has a special responsibility to maintain the integrity of Treasury's financial operations and to manage the resources entrusted to the Department in a way that best serves the American people. We strive to merit this trust, to continuously improve, and to position the Department effectively for the future.

Sincerely,

Peter B. McCarthy
Assistant Secretary for Management
and Chief Financial Officer

About this Report

The Department of the Treasury's Performance and Accountability Report (PAR) for fiscal year 2007 provides information that enables Congress, the President, and the public to assess the Department's performance relative to its mission and stewardship of the resources entrusted to it. The Treasury Department's report is designed around four areas of focus: Financial, Economic, Security, and Management. Each of these four areas has one strategic goal with a supporting objective with multiple outcomes and performance measures that outline the Treasury Department's approach and measures their progress.

In fiscal year 2007, the Treasury Department estimated the costs to achieve the outcomes stated in this report. While this is similar to previous reports, this year the estimation was calculated by allocating the total *gross cost* of the Department to each *outcome*. Prior reports only reported net costs at the goal level. Gross cost includes imputed costs, depreciation, losses, and other expenses not requiring budgetary resources. An example of imputed costs is post-employment benefits. These costs, however, exclude any Treasury accounts that do not contribute to the cost of the agency, such as the Exchange Stabilization Fund and the Federal Financing Bank.

We define this as the Department's performance cost. Performance cost will be less than the total gross cost reported on the Statement of Net Cost in this report.

Performance cost was used rather than net cost because it more accurately represents the total cost to achieve a result or outcome. For instance, while the net cost to manufacture coins and notes for non-appropriated bureaus such the U.S. Mint and the Bureau of Engraving and Printing is zero because it is essentially self-funded, the real cost of operating these organizations is over $2 billion once all imputed costs, depreciation, losses and other expenses are included. Taking this approach across the entire department, the Treasury Department's performance cost in fiscal year 2007 was approximately $17.9 billion as compared to a net cost of $12 billion.

Performance costs were allocated based on the relationship between a budget activity and an outcome. In some cases there was a one-to-one relationship between a budget activity and an outcome, and in others multiple outcomes were involved. While allocating costs on a budgetary basis does not equate to activity-based costing, it does provide some insight as to what the true operational costs are, and provides the agency with the opportunity to begin asking questions that relate cost to performance for the outcomes it is trying to achieve. And, since both cost and performance is known at the budget activity level, we can come closer to understanding cost on a performance measure basis.

How this Report is organized

MESSAGE FROM THE SECRETARY

The Secretary's message broadly describes the Department's mission, accomplishments and challenges, and includes an assessment of whether financial and performance data in the report is reliable and complete. The Secretary's message sets the tone for conveying the Department's value to the American public.

MESSAGE FROM THE ASSISTANT SECRETARY FOR MANAGEMENT/ CHIEF FINANCIAL OFFICER

The Assistant Secretary's message describes the progress and challenges about the Treasury Department's financial management, including integration of budget and performance information on the Department's management controls program under Federal Manager's Financial Integrity Act (FMFIA), and financial management systems under the Federal Financial Management Improvement Act of 1996. This message includes a statement of assurance as required by FMFIA indicating whether management controls are in place and financial system conform to government-wide standards.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Discussion and Analysis section provides an overview of this report. It includes a summary of the most important performance results and challenges for fiscal year 2007; a brief analysis of financial performance; a description of systems, controls, and legal compliance; and information on the Department's progress in implementing the President's Management Agenda.

PERFORMANCE SECTION

This section contains the annual program performance information required by the Government Performance and Results Act of 1993 (GPRA) and, combined with the Appendices, includes all of the required elements of an annual program performance report as specified in OMB Circular A-11, Preparation, Submission, and Executing of the Budget.

FINANCIAL SECTION

This section contains the Treasury Department's financial statements and related Independent Auditors' Report, and other information pertaining to financial management.

APPENDICES

This section contains more detailed information on the Department's performance results, including information on program evaluations, revisions to indicators or targets, and organizational structure, in-depth information on the Improper Payments Information Act, Management Challenges and Responses, and information on the completeness and reliability of data.

Our Mission

Serve the American people and strengthen national security by managing the U. S. Government's finances effectively, promoting economic growth and stability, and ensuring the safety, soundness and security of U.S. and international financial systems.

Our Organization

Most know the Treasury Department has something to do with money, but few understand the scope of its functions or how it affects their daily lives.

The Department of the Treasury is the steward of the public purse. It takes in money, pays bills, and when appropriate, borrows and invests. On a typical day, the Treasury Department's cash transactions average nearly $60 billion.

The most visible evidence of the Department's work is currency - the nation's coins and notes. The *Bureau of Engraving and Printing* (BEP) produces notes and the *United States Mint* manufactures coins, both for circulation and as collectibles. In addition, the United States Mint makes bullion coins for investment and secures the nation's gold and silver reserves.

One of the most important functions the Department of the Treasury performs is tax collection, which funds the federal government's operations on behalf of the American people. The *Internal Revenue Service* (IRS) collects taxes and is the Department's largest bureau, accounting for about 90 percent of its employees. The *Alcohol and Tobacco Tax and Trade Bureau* (TTB) collects excise taxes on alcohol, tobacco and firearms, and ensures that alcoholic beverages are properly produced, labeled, advertised, and marketed.

At some point nearly every American will receive a federal disbursement, such as an income tax refund or Social Security payment, through the *Financial Management Service* (FMS). The FMS also operates the federal government's collections and deposit systems, provides government-wide accounting and reporting services, and manages the collection of delinquent debt.

When the total operating cost of the federal government exceeds available funds, the *Bureau of the Public Debt* (BPD) borrows money by selling Treasury securities to the public, institutional investors, and authorized government agencies.

Many Americans have bank accounts. The Treasury Department's *Office of the Comptroller of the Currency* (OCC) and *Office of Thrift Supervision* (OTS) charter, regulate, examine, and supervise national banks and savings institutions to maintain their safety and soundness, and ensure fair access and treatment of customers. The *Community Development Financial Institutions Fund* (CDFI) expands the capacity of financial institutions to provide credit, capital, and financial services to underserved communities which spur economic development and create jobs.

The *Office of the Treasurer of the United States* advises the Secretary on currency matters and communicates changes in currency design to the public. The Treasurer also promotes improved financial literacy for

Americans by providing education about the basics of cash and credit management so that informed decisions can be made about their personal and family budgets.

The *Office of Terrorism and Financial Intelligence* (TFI) and the *Financial Crimes Enforcement Network* (FinCEN) enhance national security and combat terrorist financing and their support organizations, weapons of mass destruction (WMD) proliferators, drug traffickers, money launderers, and other financial criminals.

The *Inspector General* (IG) conducts independent audits, investigations, and reviews to help ensure that the Treasury Department accomplishes its mission, improves its programs and operations, promotes economy, efficiency, and effectiveness, and prevents and detects fraud, waste, and abuse.

The *Treasury Inspector General for Tax Administration* (TIGTA) provides audit and investigative services to promote economy, efficiency, and effectiveness in the administration of the internal revenue laws.

The Department's headquarters offices develop policies related to financial regulation, entitlements, taxation, and terrorist financing. They also maintain accountability through internal controls, and provide guidance in legal, public, and congressional matters. These offices provide data, analysis, and recommendations that assist the Secretary of the Treasury, Congress and the President, and other federal agencies in financial and economic decision-making for the nation.

Through these combined efforts the Treasury Department stays accountable to its most important stakeholders, the American people.

2007 Leadership Changes

In fiscal year 2007, there were several key leadership changes at the Department of the Treasury. In August 2007, **David H. McCormick**, sworn in as the Under Secretary for International Affairs, replaced Tim Adams as the principal advisor to the Secretary of the Treasury on international economic issues. Before assuming this role, Mr. McCormick was the Deputy National Security Advisor to the President for International Economic Affairs and responsible for coordinating U.S. international economic policy, foreign assistance, and humanitarian affairs. Prior to his role at the White House, Mr. McCormick served as the Under Secretary of Commerce for Export Administration with global policy and law enforcement responsibilities for high technology trade and controls.

Phillip Swagel, the Assistant Secretary for Economic Policy, was sworn in on December 11, 2006, to advise the Secretary on all aspects of economic policy, including current and prospective macroeconomic developments, and the development and analysis of the Administration's economic initiatives. Prior to this, Mr. Swagel served as the Chief of Staff for the White House Council of Economic Advisers for three years.

On December 12, 2006, **Eric Solomon** was sworn in as Assistant Secretary for Tax Policy. Prior to this position, Mr. Solomon held several positions within the Department, including serving as the Assistant Chief Counsel for the Internal Revenue Service. He was also a partner at Ernst & Young, LLP and Drinker Biddle & Reath, and practiced law at Cadwalader, Wickersham & Taft, LLP.

On December 18, 2006, after serving as a Senior Advisor to the Secretary of the Treasury, **Anthony W. Ryan** was sworn in as Assistant Secretary for Financial Markets. In this role, he serves as the Senior Advisor to the Secretary, Deputy Secretary, and Under Secretary on broad matters of federal, state, and local finance, financial markets, and federal government credit policies, lending and privatization. Prior to joining the Treasury Department, he spent 20 years in the financial services industry, most recently as a partner of Grantham, Mayo, Van Otterloo and Co, LLC.

Kenneth Carfine, after serving almost four years as the Deputy Assistant Secretary for Fiscal Operations and Policy, was appointed Fiscal Assistant Secretary on March 15, 2007, replacing Donald Hammond. Mr. Carfine provides oversight to the FMS and the BPD, and serves as the Treasury liaison to the Federal Reserve System. He began his career at the Treasury Department with the Financial Management Service in 1973.

On June 28, 2007, after serving as the Deputy Assistant Secretary for Financial Institutions, **David G. Nason** replaced Emil Henry as the Assistant Secretary. Mr. Nason serves as a Senior Advisor to the Secretary, the Deputy Secretary, and the Under Secretary for Domestic Finance on all matters relating to financial institutions, government sponsored enterprises, financial education initiatives, and the CDFI Fund, ensuring the resilience of the financial services sector. He also serves as a key advisor to the Secretary of the Treasury in his capacity as Chair of the President's Working Group on Financial Markets. Prior to his contributions at the Treasury Department, Mr. Nason served as counsel to Commissioner Paul S. Atkins at the Securities & Exchange Commission, and was an attorney at Covington & Burling in Washington, D.C., where he focused on securities offerings, mergers and acquisitions, and federal tax planning. Mr. Nason also served as a law clerk to the Honorable Marvin J. Garbis of the U.S. District Court for District of Maryland.

Peter B. McCarthy was sworn in on August 3, 2007, succeeding Sandra Pack as the Assistant Secretary for Management and Chief Financial Officer. Mr. McCarthy serves as the principal policy advisor to the Secretary and Deputy Secretary of the Treasury on the management of the annual planning and budget process, and on matters involving the internal management of the Department. Mr. McCarthy comes to the Treasury Department with over 30 years experience in the banking industry, including 18 years in expatriate assignments, most recently serving as Bank One's senior officer in London. From 2002 to 2006, Mr. McCarthy served as the Deputy Managing Director of the Institute of International Finance, a global, non-profit association of financial institutions.