Part II: Annual Performance Report

FINANCIAL

Performance Cost - $13.3 Billion

*For information on calculating cost – see Appendix H

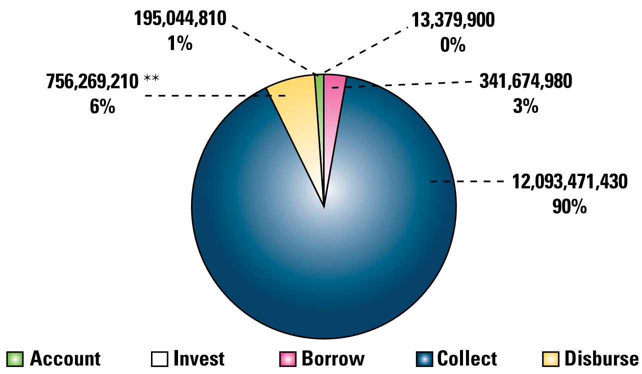
STRATEGIC GOAL: **Effectively Managed U.S. Government Finances**

STRATEGIC OBJECTIVE: **Cash resources are available to operate the government**

STRATEGIC OUTCOMES AND VALUE CHAINS:

- Revenue collected when due through a fair and uniform application of the law (Collect)
- Timely and accurate payments at the lowest possible cost (Disburse)
- Government financing at the lowest possible cost over time (Borrow)
- Effective cash management (Invest)
- Accurate, timely, useful, transparent and accessible financial information (Account)

Cost to Outcomes



** This amount does not reflect the cost associated with payments made by DC Pensions. These activities do not contribute to the achievement of the "Timely and accurate payments at the lowest possible cost" outcome.

The Treasury Department manages the nation's finances by collecting money due the United States, making its payments, managing its borrowing, investing when appropriate, and performing central accounting functions. Sound fiscal management enables continual operation of essential government services and allows the Department to meet its financial obligations while minimizing borrowing costs. Accurate projections of the U.S. Government's cash requirements ensure that funds are available to cover federal payments on a daily basis. The ability of the Department of the Treasury to manage the nation's finances with integrity is paramount to maintaining financial stability and enabling economic growth.

Revenue collected when due through a fair and uniform application of the law

Collecting federal taxes and other revenue is integral to the Department of the Treasury's strategic goal of effectively managing the federal government's finances. The Department allocates 90 percent of its resources to this activity. Three Department bureaus collect and process federal tax revenue and other revenue owed the federal government: the Internal Revenue Service (IRS), the Alcohol and Tobacco Tax and Trade Bureau (TTB) and the Financial Management Service (FMS).

Activities Related:

- The IRS's ***Taxpayer Service*** program assists taxpayers in understanding their obligations and makes it easier for them to participate in the tax system
- The IRS's ***Enforcement*** program ensures taxpayers meet their tax obligations
- The IRS's ***Business System Modernization*** program combines industry best practices and government expertise in business and technology solutions to develop a modernized tax administration system that meets taxpayer needs and fulfills revenue collection requirements
- The TTB's ***Collect the Revenue*** program collects federal taxes on tobacco, alcohol, and firearms and ammunitions
- The FMS's ***Collection*** program collects individual and corporate federal revenue through the government's collections infrastructure
- The FMS's ***Debt Collection*** program recovers delinquent government and child support debt by providing centralized debt collection, oversight, and operational services to Federal Program Agencies (FPA) and states

Taxpayer Service

Helping taxpayers understand their tax reporting and payment obligations is the cornerstone of taxpayer compliance. Underreporting tax liability accounts for 82 percent of the gap between what taxpayers owe and what they actually pay. The IRS maximizes the level of voluntary compliance through effective enforcement of tax laws and taxpayer service, which is essential to addressing the tax gap. Although the Department of the Treasury relies on those with financial obligations to the government to voluntarily comply with the law, it is prepared to take appropriate action when they do not.

In fiscal year 2007, the IRS issued the report, *Reducing the Federal Tax Gap*, which identifies current tax gap activities, presents steps to leverage technology, and supports legislative proposals to improve compliance. It also provides an outreach approach to ensure all taxpayers understand their tax obligations. The report highlights the importance of having a multi-year research program to help the IRS understand the scope of, and reasons for, non-compliance while reaffirming the need to minimize the burden on compliant taxpayers. This report, along with others, combined with legislative changes and tax simplification, will provide the roadmap necessary to deliver service and enforcement, and lead to improved compliance.

Key strategies to improving taxpayer service are expanding options and simplifying the tax process. In fiscal year 2007, the IRS continued to improve its services by providing year-round assistance to millions of taxpayers through the IRS.gov website, toll-free call centers, Taxpayer Assistance Centers, Volunteer Income Tax Assistance, and Tax Counseling for the Elderly sites. Opening and maintaining lines of communication, enables the IRS to identify and respond to emerging issues, and effectively provide education and outreach to a broader population of taxpayers, thereby improving compliance.

Throughout the year, taxpayers use toll-free services to contact the IRS, and obtain answers to tax law and account questions. In fiscal year 2007, the IRS:

- Achieved an 82.1 percent for customer service representative level, meeting its performance measurement target

- Responded to 33.2 million assistor telephone calls and completed nearly 23.1 million automated calls
- Responded correctly to 91.2 percent of tax law questions and 93.4 percent of account questions received by telephone

The IRS delivered a successful 2007 filing season, despite the challenges associated with the implementation of the Telephone Excise Tax Refund, the split refund capability, and new legislation related to the Tax Relief and Health Care Act of 2006. Results of the 2007 filing season included:

- 139.7 million individual returns were processed
- Over 105.5 million refunds were issued totaling $244 billion
- 57.1 percent of individual returns were electronically filed, an increase of 5 percent over 2006
- 19.1 percent of business returns were electronically filed, an increase of 15 percent over 2006
- 22.5 million returns were filed on home computers, an increase of 11 percent over 2006
- 57.2 million returns were e-filed by tax professionals, an increase of 10 percent over 2006
- Over 4.1 million taxpayers used the free services offered by the Free File Alliance

The IRS redesigned its website, making information easier for the taxpayer to find, and they received an American Customer Satisfaction Index rating of 74 out of 100, an increase of five points over the last filing season's score.

Successful delivery of an integrated approach to the Telephone Excise Tax Refund (TETR) enabled the filing of over 94 million 2006 federal income tax returns, claiming more than $4.81 billion in credits or refunds. The excise tax refund was a one-time payment designed to refund long-distance telephone taxes. To reduce taxpayer burden, the IRS developed a standard deduction for individuals, based on the number of claimed exemptions, and an estimation formula for businesses. An extensive communication strategy was launched, focusing on education by maximizing media outreach, and publicizing the associated compliance issues. To further assist taxpayers and the practitioner community, the IRS established a TETR web page on IRS.gov, which was viewed by more than 4.5 million people. In addition, the IRS prevented more than $40 million in erroneous refunds, through in-depth analysis of TETR claims and split refund requests. The comprehensive approach to administering the refund allowed the IRS to successfully meet taxpayer and stakeholder expectations.

In the 2007 filing season, taxpayers filing the 1040 forms were given the option to split their tax refunds in up to three financial accounts. Over 83,000 taxpayer returns took advantage of this split refund option.

For the second consecutive year, the IRS responded quickly to last minute changes to the Tax Relief and Health Care Act of 2006 legislation. More than 1,000 revisions were made, affecting 137 of the 164 products at the start of the filing season, resulting in no negative impact.

Taxpayer Outreach: In fiscal year 2007, the IRS enhanced its outreach and educational services through partnerships with public organizations. The IRS relies on partner organizations, such as state taxing authorities and volunteer groups, to serve taxpayer needs. Through its 11,922 Volunteer Income Tax Assistance and Tax Counseling for the Elderly sites, the IRS provided free tax assistance to the elderly, disabled, and limited

English proficient individuals and families. The 76,619 volunteers filed approximately 2.63 million returns, a 14 percent increase over fiscal year 2006.

In addition, the IRS established 16 new clinics in rural areas to help low income taxpayers meet their tax obligations. These clinics, through outreach and education efforts, reduce uncertainty and errors by clarifying taxpayer rights and responsibilities.

The Earned Income Tax Credit (EITC) is a refundable federal income tax credit for low-income working individuals and families. The IRS improved services for EITC participants by developing a three-point plan to expand outreach initiatives, simplify and improve tax forms, and make the IRS website more user-friendly. In addition, the IRS increased partnerships with community-based organizations dedicated to assisting taxpayers with financial literacy and preparing and filing tax returns. As a result, the IRS increased its EITC outreach by 15 percent and return preparation by 18 percent over fiscal year 2006.

Enforcement of the Tax Law

In fiscal year 2007, revenue from all enforcement sources reached $59.2 billion, an increase of 22 percent in enforcement revenue over fiscal year 2006. In addition, the IRS Examination and Collection programs targeted contributors to the tax gap. Highlights included:

- Increased audits of high-income taxpayers by 29 percent
- Increased audits of individuals by 8 percent
- Increased audits of small businesses and corporations, by 17 percent and 3 percent respectively
- Increased closures of collection cases by 12 percent

The IRS enhanced its productivity by implementing technological and process improvements in programs, including the Automated Underreporter, Examination, and Compliance Services Collection Operations. Improvements made during fiscal year 2007 included:

- Implementing a new Automated Underreporter program case selection and scoring methodology for individuals, resulting in a 20.5 percent increase in assessments
- Controlling and directing incoming Examination program toll-free calls through the Intelligent Call Management system, resulting in a 6.1 percent increase in the level of service
- Automating the processing of over 43 percent of installment agreement problem cases, thereby allowing resources to process additional installment agreement compliance cases

In fiscal year 2007, the IRS continued to reengineer its examination and collection procedures to reduce time, increase yield, and expand coverage. Emphasizing the early identification of tax liabilities, through increased audits and focused collection activities, the IRS undertook the following actions:

- Piloted new Automated Substitute for Return screening and batching procedures, with increased efficiencies, resulting in productivity improvements of over 156 percent, from 7.5 cases per hour to 19.2 cases per hour
- Increased detection of fraud activities and increased the number of recommendations for civil fraud penalties by 49 percent over last year's level

- Developed an employment tax strategy to eliminate or reduce overlap and gaps in current processes to enhance organizational effectiveness, expand work relationships with state and federal authorities, conduct compliance studies to better understand the components of the tax gap, and assess new ways to impact taxpayer behavior

The Compliance Assurance Process continues to expand and work with large businesses, to identify and resolve issues prior to filing corporate tax returns. The objective of the program is to reduce taxpayer burden and uncertainty, while assuring tax returns are accurate prior to filing, thereby reducing or eliminating the need for post-filing examinations. In addition, the program allows corporations to better manage their tax reserves and increase the accuracy of earnings reported on financial statements.

Through targeted audits, aggressive litigation, and publicity, the IRS continues to deter tax shelter abuse and tax scheme promoters. The IRS made significant progress in resolving civil matters with promoters of abusive and listed tax shelter transactions. In fiscal year 2007, the IRS obtained future compliance agreements from all promoters after levying sizeable penalties against them and former employees; penalties assessed and collected from the program were nearly $69 million.

In fiscal year 2007, the IRS reorganized to address the increasing scope of international tax administration where non-compliance is a growing problem. To accomplish this, the IRS developed a comprehensive strategy to identify activities that will improve customer service, enhance international tax compliance, and modernize the IRS to keep pace with globalization.

The exchange of information, between a foreign revenue agency and the IRS, led to the unraveling of an abusive cross-border tax scheme, involving hundreds of taxpayers and tens of millions of dollars in improper deductions and unreported income. In fiscal year 2007, the Japanese National Tax Agency joined the Joint International Tax Shelter Information Centre, which shares information and expertise in identifying and curbing tax avoidance and shelters. As collaboration between member countries continues to grow, more cross-border schemes will be uncovered, shared, and addressed.

In fiscal year 2007, the IRS continued to investigate significant tax, money laundering, and other financial activities that adversely affect tax administration. In addition, the IRS took steps to combat fraudulent and financial crime schemes identified through improved case development efforts and partnerships with other law enforcement agencies. In fiscal year 2007; highlights include:

- Completed 4,269 criminal investigations, exceeding the target of 4,000
- Maintained a conviction rate of over 90 percent
- Acceptance rate of cases sent for prosecution to the Department of Justice was 94.6 percent, an increase of over 2 percent over fiscal year 2006, and the acceptance rate for U.S. Attorney's cases was 90.2 percent, an increase of 2 percent over fiscal year 2006
- Total convictions were 2,155 exceeding the performance target of 2,069

Maintaining a strong enforcement presence in the tax-exempt and government sectors is particularly important, given the role that a small number of entities play in accommodating abusive transactions entered into by taxable parties. In fiscal year 2007, the IRS expanded its enforcement presence by conducting reviews of executive compensation practices among tax-exempt organizations. In addition, new outreach tools were developed and implemented, including the deployment of a popular tax compliance website for exempt entities, stayexempt.org.

Business Systems Modernization

Evolving technology, its effect on business processes, and the increased pressure to maximize resources impacts how the IRS conducts business and delivers services.

In fiscal year 2007, the IRS delivered most of major project milestones within the target of plus or minus ten percent variance for cost and schedule, a significant accomplishment which continues to validate the Business Systems Modernization program management's effectiveness. In addition, for IRS's major project segments, 92 percent were within cost and 77 percent met schedule variance targets. Successes included:

- The delivery of the new Customer Account Data Engine (CADE) filing capabilities, which enabled the faster processing of over 11 million returns and refund issuance totaling in excess of $11.6 billion
- The addition of new capabilities to the modernized e-File system (MeF), allowed for the receipt of electronically filed Partnership Returns, receiving over two million corporate, non-profit, and partnership forms for processing
- More than 51,000 cases being placed with Private Collection Agencies using the Filing and Payment Compliance (F&PC) system, to facilitate the collection of more than $23.9 million
- The deployment of the first two releases of the Accounts Management Services (AMS) system, which is designed to enable authorized users to resolve taxpayer issues by accessing integrated account data

In addition to the key modernization projects, the IRS undertook several initiatives and improvements, in 2007, to effectively integrate the systems with the legacy production environment, and improve the technology infrastructure. New and improved processes were put into place to better integrate business and technology strategies and allow the IRS to operate more efficiently, with improved productivity. Highlights included:

- Institutionalizing the use of Enterprise Architecture (EA) into the Modernization Vision and Strategy process; the IRS received the E-Gov award as the Best Civilian Agency to use EA for Government Business Transformation
- Completing the Enterprise Service Oriented Architecture strategy, and established the process to identify Enterprise Common Services to achieve operational excellence and cost savings
- Delivering high-priority portal platform improvements and stabilizing operations to meet the projected needs of practitioners and internal IRS users for the 2007 and 2008 tax filing seasons
- Integrating the Enterprise Application Integration Broker into the core infrastructure to enable the use of common service to leverage data and applications between legacy and modernized environments
- Expanding the Infrastructure Center of Excellence to include configuration management measurement and analysis capacity planning and performance engineering, and project monitoring and control

In fiscal year 2007, a new governance structure was implemented for all IRS information technology (IT) investment projects. This structure facilitates the ability to identify and address project-related issues and risks, ensuring IT investment projects deliver the required results.

In addition, the IRS developed a five-year IT Modernization Vision and Strategy which will address priorities for modernizing front-line tax administration functions. The strategy guides IT investment decision-making for 2007 and beyond. Important aspects include: establishing partnerships among IT and business leadership, leveraging existing systems, emphasizing the delivery of incremental releases, and unifying the portfolio-level view of investments.

Protection of Sensitive Information: Security of infrastructure and IT systems remains a top priority for the IRS. In fiscal year 2007, the IRS continued to update its systems, processes, and training efforts, to ensure taxpayer information is properly safeguarded. Highlights of security measures implemented included:

- Installed automatic full disk encryption on over 50,000 IRS laptops
- Implemented a secure electronic online solution for data exchanged with federal and state governments, and other partners
- Deployed mandatory information protection training for IRS employees and contractors with access to sensitive information
- Deployed upgraded firewalls and intrusion detection devices
- Created a second cyber security incident response center to provide back-up capabilities and monitor IRS's computer and network security
- Implemented enterprise-wide anti-virus gateway solutions

Fiscal Year 2007 Performance Data for Business Systems Modernization

For the third consecutive year, the IRS achieved the milestones, for most of its major projects, within the target of +/- ten percent variance for cost and schedule, a significant accomplishment which continues to validate management's effectiveness for the business systems modernization program. In fiscal year 2007, for IRS's major project segments, 92 percent were within cost and 77 percent met schedule variance targets.

Schedule Variance (based on SPECIFIC estimates)

Project	Release	MS	Planned Finish Date	Actual Finish Date	Variance (days)	Variance (%)	Within Acceptable Tolerance
AMS	R1.1	2-3	1/31/07	1/31/07	0	0%	Y
AMS	R1.1	4a	4/30/07	5/3/07	3	5%	Y
AMS	R1.1	4b	9/27/07	9/27/07	0	0%	Y
AMS	R1.2	2-3	3/13/07	3/13/07	0	0%	Y
AMS	R1.2	4a	7/26/07	7/24/07	-2	-2%	Y
AMS	R1.3	2-3	7/24/07	7/24/07	0	0%	Y
AMS	R2.1	2	10/23/07	TBD	0	0%	Y
AMS	R2.1	3	6/24/08	TBD	0	0%	Y
CADE	R2.2	4	12/31/06	6/27/07	123	65%	N [1]
CADE	R3	2-3	11/20/06	9/26/07	214	152%	N [2]
CADE	R3.1	4	8/31/07	9/26/07	17	6%	Y
F&PC	R1.1	3-5	1/31/07	1/31/07	0	0%	Y
F&PC	R1.2	5	9/30/07	9/30/07	0	0%	Y
FP&C	R1.2	4b	1/31/07	1/19/07	-8	-6%	Y
MeF	R4	4-5	3/31/07	4/24/07	16	5%	Y
MeF	R5	3	1/19/07	3/5/07	30	41%	N [3]

1/ Complexity of the CADE requirements extended the elicitation process and delayed the physical design phase. This resulted in delays throughout the rest of the development life cycle of the project
Future Plans: The IRS has developed an operating model, which includes weekly management meetings; detailed integrated schedule and resources; embedded staff and management; and working jointly on technical assessments. These actions will ensure successful delivery of BSM projects within cost and schedule.

2/ The late delivery of Release 2.2 diverted resources from Release 3 and in order to reduce the risk to Release 3, significant re-planning was done to revise scope as well as incorporate lessons learned from Release 2.

3/ Time required to achieve scope and funding approval delayed the ability to start contracting actions as previously planned.
Future Plans: Release 5, Milestone 3 efforts were delayed, as adequate funding was not identified for starting the effort. Future releases will not be impacted in this manner as the project has taken appropriate steps to align project requirements with funding availability.

Cost Variance (based on SPECIFIC estimates)							
Project	Release	MS	Planned Cost(000)	Current Cost (000)	Variance ($)	Variance (%)	Within Acceptable Tolerance
AMS	R1.1	2-3	4,011	4,011	-	0%	Y
AMS	R1.1	4a	1,421	1,421	-	0%	Y
AMS	R1.1	4b	2,007	2,007	-	0%	Y
AMS	R1.2	2-3	3,489	3,489	-	0%	Y
AMS	R1.2	4a	1,793	1,793	-	0%	Y
AMS	R1.3	2-3	2,596	2,596	-	0%	Y
AMS	R2.1	2	2,369	2,369	-	0%	Y
AMS	R2.1	3	2,580	2,580	-	0%	Y
CADE	R2.2	4	25,720	29,497	3,777	15%	N [1]
CADE	R3	2-3	16,373	16,373	-	0%	Y
CADE	R3.1	4	19,000	19,000	-	0%	Y
F&PC	R1.1	3-5	8,100	8,584	484	6%	Y
F&PC	R1.2	5	3,500	3,840	340	10%	Y
F&PC	R1.2	4b	10,000	9,660	(340)	-3%	Y
MeF	R4	4-5	26,900	27,650	750	3%	Y
MeF	R5	3	5,000	5,200	200	4%	Y

1/ Complexity of the CADE requirements extended the elicitation process and delayed the physical design phase. This resulted in delays throughout the rest of the development life cycle of the project
Future Plans: The IRS has developed an operating model, which includes weekly management meetings; detailed integrated schedule and resources; embedded staff and management; and working jointly on technical assessments. These actions will ensure successful delivery of BSM projects within cost and schedule.

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Future Plans: Release 5, Milestone 3 efforts were delayed, as adequate funding was not identified for starting the effort. Future releases will not be impacted in this manner as the project has taken appropriate steps to align project requirements with funding availability.

Collect the Revenue

The TTB administers the collection of federal taxes on tobacco, alcohol, and firearms and ammunitions from more than 8,000 organizations; 200 of these accounts for 98 percent of all excise tax collections annually. Highlights included:

- Partnered with industry, states, and other federal agencies to develop alternative methods of promoting voluntary tax compliance
- Audited "major" and "at-risk" taxpayers to ensure the correct payment of taxes were made
- Accounted accurately for assessed and collected revenue
- Created alternative electronic filing methods and reduced taxpayer paperwork burden
- Ensured consistent tax administration

- Prevented tax evasion and identified other criminal conduct in regulated industries, including the diversion and smuggling of taxable commodities

In addition, the TTB used a field approach to target non-compliant industry members and establish an identifiable presence to encourage voluntary compliance. In fiscal year 2007, the TTB, using a risk model to evaluate and select targeted audiences, completed more than 150 audits of alcohol, tobacco, and firearms companies, an increase of 20 audits over fiscal year 2006.

In fiscal year 2007, the TTB collected $321 in alcohol and tobacco excise taxes for every dollar spent on administration. The TTB benchmarks its performance by comparing its operations to those of similar entities in other countries and found that it excelled in terms of resources used as a percentage of taxes collected.

In fiscal year 2007, 48.9 percent of taxes collected were from tobacco, the remaining amounts collected were 49.2 percent from alcohol, and 1.9 percent from firearms and ammunitions.

Examples of the TTB's fiscal year performance highlights were:

- Collecting $14.7 billion in excise taxes, interest, and other revenues from 8,000 excise taxpayers holding permits in the alcohol, tobacco, and firearms and ammunition industries
- Voluntary compliance, by industry members, was 75 percent of taxpayers filing payments on or before the scheduled due date
- Expanding the e-filing program, pay.gov, for monthly filing and payment of excise taxes, and the filing of monthly operational reports; 98 percent of tax receipts were collected electronically
- Analyzing 2,259 beverage alcohol samples for product integrity, pre-import analysis, and 5010-tax credit determination
- Analyzing 312 tobacco product samples to ensure compliance with tax and classification regulations
- Proposed new regulatory guidance for cigar and cigarette tax classification, which will provide the industry with clear classification criteria for tobacco products and reduce the risks of misclassification

Collection

The FMS manages the collection of federal revenue for individual and corporate income tax deposits. In fiscal year 2007, the FMS collected a record $3.1 trillion through a network of more than 9,000 financial institutions with 79 percent of the dollars collected electronically; an increase of 6 percent for total revenue collected over fiscal year 2006.

In fiscal year 2007, the FMS initiated the Collections and Cash Management Modernization Initiative, a comprehensive strategy which streamlines, modernizes, and improves processes and systems supporting the Department's Cash and Debt Management Modernization Initiative. The FMS' efforts will improve financial performance by enabling the FMS and government agencies to effectively manage financial transaction information and improve the efficiency of the collections information reporting process. With the expansion of web-based technologies, data will be provided daily, integrating financial and performance information government-wide.

The FMS Electronic Federal Tax Payment System (EFTPS) offers businesses and individuals the convenience of making payments electronically 24 hours a day, seven days a week. In fiscal year 2007, the EFTPS processed more than 90 million payments and collected more than $2.09 trillion, representing an increase of 8 percent over 2006.

During fiscal year 2007, the EFTPS-Online collected a total of $349 billion, for the volume of 22.3 million transactions, an increase in dollar collections and transaction volume of 26.7 percent and 40.9 percent, respectively, over fiscal year 2006.

Pay.gov, an innovative system allowing individuals and businesses to make non-tax payments to federal agencies over the internet, processed approximately 23.5 million transactions, valued at over $86.6 billion, since its inception in 2005. Pay.gov responds to the increasing demands of consumers and businesses, by providing electronic alternatives to complete forms and applications, make payments, and submit queries 24 hours a day, seven days a week. In addition, pay.gov was implemented with 102 federal agencies, representing 317 cash flows, collecting $67.4 billion for fiscal years 2006 and 2007; $29.5 for 2006 and $37.9 in 2007.

Debt Collection

The FMS recovers delinquent government and child support debt by providing centralized debt collection, oversight, and operational services to FPAs and states.

In fiscal year 2007, FMS collected a record $3.76 billion in delinquent debt.

- $1.70 billion in past due child support
- $1.47 billion in federal non-tax debt
- $243 million in state tax offsets
- $343 million in tax levies

As a result of the FMS's continued improvements to the program, collections have steadily increased to more than $31.5 billion since the enactment of the Debt Collection Improvement Act of 1996. In fiscal year 2007, agencies referred 100 percent of their eligible delinquent debt to the FMS for collection.

Outcome: Revenue collected when due through a fair and uniform application of the law at the lowest possible cost						
Cost of related activities in trying to achieve this outcome: $12,093,471,430						
Performance Measure	Fiscal Year 2006 Target	Fiscal Year 2006 Actual	Met?	Fiscal Year 2007 Target	Fiscal Year 2007 Actual	Met?
Timeliness of Critical Filing Season Tax Products to the Public	92.0%	83.0%	N	85.2%	83.5%	N
Timeliness of Critical Other Tax Products to the Public	85.0%	61.2%	N	79.6%	84.0%	Y
Taxpayer Self Assistance Rate	45.7%	46.8%	Y	48.6%	49.5%	Y
Percent Individual Returns Filed Electronically	55.0%	54.1%	N	57.0%	57.1%	Y
Percent of Business Returns Processed Electronically	18.6%	16.6%	N	19.5%	19.1%	N
Customer Accuracy - Tax Law Phones	90.0%	90.9%	Y	91.0%	91.2%	Y
Customer Accuracy - Accounts (Phones)	92.0%	93.2%	Y	93.3%	93.4%	Y
Customer Service Representative (CSR) Level of Service	82.0%	82.0%	Y	82.0%	82.1%	Y
Customer Contacts Resolved per Staff Year	7,477	7,414	N	7,702	7,648	N
Refund Timeliness - Individual (paper)	99.2%	99.3%	Y	99.2%	99.1%	N
Criminal Investigations Completed	3,945	4,157	Y	4,000	4,269	Y
Conviction Rate	92.0%	92%	N	92.0%	90.2%	N
Field Exam Embedded Quality	Baseline	85.9%*	Y	87.0%	85.9%	N
Office Exam Embedded Quality	Baseline	88.2%*	Y	89.0%	89.4%	Y
Examination Quality - (LMSB) Industry	80.0%	85.0%	Y	88.0%	87.0%	N
Examination Quality - (LMSB) Coordinated Industry	92.0%	96.0%	Y	97.0%	96.0%	N
Percentage of Voluntary Compliance in filing tax payments timely and accurately (in terms of number of compliant industry members)	74.00%	75.95%	Y	74.00%	75.00%	Y
Percentage of Voluntary Compliance in filing tax payments timely and accurately (in terms of revenue) (revenue %)	86.00%	87.20%	Y	86.00%	86.4%	Y
Percentage of Total Tax Receipts Collected Electronically	98.0%	98.0%	Y	98.0%	98.0%	Y
Percentage collected electronically of total dollar amount of Federal Government Receipts	83.0%	79.0%	N	80.0%	79.0%	N
Unit Cost to process a federal revenue collection transaction	$1.37	$1.10	Y	$1.33	Est $1.19	Y
Amount of Delinquent Debt Collected per $1 spent	$36.40	$39.97	Y	$36.50	Est $42.09	Y
Amount of Delinquent Debt Collected through all available tools (in Billion $)	$3.10	$3.34	Y	$3.20	$3.76	Y
Percentage of Delinquent Debt Referred to FMS for collection compared to amount eligible for referral	93.0%	95.0%	Y	94.0%	100.0%	Y
BSM Contracted Project Cost Variance by Release/ Subrelease (see full chart for information)	0%	0%	Y	10.0%	10.0%	Y
BSM Contracted Project Schedule Variance by Release	0	0	N/A	10.0%	10.0%	Y

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Outcome: Revenue collected when due through a fair and uniform application of the law at the lowest possible cost						
Cost of related activities in trying to achieve this outcome: **$12,093,471,430**						
Performance Measure	**Fiscal Year 2006 Target**	**Fiscal Year 2006 Actual**	**Met?**	**Fiscal Year 2007 Target**	**Fiscal Year 2007 Actual**	**Met?**
HCTC Cost per Taxpayer Served				$14.25	$14.93	N
HCTC Sign-up Time (days)				97.0	93.3	Y
Automated Collection System (ACS) Accuracy	88.0%	91.0%	Y	91.0%	92.9%	Y
Examination Coverage - Individual	0.9%	1.0%	Y	1.0%	1.0%	Y
Examination Coverage - Business (Corporations > $10M)	7.5%	7.4%	N	8.2%	7.2%	N
Examination Efficiency - Individual	121	128	Y	136	137	Y
AUR (Automated Underreporter) Efficiency	1,759	1,832	Y	1,932	1,956	Y
AUR (Automated Underreporter) Coverage	2.3%	2.4%	Y	2.5%	2.5%	Y
Collection Coverage - units	52.0%	54.0%	Y	54.0%	54.0%	Y
Collection Efficiency - units	1,650	1,677	Y	1,723	1,828	Y
Field Collection Embedded Quality	84.2	84.2%	Y	86.0%	84.0%	N
Unit Cost to Process an Excise Tax Return	Baseline	$76.00	Y	$76.00	$61.00	Y
Cumulative percentage of excise tax revenue audited over 3 years	90.0%	93.0%	Y	12.0%	16.0%	Y
Resources as a Percent of Revenue	0.34%	0.31%	Y	0.34%	0.31%	Y
Conviction Efficiency Rate (Cost per Conviction)	339,565	328,750	Y	314,008	301,788	Y
Number of Convictions	2,260	2,019	N	2,069	2,155	Y
TEGE Determination Case Closures	112,400	108,462	N	118,200	109,408	N
KEY: Some measures have estimates for their actual fiscal year data – due to information not available at the time of publication of this document.						

In fiscal year 2007, the Treasury Department's estimated cost in trying to achieve the outcome "revenue collected when due through a fair and uniform application of the law" was $12 billion. The performance of this outcome is assessed through 43 performance measures, and in fiscal year 2007, the Department met 72 percent of their performance targets.

Of those measures where goals were not met, the difference between the target and the year end results appears to be minimal; however the impact on the American taxpayer is greater than the data reflects.

The primary cause for the performance measure "Timeliness of Critical Filing Season Tax Products to the Public" not meeting its fiscal year target was due to the late passage of extender legislation affecting state and local sales taxes, and education expenses. This change required more than 1,000 tax product revisions, affecting 137 filing season products; these changes had no impact to the start of the filing season. To accommodate priority forms and publication, a total of 27 products were delayed as a result of workload modifications.

In fiscal year 2007, the performance measure "Conviction Rate" missed its target by 1.8 percent due to the increase in dismissals, many involving complex legal issues and multiple defendants; some of these dismissals were appealed by the U.S. Government. By selecting less sophisticated cases, the number of dismissals could be reduced. Although these cases involve risk, the IRS has found investigating high dollar, high impact cases acts as an effective deterrent.

For the full suite of performance measures and associated information, refer to Appendix A.

Timely and accurate payments at the lowest possible cost

The Treasury Department plays an important role in society and the economy as it issues government payments, such as Social Security benefits, tax refunds, and veterans' benefits to the correct recipient at the proper time.

The FMS provides critical services to millions of U.S. taxpayers and other customers. As the government's financial manager, the FMS oversees a daily cash flow of nearly $60 billion, disbursing 85 percent of the federal government's payments, or nearly one billion payments to over 100 million people, valued at nearly $1.5 trillion. In addition, the FMS administers the world's largest collection system, collecting over $3.1 trillion in fiscal year 2007, provides cash management guidance to FPAs, maintains the government's accounting books, and compiles and publishes government-wide financial information used to monitor the government's financial status. The FMS serves as the government's central debt collection agency for delinquent non-tax debt.

Through continued efforts to expand and market electronic media to deliver federal payments, improve service to payment recipients, and reduce government program costs, in fiscal year 2007, the FMS decreased the number of paper checks issued by 4.3 million, thereby minimizing postage costs and saving the U.S. Government money. Additionally, the use of electronic media decreases the number of reissued payments from lost, stolen, or misplaced checks, and inefficiencies associated with non-electronic delivery of benefits.

The FMS's nationwide campaign *GoDirect* encourages current paper payment recipients to enroll in direct deposit. In May 2007, the *GoDirect* campaign achieved a major milestone and surpassed its target by converting one million paper payment recipients to direct deposit.

In addition, in fiscal year 2007, the FMS worked collaboratively with other organizations to develop and implement a pilot program called *Direct Express*, which provides un-banked, federal benefit recipients the option of receiving payments electronically using a debit card. The purpose of this pilot is to determine whether debit cards offer a cost-effective way to disburse federal benefit payments to an un-banked recipient.

A recent survey of *Direct Express* cardholders showed 85 percent of respondents were satisfied and would recommend it. Initial success of the pilot program supported expansion to other areas of the country which will occur in fiscal year 2008.

In fiscal year 2007, the FMS undertook considerable efforts to modernize its payment systems by incorporating new technologies and the internet. These efforts included:

Stored Value Card (SVC), a smartcard, similar to a credit/debit card, which uses an encrypted computer chip to process "electronic money" stored on the card. The program is aimed at improving financial controls and cash-management applications, streamlining administrative processes, and improving the quality of life for cardholders. From the inception of the program in 1997 to June 2007, over 2 million cards have been issued and placed into service, representing in excess of $1.3 billion in value. Annually, over 8 million Electronic Funds Transfer (EFT) transactions are processed through the SVC program.

Automated Standard Application for Payments (ASAP.gov), a web-based system built by the FMS in coordination with the Federal Reserve Bank of Richmond. Through this electronic grants payment system organizations, universities, profit and non-profit entities receive federal funds from accounts pre-authorized by federal agencies. The ASAP is one of two systems authorized by the Chief Financial Officer's Council to disburse civilian grant payments on behalf of program agencies. Twenty-five federal agencies use ASAP.gov and total disbursements to organizations during fiscal year 2006 were $425 billion; fiscal year 2007 data was not available at the time of publication.

Outcome: Timely and accurate payments at the lowest possible cost

Cost of related activities in trying to achieve this outcome: **$756,269,210**

Performance Measure	Fiscal Year 2006 Target	Fiscal Year 2006 Actual	Met?	Fiscal Year 2007 Target	Fiscal Year 2007 Actual	Met?
Percentage of Treasury Payments and associated information made electronically	78.0%	77.0%	N	78.0%	78.0%	Y
Percentage of Paper Check and Electronic Funds Transfer (EFT) Payments made accurately and on-time	100.0%	100.0%	Y	100.0%	100.0%	Y
Unit Cost for Federal Government Payments	$0.35	$0.37	N	$0.39	Est $0.38	Y

KEY: Some measures have estimates for their actual fiscal year data – due to information not available at the time of publication of this document.

In fiscal year 2007, the Treasury Department's estimated cost in trying to achieve the outcome "timely and accurate payments at the lowest possible cost" was $756.2 million. The performance of this outcome is assessed through 3 performance measures, and in fiscal year 2007, the Department met 100 percent of their performance targets.

The FMS issued over 980 million payments, 78 percent of them electronically in fiscal year 2007, an increase of 1 percent over last year; issuing 100 percent of all payments accurately and on-time. In addition, the FMS worked on Universal Direct Deposit, a proposal to require all newly eligible federal benefit recipients to receive their payments by direct deposit, if they have a bank account. Outreach to Congress, consumer and disability groups, and financial organizations increased their awareness of the initiative and garnered the support of the Social Security Administration.

For the full suite of performance measures and associated information, refer to Appendix A.

Government financing at the lowest possible cost over time

The Department determines and executes the federal borrowing strategy to meet the monetary needs of the government at the lowest possible cost. Each year, the Treasury Department borrows and accounts for trillions of dollars necessary for the government to function. Moreover, as the government's money manager, the Department provides centralized payment, collection, and reporting services. The federal government finances its expenditures in excess of tax receipts through the sale of debt obligations at various maturities. The Treasury Department's activities minimize the interest paid on the national debt over time and enhance market liquidity.

The BPD conducts the Department's debt financing operations by issuing and servicing Treasury securities. Debt is held by individuals, corporations, federal agencies, and state, local, and foreign governments. In fiscal year 2007, the BPD conducted more than 200 auctions and issued more than $4 trillion in marketable Treasury bills, notes, bonds, and Treasury Inflation-Protected Securities. In addition, the Department provided retail investment services to 50 million retail customers holding $278 billion in Treasury Securities.

One of the hallmarks of the U.S. Treasury marketplace is transparency. The Department is able to expeditiously release detailed auction information, provide immediate feedback to bidders, and publish preliminary results of the offering amount awarded to non-competitive tenders 15 minutes before auction close, resulting in more market certainty around Treasury securities auctions. In fiscal year 2007, the BPD consistently met its performance goal of releasing securities auction results within two minutes, plus or minus 30 seconds. By minimizing the time bidders are exposed to the risk of adverse market movements, auction participants are likely to bid more aggressively, thereby allowing the federal government to borrow at more favorable rates.

To further improve the efficiency of the auction process and provide a modern, flexible platform for Department debt managers, the BPD will replace its aging auction system the first quarter of calendar year 2008. The new system fully automates the announcement, auction, and issuance of marketable securities, and provides greater speed and flexibility in bringing new types of securities to market.

The BPD's Government Agency Investment Services program supports federal, state, and local government agency's investments in non-marketable Treasury securities, and manages approximately $4 trillion in customer assets. In fiscal year 2007, in an effort to reduce costs and facilitate future enhancements, the BPD established a long-term goal to consolidate all program functions into one automated system.

The BPD's Retail Securities Program serves more than 50 million retail customers who invest directly with the Treasury Department in marketable and savings securities. In fiscal year 2007, the BPD reduced its targeted timeframe from 13 to 12 business days for completing retail customer service transactions; this supports its long-term goal of completing like transactions within 10 business days by fiscal year 2010.

Outcome: Government financing at the lowest possible cost over time

Cost of related activities in trying to achieve this outcome: **$341,674,980**

Performance Measure	Fiscal Year 2006 Target	Fiscal Year 2006 Actual	Met?	Fiscal Year 2007 Target	Fiscal Year 2007 Actual	Met?
Cost per debt financing operation	$133,683	$148,926	N	$228,409	Est $216,801	Y
Percent of auction results released in 2 minutes +/- 30 seconds	95.0%	100.0%	Y	95.0%	99.1%	Y
Cost per TreasuryDirect assisted transaction	$7.75	$4.97	Y	$6.16	Est $6.03	Y
Cost per TreasuryDirect online transaction	$2.99	$3.06	N	$2.96	Est $2.79	Y
Percentage of retail customer service transactions completed within 12 business days	90.0%	98.0%	Y	90.0%	99.43%	Y
Cost per federal funds investment transaction	$90.15	$62.64	Y	$72.33	Est $59.93	Y
Percentage of Government Agency customer initiated transactions conducted online	65.0%	97.03%	Y	75.0%	97.31%	Y

KEY: Some measures have estimates for their actual fiscal year data – due to information not available at the time of publication of this document.

In fiscal year 2007, the Treasury Department's estimated cost in trying to achieve the outcome "government financing at the lowest possible cost" was $341.6 million. The performance of this outcome is assessed through 7 performance measures, and in fiscal year 2007, the Department met 100 percent of them.

The performance measure "cost per federal funds investment transaction" saw a decrease in the cost per single investment transaction of $2.71 from the prior year; $62.64 and $59.93 per transaction, 2006 and 2007 respectively. The projected cost per federal funds investment transaction is increasing each year due to inflationary cost increases and transaction volumes are projected to remain constant.

For the full suite of performance measures and associated information, refer to Appendix A.

Effective cash management

The Treasury Department forecasts receipts and payments accurately to ensure sufficient funds, minimize excess borrowing, and when necessary, invest excess cash balances.

The Department of the Treasury's Office of Fiscal Projections (OFP) ensures that funds are available on a daily basis to cover federal payments, maximize investment earnings, and minimize borrowing costs. The accuracy of forecasting receipts, outlays, and debt have a direct and material impact on the cost of borrowing and return on investments. This means that forecast reliability assists Department officials in avoiding excess borrowing, cover anticipated cash needs, and enable them to make effective investment decisions. The Treasury Department measures the difference between actual and projected receipts to optimize cash management. In fiscal year 2007, the OFP continued to improve its forecasts; this year, the variance was 2.1 percent, as compared to 3.9 percent in fiscal year 2006.

Over the past several years, the Fiscal Service, the Department's Office of Fiscal Assistant Secretary, BPD, and FMS, explored new and innovative ways to invest excess cash, including auctioning excess cash at competitive market rates. During fiscal year 2007, the Department completed a pilot program to invest cash balances in reverse repurchase transactions. The Treasury Department invested $6.7 trillion in overnight and short-term investments through the Term Investment Option Program (TIO) and the Repurchase Program (Repo). By reinvesting excess cash through the TIO and Repo, the Department earned an additional $33 million; these programs earn market rates of interest, whereas, investments in the legacy Treasury Tax and Loan System earn interest at an administered rate established approximately 30 years ago.

In addition, as part of a modernization initiative, the Treasury Department proposed legislation to broaden its investment authority. The proposed legislation will give the Department the authority to invest excess operating cash through repurchase arrangements with acceptable parties. This proposal was included in the Administration's fiscal year 2008 budget submission and language which were transmitted to Congress in May 2007.

Outcome: Effective cash management						
Cost of related activities in trying to achieve this outcome: **$13,379,900**						
Performance Measure	Fiscal Year 2006 Target	Fiscal Year 2006 Actual	Met?	Fiscal Year 2007 Target	Fiscal Year 2007 Actual	Met?
Variance between estimated and actual receipts (annual forecast)	5.0%	3.9%	Y	5.0%	2.1%	Y

In fiscal year 2007, the Treasury Department's estimated cost in trying to achieve the outcome "effective cash management" was $13.3 million. The performance of this outcome is assessed through one performance measure, and in fiscal year 2007, the Department met its target 100 percent.

For the full suite of performance measures and associated information, refer to Appendix A.

Accurate, timely, useful, transparent, and accessible financial information

The Department of the Treasury produces government-wide financial information and reports contributing to the improved quality of the nation's financial decision-making.

The FMS's Government-wide Accounting and Reporting program maintains the federal government's books, and accounts for its monetary assets and liabilities by operating, and overseeing its accounting and reporting system. For the third consecutive year, the FMS released the *Financial Report of the United States Government*, 75 days after the close of the fiscal year. The report presents a picture of government-wide finances and is critical to a fully informed budget process.

In addition, the FMS continues to improve its policies, procedures, information systems, and internal controls used to prepare the government-wide consolidated financial statements. During a 2006 audit, the Government Accountability Office made recommendations to FMS regarding their internal controls; with continued effort, the FMS has eliminated 74 of the 143 recommendations, and continues to resolve issues within their authority. The FMS has found there are data integrity preparation issues in the financial data submitted by the agencies.

The FMS has two major initiatives to modernize long standing federal accounting processes and provide agencies with methodologies and tools to improve the accuracy and consistency of their financial data. The initiatives are:

- The Government-wide Accounting Modernization project replaces existing government-wide accounting functions and processes. This project will improve the reliability, usefulness, and timeliness of the government's financial data, provide agencies and other users with better access to information, and eliminate duplicative reporting and reconciliation burdens, resulting in significant government-wide savings. In addition, it will improve the budgetary information being collected at the transaction level.
- The Financial Information and Reporting Standardization initiative integrates budget and financial reports from FPAs; improving the consistency of the budgetary and proprietary accounting data recorded in agency financial statements and reported through its trial balance.

The Schedules of Federal Debt is prepared annually and compares the current fiscal year to the prior, and provides reasons for any fluctuations between the years. The audit for fiscal year 2007 will take place in 2008. In fiscal year 2007, the BPD received an unqualified or "clean" audit opinion on its *Fiscal Years 2006* and *2005 Schedules of Federal Debt*, representing the largest single liability on the government wide financial statement. In addition, the BPD successfully introduced daily financial statements, providing timely financial information to the public.

Outcome: Accurate, timely, useful, transparent and accessible financial information						
Cost of related activities in trying to achieve this outcome: **$195,044,810**						
Performance Measure	**Fiscal Year 2006 Target**	**Fiscal Year 2006 Actual**	**Met?**	**Fiscal Year 2007 Target**	**Fiscal Year 2007 Actual**	**Met?**
Percentage of Government-wide accounting reports issued accurately	100.0%	100.0%	Y	100.0%	100.0%	Y
Percentage of Government-wide accounting reports issued timely	100.0%	100.0%	Y	100.0%	100.0%	Y
Cost per summary debt accounting transaction	$11.59	$10.96	Y	$10.98	Est $8.93	Y
Release Federal Government-wide financial statements on time	Met	Met	Y	1.0	Est. 1.0	Y
Unit Cost to Manage $1 Million Dollars of Cash Flow	Baseline	$8.50	Y	$10.69	Est $9.70	Y
KEY: Some measures have estimates for their actual fiscal year data – due to information not available at the time of publication of this document.						

In fiscal year 2007, the Treasury Department's estimated cost in trying to achieve the outcome "accurate, timely, useful, transparent and accessible financial information" was $195 million. The performance of this outcome is assessed through 5 performance measures, and in fiscal year 2007, the Department met 100 percent of their performance targets.

For the full suite of performance measures and associated information, refer to Appendix A.

Financial – moving forward

In fiscal year 2008, the IRS will continue to deliver taxpayer service and bolster its enforcement efforts to improve compliance with the tax laws and, ultimately, increase tax revenue. In addition, through the expansion of their outreach programs, the IRS will identify the needs, preferences, and behaviors of taxpayers and partners. By utilizing the Department's performance measures, the IRS will assess its achievements.

Reducing the tax gap is a priority for the Department. To accomplish this, the IRS will restore its enforcement presence in an effort to reduce evasion opportunities, increase research, improve IT capabilities, and expand relationships with partners and stakeholders. In fiscal year 2008, the IRS will continue developing initiatives to target enforcement in key areas such as reporting, filing, and payments within the small business and self-employment taxpayer community, and target fraud and financial crime schemes identified through improved case development efforts and Bank Secrecy Act (BSA) investigations. In addition, the IRS will increase audits of large multinational corporations, and improve tax gap research capabilities.

Modernizing technology requires the IRS to address critical upgrades for aging and out-dated equipment that supports enforcement and taxpayer service activities, and complex technical demands caused by high volumes, widely varying taxpayer inquiries, and storage capacity. The IRS will continue the modernization of IT systems to align with its overall business strategy. In addition, the IRS will implement audits to enhance its IT security, contingency planning, and disaster recovery.

In fiscal year 2008, the IRS will develop a quantitative scope measure to address performance against three key factors that point to future project outcomes – cost, schedule, and scope. The scope variance will ultimately be measured as the difference between a project release's delivered capabilities and baseline capabilities established at the exit of Milestone 3, which is the completion of logical and physical design of the project.

In fiscal year 2008, the IRS will continue to work towards its goal of 80 percent electronic filing for individual income tax returns. While individual e-filing rates continue to increase each year, changes in the Taxpayer Relief Act of 1997 will assist the IRS to meet its e-filing goal. In addition, to support ongoing efforts to improve and simplify the tax code and taxpayer compliance, the Department will resolve 303 projects to provide regulations and guidance on the Internal Revenue Code.

In fiscal year 2008, the TTB will continue to encourage the use of pay.gov as a preferred method of filing. During 2007, all alcohol and tobacco tax forms were placed in pay.gov, thereby allowing industry members to file their alcohol and tobacco tax related forms through this system. In addition, the TTB will expand the functionality to include changes that will help reduce data entry and expedite the reporting process.

In addition, the new Trade Analysis and Enforcement Division will further its objectives of developing lead sources to provide greater investigative effectiveness for the TTB. In fiscal year 2008, the TTB will continue to work with the OMB and other agencies to fully utilize the International Trade Data System to help efficiently regulate the flow of commerce and effectively enforce international trade laws as they relate to the TTB's mission.

Recently, the TTB developed a new "Reporting Category Account Code" system which allows them to track costs by program and activity levels, and provide more accurate cost information for management decision making. In fiscal year 2008, the TTB will implement this system and provide training and monitoring of data input as it relates to the new system.

In fiscal year 2008, the Department will implement the Cash and Debt Management Modernization Initiative, to strengthen the nation's cash and debt management systems, and continuously improve the efficiency, integrity, transparency, and competitiveness of the U.S. Treasury market. Cash management modernization will redefine and streamline payments, collections, and its infrastructure. The debt management modernization effort, allows senior management to make informed decisions, thereby financing the Department's obligations with less cost to the American public.

Through risk management, the Treasury Department will improve its ability to manage the volatility of cash balances and participate in industry contingency planning tests, and improve its market integrity, infrastructure, and operations. The BPD will continue to look for ways to improve its operations, and by fiscal year 2012, will work to ensure that at least 90 percent of the primary dealers, in Wholesale Securities Services, can participate in Treasury auctions from contingency locations.

In fiscal year 2008, the BPD will continue to accurately account for and report on federal debt. By fiscal year 2013, the BPD, by moving to a shared service provider, will modernize its current summary debt accounting system.

A long-term goal for the BPD's Retail Securities Services program is the electronic issuance of all retail Treasury securities. A key challenge for them is communicating to customers the benefits of purchasing securities and managing holdings online. TreasuryDirect, a system with nearly 300,000 investor accounts, will continue to be enhanced with security upgrades and new registration options for trust, estate, and organization accounts.

In fiscal year 2008, the FMS will continue to roll-out its Debt Check, an online program used to help agencies bar delinquent debtors from obtaining new loans or loan guarantees. In addition, the FMS will continue working on its Integrated FedDebt system, which combines the FMS's Cross-Servicing program and the Treasury Offset Program into one system. The Integrated FedDebt system, expected to be available in fiscal year 2009, will reduce system redundancies, improve data integrity, and provide direct online access to agencies.

In addition, the FMS will continue to expand the use of electronic collection mechanisms, which use the most advanced and secure collection technologies that are flexible and can accommodate the varying needs and technical sophistication of all taxpayers and FPAs. Currently, collection agents use multiple systems interfacing with different sources and a variety of formats. The FMS will develop a system which will provide a single touch point for reporting and retrieval of information via transaction brokering, data warehousing, and business intelligence, enabling the standardization and consolidation of collections information and eliminate duplication in the federal government's collection reporting processes. In fiscal year 2008, the FMS will continue focusing on security oversight efforts at financial agent processing facilities and banking institutions. This effort will identify security control weaknesses associated with the collection of government remittances and protection of sensitive information.

ECONOMIC

Performance Cost - $3.2 Billion

*For information on calculating cost – see Appendix H

STRATEGIC GOAL: **U.S. and World Economies Perform at Full Economic Potential**

STRATEGIC OBJECTIVE: **Improved economic opportunity, mobility and security with robust, real, sustainable economic growth at home and abroad**

STRATEGIC OUTCOMES AND VALUE CHAINS:

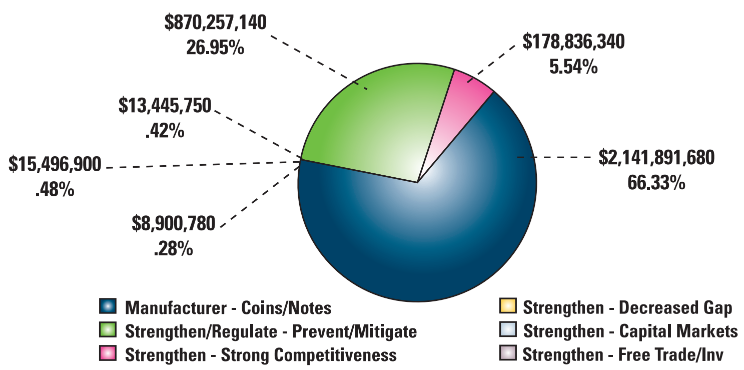
- Strong U.S. economic competitiveness (Strengthen)
- Competitive capital markets (Strengthen)
- Free trade and investment (Strengthen)
- Prevented or mitigated financial and economic crises (Strengthen/Regulate)
- Decreased gap in global standard of living (Strengthen)

STRATEGIC OBJECTIVE: **Trust and confidence in U.S. currency worldwide**

STRATEGIC OUTCOME AND VALUE CHAIN:

- Commerce enabled through safe, secure U.S. notes and coins (Manufacture)

Cost to Outcomes



The Department of the Treasury, with other agencies and organizations, works to stimulate economic growth and raise living standards in the United States and abroad.

To achieve conditions that enable economies to perform at full economic potential, the Treasury Department must stimulate economic growth through the development and implementation of policies that effectively regulate banking and financial markets, create pro-growth tax policies, and advocate free trade.

Economic growth stimulates economic opportunity, mobility, and security for Americans and others around the world. Promoting the development of new markets in the U.S. ensures that all Americans benefit from economic growth. The expansion of underdeveloped economies abroad opens markets, enhances regional stability, reduces the spread of disease, creates opportunities for profitable trade, and demonstrates democracy in action. The Department of the Treasury leads these efforts on behalf of the American people.

Strong U.S. economic competitiveness

Strong economic competitiveness is critical to robust economic growth worldwide, continued investment in the United States, and job creation. The Treasury Department's contribution to the facilitation of a prosperous financial infrastructure, a balanced macro economy, market efficiency, technological readiness, and innovation are essential for keeping a sharp competitive edge.

Monitoring the Economy: The Department of the Treasury's Office of Economic Policy assists in the development of policies to stimulate economic growth and job creation in the U.S. and abroad. While drawing a direct connection between the Department's actions and economic indicators is difficult, policymakers aid in creating an environment conducive to strong economic growth and a healthy labor market.

For fiscal year 2007, real Gross Domestic Product (GDP), the broadest measure of the economy's performance, expanded by an estimated 2.4 percent. Real GDP growth fell short of the Administration's estimate of the economy's potential growth rate – 3.1 percent. Even so, the economy created 1.6 million jobs and the unemployment rate averaged a low 4.5 percent. A healthy, growing economy and strong labor market creates economic opportunity.

U.S. Small Business Finance Initiative: In most countries, small businesses are responsible for over 50 percent of new job creation. In June 2007, the Department of the Treasury, in partnership with Multilateral Investment Fund of the Inter-American Development Bank and the Overseas Private Investment Corporation, launch a three-part program encouraging market-based bank lending to small and medium enterprises in Latin America. Part one introduces new lending models to fit the characteristics of smaller firms; part two offers risk-sharing guarantees and loans to eligible banks to broaden their financing activity; and part three identifies regulatory changes needed for more credit to be made available to small businesses. It is expected that 80 percent of the volume of lending will be loans under $100,000. Since only a limited percentage of small businesses in Latin America have access to financing from banks and commercial lenders, this initiative, hopefully, will provide increased access to capital and help expand economic opportunity in the region.

Protect the Public: Is a program ensuring the integrity of the alcohol and tobacco industries, and regulating approximately 40,000 businesses. In addition, the TTB enforces federal laws related to the issuance of permits to industry members and the production, labeling, advertising, and marketing of alcohol products. Working with industry, foreign and state governments, and other interested parties facilitates compliance with regulatory requirements, and maintain the appropriate level of oversight to ensure public safety. Education, partnerships, and open communication are paramount strategies in promoting compliance with regulatory requirements.

The TTB uses business regulation to protect alcohol consumers from fraud and deception. Before alcoholic beverages can be introduced into interstate commerce, a Certificate of Label Approval (COLA) or an exemption must be obtained by the importers and bottlers from the TTB. In fiscal year 2007, the TTB approved 98,000 of the 125,117 COLA applications received; the remaining 27,117 or 22 percent were either rejected, returned for correction, withdrawn, expired or surrendered.

International Trade Program: This program helps keep the U.S. economy strong by facilitating import and export trade in alcohol and tobacco products, while balancing consumer protection standards. Highlights included:

- Ensuring exports of tequila from Mexico to the United States continue without interruption; valued at $400 million per year
- The completion of an international labeling agreement, to facilitate trade in wine among the World Wine Trade Group

The TTB provides technical support to other federal agencies in the administration of U.S. alcohol laws, regulations, and policies. In addition, the TTB provides technical advice on foreign regulatory proposals impacting the alcohol and tobacco trade; reviewing these proposals provides an opportunity to assess the impact of potential trade barriers for U.S. alcohol and tobacco exporters. In fiscal year 2007, U.S. exports of distilled spirits to China reached a record $3.4 million, nearly four times the $760,000 exported during previous years; this growth shown is a result of China's admittance, as a member, into the World Trade Organization (WTO) and the breaking down of trade barriers.

Outcome: Strong U.S. economic competitiveness

Cost of related activities in trying to achieve this outcome: **$178,836,340**

Performance Measure	Fiscal Year 2006 Target	Fiscal Year 2006 Actual	Met?	Fiscal Year 2007 Target	Fiscal Year 2007 Actual	Met?
Number of full-time equivalent jobs created or maintained in underserved communities by businesses financed by CDFI Program Awardees and New Markets Tax Credit (NMTC) Allocatees	29,158	22,329	N	34,009	35,022	Y
Dollars of private and non-CDFI Fund investments that CDFIs are able to leverage because of their CDFI Fund Financial Assistance (in millions)	1,100	1,400	Y	$861	$778	N
Administrative costs per Financial Assistance (FA) application processed	$5,130	$8,710	N	$6,920	Est $7,180	N
Percent of Electronically filed Certificate of Label Applications	27.0%	38.0%	Y	47.0%	51.0%	Y
Unit Cost to process a Wine Certificate of Label Approval	N/A	N/A	N/A	Baseline	$34.00	Y
Annual percentage increase in the total assets of Native CDFIs	33.0%	182.0%	Y	33.0%	19.0%	N
Administrative costs per number of Bank Enterprise Award (BEA) Applications processed	$1,280	$1,630	N	$1,455	Est $1,950	N
Increase in community development activities over prior year for all BEA program applicants ($ in millions)	81	318	Y	100	227	Y
Administrative costs per number of Native American CDFI Assistance applications processed	$10,050.00	$8,130.00	Y	$9,090.00	Est $13,510.00	N
Amount of investments in low-income communities that Community Development Entities (CDEs) have made with capital raised through their New Markets Tax Credit (NMTC) tax credit allocations ($in billions)	$1.60	$2.00	Y	$2.10	$2.50	Y
Administrative costs per number of New Markets Tax Credit (NMTC) applications processed	$5,390.0	$4,360.0	Y	$ 4,875.0	Est $5,320.0	N
U.S. unemployment rate	5.2%	4.6%	Y	5.1%	4.5%	Y
U.S. Real Gross Domestic Product (GDP) growth rate	3.4%	3.0%	N	3.3%	2.4%	N
Percentage of licensing applications and notices completed within established timeframes	95.0%	94.0%	N	95.0%	96.0%	Y
Percentage of permit applications (original and amended) processed by the National Revenue Center within 60 days	80.0%	86.0%	Y	80.0%	85.09%	Y
Percentage of COLA approval applications processed within 9 calendar days of receipt (This measure will become inactive beginning FY 2008)	55.0%	44.0%	N	45.0%	42.0%	N

KEY: Some measures have estimates for their actual fiscal year data – due to information not available at the time of publication of this document.

In fiscal year 2007, the Treasury Department's estimated cost in trying to achieve the outcome "strong U.S. economic competitiveness" was $178.8 million. The performance of this outcome is assessed through 16 performance measure, and in fiscal year 2007, the Department met 50 percent of their performance targets.

It is difficult to measure policy activities related to the outcome "strong U.S. economic competitiveness." The use of quantitative measures does not adequately describe these activities; therefore, in fiscal year 2008, the Department will consider various types of measures for this important work, such as traction and impact, and will review these with relevant stakeholders.

For the full suite of performance measures and associated information, refer to Appendix A.

Competitive capital markets

U.S. capital markets make a vital contribution to the nation's wealth and prosperity by directing investments toward innovation, promoting economic growth, and ensuring that the allocation of resources are directed toward the most efficient use. For the American economy to continue to be the model of strength, flexibility, and resiliency, it must grow and remain competitive.

Access to capital allows entrepreneurs to implement new ideas and expand operations, creating new employment opportunities. Capital markets give U.S. citizens the confidence to invest, earn higher returns on savings, and reduce the cost of borrowing. Prosperous, competitive capital markets inspire investor confidence and play an important role in facilitating economic growth.

The Treasury Department strives to preserve the integrity of the U.S. capital market which is essential to maintaining competitiveness, however, there is a growing concern that they are losing market share to foreign competitors. Recently, there has been a diminishing presence of foreign Initial Public Offerings in the U.S. market, which may be in response to the costs of implementing U.S. accounting standards, higher underwriting costs, and the shift to their domestic capital markets. The challenge facing U.S. regulators today is preserving the public interest while preventing excessive regulatory burden on financial markets and institutions. In an effort to encourage a responsible and measured approach, the Department initiated a review of the issues affecting the competitiveness of the U.S. capital markets, and engages in an ongoing initiative to strengthen them.

In fiscal year 2007, the Treasury Department launched a study of the regulatory framework for securities, banking, and insurance. The Department of the Treasury announced a three part plan to encourage competitive capital markets, and draw on recent trends, such as globalization, to leverage competitiveness and increase the benefit to the economy. Part one, seeks a streamlined regulatory structure with improved oversight, increased efficiency, less overlap, and the ability to adapt to the market's constantly-changing strategies and tools. Part two, focuses on the condition of the accounting industry. The Department will concentrate on the review of the current accounting system, whether it is producing high quality audits, attracting sufficient talented auditors, and there is adequate competition in the accounting field. Part three, recognizes that legal reform is crucial to the long-term competitiveness of the U.S. economy. The Treasury Department will work with other stakeholders to reform the tort system, which negatively impacts U.S. economic competitiveness, when litigation is frivolous, costly, and unnecessary. All three parts focus on the impact to capital markets and are important to the overall economic competitiveness of the nation.

In fiscal year 2007, the Treasury Department's estimated cost in trying to achieve this outcome "competitive capital markets" was $15.4 million. The Treasury Department does not currently have any performance measures for this outcome; it is difficult to measure policy activities related to competitive capital markets. The use of quantitative measures would not adequately describe these activities; therefore, in fiscal year 2008, the Department will consider various types of measures for this important work, such as traction and impact, and will review these with relevant stakeholders.

Free trade and investment

Foreign investment in the U.S. strengthens the economy, improves productivity, creates good jobs, spurs healthy competition, and is vital for a robust and sustainable economy.

Foreign-owned companies directly provide jobs to over five million workers, and indirectly provide an additional five million jobs, due to foreign-owned subsidiaries procuring about 80 percent of their inputs from the U.S. markets. In fiscal year 2007, these companies produced about 6 percent of the U.S. output, provided 10 percent of U.S. total capital investment, 13 percent of the research and development, and 20 percent in exports.

Removing International Barriers to Trade and Investment: By participating in the negotiation and implementation of international agreements, the Treasury Department helps to remove trade and investment barriers, stimulate domestic and global growth, and create employment opportunities for Americans. The U.S. seeks strong commitments from its trading partners to ensure those markets are open to U.S. exporters and investors. Once implemented, these agreements serve as a core element for a trading partner's economic infrastructure, enhancing international economic and financial stability. The Treasury Department participates actively in multilateral Doha Development Round negotiations of the WTO, U.S.-initiated bilateral and regional Free Trade Agreements (FTAs), and Bilateral Investment Treaties (BITs). In fiscal year 2007, 10 trade and investment negotiations were either concluded or underway; an increase of approximately 43 percent over the performance target.

The Trade Promotion Authority, the centerpiece of the U.S. trade liberalization agenda, expired in July 2007. During its six year existence, the United States implemented FTAs with 12 countries, concluded negotiations with five others, and launched the Doha Development Round, to lower trade barriers around the world, permitting free trade between countries of varying wealth. If the Trade Promotion Authority is not reauthorized, the Doha Development Round could falter and the pace of trade negotiations will decelerate significantly.

In fiscal year 2007, the U.S. concluded FTA negotiations with Korea, the world's tenth largest economy, with a GDP of nearly $1 trillion. The Treasury Department co-led the financial services negotiations of the investment provision. Once approved by Congress and fully implemented, the Korea FTA will end tariffs on more than $78 billion of trade between the United States and Korea. In fiscal year 2007, as part of a bipartisan template on trade, the U.S. negotiated stronger labor and environment provisions in the FTA with Peru, Colombia, Panama, and Korea. In 2005, Congress passed the Central American – Dominican Republic FTA (CAFTA-DR); in 2006, the agreement was implemented by El Salvador, Honduras, Nicaragua, and Guatemala; and in 2007, the CAFTA-DR was implemented for the Dominican Republic. Once this agreement is implemented for Costa Rica, the CAFTA-DR will end most tariffs on more than $32 billion of two-way trade between the U.S. and the CAFTA-DR countries. In addition, the Panama FTA was signed in June 2007. This agreement will provide new opportunities to U.S. workers, manufacturers, and service providers, as well as expand markets for U.S. farmers and ranchers; another building block in the Department's efforts to create a Western Hemisphere free trade area.

BITs contain provisions that encourage efficient and effective use of capital, and provide a legal framework to enhance investor confidence, economic growth, and greater opportunities for American workers and employers. Building on the model BIT, the Treasury Department conducted negotiations with Rwanda, in fiscal year 2007.

The Treasury Department worked with other agencies to promote the integration of developing countries into the world trading system. This is accomplished through expanded membership with the WTO, the promotion of trade-related capacity building programs at the International Monetary Fund (IMF), World Bank, other Multilateral Development Banks (MDBs), and the appropriate use of trade preferences. Fiscal year 2007 Department milestones include:

- The reform and extension of the Generalized System of Preferences, which promotes economic growth in developing countries by providing duty free access to the U.S. markets
- The extension of the Andean Trade Promotion and Drug Eradication Act of 2002, formerly known as the Andean Trade Preference Act of 1991, initially was established to combat drug production and trafficking in the Andean countries, but now offers trade benefits to help these countries develop and strengthen legitimate industries
- The amendment of the African Growth and Opportunity Act of 2000, to spur trade and development opportunities; offering tangible incentives for African countries to open their economies and build free markets

In addition, the Treasury Department worked with other agencies to implement U.S. trade laws and policies, enforce rules and agreements to reduce and eliminate foreign trade barriers, and formulate trade policy on customs revenue functions.

In fiscal year 2007, the Department testified before the Senate Foreign Relations Committee in support of the ratification of income tax treaties with Belgium, Denmark, Finland, and Germany, to prevent double taxation and reduce fiscal evasion.

Promoting Free Trade and Budget Savings: The Department of the Treasury supports trade liberalization and budget discipline through its role in negotiating, implementing, and policing international agreements to reduce official export subsidies. By negotiating agreements in the OECD, the Treasury Department drastically reduced the subsidies that member governments can provide when financing national exports. The volume of this financing activity is approximately $70 billion annually. The OECD's agreements open markets and level the playing field for U.S. exporters, and save U.S. taxpayers about $800 million annually. Cumulative budget savings from these agreements are estimated to be over $12 billion.

In fiscal year 2007, the Department led a major negotiation to secure a new Aircraft Sector Understanding in the OECD, with the inclusion of Brazil – not an OECD member, but an aircraft manufacturer – as a full participant. This Understanding revises and updates the original agreement from 20 years ago, and provides the rules for member governments when financing the sale of their domestically-produced aircraft to foreign airline purchasers. As with other OECD agreements, the revised and updated rules remove the bulk of the subsidies that previously existed, encourage airlines to seek commercial rather than government financing, and prevent aircraft-financing governments from providing unfair benefits to their customers.

In addition, in fiscal year 2007, a pilot OECD agreement extending repayment terms for renewable energy and water projects was rolled over for an additional two years. Led by the Treasury Department, the U.S. Government supported the pilot agreement that encourages developing countries to choose renewable energy sources to meet their energy demands.

Outcome: Free trade and investment						
Cost of related activities in trying to achieve this outcome: **$8,900,780**						
Performance Measure	**Fiscal Year 2006 Target**	**Fiscal Year 2006 Actual**	**Met?**	**Fiscal Year 2007 Target**	**Fiscal Year 2007 Actual**	**Met?**
Number of new Free Trade Agreement (FTA) negotiations and Bilateral Investment Treaty (BIT) negotiations under-way or completed	9	12	Y	7	10	Y

In fiscal year 2007, the Treasury Department's estimated costs in trying to achieve the outcome "free trade and investment" was $8.9 million. The performance of this outcome is assessed through one measure, and in fiscal year 2007, the Department met its target 100 percent.

Although the Department exceeded the target of this measure by 43 percent, due to the uncertainty of the renewal of the Trade Promotion Authority, the nature of trade and investment agreements may change in the next fiscal year. To better assess the Treasury Department's performance in this area, this measure is being discontinued for fiscal year 2008, and will be replaced with a trade metric that expands the scope of treaties and agreements.

It is difficult to measure policy activities related to the outcome "free trade and investment." The use of quantitative measures does not adequately describe these activities; therefore, in fiscal year 2008, the Department will consider various types of measures for this important work, such as traction and impact, and will review these with relevant stakeholders.

For the full suite of performance measures and associated information, refer to Appendix A.

Prevented or mitigated financial and economic crises

It is essential to prevent financial and economic crises, and diminish its impact. By promoting sound pro-growth policies, the Department of the Treasury aids in the retention of the benefits of economic progress, reducing poverty, maintaining political stability, and avoiding expensive intervention.

In fiscal year 2007, the Department's Office of International Debt Policy (IDD) worked to implement major initiatives that are providing massive debt reduction to the heavily indebted poor countries committed to economic reform and poverty reduction. Through the Heavily Indebted Poor Countries (HIPC) initiative, the Multilateral Debt Relief Initiative (MDRI), and the 2007 agreement for additional debt relief from the

Inter-American Development Bank, more than $86 billion has been agreed in debt relief for 22 countries. Additionally, in an effort to prevent renewed debt problems, the IDD worked to achieve greater use of the debt sustainability framework for low-income countries, and increased assistance on grant terms rather than loans.

In fiscal year 2007, the Department of the Treasury promoted sustainable economic growth, and supported the global war on terror by advancing debt reduction for Iraq and Afghanistan. The IDD spearheaded Afghanistan's entry into the HIPC initiative, to reduce its debts by over 92 percent, more than $11 billion. In addition, the IDD continued to provide support for Iraq's efforts to obtain debt relief from additional creditors, implementing the 2004 Paris Club, which was designed to bring debt down to a manageable level. These steps bolster economic development in Afghanistan and reduce its dependence on the U.S. and international community. In 2006, the growth of the non-drug Afghan economy reached approximately 8 percent, and government revenues increased by 40 percent to $570 million. Additionally, Afghanistan's development to tackle financial crimes will strengthen its ability to target drug traffickers and terrorist financing.

In support of debtor country debt management efforts, the United States and other Paris Club creditors accepted prepayments at face value from Peru and Macedonia, adding to earlier agreements with Poland, Russia, Brazil, and Algeria. During fiscal year 2007, the U.S. negotiated debt swap agreements with Botswana and Costa Rica, under the Tropical Forest Conservation Act of 1998; over time those agreements will generate more than $34 million for tropical forest conservation.

Regulating National Banks and Savings Associations: The Department of the Treasury is the primary regulator and supervisor of national banks, savings associations, and savings and loan holding companies. The Treasury Department's regulation efforts are performed through the Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS). The OCC and OTS work to streamline their licensing and supervisory procedures, and to keep regulations current, clearly written and supportive of an effective process promoting competitive financial services, and consistent with safety and soundness.

The OCC evaluates the adequacy of banks and subsidiary structures and activities. A responsive and efficient licensing operation is essential to meet the needs of banks that are part of, or seek to become part of, the national banking system. In fiscal year 2007, the OCC received approximately 2,278 corporate applications and notices, of which 96 percent were completed within the established timeframe, while providing a consistently high level of services as rated by the applicants. In addition, the OCC received 1,261 applications and notices electronically.

In fiscal year 2007, the OCC issued 81 legal opinions on significant topics. Of the opinions subject to the established processing timeframe, 96 percent were issued on time, an increase of 7 percent over fiscal year 2006, exceeding the target.

Under the Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA) of 1996, federal bank and thrift regulations are reviewed at least once every ten years in an effort to eliminate burdensome, unnecessary, and outdated regulatory requirements. The EGRPRA also requires agencies to submit a report to Congress on the findings of their reviews. During fiscal year 2006, the OCC, OTS, and federal banking agencies conducted this review process, and identified and proposed changes to its rules to streamline existing requirements or procedures, and enhance national banks' flexibility in conducting authorized activities. Work to finalize these changes will continue into fiscal year 2008.

In fiscal year 2007, the OCC and OTS continued to work with Federal Reserve Bank (FRB) and Federal Deposit Insurance Corporation (FDIC) to implement the Basel II framework for large, internationally active U.S. bank and thrift institutions. Basel II enhances or modernizes Basel I capital rules for institutions not governed by the rules of Basel II. Work has been done in a number of countries to integrate Basel capital standards with national capital organizations. The revised framework, the Basel II, aims to improve consistency of capital regulations internationally, increase risk sensitivity of regulatory capital, and promote enhanced risk-management practices among large internationally active banking organizations. The complexity and costs incurred by banking organizations implementing the Basel II in the United States is significant. Therefore, federal banking agencies are proposing revisions that would apply to non-Basel II banking organizations.

The OCC legal opinions and corporate decisions enable national bank activities to continue to evolve, remain competitive, and consistent with safety and soundness. In fiscal year 2007, the OCC continued to support the ability of national banks to operate under uniform national standards, clarifying and refining key attributes defining the national banks' charter. During fiscal year 2006, the U.S. Supreme Court granted the re-examination of actions of a national bank pre-emptive case, *Watters v. Wachovia Bank, N.A.* In this case, the OCC, represented by the Solicitor General of the United States, participated as a friend of the court and not a party to the litigation, but with an interest in the court's decision. In fiscal year 2007, the Supreme Court reaffirmed the longstanding principle that state law may not significantly burden, curtail, or hinder a national bank's s efficient exercise of any of its banking powers established by Congress under the National Bank Act. The opinion expressly recognized duplicative state examination, supervision, and regulation as significant burdens triggering preemption, but it also recognized that national banks are subject to state laws of general application to their daily business, if they do not conflict with the provisions or purposes of the National Bank Act.

The OTS, like the OCC, charters, examines, supervises, and regulates federal savings associations and their holding companies. The OTS strives to reduce regulatory burden on savings associations while maintaining effective supervision. To accomplish this, the OTS conducts safety and soundness, and compliance examinations every 12 to 18 months, during which the thrifts ability to identify, measure, monitor, and control risk is evaluated. When weaknesses are identified, supervisory action is taken. Compliance examinations help to ensure fair and equal access to credit for all Americans. The OTS places special emphasis on ensuring the thrift industry guards against money laundering and terrorist financing, and protects the privacy and security of consumer financial information.

Through its examination program, the OTS assures all thrifts are at least adequately capitalized and most thrifts are well-capitalized. In addition, the OTS ensures the thrift industry effectively complies with consumer protection laws and regulations, and customers are treated fairly and have access to financial services.

Capital Adequacy: Adequate capital absorbs losses, promotes public confidence, and provides protection to depositors and the FDIC insurance funds. It provides a financial cushion that allows a thrift institution to continue operating during periods of loss or other adverse conditions. The Federal Deposit Insurance Act established a system that classifies insured depository institutions into five categories based on their relative capital levels. The thrift industry is strong and well-capitalized; over 99 percent of all thrift institutions were in the highest capital category, meeting the well-capitalized standards.

The interagency CAMELS rating system evaluates the Capital adequacy, Asset quality, Management, Earnings, Liquidity and Sensitivity to market risks of each bank or thrift institution. The OCC and OTS assign a composite CAMELS rating to bank or thrift institutions at each examination, and adjusts the level of supervisory resources devoted to its composite rating. The CAMELS rating is based upon a scale of 1 to 5 in increasing order of supervisory concern. In fiscal year 2007, 93 percent of the OTS regulated thrifts achieved an overall composite CAMELS rating of 1 or 2.

The OCC supervised 1,755 institutions with national bank charters and 49 federal branches with assets totaling approximately $7.2 trillion. In fiscal year 2007, relative to their risk, 99 percent of all national banks were well-capitalized. The OCC examiners concluded that 96 percent of national banks earned the highest composite ratings of 1 or 2 under the standard method of evaluating a bank's operations. For the relatively few problem national banks, one percent improved their composite CAMELS rating to either 1 or 2 since last year.

Strengthening financial institutions: A strong financial sector with a full spectrum of competitive services mitigates the timely and fluid conduct of business on every level, from individual citizens to multi-national corporations. Effective supervision of national banks and thrifts ensures a safe and sound financial system that complies with laws and regulations, and provides fair access and treatment of customers. Building financial institutions capacity, to serve the nation's low income and underserved communities facilitates economic opportunity.

Last year, the OCC implemented the performance measure, total OCC costs relative to every $100,000 in bank assets regulated, reflecting the efficiency of operations while meeting the increasing supervisory demands of a growing and more complex national banking system. In fiscal year 2007, the total OCC cost relative to every $100,000 regulated was $8.89, meeting the target. Likewise, the OTS utilizes the same performance measure. For fiscal year 2007, the total OTS estimated cost relative to every $100,000 in savings association assets regulated is $13.90, meeting their target.

In fiscal year 2007, the Bank Secrecy Act/Anti-Money Laundering (BSA/AML) supervision remained a priority for both the OCC and OTS. Through on-site examination activities, banks and savings associations are evaluated on the BSA/AML compliance requirements and, where weaknesses are noted, corrective action is taken. In July 2007, the OCC and OTS, collaboratively with the other federal regulatory agencies, issued the Interagency Statement on Enforcement of Bank BSA/AML Requirements, which provides greater consistency in enforcement decisions in BSA matters. In addition, the OCC issued the results of the 2007 Money Laundering Risk System assessment, providing over 1,650 community banks with succinct BSA/AML information.

The thrift industry is strong and operating in a safe and sound manner, however, several factors related to the U.S. or global economies could significantly affect the industry's health; one risk could be a rapid increase in market interest rates. As a result, the thrift industry has a natural concentration in longer-term loans funded with shorter-term deposits and borrowings. Thus, a rise in interest rates could cause declining earnings margins and profitability. The OTS is vigilant and closely monitors interest rates and maintains a risk sensitivity model to test savings association's portfolios and evaluate potential exposure to changing interest rates.

Subprime Markets: During fiscal year 2007, the Department of the Treasury, Housing and Urban Development (HUD), and others in the Administration carefully focused on evaluating the challenges faced by individuals in the subprime market. The Treasury Department and HUD took several actions to provide assistance to homeowners, including the pursuit of legislation modernizing the Federal Housing Administration. In addition, the Department will reach out to a wide variety of entities, such as NeighborWorks America, mortgage originators and servicers, and government-sponsored entities, like Fannie Mae and Freddie Mac, to identify struggling homeowners and expand their mortgage financing options. Due to the threat of increased foreclosures, temporary changes were proposed to the federal tax code provision that currently considers cancelled mortgage debt on primary residences as taxable income.

During fiscal year 2007, the OCC and OTS worked with other federal banking regulators to issue guidance on subprime mortgage lending and non-traditional mortgage products. This guidance articulates consumer protection standards to ensure borrowers obtain loans they can afford to repay. Additionally, the agencies worked with the Conference of State Bank Supervisors and American Association of Residential Mortgage Regulators to encourage individual states to adopt the guidelines for mortgage brokers under their supervision. The agencies also encouraged financial institutions to work with residential borrowers that are unable to meet their contractual home loan obligations.

To make an informed decision when entering into a mortgage, the consumer needs to understand and compare material features and potential risks. The guidance, issued by the OCC and OTS and other federal banking agencies, sets forth recommended practices to ensure that consumers have clear and balanced information about products. To facilitate this, the agencies published a booklet which provides a glossary of lending terms, a mortgage shopping worksheet, and additional information for buying or refinancing a home.

An important factor for the thrift industry is credit quality. Over the past several years, the OTS has seen growth in consumer lending as financial institutions have sought new and innovative ways to attract customers and design products to meet their financial needs. In the family mortgage market, total loans outstanding for this product have more than doubled in the past ten years. Additional alternative mortgage products, including interest-only and payment-option mortgages present unique credit and interest rate risks. As a result, alternative mortgage products receive close supervisory monitoring. Although delinquencies for most types of loans continued to rise from record-low levels, asset quality remained strong by historical standards during 2007. Thrifts responded to this environment by maintaining strong capital and increasing provisions for loan losses. The combination of solid earnings, strong capital, and increasing loan-loss provisions will permit thrifts to withstand any further weakening in the housing market.

Financing the ownership of homes has been a focus of thrift institutions throughout their history. Thrifts currently hold over $1 trillion in housing-related loans and securities. In addition, the thrift charter is used extensively by some thrifts to make small business, consumer retail, and commercial real estate loans. As of June 2007, the OTS regulated 836 thrifts with assets totaling $1.5 trillion; and 472 holding company enterprises with U.S. domiciled consolidated assets of approximately $8.5 trillion.

Outcome: Prevented or mitigated financial and economic crises						
Cost of related activities in trying to achieve this outcome: **$870,257,140**						
Performance Measure	**Fiscal Year 2006 Target**	**Fiscal Year 2006 Actual**	**Met?**	**Fiscal Year 2007 Target**	**Fiscal Year 2007 Actual**	**Met?**
Percentage of national banks with composite CAMELS rating 1 or 2	90.0%	95.0%	Y	90.0%	96.0%	Y
Rehabilitated problem national banks as a percentage of the problem national banks one year ago (CAMELS 3, 4, or 5)	40.0%	46.0%	Y	40.0%	52.0%	Y
Percentage of national banks that are categorized as well capitalized	95.0%	99.0%	Y	95.0%	99.0%	Y
Percentage of national banks with consumer compliance rating of 1 or 2	94.0%	94.0%	Y	94.0%	97.0%	Y
Total OCC costs relative to every $100,000 in bank assets regulated	Baseline	$8.84	Y	$9.55	$8.89	Y
Percent of thrifts with composite CAMELS ratings of 1 or 2	90.0%	93.0%	Y	90.0%	93.0%	Y
Percent of thrifts that are well-capitalized	95.0%	99.9%	Y	95.0%	99.0%	Y
Percent of safety and soundness exams started as scheduled	90.0%	94.0%	Y	90.0%	95.0%	Y
Total OTS costs relative to every $100,000 in savings association assets regulated	Baseline	$13.46	Y	$14.33	Est. $13.90	Y
Percentage of grant and loan proposals containing satisfactory frameworks for results measurement	90.0%	88.0%	N	90.0%	92.0%	Y
Percent of thrifts with compliance examination ratings of 1 or 2	90.0%	93.0%	Y	90.0%	97.0%	Y
KEY: Some measures have estimates for their actual fiscal year data – due to information not available at the time of publication of this document.						

In fiscal year 2007, the Treasury Department's estimated costs in trying to achieve the outcome "prevented or mitigated financial and economic crises" was $870.2 million. The performance of this outcome is assessed through 11 performance measures, and in fiscal year 2007, the Department met 100 percent of its performance targets.

In fiscal year 2007, the OTS provided estimated year end data for the performance measure "Total OTS costs relative to every $100,000 in savings association assets regulated." This estimate indicates that the OTS met their target. For fiscal year 2008, the OTS is committed to continuing to tailor supervisory examinations to the risk profile of the institutions, while effectively allocating resources to oversee and assess the safety and soundness, and consumer compliance record of the thrift industry.

It is difficult to measure policy activities related to the outcome "prevented or mitigated financial and economic crises." The use of quantitative measures does not adequately describe these activities; therefore, in fiscal year 2008, the Department will consider various types of measures for this important work, such as traction and impact, and will review these with relevant stakeholders.

For the full suite of performance measures and associated information, refer to Appendix A.

Decreased gap in global standard of living

Sustained strong economic growth creates opportunities, improves quality of life, and reduces poverty. The Multilateral Development Banks (MDBs) serve a critical central organizing function in the international development architecture of promoting sustainable economic growth by providing financial support and technical expertise in developing countries. Specifically, the MDBs help to promote private sector-led growth in developing countries, improve infrastructure, build human capacity through investments in education and health care, improve governance, and combat corruption.

The MDBs, one of the most effective means of deploying development resources, provided approximately $50 billion in assistance in fiscal year 2007. The United States, as the largest shareholder in most of these institutions, continues to push for reforms to improve the MDBs' ability to promote economic growth and reduce poverty. The Department's Office of Multilateral Development Banks initiated a number of reforms to increase the effectiveness of the development assistance provided. Those reforms included:

- The development of robust results-based management systems to incorporate measurable performance goals
- The improvement of performance based allocation systems to distribute resources to countries that can use them effectively
- The increased effort to combat corruption and promote greater transparency
- The adoption of debt sustainability framework to provide increased grant resources for the poorest countries

Debt Relief: The MDRI, a landmark effort agreed to in 2005, will cancel 100 percent of debt owed to the World Bank's International Development Association, the African Development Fund, and the International Monetary Fund (IMF) by the world's poorest and most heavily indebted countries. In fiscal year 2007, through U.S. efforts, a similar landmark debt relief initiative, the Fund for Special Operations (FSO) at the Inter-American Development Bank, was approved. The FSO will provide critical debt relief to Bolivia, Guyana, Haiti, Honduras, and Nicaragua, helping to end the lend-and-forgive-cycle development assistance, while freeing-up poor countries' funds for other poverty reduction efforts.

Grants: Under U.S. leadership, the MDBs increased amounts of new resources to debt-vulnerable countries in the form of grants - not loans - which is integral to ending the lend-and-forgive cycle of development assistance. For the last two years, nearly $2.7 billion in grant funding has been provided by the concessional arms of the World Bank, the African Development Bank, and the Asian Development Bank.

To help ensure the MDBs demonstrate results of their development assistance, they will closely monitor the percentage of grant and loan proposals containing satisfactory measurement frameworks. In fiscal year 2007, 92 percent of proposals contained results measurement frameworks, exceeding the Department's target of 90 percent.

Infrastructure Development Program of the Americas: In July 2007, the U.S. Treasury Department and the International Finance Corporation (IFC) launched the Latin America and Caribbean (LAC) Infrastructure Development Program of the Americas to help drive private sector investment in this region. The $17.5 million program, managed by the IFC, aids in identifying sustainable infrastructure projects suitable for private participation, makes information publicly available, provides advisory support, and organizes the public tendering process. The program also assists in improving regulatory frameworks on private sector participation in LAC countries. In its first four years, the program is estimated to mobilize as much as $1 billion in new investments and $400 million in fiscal savings for local governments.

Underinvestment in infrastructure directly impacts the quality of life and economic performance in Latin America. For example, 55 percent of entrepreneurs cite infrastructure as a serious problem and 135 million people do not have adequate sanitation. Support for additional infrastructure development will help to reduce the gap in regional living standards and encourage robust, sustainable growth in Latin America.

Outcome: Decreased gap in the global standard of living						
Cost of related activities in trying to achieve this outcome: **$13,445,750**						
Performance Measure	Fiscal Year 2006 Target	Fiscal Year 2006 Actual	Met?	Fiscal Year 2007 Target	Fiscal Year 2007 Actual	Met?
Improve International Monetary Fund (IMF) effectiveness and quality through periodic review of IMF programs	90.0%	100.0%	Y	90.0%	100.0%	Y

In fiscal year 2007, the Treasury Department's estimated costs in trying to achieve the outcome "decreased gap in the global standard living" was $13.4 million. The performance of this outcome is assessed through one measure, and in fiscal year 2007, the Department met its performance target 100 percent.

It is difficult to measure policy activities related to the outcome "decreased gap in the global standard of living." The use of quantitative measures does not adequately describe these activities; therefore, in fiscal year 2008, the Department will consider various types of measures for this important work, such as traction and impact, and will review these with relevant stakeholders.

For the full suite of performance measures and associated information, refer to Appendix A.

Commerce enabled through safe, secure U.S. notes and coins

Trust and confidence are vital to the continued global acceptance of U.S. currency, and to protect the global user from counterfeiting schemes, U.S. currency is redesigned and manufactured. The Department reliably provides safe, secure, cost-efficient, high quality U.S. notes, security documents, and coins that are readily accepted by all currency users and customers, which facilitates seamless and stable commerce. In addition, the Department of the Treasury secures the nation's gold and silver reserves.

The Bureau of Engraving and Printing (BEP) designs next generation currency to guard against counterfeiting and manufactures the nation's paper currency. In fiscal year 2007, the BEP maintained its position as a world-class securities printer providing its customers with superior products through excellence in manufacturing and technological innovation. The BEP continued to produce U.S. currency at the highest quality while incorporating state-of-the-art counterfeit-deterrent features. In fiscal year 2007, the BEP delivered 9.1 billion paper currency notes, meeting the Federal Reserve's exacting quality standards.

In addition, the BEP currency production program is designed to maintain national and worldwide confidence in U.S. currency and addresses the need for counterfeit-deterrent currency by applying the latest technologies in security printing and processing.

In fiscal year 2007, the BEP met its performance target for costs per 1,000 notes produced. Manufacturing costs increased from $27.49, in 2006, to $28.71, in 2007, due to changes in the production program and the production of higher cost denominations. Security costs were favorable at $5.92 per thousand notes produced against a performance target of $6.00 per thousand notes delivered.

The United States Mint manufactures circulating coinage and popular numismatic products. In fiscal year 2007, the Mint successfully launched the first three circulating Presidential $1 coins; George Washington, John Adams and Thomas Jefferson. The Presidential $1 Coin Act of 2005, created this educational program to honor the presidents, in chronological order by term in office, with four different designs being released each year. In addition, the Mint issued the first three First Spouse gold coins honoring the spouses of each of the presidents. The spouse coins are half-ounce 24-karat $10 gold coins featuring the images, in the order that they served as First Spouse. To date, all first spouses have been women (First Ladies), but the Act uses the term "First Spouse" because before the end of the program, a first spouse could be a man. In the event a President served without a First Spouse, such as Thomas Jefferson, a gold coin is issued featuring the emblematic image of Liberty, as depicted on a circulating coin of that President's era, and bearing a reverse emblematic image of themes of that President. In fiscal year 2007, First Spouse Gold Coins were issued honoring Martha Washington, Abigail Adams, and a Liberty design for Thomas Jefferson.

In fiscal year 2007, the Mint had revenue and other financing sources of $2,635 billion for circulating and numismatic coin products, an increase of 13 percent over fiscal year 2006. As a result of operations, $825 million was returned to the Treasury General fund, as compared to $750 million in fiscal year 2006, an increase of 10 percent. This increase in operating results was due primarily to the introduction of the Presidential $1 Coins.

During fiscal year 2007, the Mint produced 15.4 billion circulating coins, and numismatic and bullion products, with total revenue of $881 million. Sales of numismatic coins to the public were $525 million, an increase of five percent over fiscal year 2006. Bullion sales to investors seeking precious metal holdings were $356 million, a decrease of 34 percent from fiscal year 2006.

Rising metal prices continue to have an impact on production cost. For the second consecutive year, the penny and the nickel cost more to produce than their face value; the Department is exploring alternative materials in an effort to overcome production challenges. The cost per 1,000 coin equivalents decreased one percent to $7.47, from $7.55 in fiscal year 2006, missing the target of $7.27. In fiscal year 2007, the cycle time was 61 days, a decrease from 72 days in 2006, meeting the target of 75 days.

Financial and Currency Education: The Department's financial literacy program provides information, tools, and guidance on a wide range of financial activities from opening a bank account to learning how to invest. These resources help people manage their personal finances more effectively, ensuring them a sound financial future.

The Treasurer, as a key advisor for the Department, works closely with the Directors of the BEP and Mint on various collaborative outreach and educational efforts, and serves as an advisor on matters relating to coinage, currency, and the production of other items by the Department, and improving currency and financial education.

During fiscal year 2007, the Treasurer emphasized the success of the U.S. economy and promoted financial education for Americans, while advocating the establishment of a relationship with a traditional financial institution to plan and save for the future. The Treasurer is committed to educating the public on federal resources available for personal finance. The Treasurer is a key spokesperson for Treasury's *GoDirect* campaign, an effort to educate federal benefit payment recipients on the advantages, safety, and security of receiving their payments by direct deposit rather than by paper check.

In fiscal year 2007, the Treasurer's office worked closely with the Assistant Secretary for Financial Institutions and the Office of Financial Education to develop a series of initiatives focused on improving the country's level of financial literacy. Once these initiatives are approved, the Treasurer will continue to work with Department offices on implementation.

The Treasurer, with the Office of Financial Education, hosted a series of financial education discussions, to focus on financial literacy within specific minority and underserved communities. Again this year, the Treasurer coordinated activities to address special challenges faced by the estimated ten million American households who do not have an established relationship with a traditional financial institution. This ongoing effort focuses on developing possible approaches to encourage this portion of the U.S. population to save for the future.

In fiscal year 2007, the Treasurer partnered with the Office of International Banking to promote economic development, through expanded access to basic financial services, in the Western Hemisphere, particularly Latin America.

Outcome: Commerce enabled through safe, secure U.S. notes and coins						
Cost of related activities in trying to achieve this outcome: **$2,141,891,680**						
Performance Measure	**Fiscal Year 2006 Target**	**Fiscal Year 2006 Actual**	**Met?**	**Fiscal Year 2007 Target**	**Fiscal Year 2007 Actual**	**Met?**
Manufacturing Costs for Currency (dollar costs per thousand notes produced)	$28.50	$27.49	Y	$32.50	$28.71	Y
Percent of Currency Notes Delivered to the Federal Reserve that meet customer quality requirements	99.9%	99.9%	Y	99.9%	100.0%	Y
Cost per 1000 Coin Equivalents	$6.62	$7.55	N	$7.27	$7.23	Y
Order Fulfillment	95.0%	95.0%	Y	96.0%	98.0%	Y
Currency Shipment Discrepancies per Million Notes	0.01%	0.01%	Y	0.01%	0.01%	Y
Security Costs per 1000 Notes Delivered	$6.25	$6.00	Y	$6.00	$5.92	Y
Total Losses	$15,000	$0.00	Y	$10,000	Est 0	Y
Protection Cost per Square Foot	$32.00	$32.49	N	$32.99	$31.75	Y
Cycle Time (Days) (E) (DISCONTINUED FISCAL YEAR 2008)	67	72	N	75	61	Y
KEY: Some measures have estimates for their actual fiscal year data – due to information not available at the time of publication of this document.						

In fiscal year 2007, the Treasury Department's estimated costs in trying to achieve the outcome "commerce enabled through safe, secure U.S. notes and coins" was $2.1 billion. The performance of this outcome is assessed through 9 performance measures, and in fiscal year 2007, the Department met 100 percent of their performance targets.

The BEP continued to produce U.S. currency at the highest quality, incorporating state-of-the-art counterfeit-deterrent features. In fiscal year 2007, the BEP delivered 9.1 billion paper currency notes, meeting the Federal Reserve's exacting quality standards of 99.99 percent defect free, while under running their budget by $32 million.

For the full suite of performance measures and associated information, refer to Appendix A.

Economic – moving forward

In fiscal year 2008, the TTB, through its international trade efforts, will continue to work on the implementation of the international labeling agreement between the U.S. and the European Community. This agreement will improve conditions for U.S. wine exports, into a market valued at potentially over $600 million. The TTB will work with the State Department to obtain information from foreign tobacco shippers pursuant to cases of alleged excise tax diversion, with an estimated value of several billion dollars worldwide.

In the coming year, the Treasury Department will take steps to be part of the broader competitiveness discussion, to ensure that U.S. markets remain efficient, innovative, and continue to drive capital to its most productive use.

In fiscal year 2008, the Treasury Department and other agencies will explore negotiating opportunities for an investment agreement with China, as part of the U.S.-China Strategic Economic Dialogue. In addition, explore the possibilities of accelerating the pace of negotiating BITs in Asia, Africa, and the Middle East's emerging markets.

During fiscal year 2008, the Department of the Treasury will focus on implementing the new Aircraft Sector Understanding, and commence an update of the OECD's Nuclear Sector Understanding, which will provide clear guidance on current financing practices.

Last year, the Department of the Treasury led the resolution of disputes over investments abroad, thereby protecting assets of U.S. firms and institutional investors. In fiscal year 2008, the Department will focus on improving the investment climate for U.S. businesses in emerging markets, and facilitate the export of goods and services. U.S. investments in foreign countries benefits the recipient because it creates jobs, increases wages, improves the quality of life, and provides access to healthcare, transportation networks, and other critical infrastructure. For the United States to achieve similar benefits, the Treasury Department will actively participate in all aspects of international investment negotiations, BITs, the investment chapters of FTAs, and the Investment Committee of the OECD.

An effective and efficient supervision program supports the OCC goal of a safe and sound national banking system, fair access to financial services, and fair treatment of customers. In fiscal year 2008, the OCC will address supervisory issues related to potential adverse changes in national bank asset quality and risk profiles, and continue to work on proposed revisions to the federal banking agencies' risk-based capital standards, compliance with BSA/AML and USA PATRIOT Act requirements, and addressing issues raised by the range of retail banking products offered by national banks.

In addition, the OCC will continue to provide case-by-case analysis for national banks operating efficiently and under uniform national standards as reflected in the case of *Watters v. Wachovia Bank, N.A.* The OCC will also develop and communicate clarification of the principles determining the application of state consumer protection laws to national banks.

In fiscal year 2008, the OTS will continue to place emphasis on ensuring the thrift industry guards against money laundering and terrorist financing, protecting the privacy and security of consumer financial information, and providing needed home lending and other financial services to all customers in a fair and equal manner. In addition, the OTS is committed to reducing regulatory burden on the industry and providing a regulatory framework that facilitates a competitive, sound industry.

In fiscal year 2008, as part of a multi-year initiative, the BEP will introduce the redesigned $5 note, and begin production of the redesigned $100 note, with its introduction scheduled for 2009. In addition, the re-tooling of the currency manufacturing process at the DC and Fort Worth facilities will continue. As an efficiency effort, the BEP will convert its current 32-note sheet production process to a 50-note production format and enhance its capability to produce innovative currency designs to better protect the nation's currency for future generations.

In fiscal year 2008, the Treasurer will continue efforts to promote economic development, through expanded access to basic financial services, and focus on encouraging the portion of un-banked U.S. population to save for the future. The Treasurer, a member of the Advanced Counterfeit Deterrence Committee, coordinates the work of the Treasury Department, the Federal Reserve System, and the U.S. Secret Service in analyzing threats, monitoring counterfeit activity, evaluating deterrence tools, and implementing design changes. In addition, through an educational campaign, the Treasurer will create global awareness of the newly designed $5 and $100 notes.

SECURITY

Performance Cost - $537 Million

*For information on calculating cost – see Appendix H

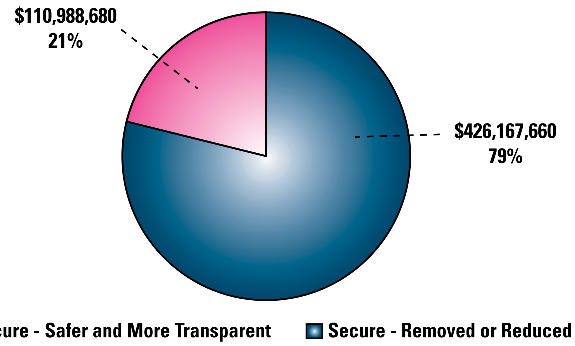
STRATEGIC GOAL: **Prevented Terrorism and Promoted the Nation's Security Through Strengthened International Financial Systems**

STRATEGIC OBJECTIVE: **Pre-empted and neutralized threats to the international financial system and enhanced U.S. national security**

STRATEGIC OUTCOMES AND VALUE CHAIN:

- Removed or reduced threats to national security from terrorism, proliferation of weapons of mass destruction, narcotics trafficking and other criminal activity on the part of rogue regimes, individuals, and their support networks (Secure)
- Safer and more transparent U.S. and international financial systems (Secure)

Cost to Outcomes



While promoting financial and economic growth at home and abroad, the Treasury Department performs an important, unique, and growing role in preserving national security. All national security threats from terrorists, to drug traffickers, to proliferators of weapons of mass destruction and rogue regimes depend on financial and support networks. Terrorists use financial systems to move money for training and indoctrinating operatives, bribing officials, procuring false documents, and carrying out horrific attacks. Weapons proliferators access the financial sector to pay for the components and services needed to build weapons. Drug cartels funnel money through fraudulent businesses and front companies to cloak their trafficking activities. Rogue regimes turn to gray markets and illicit activity to raise funds and purchase arms.

When diplomatic outreach is unproductive and traditional military action is ineffective or inappropriate, the Department's regulatory, law enforcement and intelligence authorities provide powerful tools for the United States to apply pressure against threats to national security.

The Department of the Treasury leverages its unique authorities to safeguard the security of the U.S. and international financial and economic systems. These authorities defend against threats by detecting and excluding those who would use these systems for illegal purposes or compromise U.S. national security interest, while keeping them free and open to legitimate users.

The Office of Terrorism and Financial Intelligence (TFI) marshals the Treasury Department's intelligence and enforcement functions, aimed at safeguarding the financial system against illicit use and combating rogue nations, terrorist facilitators, WMD proliferators, money launderers, drug traffickers, and other national security threats.

The TFI extracts financial and other source intelligence to effectively utilize the Department's unique authorities to combat national security threats and safeguard the financial system. This is accomplished through uniting five policy offices and one bureau within the Department. These are:

- The Office of Foreign Assets Control (OFAC) administers and enforces economic and trade sanctions
- The Office of Terrorist Financing and Financial Crimes (TFFC) is the policy and outreach apparatus for TFI
- The Office of Intelligence and Analysis (OIA) is responsible for intelligence functions, integrating the Treasury Department into the larger Intelligence Community (IC), and providing support to Treasury leadership
- The Financial Crimes Enforcement Network (FinCEN) is responsible for administering the Bank Secrecy Act (BSA) and other regulatory functions
- The IRS Criminal Investigative Division (IRS-CI), works in partnership with the TFI, to enforce laws against terrorist financing, money laundering, and related financial crimes
- The Treasury Executive Office of Asset Forfeiture (TEOAF) administers the Treasury Forfeiture Fund, which is the receipt account for the deposit of non-tax forfeitures

Removed or reduced threats to national security from terrorism, proliferation of weapons of mass destruction, drug trafficking, and other criminal activity on the part of rogue regimes, individuals, and their financial and other support networks

The financial and other support networks of terrorists, weapons proliferators, drug traffickers, rogue regimes, and other criminals are degraded, impairing the ability of individuals and organizations to carry out criminal activities or attacks against the United States, its allies, and interests worldwide.

Unified Action Produces Success in Targeting Terrorists: Collectively, the TFI implements authorities targeted at terrorist financiers, and aims to deny terrorists and their supporters, access to the financial system.

The targeting process begins with the OIA's all-source intelligence analysis of Al-Qa'ida, Hizballah, HAMAS, and other groups which focuses on proper identification of potential designees, and builds the evidence necessary to take action. Prior to designation, the TFFC, collaboratively with the OIA and OFAC, works with the U.S. Government interagency community, and other foreign partners, to develop policy-level consensus for taking action and implementing strategy. The OFAC then designates these targets and implements the resulting sanctions, ensuring that designated persons' assets are blocked and are denied access to the U.S. financial system. After the designation, the Department coordinates with the international community, to expand action into multilateral pressure.

Designating Terrorist Financiers: Since 2001 and the inception of the Executive Order 13224, the U.S. Government has designated 483 individuals and entities as terrorists, their financiers, or facilitators. In fiscal year 2007, the TFI designations included:

- Three Libyan individuals, members of both al-Qa'ida and the Libyan Islamic Fighting Group, for executing various activities from recruitment, to military training, to procurement of explosive components

- A Lebanon-based construction company, formed and operated by Hizballah, receiving direct funding from Iran
- Two South African individuals and a related entity, for financing and facilitating al-Qa'ida
- Five individuals providing financial support and facilitating terrorist activities to al-Qa'ida and other terrorist organizations
- Nine individuals and two entities, for providing financial and logistical support to Hizballah

Designation programs often have an impact beyond their legal reach. Many banks, around the world, screen their customers and transactions against the U.S. list of designated entities and individuals. Additionally, information made public, in combination with designated actions, can have a substantial impact by creating a deterrent effect.

The Treasury Department plays an important role in the United States' efforts to combat terrorism, at home and abroad, through actionable intelligence, the application of targeted financial tools, and expanded outreach.

Combating the Proliferation of Weapons of Mass Destruction (WMD), Drug Traffickers, and other criminals through targeted Financial Measures and Economic Sanctions: In fiscal year 2007, the Department, in cooperation with the State Department, continued to target proliferators of WMD and their supporters, freezing their U.S. assets, and prohibiting U.S. persons from doing business with them.

As part of the U.S. Government's overall Iran effort, the TFI led the effort to develop the financial component of an innovative strategy, to combat Tehran's support for terrorism and development of WMD, and its abuse and manipulation of the international financial system.

Previously, U.S. actions were limited to broad commercial and financial sanctions, prohibiting U.S. persons from engaging in trade and financial transactions with Iran or its government. Moving beyond general country sanctions, the OFAC, with analytical and policy support from the OIA and TFFC, relies heavily on targeted measures aimed at specific individuals, key members of government, front companies, and financial institutions.

For example, in fiscal year 2007, the OFAC designated Bank Sepah, the fifth-largest Iranian state-owned financial institution, for providing extensive financial services to Iranian entities responsible for developing missiles capable of carrying WMD. This designation, and the subsequent imposition of sanctions on Bank Sepah, under the United Nation's Security Council Resolution 1747, has effectively cut off this bank from the United States and international financial systems, potentially making it more difficult for Iran to facilitate its missile proliferation-related activities.

In fiscal year 2007, other designations by the OFAC included:

- Three Syrian entities, tied to the Scientific Studies and Research Center, an agency that was previously designated for developing and producing non-conventional weapons and missiles
- In three separate designations, eight Iranian entities, one British entity, and one other individual for their roles in Iranian weapons proliferation

- Two Iranian individuals designated for their involvement in Iran's nuclear program

In addition, the OFAC took other actions to prevent the funding of terrorism, such as, countering Iran's support for terrorism; regulations were amended to disconnect Bank Saderat, one of the largest Iranian-owned banks, from all direct and indirect access to the U.S. financial system. Bank Saderat is used by the Iranian Government to transfer money to terrorist organizations, to include Hizballah, Hamas, and the Popular Front for the Liberation of Palestine-General Command, and the Palestinian Islamic Jihad.

In an effort to protect the international financial system from Iran's illicit activity, the Department's senior officials engaged in unprecedented levels of outreach to the international, private, and public sectors, emphasizing the risks associated with doing business with Tehran. Supported by this outreach effort, a number of financial institutions either decreased, or eliminated Iran-related business, and two UN Security Council resolutions against Iran were unanimously adopted. These resolutions contain requirements to freeze the assets of designated proliferators, and financial measures targeting Iran's pursuit of nuclear weapons and the development of ballistic missiles.

North Korea poses a number of different challenges. To address them, the Treasury Department targets North Korea's missile proliferation network and takes steps to combat illicit financial activity. After an 18 month investigation, the Treasury Department finalized the rule to impose special measures that prohibit U.S. financial institutions from opening or maintaining correspondent accounts in the U.S. for, or on behalf of, Banco Delta Asia SARL. The TFI worked with interagency partners and the Macanese authorities in this investigation, confirming the bank's facilitation of illicit financial transactions on behalf of its North Korea-related clients. Systemic problems were identified and the Macanese Government has taken steps to address and reform its jurisdictional AML/CFT deficiencies.

Drug Traffickers: The Specially Designated Narcotics Traffickers Program continued to see significant activity in fiscal year 2007. The OFAC continued to target additional leaders of Colombia's North Valle cartel and their financial networks, including 30 individuals in Colombia, and 42 front companies. In fiscal year 2007, the OFAC targeted Medellin-based narcotics trafficker Fabio Enrique Ochoa Vasco for designation, along with his extensive criminal and financial network of 65 individuals and 45 companies.

After targeting the financial assets of two leaders of Colombia's Cali Cartel, Miguel and Gilberto Rodriguez Orejuela, their front man, Fernando Gutierrez Cancino, pled guilty to money laundering charges, and agreed to forfeit his right, title, and interest in all business entities named by the OFAC. These entities are part of the 246 front companies that were designated over the past 11 years, and under at least 12 OFAC actions targeting Colombian drug cartels.

Separate from the Colombia program, the Foreign Narcotics Kingpin Designation Act applies financial measures against significant foreign drug kingpins worldwide. More than 300 businesses and individuals, associated with 68 drug kingpins, have been designated in the past seven years. In fiscal year 2007, the OFAC designated a key financial network of Mexican drug kingpin, Ismael Zambada Garcia, leader of the Sinaloa Cartel. This network was comprised of six entities and 12 individuals, including a large regional industrial dairy and cattle concern.

Enforcement: The OFAC Enforcement Division conducts civil investigations, primarily through administrative subpoenas, of possible violations of OFAC sanctions, such as the transfer of funds to designated terrorist organizations. The Division refers criminal matters to law enforcement agencies and provides support for criminal investigations and prosecution. Civil matters can result in cautionary and warning letters or referrals to the OFAC's Civil Penalties Division. Additionally, the Enforcement Division blocks the physical property of entities designated as threats to national security, in the United States, effectively suspending their domestic operations.

The imposition of civil monetary penalties is important for sanctions enforcement. The OFAC's Civil Penalties division is responsible for administering and enforcing actions under the economic and trade sanctions programs. While penalty cases are aggressively pursued under all sanctions programs, a large percentage of them are based upon the illegal trade of goods and services.

Shaping Policy and Expanding Outreach: The TFFC shapes policy and works with other governments and the international private sector. The office develops and implements strategies, policies, and initiatives, to identify and address vulnerabilities in the international financial system, and safeguard it from illicit use. The TFFC's efforts are enhanced by collaborating with other federal agencies, the regulatory community, private sector, and foreign government counterparts. The TFFC leads and coordinates U.S. representation at international bodies dedicated to fighting terrorist financing and financial crime, such as the Financial Action Task Force. In addition, the TFFC advances the development of international standards, conducts assessments, and applies protective countermeasures against high-risk foreign jurisdictions and financial institutions. The TFFC works directly with foreign partners to develop financial strategies for combating terrorist and proliferation threats.

Countering Proliferation Finance: The TFFC led Department efforts to raise the issues of terrorist and proliferation finance, bilaterally with international partners. The TFI continues to work closely with the Finance Ministries, the G7, and through the Proliferations Security Initiative, for the expansion of the mandate that addresses the proliferation finance threat, and vulnerabilities associated with governments that fail to recognize international standards; currently that work is underway.

Financial Action Task Force: The TFFC works with other financial centers worldwide to establish and maintain effective international standards, and protect the international financial system from illicit use. In coordination with the interagency community, the Department primarily advances this objective through the Financial Action Task Force (FATF).

The FATF sets global standards in the form of recommendations, guidelines, and best practices, for combating financing of terrorism and money laundering. In addition, these principles aid countries in developing their own specific AML/CFT laws and regulations to protect the international financial system from abuse. The Department continues to advance discussions in the FATF on how existing AML/CFT international standards should be supplemented, amended, or applied to enhance effectiveness.

The Treasury Department works through the FATF, various FATF-Style Regional Bodies, the World Bank, and IMF to establish a comprehensive global system of AML/CFT assessments. This system facilitates compliance with the international AML/CFT standards by auditing the AML/CFT regimes in over 150 countries around the world.

Identifying systemic vulnerabilities that terrorists and other criminals exploit to finance their operations and interests is critical for preventing terrorism and strengthening national security. In fiscal year 2007, the Treasury Department, as a member of the FATF:

- Co-chaired a working group to produce guidance regarding the implementation of financial provisions of UN Security Council Resolutions to counter WMD proliferation
- Led an international working group that completed a study of vulnerabilities of new payment products introduced into the international financial system; the study included an assessment of the exploitation of these new payment products by criminal organizations
- Worked with interagency partners on two FATF studies on the misuse of corporate vehicles, money laundering, and terrorist financing through the real estate industry
- Contributed to the development of guidance for the private sector and governments on implementing a risk-based approach to AML/CFT; this guidance discusses the benefits and challenges of designing and implementing an effective risk-based AML/CFT regime
- Continued to work on globalizing FATF's processes by facilitating the development of new FATF Style Regional Bodies, and a partnership between the FATF, the World Bank and IMF, where AML/CFT evaluations are currently incorporated into every financial sector assessment. The development of these bodies ensure that systemic vulnerabilities will be identified, and allow for governmental authorities and the international financial community to take appropriate action

In fiscal year 2007, the Department continued to pursue additional initiatives, within international bodies, to identify systemic threats to the international financial system and focus efforts on developing appropriate policies to protect it from abuse. The TFFC worked with the State Department on a series of workshops with the EU, aimed at sharing best practices and education on implementing an effective sanctions regime against terrorist financing. The result of these workshops was the development of a joint U.S.-EU statement of principles, on fair and clear procedures for listing and de-listing designations.

To improve jurisdictions' understanding, the TFFC facilitated a technical workshop on targeted economic sanctions and the implementation of FATF's Special Recommendation III, freezing and seizing terrorist assets. In addition, the workshop assisted countries in establishing a national legal authority and basis for terrorist finance designations, and address issues such as identification and targeting, ensuring compliance, and conducting follow-up investigations. The TFFC continues to work on developing similar workshops that address illicit finance threats and WMD proliferation.

International Private Sector Outreach on AML/CFT: The TFI engages in outreach and education to advance the Department's unique security mission. Leading the way, the TFFC, with the support of financial and regulatory authorities, initiated a series of private sector AML/CFT dialogues, linking the U.S. banking sector with those from the Middle East/North Africa and Latin American regions. These dialogues raise awareness of terrorist financing and money laundering risks, facilitate a better understanding of effective practices and programs to combat the risks, and strengthen implementation of effective AML/CFT controls.

In fiscal year 2007, the TFFC, in collaboration with interagency and regional partners, successfully supported and organized the second U.S.-Middle East/North Africa Private Sector Dialogue on AML/CFT. Discussions between bankers and financial and regulatory authorities involved a range of challenges associated with the development and implementation of effective AML/CFT jurisdictional and institutional measures.

In June 2006, the TFFC launched the U.S.-Latin America Private Sector Dialogue, establishing a permanent dialogue. Over 200 participants, from 20 different countries, representing regulators and the financial sector in the United States and Latin America, attended the conference. The Treasury Department continues to further engage and encourage the private sector and other relevant regional organizations to expand this initiative, through the internet, virtual working groups, and best practices papers. A second conference, building on previously discussed topics and concerns, is tentatively scheduled for 2008.

The Private Sector Dialogue outreach to the international financial community complements the TFI's other work to address vulnerabilities in the international financial system by providing a vehicle to explain money laundering and terrorist financing concerns, assess and facilitate AML/CFT progress and implementation, and receive feedback on its effectiveness, from regional participants in the international financial system.

Charitable and Muslim-American Outreach: Outreach and guidance is essential to the TFFC's strategy in combating terrorist exploitation and the abuse of charities. The TFFC published the revised *U.S. Department of the Treasury Anti-Terrorist Financing Guidelines: Voluntary Best Practices for U.S.-Based Charities*. These guidelines outline fundamental principles of charitable practices, governance accountability and transparency, financial accountability, and programmatic verification. In addition, the revised guidelines include a new section on anti-terrorist financing best practices that provides a non-exhaustive list of industry best practices, which a charity may implement on a risk-based approach. Lastly, in response to concerns that the U.S. had overstated the terrorist threat to charities, the revised guidelines include an addendum, that provides open-source materials outlining the efforts of designated terrorist organizations to infiltrate charities, to advance their radical agenda and ideology.

To assist charities in assessing their risk profile for anti-terrorist financing purposes, the TFFC and OFAC published the *OFAC Risk Matrix*. This publication provides a list of indicators for possible terrorist financing, ranging from low to high risk, and allows charities to better utilize the guidelines' preventive measures and anti-terrorist financing best practices.

Integration into the Broader Intelligence Community: The OIA drives and supports policy actions taken by the Department through the support to targeted financial measures, strategic all-source analysis of illicit finance, and liaison support to the Treasury Department's policy offices. Integrated into the IC, the OIA analysts work closely with their interagency counterparts and frequently collaborate on intelligence analytic products. This integration ensures the Department is able to provide its broader interagency partners expert all-source analysis on financial and other networks, supporting terrorism, WMD proliferation, and other national security threats.

Integrating into the IC is dependent on the ability to send and receive information that is timely, relevant, and accurate. The OIA, which has regular access to the intelligence necessary to produce analytical products for dissemination, effectively supporting financial measures against terrorists and their supporters, developed a Top Secret/Sensitive Compartmented Information website, accessed by partners.

The Department of the Treasury broadened its unique intelligence role overseas through participation of the Baghdad-based Iraq Threat Finance Cell (ITFC), where an OIA officer serves as co-lead. The U.S. and coalition military commanders depend on timely and relevant financial intelligence provided by the ITFC. In addition, the ITFC makes significant contributions to understanding and disrupting financial networks that support terrorist, insurgent, and militia groups, active in Iraq.

Outcome: Removed or reduced threats to national security from terrorism, proliferation of weapons of mass destruction, drug trafficking and other criminal activity on the part of rogue regimes, individuals, and their support networks

Cost of related activities in trying to achieve this outcome: **$426,167,660**

Performance Measure	Fiscal Year 2006 Target	Fiscal Year 2006 Actual	Met?	Fiscal Year 2007 Target	Fiscal Year 2007 Actual	Met?
Number of countries that are assessed for compliance with the Financial Action Task Force (FATF) 40+9 recommendations	45	5	N	6	6	Y
Increase the number of outreach engagements with the charitable and international financial communities	105	45	N	70	85	Y
Percent of forfeited cash proceeds resulting from high-impact cases	75.0%	72.9%	N	75.0%	84.18%	Y
Number of open civil penalty cases that are resolved within the Statute of Limitations period	85	85	Y	85	296	Y

In fiscal year 2007, the Treasury Department's estimated cost in trying to achieve the outcome "removed or reduced threats to national security" was $426.1 million. The performance of this outcome is assessed through 4 performance measures, and in fiscal year 2007, the Department met 100 percent of their performance targets.

It is difficult to measure activities related to preventing terrorism, and removing or reducing threats to the nation's financial system. Quantitative measures such as assets seized or blocked can be used; however, these only partially describe the impact of this important work. In fiscal year 2007, the Department began developing a composite TFI measure that considers important factors related to the impact of economic sanctions and financial actions, intelligence, law enforcement and regulatory activities, policymaking, and outreach and diplomacy. In addition, this metric will contain measures and indicators, and a rating system to assess impact on the two outcomes related to the Department's goal of preventing terrorism and promoting the nation's security through strengthened international financial systems; the development of this measure will be completed in fiscal year 2008 and will be reviewed with relevant stakeholders.

For the full suite of performance measures and associated information, refer to Appendix A.

Safer and more transparent financial systems

Confidence in the integrity of the U.S. and international financial systems fosters economic growth, and improves national security. Transparency in the financial sector denies terrorist, drug traffickers, WMD proliferators, and other criminals the ability to conceal their illicit activities. The U.S. national security is enhanced when financial systems are safeguarded from criminal abuse.

Enhancing the Integrity and Transparency of the International Financial System: The Financial Crimes Enforcement Network (FinCEN), a Department bureau and TFI component, administers the Bank Secrecy Act (BSA).

The BSA requires financial institutions to file reports on certain types of financial activity, and establish appropriate internal controls to guard against money laundering, terrorist financing, and other types of illicit finance. These reports have a high degree of usefulness in criminal, tax, and regulatory matters. Documents filed by businesses, pursuant to the BSA requirements, are used by domestic and international law enforcement agencies to identify, detect, and deter money laundering. In addition, the FinCEN serves as the nation's financial intelligence unit (FIU), to collect, analyze, disseminate, and exchange information about suspicious or unusual activity reported by the financial sector.

To improve the consistency of the application of BSA rules regulating financial institutions, the FinCEN's regulatory policy efforts focus on efficient and effective administration of the BSA. This is achieved through briefings to increase understanding of how the BSA's regulatory requirements generate information for law enforcement. The FinCEN requires that financial institutions create policies, procedures, and systems to make the financial system transparent and protect it from becoming a conduit for financial crime. In fiscal year 2007, the FinCEN published amended BSA regulations which included:

- A final rule imposing special measures against Banco Delta Asia, including its subsidiaries, Delta Asia Credit Limited and Delta Insurance Limited, as a financial institution of primary money laundering concern
- An amendment regarding casino recordkeeping and reporting requirements
- A final rule in connection with enhanced due diligence for correspondent accounts established or maintained for certain foreign banks accounts thereby completing rulemaking pursuant to section 312 of the USA PATRIOT Act

In addition, to improve consistency in the interpretation and application of BSA regulations, and advance the understanding of regulatory expectations, the FinCEN published guidance:

- To assist mutual funds with compliance requirements on suspicious activities reporting
- Questions and Answers on Customer Identification Programs (CIP) and Banks Serving as Insurance Agents
- On the application of the CIP regulation to give-up arrangements in the futures industry
- On Requests by Law Enforcement for Financial Institutions to Maintain Accounts
- On Suspicious Activity Report Supporting Documentation
- On the Potential Money Laundering Risks related to Shell companies

In fiscal year 2007, the FinCEN delivered complex analytical studies to authorities with 43 state regulators, on mortgage loan fraud, money laundering through the commercial real estate sector, and Shell companies. The studies contributed to the publication of guidance, for industry and regulatory examiners, about the vulnerabilities in these areas and compliance obligations.

In fiscal year 2007, the FinCEN continued enhancing outreach activities, participating in over 90 outreach events to financial institutions ranging from banks to money services businesses. By using information, from law enforcement partners, on type, location, and the activities of unregistered money services business, the FinCEN focused on education initiatives to describe the BSA anti-money laundering program and the registration requirements. In addition, the FinCEN, collaboratively with the IRS, developed a strategy to focus resources on ensuring BSA compliance by non-bank financial institutions.

Lastly, an action plan was implemented to address concerns among domestic and international policymakers, law enforcement, and financial institutions, about the misuse of business entities, to facilitate money laundering and other financial crimes. Civil money penalties were assessed against financial institutions for willful violations of the BSA requirements.

Analytic Efforts in Support of Regulatory Functions: The FinCEN focuses on developing products and services, to assist law enforcement in better utilizing resources, enhancing detection and deterrence of domestic and international money laundering, terrorist financing, and other illicit activity. This includes the exchange of information, with counterpart foreign government FIUs in 105 countries, members of the Egmont Group.

In fiscal year 2007, the FinCEN continued to enhance its support to law enforcement agencies by focusing on actionable analysis aimed at high-priority money laundering and terrorist financing targets, and collaborating on analytical projects with stakeholders. In addition, the FinCEN continued to work with its Egmont Group partners, to develop intelligence concerning illicit money flows across the northern and southwestern borders of the United States.

Accessibility of BSA Data: The FinCEN improved the accessibility of BSA information by enhancing its IT management capabilities, improving overall information infrastructure, and expanding access for authorized law enforcement and regulatory users to efficiently query data when needed.

In response to a Congressional mandate, the FinCEN conducted a cost-benefit analysis, with the participation of financial services industry regulatory agencies, and law enforcement to determine the feasibility, benefits, and costs to affected parties of a cross-border electronic funds transfer reporting requirement.

Improving BSA data quality and access remains a priority. In fiscal year 2007, the FinCEN established a Data Management Council to develop a formal process for identifying, prioritizing, and addressing data quality issues, in a consistent and documented fashion. The FinCEN continues to focus on promoting electronic filing of BSA reports, to enhance speed, economy, and data quality. In addition, the FinCEN, in collaboration with its BSA stakeholders, developed and launched its first enterprise-wide business transformation and IT modernization program, which is based on rigorous program management framework.

Fiscal Year 2007 Performance Measure Results: The FinCEN continued to increase activities to monitor BSA compliance of financial institutions, examined by federal and state regulators By the end of fiscal year 2007, the FinCEN executed memoranda of understanding (MOU) governing the exchange of information with 50 federal and state regulatory agencies. These agreements provide a solid foundation for FinCEN to improve upon its ability to monitor industry compliance by providing vital data on various industry segments.

Understandable guidance is critical to financial institutions, aiding in the establishment of appropriate BSA anti-money laundering compliance programs. In 2006, the FinCEN conducted a baseline survey of the Regulatory Resource Center customers rating regulatory guidance received as understandable, and established a baseline of 94 percent, with the target of maintaining a level of 90 percent; in fiscal year 2007, the FinCEN exceeded this target with a 91 percent rating.

The FinCEN established a measure for the percentage of bank examinations conducted, by Federal Banking Agencies, indicating a systemic failure of the anti-money laundering program rule. To increase depository institution compliance with the BSA, this measure provides an assessment of FinCEN's effectiveness to provide policy guidance and take action. Timely enforcement action communicates urgency to financial institutions, and is paramount to deterring non-compliance. The FinCEN works closely with its regulatory partners to take enforcement action against institutions that violate the compliance and enforcement provisions of the BSA.

The FinCEN supports law enforcement and its regulatory industry partners by facilitating information sharing and providing analysis of BSA data. In fiscal year 2007, a survey of FinCEN's customers found that 82 percent rated FinCEN's analytic reports as valuable.

The BSA E-Filing System allows filing organizations to electronically file discrete and batched BSA forms, and send secure messages, and receive responses when appropriate. The BSA E-Filing system is used to issue advisories and system updates to the user community. In fiscal year 2007, the FinCEN surveyed users to determine the overall satisfaction level; FinCEN exceeded its target, receiving a 94 percent user satisfaction rating.

Outcome: Safer and more transparent U.S. and international financial systems						
Cost of related activities in trying to achieve this outcome: **$110,988,680**						
Performance Measure	**Fiscal Year 2006 Target**	**Fiscal Year 2006 Actual**	**Met?**	**Fiscal Year 2007 Target**	**Fiscal Year 2007 Actual**	**Met?**
Average time to Process Enforcement Matters (Years)	1	1	Y	1	1.1	N
Number of federal and state regulatory agencies with which FinCEN has concluded memoranda of understanding information sharing agreements	45	48	Y	50	50	Y
Percentage of bank examinations conducted by the Federal Banking Agencies indicating a systemic failure of the anti-money laundering program rule	N/A	N/A	N/A	Baseline	5.2%	Y
Percentage of customers finding FinCEN's analytic reports highly valuable	N/A	N/A	N/A	Baseline	82.0%	Y
Percentage of customers satisfied with the BSA Direct E-filing	Baseline	92.0%	Y	90.0%	94.0%	Y
Percentage of Regulatory Resource Center customers rating the guidance received as understandable	Baseline	94.0%	Y	90.0%	91.0%	Y

In fiscal year 2007, the Treasury Department's estimated cost in trying to achieve the outcome "safer and more transparent U.S. and international financial systems" was $110.9 million. The performance of this outcome is assessed through 6 performance measures, and in fiscal year 2007, the Department met 83 percent of their performance targets.

In fiscal year 2007, the FinCEN experienced a slight increase in the average processing time of cases by 21 days; this increase in processing time resulted in just missing the target of 1.0 years average time to process cases. The additional time taken for processing was the result of joint investigations with other enforcement agencies. In the future, the FinCEN will consider the appropriate amount of time needed for joint enforcement actions when establishing their target for this performance measure.

For the full suite of performance measures and associated information, refer to Appendix A.

Security - moving forward

It is difficult to measure activities related to preventing terrorism, and removing or reducing threats to the nation's financial system. Quantitative measures such as assets seized or blocked can be used; however, these only partially describe the impact of this important work. In fiscal year 2007, the Department began developing a composite TFI measure that considers important factors related to the impact of economic sanctions and financial actions, intelligence, law enforcement and regulatory activities, policymaking, and outreach and diplomacy. In addition, this metric will contain measures and indicators, and a rating system to assess impact on the two outcomes related to the Department's goal of preventing terrorism and promoting the nation's security through strengthened international financial systems; the development of this measure will be completed in fiscal year 2008 and will be reviewed with relevant stakeholders.

In fiscal year 2008, the Department will continue to apply pressure against threats to national security, when diplomatic outreach may be unproductive and traditional military action may be ineffective or inappropriate, and will leverage its authorities to defend against threats by detecting and excluding those who would use these systems for illegal purposes or compromise U.S. national security interest, while keeping them free and open to legitimate users.

During fiscal year 2008, the TFFC will develop strategies to combat rogue regimes and their corresponding networks, specifically with regards to North Korea, Syria, and Iran, will be developed. In addition, this office will develop and implement strategies aimed at combating the financial networks that support terrorism, WMD proliferation, and organized crime in the Western Hemisphere, Africa, and the Middle East-South Asia nexus. The TFFC will increase its outreach efforts to the financial and charitable sector, domestically and internationally, to promote development and implementation of effective safeguards to combat terrorist financing, money laundering, and illicit finance.

In fiscal year 2008, the OIA will continue to address emerging national security issues by expanding the Department's analytic cadre, further strengthening cooperation with the IC, leveraging overseas development opportunities, creating a permanent intelligence production structure, and enhancing the Treasury Department's Intelligence Operations Center. Additionally, this office is strengthening the ability to protect classified information by building sufficient Sensitive Compartmented Information Facility to meet the Department's classified information needs.

The OFAC, in fiscal year 2008, plans to enhance capacity to effectively investigate terrorist networks and state sponsored terrorism, proliferations of WMD, foreign narcotics trafficking organizations, government officials that exploit or steal, and other sanction targets. In addition, the OFAC will develop systems to increase content management capabilities and improve the efficiency of sanctions' program administration, and will continue their coordination with financial regulators, and the charitable and private sectors to increase compliance for those programs.

The Department strives to enhance the safety and transparency of the U.S. and international financial systems. To accomplish this, in fiscal year 2008, the FinCEN will:

- Continue to develop additional memoranda of understanding with a focus on state insurance commissioners
- Continue to identify BSA compliance trends and patterns industry-wide and publish studies promoting awareness of emerging money laundering trends and vulnerabilities
- Continue efforts to enhance BSA regulations to provide clarity and for inclusion in a new chapter of the Code of Federal Regulations
- Continue efforts to match risk-based examination for BSA compliance with actual risks posed by products, services, customers, and geographic locations served by financial institutions
- Reduce excessive regulatory responsibilities to industry regarding BSA programmatic, recordkeeping, and reporting requirements
- Continue enforcement actions against financial institutions for willful violations of BSA requirements, including joint or concurrent actions with federal and state regulatory agencies
- Expand coordination with law enforcement and other regulatory agencies to identify and educate unregistered and/or unlicensed money services businesses
- Increase the focus on cross-border financial crimes
- Begin implementation of advanced analytical and BSA data storage technologies
- Implement innovative web-services and e-filing technologies
- Enrich and standardize BSA data to maximize value for state and federal partners
- Examine integration of BSA data with other state and federal sources
- Establish effective data security and audit technologies to maximize BSA data confidentiality and integrity

MANAGEMENT

Performance Cost - $763 Million

*For information on calculating cost – see Appendix H

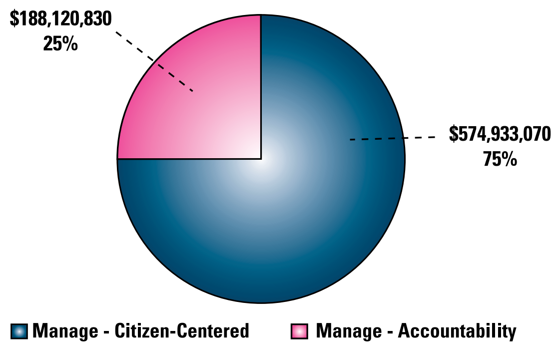
STRATEGIC GOAL: **Management and Organizational Excellence**

STRATEGIC OBJECTIVE: **Enabled and effective Treasury Department**

STRATEGIC OUTCOMES AND VALUE CHAIN:

- A citizen-centered, results-oriented and strategically aligned organization (Management)
- Exceptional accountability and transparency (Management)

Cost to Outcomes



The Department of the Treasury strives to maintain public trust and confidence in U.S. and international economic and financial systems, through exemplary leadership, best-in-class processes, and a culture of excellence, integrity, and teamwork. The Treasury Department realizes its strategic goals by building a strong institution that is citizen-centered, results-oriented, and efficient, while actively promoting innovation. The Department works to implement initiatives and programs that benefit the American people.

Management's responsibility is to create conditions that enable program goals to be accomplished, and achieve organizational excellence. The Department continues to integrate policies and operational activities to produce optimal value for the American public.

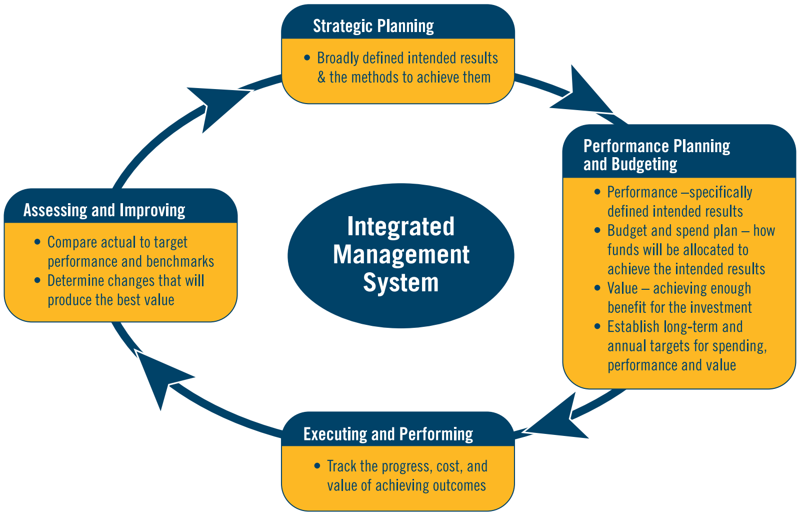
A citizen-centered, results-oriented and strategically aligned organization

The Treasury Department ensures that taxpayers receive the most efficient and effective use of their tax dollars by building a strong institution that is dedicated to serving the public interest and focused on delivering results.

Strategic Management - Renewing our Commitment to Excellence: In September of 2007, the Department of the Treasury released its Strategic Plan for Fiscal Years 2007-2012. To develop the plan, the Department worked collaboratively with employees and senior management alike. After the goals and objectives were developed, the Treasury Department took the opportunity to refine and test these against a changing global environment. The Department of the Treasury went beyond linking performance to the budget, and established an integrated management system to monitor continuous improvement and make changes as necessary.

Typical strategic planning uses forecasting, based on the realities of today. This type of planning tends to be event-driven, and narrowly focused. The Department supplemented this approach by assessing the potential effect a wide range of factors could have on its organization. The Treasury Department's goal is to manage future uncertainty and act effectively in the face of future ambiguity. Understanding the future in the context of a broad set of possibilities, the Department tested the robustness of its mission and made some important changes to provide the Treasury Department and its stakeholders institutional longevity.

Executing the Strategic Plan: To accomplish its strategic objectives effectively, the Department of the Treasury must link outcomes, strategy, budget, and the production of value into an integrated management system. This management system, based on a model of continuous improvement is shown here:



The Strategic Planning process begins with an understanding of important national priorities and outcomes, which are then translated into broadly defined, intended results for the Department, which become strategic goals and objectives. Outcomes related to the goals and objectives are articulated, strategies are developed to achieve the outcomes, and then measures and indicators are identified to provide the means to assess progress.

Once the Department's strategic framework was established, performance planning and budgeting is used to determine funding that will achieve intended results. Long-term and annual targets for performance measures are formulated. Funding will be tied to the level of performance that needs to be achieved. As part of the management process, a number of options can be executed to improve value for stakeholders.

The Treasury Department will then execute and perform according to the plan, tracking progress on outcomes, and the cost to achieve them. As part of the Department's continuous improvement strategy, comparisons of actual performance to desired targets and applicable benchmarks will be performed. Management will add value by continually striving to make changes that produce the most effective results and increased value for the American taxpayer.

Although the Integrated Management System was developed in fiscal year 2007, with the Strategic Plan, it will be implemented during fiscal year 2008.

President's Management Agenda: The Department of the Treasury is enabled through the principles of the President's Management Agenda (PMA). The PMA is designed to improve management practices across the federal government and transform it into a results-oriented, efficient, and citizen-centered enterprise. Executing the PMA involves lowering the cost of doing business through competition, strengthening the Department's workforce, improving financial performance, increasing the use of information technology and e-government capabilities, and integrating budget decisions with performance data.

In fiscal year 2007, the Department continued to be successful in its Human Capital Initiative; for the Performance Improvement, Competitive Sourcing, Financial Performance, and E-Government Initiatives, each had mixed results during the year; while the Improper Payments Initiative remained unchanged. In its first year as a PMA initiative, the Credit Management Initiative received a mixed result rating.

President's Management Agenda

Initiative	Status			Fiscal Year 2007 Progress			
	FY 2005	FY 2006	FY 2007	Q1	Q2	Q3	Q4
Human Capital	Y	G	G	G	G	G	G
Competitive Sourcing	G	G	Y	Y	R	Y	Y
Financial Performance	R	R	Y	G	G	G	G
E-Government	R	Y	Y	R	G	G	Y
Performance Improvement	Y	Y	Y	G	G	G	G
Improper Payments	R	R	R	Y	Y	Y	Y
Credit Management	N/A	N/A	Y	N/A	G	G	G

G Green for Success   Y Yellow for Mixed Results   R Red for Unsatisfactory

Invest in people: The Department uses succession planning to develop emerging leaders. Targeted development and training is used to close skill gaps; human capital flexibilities are used to attract and retain a diverse talent pool. Management recognizes and rewards employees for their contributions toward achieving the Department's priorities and outcomes.

In fiscal year 2007, the Treasury Department executed its strategy to invest in its people. The Department's Human Capital management programs were designed to strengthen its workforce by ensuring that diverse talent is attracted, developed, and retained.

Attracting Talent: Recruiting a high quality, diverse workforce is a Department priority, which will be accomplished by being an employer of choice through enhanced branding and outreach efforts, streamlined hiring business processes, and improvements in other key human capital areas that attract talented people.

Developing Talent: The Department of the Treasury develops its workforce to meet current and future organizational needs by identifying and developing emerging leaders, closing skills gaps, and building bench strength, at all levels.

Retaining Talent: To retain its skilled and dedicated employees, the Department identified and removed the barriers, and created new career opportunities.

Fiscal year highlights include:

- Reduced the time-to-hire by leveraging web-based hiring solutions and providing improved job announcements
- Achieved full certification for the Department's Senior Executive Service (SES) pay-for-performance system to enhance the ability to compete and retain a highly effective executive cadre
- Achieved diversity hiring success through the employment of women and Hispanics, as compared to government-wide numbers
- Addressed the Department's diversity need by developing a strategy for improving the recruitment of individuals with disabilities, promoting the use of the Department of Labor's Workforce Recruitment Program, and training managers on providing reasonable accommodations to individuals with disabilities
- Began the process of assessing the competency levels in targeted Mission Critical Occupations to identify current and future needs, which will lead to recruitment and employee development strategies to reduce these gaps

Invest in Technology: The Department will provide a secure information technology infrastructure, and use Enterprise Architecture and Earned Value Management (EVM) to establish the appropriate mix of transaction processing, and analytic and transformational applications that can be utilized effectively and efficiently across the Department and the federal government.

- ***Capital Planning:*** Developing and issuing policy, implementing oversight procedures, and instituting EVM metrics is the hallmark of a successful capital planning process. This combined with good governance allows the Treasury Department to effectively manage its IT investment portfolio. The development of solid business cases ensures spending on capital assets directly supports the mission, and provides a return on investment equal to or better than the alternative use of funding. The Office of the Chief Information Officer (OCIO) seeks to strengthen Department-wide processes and utilize best practices for business case development to improve the integrity of reported financial and performance data. In addition, the Department has implemented the best practice of integrating IT investment decisions with security requirements and the Enterprise Architecture framework. It is a Department goal for all portfolio investments to achieve a variance of less than ten percent for cost, schedule, and performance.

  Implementing EVM processes strengthens the oversight and accountability of IT investments and provides tools to maximize value, manage associated risks, and focus management attention as necessary. In fiscal year 2007, the Department established a formal EVM policy to measure and analyze investment performance, and project and contract management. In addition, to manage large Departmental IT investments more efficiently and effectively, the OCIO expanded oversight of the bureau governance processes, increasing the integration of capital planning, budget, and contract management functions, and provided a Department-wide Project Management training program.

- ***Enterprise Architecture (EA):*** The Department of the Treasury, in an effort to realize efficiencies in its processes, gain transparency, and provide a method of analysis for Enterprise-wide information technology decision-making, utilizes an EA framework. This framework will provide a top-down approach in the development of the enterprise structure, mapping and aligning IT development to the

Department's goals and objectives, driving the capital investment processes, and improving security by ensuring adherence to standards prior to execution of procurement.

- ***Privacy:*** To achieve optimal levels of security, the Department continues to implement enhanced polices and practices to safeguard and protect citizen data. In fiscal year 2007, the Department launched a privacy awareness training course for all employees.
- ***Cyber Security:*** The IG determined that the OCIO was not compliant with the Federal Information Security Management Act (FISMA). The Department's OCIO Cyber Security Program leads Department-wide initiatives to ensure protection of its systems and automated information assets, and ensure compliance with FISMA and other applicable federal regulations. In fiscal year 2007, the Department met its goal of encrypting 100 percent of its laptops, and continues to progress forward with its efforts to properly safeguard all of its information assets. It is the goal of OCIO to achieve 100 percent compliance with Security Configuration installation and the industry standard of 90 percent maintenance by July 2009.
- ***E-Government:*** The E-Government organization provides leadership Department-wide for participation in related PMA initiatives. The focus for the organization is to collaborate government-wide and identify opportunities for participating in solutions that deliver significant productivity and performance gains. Expanding e-government products and services Department-wide improves internal efficiencies, increases access and effectiveness, and enhances service to the public.

Improved Financial Performance: During fiscal year 2007, the Treasury Department continued working towards full compliance with the Federal Manager's Financial Integrity Act (FMFIA) and Federal Financial Management Improvement Act (FFMIA), and improved financial management processes to produce accurate and timely information that supports operating, budget, and policy decisions. In addition, the Department continues to emphasize the resolution of material weaknesses and completed 92 percent of the planned corrective actions.

Again this year, the Department of the Treasury received an "unqualified" or clean audit opinion on its financial statements based on the successful three day close at the end of each month and the continuous enhancement of the Department's Financial Analysis and Reporting System. The Department continued to review its financial reporting process and perform variance analysis on the quarterly financial statements to ensure its financial data integrity. The Treasury Department actively participated in various interagency committees and the Office of Management and Budget (OMB) transformation teams to address government-wide financial management issues. In addition, the Department worked closely with OMB, the Government Accountability Office, the FMS, and the Federal Accounting Standards Advisory Board on policy guidance, accounting standards and practices to improve financial reporting and performance. In fiscal year 2007, the Treasury Department took additional steps to reconcile material differences on transactions with other federal agencies.

Eliminating Improper Payments: In fiscal year 2007, the IRS continued its robust improvement efforts to reduce improper payments for the EITC program; the only high risk program in the Treasury Department due to erroneous payments. In addition to base compliance activities and redesign efforts, the IRS continues to evaluate new ways of reducing erroneous EITC payments while maintaining participation by eligible taxpayers.

During the 2006 filing season, the IRS prevented approximately $460 million in incorrect refunds by detecting and correcting errors during return processing. For the 2007 filing season, the IRS, through detection during processing, prevented over $400 million in incorrect refunds. These errors show a decreasing trend attributable to education, return preparation assistance, and electronic filing.

Improving Credit Management: During fiscal year 2007, the Treasury Department participated, with the government's five major creditor agencies, in an initiative to improve the management of federal credit programs. The FMS's Debt Management Services area specifically addressed delinquent debt collection issues in the areas of agency compliance with Debt Collection Improvement Act (DCIA) of 1996, program effectiveness and goals for improvement, effective management information reporting, controlling and measuring costs, and customer satisfaction. To address and improve agency compliance, Performance Expectation Agreements are currently being negotiated.

During fiscal year 2007, to address this initiative, the Department completed actions to include:

- Establishing a performance measure for debt collection as a percentage of delinquent debt referred to the Treasury Department
- Assessing agency progress toward use of administrative wage garnishment, centralized offset of federal salary payments, and debtor bar provisions of the DCIA
- Establishing benchmarks and goals for controlling costs and determining customer satisfaction
- Utilizing receivable reporting to improve program management

Competitive Sourcing: Through Competitive Sourcing, the Department of the Treasury utilizes public-private competition to effectively deliver services in a more efficient and cost effective manner to the American public. Competitive Sourcing allows the Department to look internally and externally for the best way to achieve its mission. Since 2003, the Treasury Department has completed a number of competitions to strengthen operations related to a variety of commercial activities. In fiscal year 2008, the Department will continue to review positions and activities to ensure it is competitive, effective and efficient, and identify potential public-private competitions where competitive sourcing can be used effectively to close performance gaps.

Performance Improvement: The Department of the Treasury's progress to achieve improved performance has been successful. In fiscal year 2007, the Department completed and issued its updated strategic plan for fiscal years 2007–2012. Once the Treasury Department's plan is approved, the bureaus have one year to revise their strategic plans and align them with the Department's plan. By June 2007, the Office of Strategic Planning and Performance Management had conducted strategic planning workshops with all of the bureaus, to develop and align their performance goals to the mission and the strategic goals and objectives of the Department.

In addition, the updated strategic plan introduces the Integrated Management System, which is based on a model of continuous improvement, and integrates performance and budgeting. By integrating performance and budgeting, the Department will be able to determine the funding level necessary to achieve intended results, and options will be executed to produce increased value for stakeholders.

Program Assessment Rating Tool (PART): Program evaluation is a core management tool used to allocate resources and promote efficiency and effectiveness. In addition to regular independent program evaluations conducted by the Treasury Department's bureaus, the Department works with OMB to select program each year that will be evaluated or re-evaluated through the PART process. Programs are evaluated every five years through this process by the OMB.

The Table below details, to date, all of the Treasury Department's programs that have received OMB PART evaluation ratings. For a full list of PART evaluations see Appendix G.

Program	Bureau	Year PART Conducted	Rating
Bank Enterprise Award	CDFI	2002	Results Not Demonstrated
Office of Foreign Assets Control	DO	2002	Results Not Demonstrated
Earned Income Tax Credit	IRS	2002	Ineffective
Tax Collection	IRS	2002	Results Not Demonstrated
Consumer Product Safety Commission	TTB	2002	Adequate
International Development Association	DO	2002	Adequate
Bank Supervision	OCC	2002	Effective
Thrift Supervision	OTS	2002	Effective
Coin Production	Mint	2002	Effective
African Development Fund	DO	2003	Results Not Demonstrated
Administering the Public Debt	BPD	2003	Effective
Debt Collection	FMS	2003	Effective
New Currency Manufacturing	BEP	2003	Effective
Office of Technical Assistance	DO	2003	Adequate
Global Environment Facility	DO	2004	Results Not Demonstrated
Financial and Technical Assistance	CDFI	2004	Adequate
FMS Collections	FMS	2004	Effective
IRS Taxpayer Advocate Service	IRS	2004	Moderately Effective
IRS Taxpayer Service	IRS	2004	Adequate
New Markets Tax Credit	CDFI	2004	Adequate
Mint Numismatic	Mint	2004	Effective
Asian Development Fund	DO	2005	Results Not Demonstrated
Collect the Revenue Program	TTB	2005	Effective
BSA Data Collection, Retrieval and Sharing	FinCEN	2005	Moderately Effective
FMS Payments	FMS	2005	Effective
IRS Criminal Investigations	IRS	2005	Moderately Effective
IRS Examinations	IRS	2005	Moderately Effective
IRS Submission Processing	IRS	2005	Moderately Effective
U.S. Mint Protection Program	Mint	2005	Effective
Protection and Accountability	BEP	2006	Effective
Bank Secrecy Act Administration	FinCEN	2006	Results Not Demonstrated
Bank Secrecy Act Analysis	FinCEN	2006	Adequate
Government-wide Accounting and Reporting	FMS	2006	Moderately Effective
Health Care Tax Credit Administration	IRS	2006	Results Not Demonstrated
IRS Retirement Savings Regulatory Program	IRS	2006	Adequate
Tropical Forest Conservation Act	DO	2007	Moderately Effective
Debt Restructuring for Heavily Indebted Poor Countries	DO	2007	Moderately Effective

The Treasury Department continues to work towards achieving strong PART scores by: (1) improving goals and measures; (2) providing a training session that includes an exchange of lessons learned across bureaus;

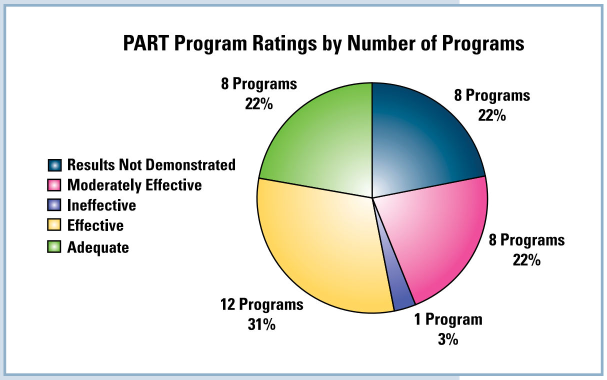


Figure 1

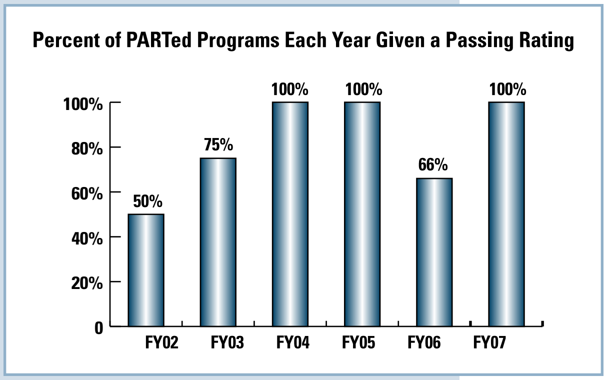


Figure 2

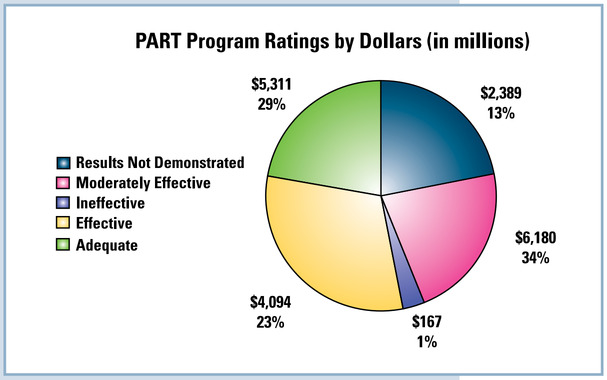


Figure 3

and (3) solid evidentiary procedures. Additional details of OMB recommendations and actions planned or underway for each program can be found in Appendix G of this report.

Figure 1, shows the Department's program performance by the number and percentage of programs in each rating category.

Figure 2 shows the percent of the Department's programs receiving passing PART evaluation ratings, of adequate or better, in the year the programs were PARTed.

Figure 3 shows the Department's spending in millions, by rating category.

BPD's Administrative Resource Center (ARC): The OMB's Line of Business initiative encourages federal agencies to use Shared Service Providers (SSP) for administrative services so they can focus directly on mission-related activities. Over 70 federal entities now employ the services of the ARC, a designated SSP, to reduce costs by delivering improved services in financial management, travel, human capital, procurement, and information technology.

The ARC, selected by OMB as a Center of Excellence for the Financial Management Line of Business, provides core financial systems service to 28 federal agencies, including 12 Treasury bureaus and departmental reporting entities. Over the next two years, the ARC plans to complete extensive information technology infrastructure and software upgrades, resulting in the delay of providing services to new customers until fiscal year 2010.

Outcome: A citizen-centered, results-oriented and strategically aligned organization						
Cost of related activities in trying to achieve this outcome: **$574,933,070**						
Performance Measure	**Fiscal Year 2006 Target**	**Fiscal Year 2006 Actual**	**Met?**	**Fiscal Year 2007 Target**	**Fiscal Year 2007 Actual**	**Met?**
Number of open material weakness (significant management problems identified by GAO, the IGs and/or the Bureaus) (President's Management Agenda) Targeted for Closure in FY 2007	2	1	N	1	0	N
Complete investigations of EEO complaints within 180 days	50.0%	20.0%	N	50.0%	51.6%	Y
Operating expenses as a percentage of revenue--Consolidated/Integrated Administrative Management	12.0%	4.0%	Y	12.0%	4.3%	Y
Operating Expenses as Percent of Revenue-Financial Mgmt Admin Support Services	12.0%	17.0%	N	12.0%	15.1%	N
Operating Expenses as Percent of Revenue-Financial System, Consulting, and Training	12.0%	10.0%	Y	12.0%	6.7%	Y
Injury and illness rate Treasury-ywide; including DO	2.8	1	Y	2.6	Est 1.4	Y
Percent of complainants informally contacting EEO (for the purposes of seeking counseling or filing a complaint) who participate in the ADR process	25%	25%	Y	30.0%	29.0%	N
Management cost per Treasury employee ($) (E) (DISCONTINUED FISCAL YEAR 2008)	$40.27	$40.59	N	$38.21	$29.64	Y
KEY: Some measures have estimates for their actual fiscal year data – due to information not available at the time of publication of this document.						

In fiscal year 2007, the Treasury Department's estimated cost in trying to achieve the outcome "a citizen-centered, results-oriented and strategically aligned organization" was $574.9 million. The performance of this outcome is assessed through 8 performance measures, and in fiscal year 2007, the Department met 63 percent of their performance targets.

The outcome "citizen-centered, results-oriented and strategically aligned organization" had 3 additional performance measures not listed in the chart above. The results from these measures are tied directly to the ACSI customer satisfaction survey, for the Treasury Franchise Fund, which was not completed this year. They are currently annual performance measurements; however, they are under consideration to be changed to semi-annual measurements for fiscal year 2008.

For the full suite of performance measures and associated information, refer to Appendix A.

Exceptional accountability and transparency

Operations improve as a result of using clear and understandable reporting, proper internal controls, meaningful performance measures, continuous assessment to achieve desired outcomes, and effective management.

Managing for Accountability: Achieving and maintaining exemplary accountability and transparency is critical for the Treasury Department, as the primary financial agency for the U.S. Government. The Department follows proper internal controls that serve to deter and eliminate fraud, waste, and abuse, while increasing efficiency and effectiveness.

The two independent Offices of the Inspector Generals and other examiners conduct audits and investigations, abuses, and deficiencies in the Department's programs, and recommend appropriate corrective actions. The Office of the Inspector General (OIG) performs audit and investigative responsibility for all organizations within the Treasury Department, except the IRS. The Treasury Inspector General for Tax Administration's (TIGTA) audit and investigation services protect and promote the fair administration of the tax system and ensure that the IRS is accountable to the administration of internal revenue laws. Both IGs keep the Congress, the Secretary of the Treasury, and bureaus and Departmental management informed on issues, problems, and deficiencies in administering Department programs and operations, and any necessary corrective actions.

Good management begins with accountability and responsibility for the people, property, and money that the Department manages. Internal control is a key tool to fulfill the Treasury Department's obligations to the American people. It serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud.

OMB Circular A-123, Management's Responsibility for Internal Control, Appendix A, Internal Control over Financial Reporting: The Treasury Department continues to strengthen and improve the execution of its mission through the application of sound internal controls over financial reporting.

In fiscal year 2007, testing and assessments were completed Department-wide. No new material weaknesses were found through the assessment of financial reporting under A-123, Appendix A; however, the IRS continues to address issues related to its revenue accounting system, one of its material weaknesses.

The OIG auditors conduct financial, performance, and information technology audits within the Treasury Department. These audits are intended to save taxpayer dollars, improve the Department's effectiveness and efficiency, and help prevent waste and detect fraud and abuse in Department programs and operations.

The OIG investigators conduct a variety of investigations, including financial crimes, corruption, general crime, and employee misconduct. Additionally, the OIG investigators promote crime prevention and integrity awareness among the Department's employees.

During fiscal year 2007, the OIG completed 64 audit products and referred 188 cases for criminal, civil, or administrative action. Achievements included:

- An OIG audit found the OFAC failed to complete enforcement actions on 295 cases during the period under review; the potential penalty assessments for these cases totaled $3.87 million. The OFAC has planned or taken actions to improve penalty processing.
- Following Hurricanes Katrina and Rita, an OIG audit noted areas where emergency procedures could be enhanced to improve the timeliness and consistency of assessments of the financial institutions operational conditions; the Department's regulators agreed to modify their emergency procedures.
- The OIG, with other investigative agencies, initiated a project to identify potentially fraudulent federal benefit and assistance payments; resulting in the arrest of 20 individuals, the conviction of 14 individuals, with total restitution exceeding $530,950 and recoveries exceeding $85,404.
- A retired BEP employee was sentenced to nine months of incarceration, three years of supervised release, and ordered to pay restitution of $37,200 as a result of a 2006 plea agreement to a guilty charge

of possession of tools and materials for counterfeiting purposes, in connection with the theft of a number of partially printed sheets of $100 bills.

- A joint OIG and U.S. Secret Service investigation resulted in the conviction of an individual related to a defrauding scheme in which the individual attempted to negotiate two fictitious financial obligations, one for $2.9 million and the second for $5.5 million, at different credit union locations in Washington, DC. In August, 2007, a federal jury found the individual guilty on one count of bank fraud and two counts of uttering fictitious obligations. The individual faces a maximum of 25 years in prison.
- A joint OIG/FDIC investigation led to the conviction of three former Hamilton Bank executives for their participation in a scheme to fraudulently inflate the reported results of operations and financial condition of the bank and defraud the investing public and bank/securities regulators. In July 2006, two of the three were sentenced to 28 months incarceration, and in October 2006, all three were ordered to make restitution in the aggregate amount of $14,546, 569. In addition, the third individual was ordered to make additional restitution of $17,233,345.
- The OIG, along with the Department of Labor's OIG and the FBI, investigated a case of workers' compensation fraud perpetrated by a BEP employee. In February, 2007, the individual was found guilty on three counts of making false statements to obtain workers' compensation, three counts of wire fraud, and one count of making false statements. In May, 2007, the former employee was sentenced to three years incarceration and three yeas supervised release and ordered to pay restitution of $290,000.
- An OIG investigation determined that a senor-level Department official engaged in sports gambling activities while on duty and issued a government credit card to further the illicit activities. The official resigned in November 2006 after being given notice proposing removal.

The TIGTA's audit and investigative services promote and protect the fair administration of the internal revenue laws, and their oversight is essential to the efficiency and equity of the federal tax administration system.

The TIGTA has two primary offices - the Office of Audit (OA) and the Office of Investigations (OI). These offices assist in maintaining taxpayers' confidence in the federal tax system by ensuring that the IRS is managed fairly and effectively, and violators of the public's trust are detected and appropriately sanctioned.

Audit Program: The OA mission is to provide comprehensive coverage and oversight of all aspects of the IRS's daily operations. In addition, OA's audits focus on the economy and efficiency of IRS functions, and ensure taxpayers' rights are protected and the taxpaying public is adequately served.

Each fiscal year, the OA develops an annual audit plan that communicates oversight priorities to Congress, the Department, and the IRS. This office's emphasis is on the major management challenges facing the IRS, its progress in achieving strategic goals, eliminating systemic weaknesses, and response to the PMA initiatives. By focusing on these critical areas, the OA ensures that TIGTA audits identify and recommend improvements in IRS programs. In fiscal year 2007, the TIGTA issued 180 audit reports; highlights include:

- Produced financial benefits of more than $3.5 billion, and approximately 5.7 million taxpayer accounts impacted in areas such as taxpayer burden, rights, and entitlements, as well as increased revenue/revenue protected, privacy, security, and protection of resources and reliability of information

- Completed an assessment of the processing of individual income tax returns reporting deductions for non-cash charitable contributions; it is estimated that 101,236 taxpayers could have claimed unsubstantiated non-cash contributions totaling approximately $1.8 billion
- Completed an audit finding IRS employees lost at least 490 computers between January 2003 and June 2006, they did not properly encrypt data on the computer devices, and password controls over laptop computers were not adequate; resulting in the likelihood that sensitive data for a significant number of taxpayers had been unnecessarily exposed to potential identity theft and/or fraudulent schemes
- Completed a review that found 77 percent of IRS employee and 72 percent of contractor employee background investigations were not completed within established IRS baselines; resulting in an increased risk that the IRS may be hiring unsuitable employees

Investigations Program: The TIGTA has the statutory responsibility to protect the integrity of tax administration and ability of the IRS to collect revenue for the federal government. To accomplish this, the TIGTA's OI investigates allegations of criminal violations and administrative misconduct by employees, ensures employee safety and data and infrastructure security, and protects against external attempts to corrupt tax administration.

- ***Employee Integrity:*** The IRS's ability to deliver taxpayer service, enforce tax laws effectively, and collect the proper amount of taxes can be undermined by employee misconduct; over 50 percent of current investigations involve alleged employee misconduct. These investigations of employee misconduct include extortion, theft, taxpayer abuse, false statements, financial fraud, and unauthorized access to confidential taxpayer records. In fiscal year 2007, approximately 81 percent of the 3,597 closed investigations generated positive results, including 1,663 cases of employee misconduct referred for action and 206 cases accepted for criminal prosecution. In addition, the TIGTA opened 521 new unauthorized access cases and closed 621 cases, 594 of which resulted in personnel action against IRS employees.
- ***Employee and Infrastructure Security:*** The TIGTA maintains IRS employee and infrastructure security by conducting investigations of employees, facilities, and infrastructure that are sabotaged, threatened, or assaulted. Potential threats to tax administration are identified by the TIGTA's administration of a Criminal Intelligence Program which utilizes law enforcement and intelligence resources to proactively identify individuals and groups who may pose a threat to tax administration.
- ***External Attempts to Corrupt Tax Administration:*** External attempts to corrupt tax administration impede the IRS's ability to collect revenue. The TIGTA's investigations include bribes offered by taxpayers to compromise IRS employees, the use of fraudulent IRS documentation to commit crimes, taxpayer abuse by tax practitioners, impersonation of IRS employees, and the corruption of IRS programs through procurement fraud. Taking a proactive approach and providing integrity and fraud awareness presentations, can help reduce external attempts to corrupt tax administration. During fiscal year 2007, the TIGTA worked to educate tax professionals by providing 101 awareness presentations to 8,784 tax practitioners and preparers at professional conferences.

Highlights of the TIGTA's investigations resulting in significant prosecutions or outcomes:

- A national bank agreed to pay $16.5 million in settlement claims related to the 2001 destruction of tens of thousands of individual tax returns and checks that the bank was to process as an agent for the

Treasury Department; this settlement reimburses the federal government for lost interest on destroyed checks and costs incurred to obtain replacement checks from affected taxpayers

- An individual was sentenced to a term of 51 months of imprisonment, $1,322,582 in restitution, and three years of supervision upon the release from prison, after pleading guilty to mail fraud, attempting to defeat the payment of tax, and impersonation
- An employee of Public Affairs International, Inc. (PAI), pleaded guilty to conspiracy to defraud the United States and obstruction of a federal audit. From 2000 – 2003, as a result of false invoices from PAI employees' under-reporting tax forum income and over-reporting expenses, creating no surplus income to apply to the management fees, the IRS paid PAI management fees totaling approximately $1,379,630

Outcome: Exceptional transparency and accountability						
Cost of related activities in trying to achieve this outcome: **$188,120,830**						
Performance Measure	**Fiscal Year 2006 Target**	**Fiscal Year 2006 Actual**	**Met?**	**Fiscal Year 2007 Target**	**Fiscal Year 2007 Actual**	**Met?**
Percent of statutory audits completed by the required date	100%	100%	Y	100%	100%	Y
Percentage of Audit Products Delivered When Promised to Stakeholders	N/A	N/A	N/A	Baseline	68.0%	Y
Percentage of Recommendations Made That Have Been Implemented	N/A	N/A	N/A	Baseline	90.0%	Y
Percentage of Results from Investigative Activities	70.0%	79.0%	Y	73.0%	81.0%	Y
Audit opinion received on government-wide financial statements	Met	Met	Y	1.0	Est 1.0	Y
Number of completed audit products	56	57	Y	56	64	Y
Number of investigations referred for criminal prosecution, civil litigation or corrective administrative action	85	144	Y	105	188	Y
KEY: Some measures have estimates for their actual fiscal year data – due to information not available at the time of publication of this document.						

In fiscal year 2007, the Treasury Department's estimated cost in trying to achieve the outcome to achieve the outcome "exceptional accountability and transparency" was $188.1 million. The performance of this outcome is assessed through 7 performance measures, and in fiscal year 2007, the Department met 100 percent of them.

Although the OIG exceeded its performance target for the measure "Number of investigations referred for criminal prosecution, civil litigation or corrective administrative action," by 79 percent, this increase was the result of the one time action of 70 referrals from a GAO investigation into Metro Check fraud.

For the full suite of performance measures and associated information, refer to Appendix A.

Management – moving forward

In fiscal year 2008, the Department will update the *Human Capital Strategic Plan*, incorporating the *Diversity Strategic Plan*. The new HC Strategic Plan will align to and integrate with the revised *Treasury Strategic Plan for Fiscal Years 2007 – 2012*. The focus will continue on strategies to recruit, develop, and retain a high

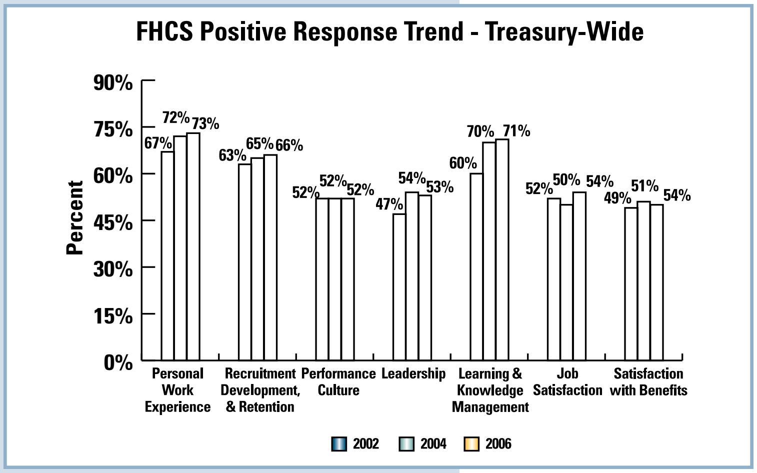


Figure 4

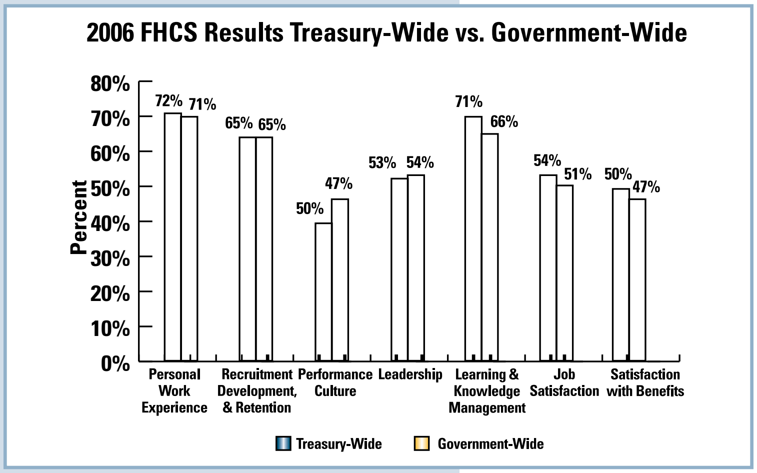


Figure 5

quality and diverse workforce, ensure continuity of leadership through effective succession management, enhance the value of HC workforce metrics, and improve HC management through feedback from agency-led HC management accountability reviews. In addition, the Treasury Department will have an HC Operating Plan with goals and initiatives that leverage current best practices, from internal and external organizations, for use by the bureaus for HC Strategic Management, and to generate new practices as a result of the collaborative activities that include transforming the role of the Human Capital professional from a processing role to a more consultative/strategic partner.

The Federal Human Capital Survey (FHCS): The FHCS reflects gathered data of federal employees' perceptions of workforce management conditions and practices in their agencies. The survey assesses the state of human capital management across the federal government and provides agency managers with useful information for improving agency management practices. In addition to giving important information about employee perceptions, the FHCS results provide valuable insight into what drives, motivates, and sustains exceptional performance and commitment to public service.

The FHCS, administered by the Office of Personnel Management every two years, consists of 7 categories, with 7-10 questions in each. The chart below trends positive response data from the survey years of 2002, 2004, and 2006, Department-wide as compared to government-wide. Results indicate that employee perceptions at the Treasury Department are consistent with those of other federal employees in other agencies. Data also indicates Department results are slightly above 50 percent for positive responses in 4 of the 7 categories. *(See Figures 4 and 5.)*

To address survey results, many Department bureaus are implementing action plans that focus on areas for improvement. The Treasury Department's goal is to attract and retain the best available talent and be ranked high on list of the Partnership for Public Service's "Best Places to Work in the Federal Government," enabling the Department to be seen as an employer of choice. To achieve this goal the Department of the Treasury conducted an analysis of the FHCS results and identified areas that can positively impact Treasury's standing among other employers.

For fiscal year 2008, the Treasury Department's IT leadership will continue to address areas for improvement, such as improving its FISMA performance, strengthening the use of EVM in capital planning processes, addressing the challenges of managing both major and non-major IT investments, and protecting personal privacy. The OCIO will strategically leverage the resources and expertise within the Department to focus on meeting the requirements in each initiative.

During fiscal year 2008, the Office of Strategic Planning and Performance Management will continue working with the Department's bureaus and policy offices to develop meaningful performance measures that will be used in formulating their strategic goals and objectives.

In addition, the Department of the Treasury will begin implementing the Integrated Management System. With the strategic framework in place, performance planning and budgeting is used to determine funding to achieve intended results. Long-term and annual targets for performance measures will be formulated and funding will be tied to the level of performance necessary to achieve the Treasury Department's objectives. As part of the Department's continuous improvement strategy, benchmarks will be established to compare actual performance to targets. Management will add value by developing solutions that will produce effective results and increased value for the American taxpayer.

The Department of the Treasury will continue to develop acceptable and meaningful performance measures for its policy offices, to demonstrate that it is achieving its strategic outcomes. By 2009, it is the Department's goal to have less than ten percent of its program dollars rated as not demonstrating results.

Although noting areas of progress, the IG issued the annual management and performance challenges memorandum to the Secretary of the Treasury citing five repeat challenges which continue to represent risk to the Department's operations and its mission responsibilities. These challenges are:

1. Corporate Management
2. Management of Capital Investments
3. Information Security
4. Linking Resources to Results
5. Anti-money Laundering and Terrorist Financing/BSA Reporting

The TIGTA is faced with the challenge of adapting its oversight activities to increasingly complex and high-risk issues associated with growing IRS operations; these issues include detection and investigation of crimes in an electronic environment, fraudulent procurement activities, violations of taxpayer privacy, and the increasing number of requests for IRS program reviews from Congress and other stakeholders.

In fiscal year 2008, the OIG will continue to focus its resources on auditing Treasury Department programs that combat terrorist financing and money laundering.

In fiscal year 2008, the TIGTA will ensure continuous improvement in audit recommendations and plans to:

- Continue addressing major management challenges such as security of the IRS, taxpayer protection and rights, and providing quality taxpayer service operations
- Monitor the IRS's modernization efforts to identify challenges it may encounter in implementing new programs and information systems
- Continue to investigate complaints of wrongdoing that could potentially impact the integrity of tax administration
- Continue to conduct investigations in employee integrity, employee and infrastructure security, and external attempts to corrupt tax administration
- Conduct integrity awareness presentations to IRS employees, law enforcement agencies, tax practitioners and community groups