



Part II:
Annual
Performance Report

Performance Scorecard

The following scorecard indicates the FY 2005 results for a selection of key Treasury performance measures. For a complete list of Treasury's official performance measures see Appendix A.

Performance Measure	Type	FY 2005 Results	FY 2005 Target	Met
Economic				
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	Outcome	23,656	26,995	
Administrative costs per number of Bank Enterprise Award (BEA) Applications processed	Efficiency	\$1,280	Baseline	✓
Improve International Monetary Fund (IMF) Effectiveness and Quality Through Periodic Review of IMF Programs	Outcome	78%	90%	
Encourage Movement Towards Flexible Exchange Rate Regimes	Outcome	3	Baseline	✓
Number of New FTA and BIT Negotiations Underway or Completed	Outcome	7	Baseline	✓
Financial				
Percent Individual Tax Returns Processed Electronically	Outcome	51.1%	51%	✓
Cost to Process a Federal Revenue Collection Transaction	Efficiency	\$1.20	\$1.40	✓
IRS Enforcement Conviction Rate	Outcome	91.2%	92%	
IRS Customer Service Representative Level of Service	Outcome	82.6%	82%	✓
Unit Cost for Federal Government Payments	Efficiency	\$0.37	\$0.35	
Percent of Payments Made Electronically	Outcome	76%	76%	✓
Percentage of Payments Made Accurately and On-time.	Outcome	100%	100%	✓
Percent of Debt Auction Results Released In Two Minutes +/- 30 Seconds	Outcome	95%	95%	✓
Percentage of Retail Customer Service Transactions Completed Within Thirteen Business Days	Outcome	88.7%	90%	
Cost Per Federal Funds Investment Transaction	Efficiency	\$85.00	Baseline	✓
Percentage of Government-wide Accounting Reports Issued Accurately	Outcome	100%	100%	✓
Variance Between Estimated and Actual Receipts	Outcome	5%	5%	✓
Percent of Thrifts That Are Well Capitalized	Outcome	99%	95%	✓
Percent of Banks That Are Well Capitalized	Outcome	99%	95%	✓
Number of Users Directly Accessing BSA Data Through FinCEN's Gateway Process	Outcome	3,344	3,000	✓
Average Time to Process Matters in Which Civil Enforcement Remedies May Be Appropriate	Efficiency	1.3 Years	1.0 Years	
Cost Per BSA Form E-filed	Efficiency	\$0.32	\$0.27	
Increase the Number of Outreach Engagements with the Charitable and International Financial Communities	Outcome	95	Baseline	✓
Increase In the Number of and Significance to the Foreign Narcotics Traffickers of New Designated Targets	Outcome	504	136	✓
Cost Per 1000 Currency Notes	Efficiency	\$28.83	\$31.00	✓
Cost Per 1000 Coin Equivalents	Efficiency	\$7.42	\$7.03	
Management				
Percent of Statutory IG Audits Completed By the Required Date	Outcome	100%	100%	✓
Average Calendar Days For TIGTA to Issue Final Audit Report	Efficiency	358	300	
Number of Open Material Weakness	Outcome	7	4	
Management Cost Per Treasury Employee	Efficiency	\$39.33	Baseline	✓

Treasury Strategic Goals and Strategic Objectives

Below is a crosswalk that links Treasury’s focus areas, goals and objectives. The Department’s goals and objectives fall into three focus areas: Economic, Financial and Management. The goals and objectives describe how Treasury will (1) promote prosperous and stable U.S. and world economies; (2) preserve the integrity of financial systems; (3) manage the U.S. Government’s finances effectively; and (4) ensure sound and professional internal operations of the Department.

	Strategic Goals	Strategic Objectives
Economic	Promote Prosperous U.S. and World Economies	Stimulate Economic Growth and Job Creation Improve and Simplify the Tax Code Provide a Flexible Legal and Regulatory Framework
	Promote Stable U.S. and World Economies	Increase Citizens’ Economic Security Improve the Stability of the International Financial System
Financial	Preserve the Integrity of Financial Systems	Disrupt and Dismantle Financial Infrastructure of Terrorists, Drug Traffickers, and Other Criminals and Isolate Their Support Networks Execute the Nation’s Financial Sanctions Policies Increase the Reliability of the U.S. Financial System
	Manage the U.S. Government’s Finances Effectively	Collect Federal Revenue When Due, Through a Fair and Uniform Application of the Law Manage Federal Debt Effectively and Efficiently Make Collections and Payments on Time and Accurately, Optimizing Use of Electronic Mechanisms Optimize Cash Management and Effectively Administer the Government’s Financial System
Management	Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of Treasury	Protect the Integrity of the Department of Treasury Manage Treasury Resources Effectively to Accomplish the Mission and Provide Quality Customer Service

E Creating the Conditions for Economic Prosperity

Strategic Goals	Strategic Objectives
Promote Prosperous U.S. and World Economies	Stimulate Economic Growth and Job Creation
	Provide a Flexible Legal and Regulatory Framework
	Improve and Simplify the Tax Code
Promote Stable U.S. and World Economies	Increase Citizens' Economic Security
	Improve the Stability of the International Financial System

Promote Prosperous U.S. and World Economies

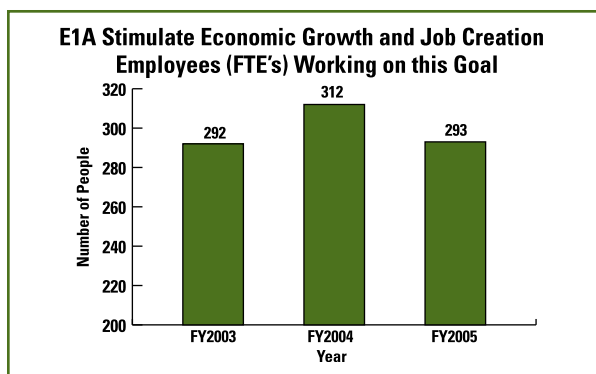
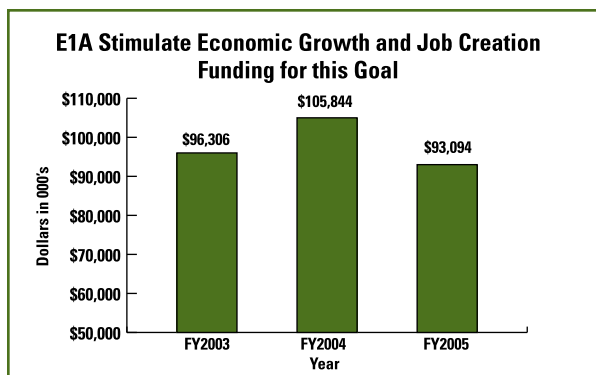
Stimulate Economic Growth and Job Creation

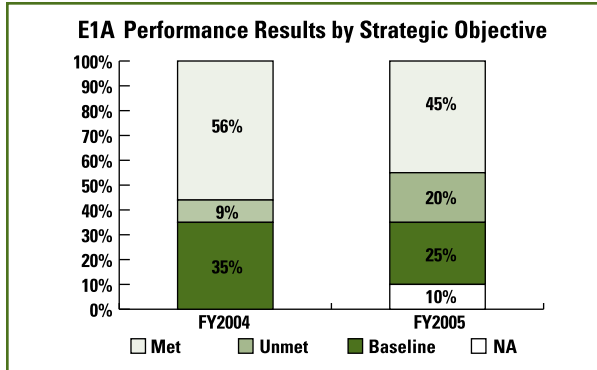


Treasury stimulates domestic and international economic growth and job creation primarily through three offices: the Office of Economic Policy (EP), the Office of International Affairs (IA) and the Community Development Financial Institutions Fund (Fund). Treasury stimulates economic growth by expanding the capacity of financial institutions to provide affordable credit, capital, and financial services to the American public. Treasury's Fund encourages investment in the nation's economically distressed communities and provides financial and technical support to the financial institutions within these underserved communities.

Performance Summary and Resources Invested

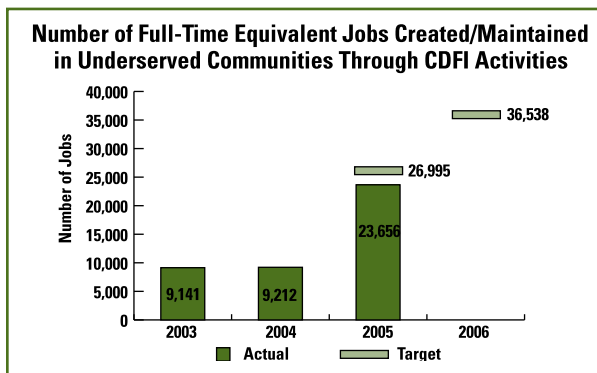
In FY 2005, Treasury spent \$93,094,000 with a workforce of 293 employees to stimulate economic growth and job creation. Treasury met 45% of its targets for this objective, did not meet 20% and designated the remaining 25% as "baseline" to assess the data and set appropriate targets for next year; 10% were unavailable due to revisions or discontinuance of the measures.





Discussion and Analysis

Fund awardees and allocatees create jobs by lending to and investing in businesses and real estate projects. For FY 2005, the Fund reported 23,656 jobs created or retained by awardees and allocatees.



Through the Financial Assistance (FA) component of the CDFI Program, the Fund provides FA awards to certified CDFIs that demonstrate the ability to leverage non-federal dollars to support comprehensive business plans for providing services to create community development impact in underserved markets. In FY 2005, the Fund made \$33 million in FA awards to CDFIs that primarily serve rural and urban low-income communities.

FA Awardees Exceed Private Leverage Goal: The Fund significantly exceeded the \$500 million private dollars leverage goal for FA funds by leveraging \$1.8 billion. The awardees have increased the ability to leverage debt by showing a higher ratio of liabilities

to net assets. Furthermore, awardees have reported a greater project leverage by partnering with other entities. Overall, the leverage ratio has increased from \$20:\$1 to \$27:\$1 from FY 2004 to FY 2005.

Native Initiatives: The Fund has a number of initiatives designed to overcome barriers preventing access to credit, capital and financial services in Native American, Alaska Native and Native Hawaiian communities (collectively referred to as “Native American Communities”). Among these initiatives are a funding program, the Native American CDFI Assistance (NACA) Program, targeted to increase the number and capacity of existing or new CDFIs serving Native American Communities (Native American CDFIs), and complementary capacity-building initiatives that foster the development of Native American CDFIs through training and technical assistance. In FY 2005, the Fund issued \$3.5 million in Native Initiative Awards to 22 Native American CDFIs.

Bank Enterprise Award (BEA) Program: The BEA Program provides financial incentives to insured depository institutions to expand investments in CDFIs and to increase direct lending, investment, and service activities in economically distressed communities. Providing modest monetary awards for large increases in community development leverages the Fund’s dollars and puts more capital to work. BEA Applicants showed an increase of over \$100 million from FY 2004 to FY 2005, surpassing the Fund’s goal of \$55 million by nearly 100%. The prospect of receiving a BEA grant is an incentive for banks to increase their investments.

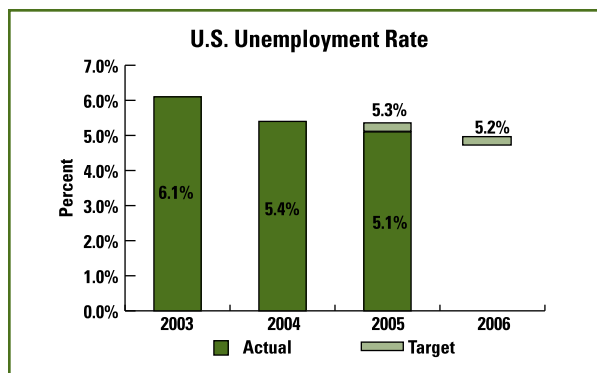
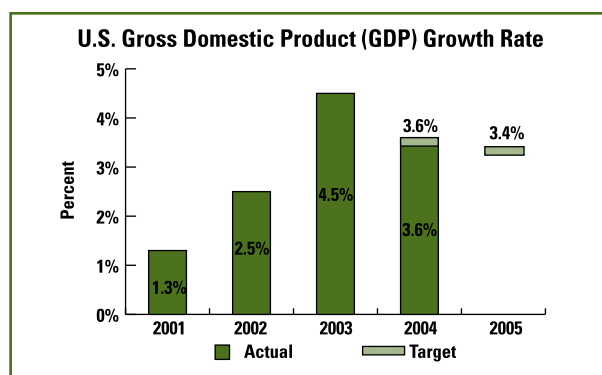
New Markets Tax Credit (NMTC) Program: The NMTC Program permits taxpayers to receive a credit against Federal income taxes for making qualified equity investments in designated Community Development Entities (CDEs). Substantially all of the qualified equity investment must be used by the CDE to provide investments in low-income communities. In FY 2005, the Fund made \$2 billion in tax credit

allocations, providing recipients the ability to raise capital and invest. The Fund works closely with the IRS to implement this program. In FY 2005, CDEs made \$1.2 billion in loans and investments. CDEs have used NMTC proceeds to finance a variety of activities throughout the United States. In most cases, the allocatees indicate that the projects would not have been undertaken without the NMTC.

Effective Use of Technology & Resources: The Fund completed its verification of the first round of annual data submitted through the Community Investment Impact System (CIIS). CIIS is the Fund’s new web-based data collection system for direct funding and tax credit awardees. The system collects both institution and transaction level data on the community development finance industry.

The Fund improved its mapping software for CDFIs to electronically update and store geographic data for targeted market areas. The data can be linked to funding applications and analyzed.

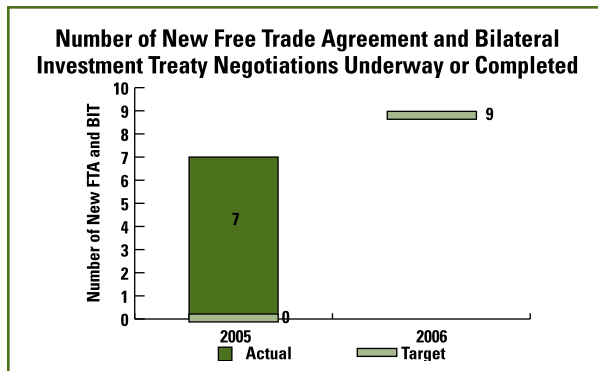
Economic Policies: Treasury develops and implements economic policies to stimulate economic growth and job creation. While drawing a direct relationship between Treasury’s actions and economic indicators is difficult, Treasury policy makers have helped to create an environment conducive to strong economic growth and a healthy labor market. In FY 2005, real Gross Domestic Product (GDP), the broadest measure of the economy’s performance, rose by



3.6%. Actual growth exceeded the Administration’s estimate of the economy’s potential growth rate. The solid pace of expansion spurred acceleration in job creation that helped lower the unemployment rate by 0.3 percentage points over the fiscal year to 5.1%. Each year, Treasury’s Office of Economic Policy participates in an interagency working group with the Office of Management and Budget and the Council of Economic Advisor. This group is responsible for developing the economic assumptions that serve as the foundation for the Administration’s budget forecast. In FY 2005, Treasury made a significant contribution to this effort, developing a study of recent trends in labor force participation and pairing this work with expected demographic changes to forecast the likely future path of the rate of labor force participation. Treasury also conducted a unique analysis of defined-benefit pensions and their role in future labor compensation packages. Finally, Treasury staff performed state-of-the-art analysis on the proportion of national income that is taxable. These efforts were used to develop the forecast for economic growth and estimated tax receipts in formulating the President’s overall financial plan for the Federal Government.

Treasury stimulates international economic growth and job creation primarily through the Office of International Affairs (IA). IA works to open trade and investment, encourage growth in developing countries, and promote responsible policies regarding international debt, finance, and economics.

Removing International Barriers to Trade and Investment: Treasury participates in the negotiation of international agreements that remove barriers to trade and investment. These agreements lead to enhanced global market efficiency and increased job and business opportunities for Americans. The U.S. seeks strong commitments from its trading partners to ensure those markets are available to the U.S. on a fair and open basis. Once implemented, these agreements serve as a core element of our trading partner's economic infrastructure, which enhances international economic and financial stability. Treasury participates actively in these negotiations, which are facilitated through the World Trade Organization or through U.S. initiated bilateral and regional Free Trade Agreements (FTA) and Bilateral Investment Treaties (BIT).



In FY 2005, the U.S. Congress passed the Central American Free Trade Agreement (CAFTA). Treasury co-led the financial services negotiations and was a significant participant in negotiations of the investment provisions. If approved and implemented in its present form, CAFTA would end most tariffs on more than \$33 billion of goods traded between the U.S. and Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua.

In FY 2005, there were seven open FTA negotiations with Panama, Thailand, three Andean countries, and initial talks with Oman and the United Arab Emirates (UAE). The talks with Oman reached an agreement

while the talks with the Andean countries and the UAE are expected to be completed in FY 2006.

BIT agreements contain provisions that help ensure the most 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 agreement developed last year, Treasury is participating in on-going negotiations with Pakistan. Additionally, Congress ratified a FY 2005 BIT agreement with Uruguay.

Moving Forward

In FY 2006, Treasury will continue to advance its analytical capabilities. Special emphasis will be placed on enhancing Treasury's forecasting capabilities to better project emerging trends, and on streamlining and improving analyses.

The Fund will continue to make changes to help communities in need. The Fund did not achieve the goal of 26,995 full-time jobs created for FY 2005. The primary factor was insufficient data as fewer awardees reported data this year. Moving forward, the Fund will work more closely with awardees regarding the importance of reporting in a timely and accurate manner, and may initiate administrative sanctions for such non-compliance.

The Fund is working to ensure that awardees submit CIIS reports on time and respond to the Fund's requests for clarification. Timely submission and response to inquiries is needed so that the Fund can accurately report on its annual performance. The Fund is working to make the CIIS data available to the public when legally appropriate.

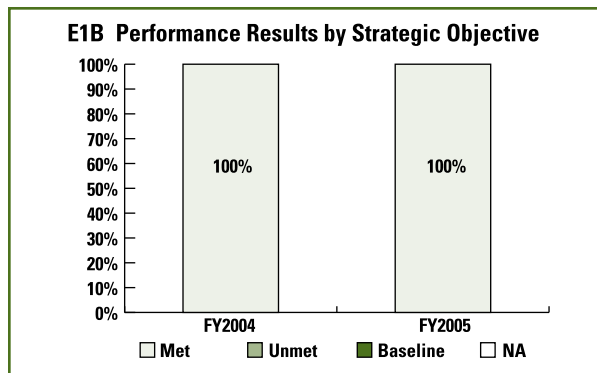
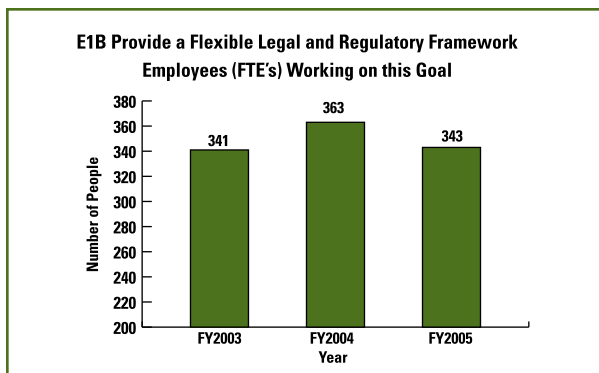
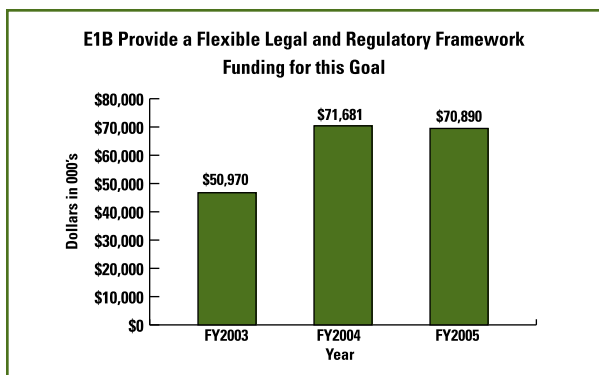
In FY 2006, the Fund will award and administer the contract for an independent evaluation of the NMTC Program. This evaluation will analyze the flow of capital into low-income communities, the performance of CDE's that receive allocations of tax credits and the outcomes at the community level.

Provide a Flexible Legal and Regulatory Framework

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

Performance Summary and Resources Invested

In FY 2005, Treasury spent \$70,890,000 with a workforce of 343 employees to provide a flexible legal and regulatory framework. In FY 2005, Treasury met 100% of its performance measures for this objective.



Discussion and Analysis

The OCC charters, supervises and regulates national banks as well as evaluates the permissibility of structures and activities of those banks and their subsidiaries. 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 FY 2005, OCC received 3,332 corporate applications and notices and issued 2,128 decisions, and issued 96% of all decisions within established time frames. The OCC received 1,256 applications and notices electronically, an increase of 44% from FY 2004. Electronic filing reached 38% overall, an increase from 34% in FY 2004.

In FY 2005, OCC issued 131 legal opinions on significant topics including the use of derivatives, electronic banking and directors’ qualifying shares. Of the 120 opinions subject to the established processing time frame, 86% were issued on time. The OCC issued seven final rules, one interim rule and two notices of proposed rulemaking.

OTS, like OCC, charters, examines, supervises, and regulates federal savings associations insured by the Savings Association Insurance Fund, in addition to their holding companies. OTS strives to reduce the regulatory burden on savings associations while maintaining effective supervision. To achieve this goal, OTS is improving the application process, limiting assessment rate increases, and reviewing burdensome statutes and regulations. OTS tailors

examinations based on the risk profile of the savings association. Smaller savings associations undergo streamlined exams, while more complex, larger savings associations are comprehensively reviewed.

In 2005, OTS continued to combine examinations for safety and soundness and compliance in order to attain greater efficiencies, improve its assessment of risk, reduce regulatory burden, and provide examiners with broader developmental opportunities. For the third consecutive year, OTS managed its operations to ensure that assessment rate increases did not exceed the inflation rate.

Under the Economic Growth and Regulatory Paperwork Reduction Act, a 1996 law, federal banking agencies are required to review all of their regulations at least once every 10 years. The agencies must complete the first review under this law by 2006. In 2003, the agencies began a three-year joint effort to categorize the regulations, publish the categories for comment, report to Congress on any significant issues raised by the comments, and eliminate unnecessary regulations. To date, agencies have issued five notices requesting comment on various categories of regulations. In addition, the agencies are conducting outreach meetings across the United States to solicit input from bankers as well as consumer and community groups.

The federal banking agencies have identified burdens that would require legislative changes to the underlying statutes before changes could be made to the regulations. These changes were presented to Congress as a list of consensus items that the national bank and thrift industries support.

Moving Forward

OCC legal opinions and corporate decisions will enable national bank activities to continue to evolve, consistent with safety and soundness. The OCC will continue to support the ability of national banks to operate under uniform national standards. The agencies will implement the revised Community Reinvestment Act regulation to reduce regulatory burden and support public policy objectives for community investment.

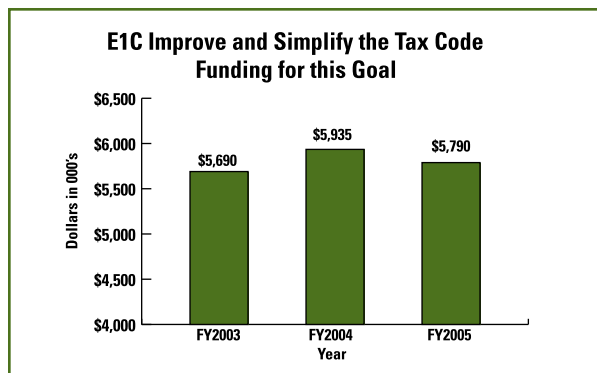
Beginning in FY 2006, OCC and OTS will implement a new performance measure (total costs relative to each \$100,000 in assets regulated) in support of its goal to efficiently control costs while ensuring the safety and soundness of the national bank and thrift industries.

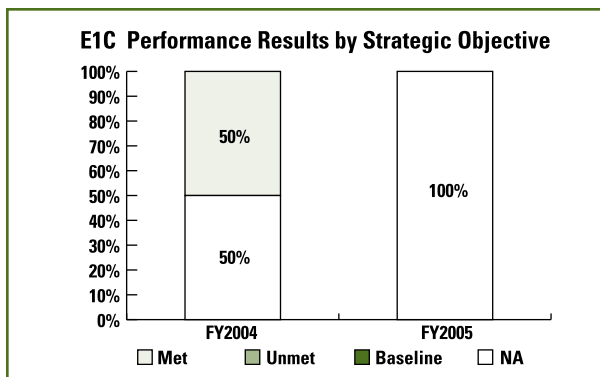
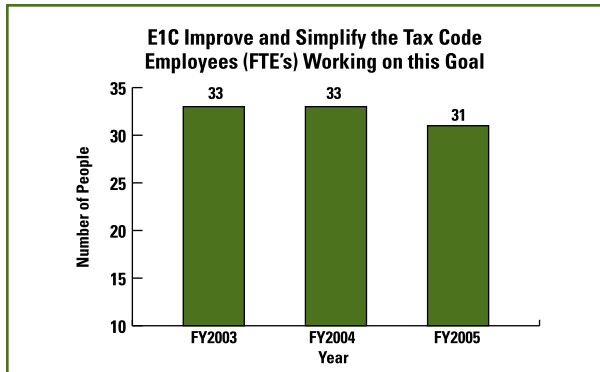
Improve and Simplify the Tax Code

Treasury is focused on simplifying and reforming the tax code. This will reduce the cost of compliance and contribute to economic growth. Treasury’s Office of Tax Policy conducts this analysis.

Performance Summary and Resources Invested

In FY 2005, Treasury spent \$5,790,000 with a workforce of 31 employees to improve and simplify the tax code. Performance measure data was not available for this objective due to revisions or discontinuance of the measures.





Discussion and Analysis



In FY 2005, Treasury worked closely with an advisory panel set up by President Bush to find options for reforming the Federal Internal Revenue Code. The Advisory Panel held public meetings in locations throughout the United States to obtain information and advice on making the tax system simpler, fairer and more growth-oriented. In analyzing the current tax system and reviewing the thousands of comments received, the Advisory Panel noted that, (1) over 60% of taxpayers use a paid preparer; (2) nine different definitions of income and fourteen phase-out levels are used to make fifteen common tax benefits available to families; and (3) there have been 14,400 distinct changes to the tax code since 1986. With analytical support from Treasury’s Office of Tax Policy, the Advisory Panel developed policy options and submitted their report to Secretary Snow on November 1, 2005.

Moving Forward

Treasury will present recommendations for tax reform to President Bush in early FY 2006.

Promote Stable U.S. and World Economies

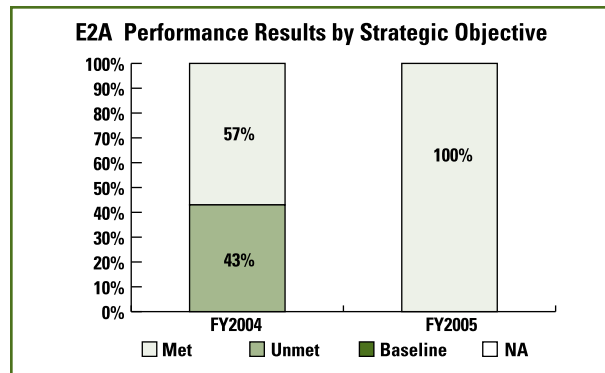
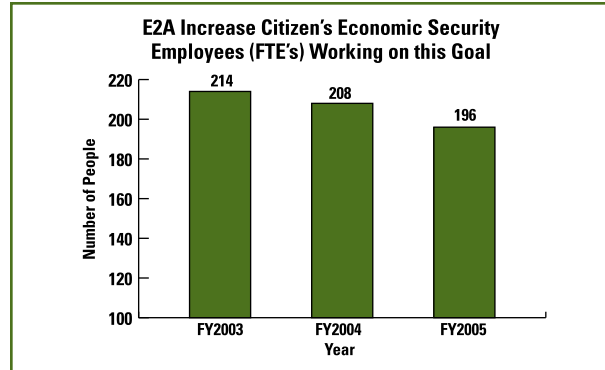
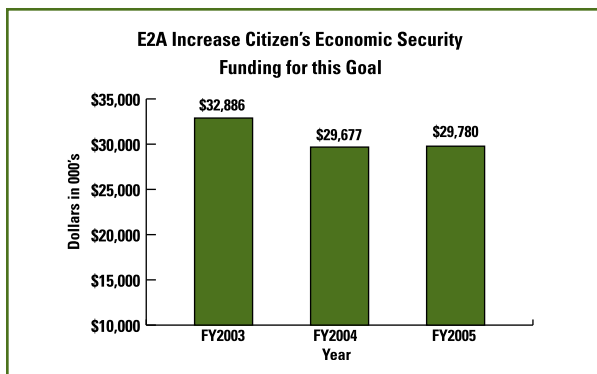
Increase Citizens' Economic Security



Treasury promotes economic security through the Office of International Affairs (IA), the Office of Financial Education, the Office of Economic Policy (EP), and the Alcohol and Tobacco Tax and Trade Bureau (TTB). Treasury promotes a stable U.S. economy by encouraging personal savings, protecting the security of pensions, ensuring the privacy of personal information in financial transactions, and protecting consumers from fraud and deception.

Performance Summary and Resources Invested

In FY 2005, Treasury spent \$29,780,000 with a workforce of 196 employees to increase citizens' economic security. Treasury met 100% of its performance measures for this objective.



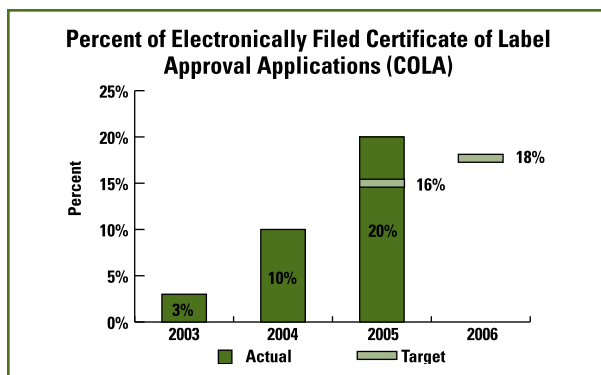
Discussion and Analysis

Financial Education: Treasury, through the Office of Financial Education, coordinates government efforts to increase the personal savings rate and ensure citizens make informed financial decisions. In FY 2005, Treasury increased its outreach efforts by improving the online Federal Financial Education Directory. By September 2005, this directory provided improved access to information on twenty-eight personal finance programs and initiatives in English and Spanish. Treasury also promoted financial education through increased outreach at events, speeches, round-tables, and teaching sessions. Topics included basic savings, credit management, home-ownership, and retirement planning. From January 2004 to August 2005, 164 events were held in 38 states, reaching over 9,200 people.

Pensions: Treasury's Office of Economic Policy supported the Administration's initiative to ensure secure pensions for citizens through fundamental

reform of the defined-benefit pension system. In FY 2005, a corporate bond yield curve was developed to provide a more accurate measure of funding requirements. This yield curve provides a schedule of interest rates that reflect the timing of future obligations. Yield curve proposals aim to improve accuracy and ensure that the value of assets in pension funds equal the value of payments promised.

Regulation: Treasury’s Alcohol and Tobacco Tax and Trade Bureau (TTB) protects consumers of alcohol products from fraud and deception through its regulation of businesses. Treasury, through TTB, requires importers and bottlers of alcoholic beverages to obtain a Certificate of Label Approval (COLA) or certificate of exemption from label approval for most alcoholic beverages prior to their introduction into interstate commerce. TTB conducts personal and financial background investigations, and inspections of premises to be used for the operation. In FY 2005, Treasury approved 79,805 of the 106,333 COLA applications received.



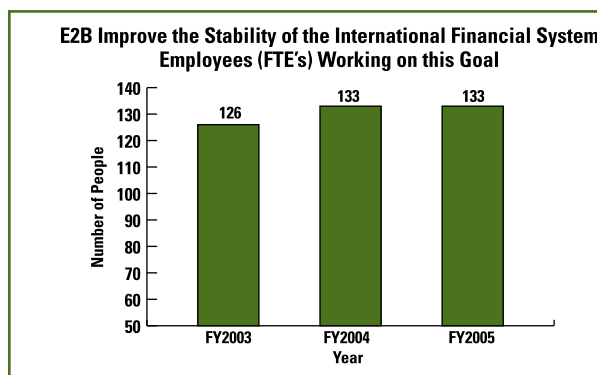
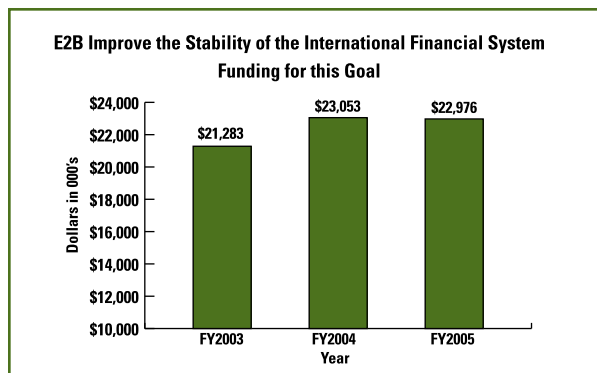
Monitoring the Economy: Treasury helps promote a stable economy by providing government officials with timely, in-depth analysis of the latest economic developments and emerging trends. In FY 2005, Treasury prepared over 400 updates on breaking economic news and more than 20 studies for the Secretary. Several of the analyses were shared with policy makers at other agencies to enhance their understanding of key economic issues.

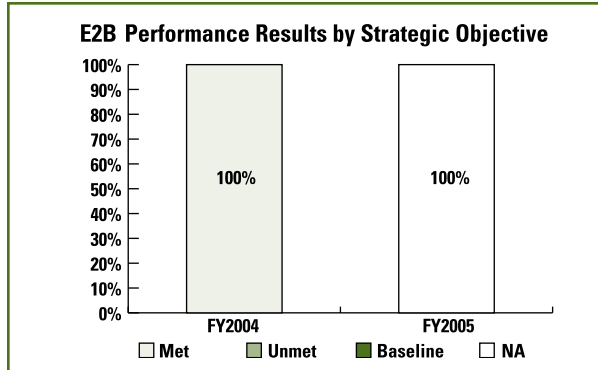
Improve the Stability of the International Financial System

Treasury, through IA, monitors the economies of more than 160 countries worldwide to ensure stability and transparency in the global marketplace. Treasury also works directly with more than 20 International Financial Institutions and organizations to help target development assistance.

Performance Summary and Resources Invested

In FY 2005, Treasury spent \$22,976,000 with a workforce of 133 employees to increase citizens’ economic security. Treasury did not have data available for the performance measures in this objective due to revisions or discontinuance of the measures.





Discussion and Analysis

Promoting Free Trade and Budget Savings:

Treasury supports trade liberalization and budget discipline through its role in negotiating and implementing international agreements pertaining to official export subsidies. Treasury secured agreements in the Organization for Economic Cooperation and Development (OECD) that reduced export credits and tied aid that requires that recipient countries buy goods and services from the donor country. These subsidies in official export financing are valued at \$70 billion annually. These agreements open markets, level the playing field for U.S. exporters, and provide effective subsidy reductions that save the U.S. taxpayer about \$800 million annually. Cumulative budget savings from these arrangements are estimated at over \$10 billion since 1991.

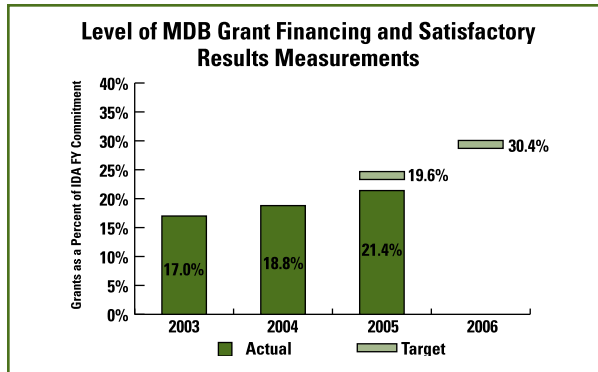


During FY 2005, Treasury negotiated an agreement to subject untied aid financing to new OECD rules. With the support of a Congressional mandate, Treasury reached agreement this using the G7 (U.S., Canada, United Kingdom, Japan, France, Germany, and Italy) and the OECD. Under this new agreement, bidding information for untied aid financed projects must now be publicly available in advance of bidding to facilitate effective competition by U.S. and other exporters. U.S. exporters could average as much as \$1 billion of new capital goods export contracts annually at no cost to U.S. taxpayers. Untied aid financing has averaged over \$7 billion annually since 1995.

G8-Broader Middle East and North Africa (BMENA) Initiative:

Across the Middle East, countries lack strong, well regulated, and efficient financial systems that can allocate resources to productive activities that provide employment, goods, and services for a rapidly-growing population. The multilateral G8 (U.S. Canada, United Kingdom, Japan, France, Germany, Italy, and Russia) BMENA initiative aims to address this deficiency by providing training, technical assistance, and policy advice. Treasury's goal is to secure a more prosperous Middle East by influencing the development of the financial sector that creates jobs and opportunities for the region and become an increasingly important trading partner to the United States.

Egypt: Treasury, in cooperation with the State Department and U.S. Agency for International Development, negotiated an agreement with the Government of Egypt to tie the disbursement of U.S. foreign assistance to Egypt's implementation of a series of reforms designed to modernize its financial sector. As a result, Egypt began the process of privatizing state-owned banks, resolving bad loans, and increasing the efficiency of the foreign exchange market. These reforms boosted investor confidence in Egypt and contributed to strengthening economic growth, up from 3.1% in FY 2003 to 5% in FY 2005. If maintained, this growth will boost job creation and help protect Egypt against economic shocks as it opens its markets.



African Mortgage Markets Initiative: In July 2003, President Bush called for the United States to assist African countries in developing their respective mortgage markets. The President asked Secretary Snow to spearhead the effort and coordinate assistance with other U.S. Government agencies. Subsequently Treasury, the Overseas Private Investment Corporation, and the United States Agency for International Development implemented eight mortgage programs in seven African countries. Commitments have been made to fund or finance over \$60 million for these programs that range from technical assistance on mortgage policy development to actual mortgage deals. During FY 2005, a major private sector program started in Zambia that will produce 5,000 homes and 5,000 mortgages. This program combines housing production with mortgage financing for buyers, providing first-time mortgages for many middle income Zambians.

Brazil: The largest economy in Latin America continued a strong recovery from the financial crisis of 2002, during which the United States supported International Monetary Fund assistance to Brazil to stabilize its economy. Good economic policies helped produce 4.9% real GDP growth during 2004 in Brazil, the highest growth rate in ten years. In addition, during the twelve months through July 2005, Brazil's economy created 1.4 million new jobs. During Treasury consultations with Brazil in August 2005, discussions focused on the global outlook, the benefits of increased trade openness for growth, strategies to increase investment in produc-

tive infrastructure, and policies to promote research and innovation.

Tsunami Relief: Treasury worked closely with a State Department interagency task force to ensure that the U.S. response to the tsunami tragedy was coordinated effectively with international organizations and other donors, to minimize the impact of the tsunami on growth and financial markets, and to provide real results for the people affected. To achieve these goals, Treasury worked with other U.S. government agencies to:

- Support creation of a “tracking matrix” for specific reconstruction projects underway by key donors in tsunami-affected countries to demonstrate that donor funds generated results
- Support a multilateral deferral of debt payments by the two countries most affected (Indonesia and Sri Lanka), to help them best use their own resources for tsunami relief and avoid financing shortfalls
- Coordinated with the World Bank, Asian Development Bank, and other donors to share information, avoid duplication of effort, and set up proper monitoring arrangements to minimize the potential misuse of donor resources

China: Treasury's international efforts included continuing dialogue and cooperation with Chinese leaders to achieve the goal of greater Chinese exchange rate flexibility. This involved discussions among senior policy officials, multilateral efforts, and a Treasury-led Technical Cooperation Program. This effort helped bring about the decision by the Chinese authorities to abandon their eight-year exchange rate peg and adopt a new exchange rate mechanism, an important first step toward greater flexibility in China's exchange rate. Treasury also broadened the discussion with China to include two issues critical to continuing China's economic success: fostering deeper, more open, and more efficient financial markets, and achieving a more balanced and sustainable pattern of growth with greater reliance on domestic demand.

Debt Relief for the Heavily Indebted Poor Countries (HIPC): In July 2005, President Bush and other G8 leaders endorsed 100% debt relief for Highly Indebted Poor Countries (HIPCs). Treasury developed and successfully negotiated the financial structure of this agreement, which will result in 100% cancellation of debt obligations owed to the International Development Association, African Development Fund, and International Monetary Fund by eligible countries.

Under this plan, the following 18 countries will be eligible immediately for approximately \$40 billion in relief: Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda, and Zambia. In addition, Cameroon, Chad, Democratic Republic of Congo, Gambia, Guinea, Guinea-Bissau, Malawi, Sao Tome and Principe, Sierra Leone, Cote d'Ivoire, Burundi, Central African Republic, Republic of Congo, Comoros, Laos, Myanmar, and Togo will also become eligible as they reach "Completion Point." Total debt relief provided under the G8 agreement is approximately \$56 billion.

This unprecedented initiative will improve debt sustainability and balance of payments positions, contribute to economic growth and job creation, and end the destabilizing lend-and-forgive approach to development assistance. Furthermore, the removal of unsustainable debt combined with additional development resources, largely provided on grant terms, will deliver significant support for countries' efforts to reach their development goals. Approval of this agreement by the World Bank, African Development Fund, and IMF is pending. It will likely be implemented in early 2006.

Liberia: A Treasury-initiated effort to improve economic governance in Liberia led to the creation of a Governance and Economic Management Assistance Program (GEMAP) for Liberia. The GEMAP is necessary to promote good governance in Liberia fol-

lowing decades of dictators and a long civil war that ended in 2003. A key objective of GEMAP is to limit the potential for corruption by providing increased international oversight over budget revenues and expenditures the granting of concessions, and the judiciary process. The GEMAP is also intended to facilitate much needed international community assistance to Liberia in the short term, while building capacity so that such assistance is not needed in the long term.

Jordan: The U.S. provided Jordan with \$650 million in assistance during the past year. Treasury worked closely with Jordanian financial authorities by providing policy advice and support to move Jordan from dependency on U.S. financial assistance to financial self-sufficiency. Treasury consistently pressed Jordanian authorities to remove the inefficient and costly fuel subsidies that have become an enormous drain on that government's resources. Jordan agreed to remove the subsidies in five stages (the first two are already completed). This will encourage fiscal balance, economic stability and job growth, and a reduction in U.S. foreign aid.

Iraq: One of the U.S.'s primary goals in Iraq is to establish a functioning government and to rebuild the security infrastructure. Once accomplished, the U.S. can reduce its presence by shifting key tasks to the Iraqi Government.

Real success in this effort can only be built upon the foundation of a rejuvenated economy. Meaningful employment opportunities can help restore a flourishing middle class and weaken support for the insurgency. A credible, sustainable budget will be the centerpiece of Iraq's IMF program, the first step in its return to the international financial system. A restored oil sector can provide the resources for Iraq to finance its own reconstruction and security. Treasury staff worked closely with Iraqi officials, providing policy advice and practical assistance. In FY 2005, Treasury helped Iraq secure an historic debt reduction deal under the Paris Club, success-

fully concluding its first IMF Article IV consultation in many years, and strengthening financial management and budget execution capabilities.

Key in this effort is the Treasury Financial Attaché in Baghdad, who also serves as the head of the Fiscal and Financial Affairs office of the Iraq Reconstruction Management Office (IRMO).

Turkey: Treasury focuses on supporting Turkey's economic stability program. A large, fast-growing economy with roots in Europe and the Middle East, Turkey is a major emerging market and key ally whose economic stability is critically important to U.S. interests in the region. Turkey is also one of the largest debtors to the International Monetary Fund (IMF), which makes Turkish stability important to the financial health of the IMF. Treasury continues to work closely with Turkish authorities to craft and support what has become an extremely successful economic stability program. Turkey's economy is strong enough that this year the country was able to forego an \$8.5 billion loan from the U.S. intended to help cushion against the negative impacts from the war in Iraq. Turkey has also begun formal negotiations to join the EU, which attests to its current stability.

Encouraging Small Business Growth in Eurasia: The Small and Medium Enterprise (SME) Fund, established in 2000, leverages capital from the European Bank for Reconstruction and Development (EBRD) to lend to SMEs through local banking systems in 12 countries in Southeast Europe and the former Eastern Bloc. As in the U.S., SMEs generate the bulk of growth and job creation. In FY 2005 total loan volume doubled to over \$3 billion, which was provided to 521,000 entrepreneurs. The total U.S. share of contributions was \$37 million. Each \$1 of U.S. funding leveraged \$81 of new lending.

Moving Forward

Treasury will continue to study, recommend, and support Administration policy initiatives to strengthen the U.S. economy, create more jobs for Americans, and enhance citizens' economic security. Treasury engages actively in work that will improve the U.S. pension system, reform social security, and improve the federal income tax system. In FY 2006, Treasury will also renew its effort to develop improved performance measures.

Treasury will continue to measure IMF programs to ensure efficiency and effectiveness. Because this was the first year the IMF programs were measured, the target of 90% was not met. Treasury will work to meet the 90% target in FY 2006.

Treasury will assist the broader Middle East and North Africa in building strong, well regulated, and efficient financial systems that can allocate resources to productive activities that provide employment, goods, and services for a rapidly growing population. Additionally, the Department will continue dialogue with China to address global and current account trade imbalances and increase exchange rate flexibility.

F Financing the U.S. Government and Preserving the Integrity of Financial Systems

Strategic Goals	Strategic Objectives
Preserve the Integrity of Financial Systems	Disrupt and Dismantle Financial Infrastructure of Terrorists, Drug Traffickers, and Other Criminals and Isolate Their Support Networks
	Execute the Nation's Financial Sanctions Policies
	Increase the Reliability of the U.S. Financial System
Manage the U.S. Government's Finances Effectively	Collect Federal Revenue When Due, Through a Fair and Uniform Application of the Law
	Manage Federal Debt Effectively and Efficiently
	Make Collections and Payments on Time and Accurately, Optimizing Use of Electronic Mechanisms
	Optimize Cash Management and Effectively Administer the Government's Financial Systems

Preserve the Integrity of Financial Systems

Disrupt and Dismantle Financial Infrastructure of Terrorists, Drug Traffickers, and Other Criminals and Isolate Their Support Networks

Execute the Nation's Financial Sanctions Policies

Treasury's Office of Terrorism and Financial Intelligence (TFI) is a key player in the Government's efforts to track and cut off the flow of funds to terrorists and other national security threats. In strong partnership with the Departments of Justice, State, and Homeland Security, as well as the Intelligence Community, TFI is leveraging a range of financial intelligence authorities to prevent the flow of funds to terrorist organizations. These efforts are beginning to yield encouraging results, impeding access to funds and the financial system by terrorist groups such as al Qaeda and Hamas.

Created in 2004, the Office of Terrorism and Financial Intelligence (TFI) marshals all of Treasury's intelligence resources and authorities and deploys them in a coordinated and focused manner against security threats.

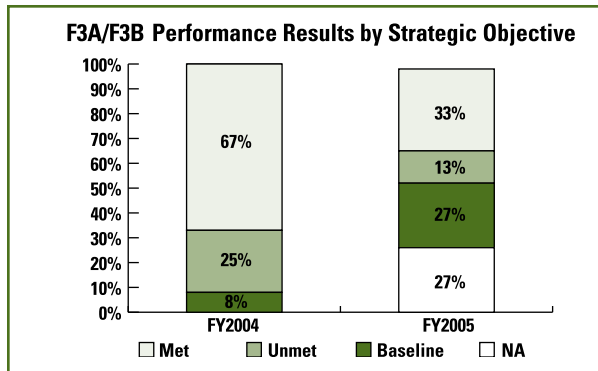
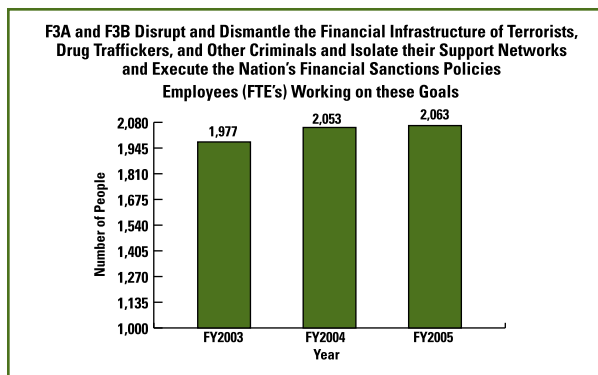
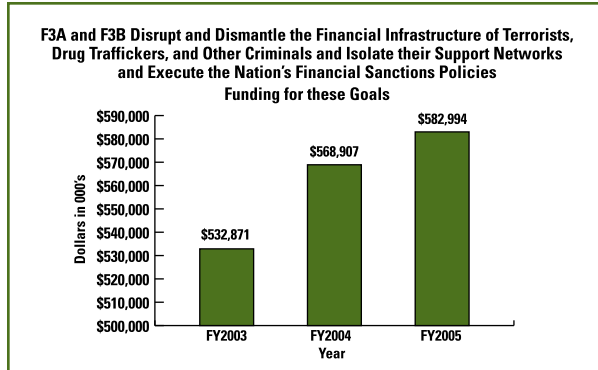
TFI unifies leadership for the functions of:

- The Office of Intelligence and Analysis (OIA)
- The Office of Terrorist Financing and Financial Crimes (TFFC)
- The Financial Crimes Enforcement Network (FinCEN)
- The Office of Foreign Assets Control (OFAC)
- The Treasury Executive Office for Asset Forfeiture (TEOAF)

Treasury's range of activities against national security threats include: (1) coordinating financial intelligence and analysis, (2) promoting international relationships that attack the financial underpinnings of national security threats, (3) improving the transparency and safeguards of financial systems, and (4) targeting and sanctioning supporters of terrorism, proliferators of weapons of mass destruction, narco-traffickers and other threats.

Performance Summary and Resources Invested

In FY 2005, Treasury spent \$582,994,000 with a workforce of 2,063 employees to fight financial crimes and the financial war on terror. Treasury met 33% of its targets for this objective, did not meet 13% and designated 27% as "baseline" to assess the data and set appropriate targets for next year. 27% were unavailable due to revisions or discontinuance of the measures.



Discussion and Analysis

Developing Increased Role in the Intelligence Community: One of TFI's priorities is to collect and analyze intelligence for action by the Government. Congress created the Office of Intelligence and Analysis (OIA) to improve Treasury's intelligence and analytic capabilities. TFI conducts weekly targeting sessions to review potential targets, assess the full range of possibilities and assign follow up action. Intelligence information and analyses are incorpo-

rated into all aspects of policy deliberations.

TFI is better integrated into the intelligence community. TFI hired a Requirements Officer in 2005, focused on providing comprehensive background information to the organization and communicating intelligence gaps. As a result, support from the intelligence community is tailored to Treasury's needs. An example where improved coordination has made a difference is in Treasury's efforts to cut-off funding for the insurgents in Iraq.

Appropriate policy, regulatory and enforcement actions include:

- Freezing the assets of terrorists, drug kingpins and support networks
- Cutting off corrupt foreign jurisdictions and financial institutions from the U.S. financial system
- Developing and enforcing regulations to reduce terrorist financing and money laundering
- Tracing and repatriating assets looted by corrupt foreign officials
- Promoting a meaningful exchange of information with the private financial sector to help detect and address threats to the financial system

The Fight Against Money Laundering: The fight against money laundering is integral to the war against terrorism. Treasury continues to promote anti-money laundering as a key to attacking criminal activity, including narcotics trafficking, white collar crime, organized crime, and public corruption. Resources devoted to fighting money laundering and financial crimes reap benefits beyond addressing the financial crimes they directly target. Financial investigations expose the infrastructure of criminal organizations. They provide a roadmap to those who facilitate the criminal activity, such as broker-dealers, bankers, lawyers and accountants; lead to the recovery and forfeiture of illegally obtained assets; and create broad deterrence against criminal activity.

International cooperation is a key element in the fight against money laundering. Accordingly, Treasury participates with other nations in the Financial Action Task Force (FATF). FATF, created in 1989, is the leading international standard setting body charged with safeguarding the global financial system against money laundering and terrorist financing. In FY 2005, as a member of the FATF, Treasury:

- Actively participated in and led many FATF initiatives, including efforts to strengthen counter terrorist financing standards
- Prompted an initiative within the FATF to strengthen the world's defenses of counter-terrorist financing
- Coordinated with agencies in promoting the FATF; adoption of a new international standard calling on governments to establish regimes to address cross border movement of illicit currency and bearer negotiable instruments
- Developed a list of “red flag” indicators to detect cash couriers

During FY 2005, TFI implemented a new Executive Order to combat the financing of Weapons of Mass Destruction proliferation that enables the government to designate proliferators and their supporters. The designation blocks or freezes all property and interests in the U.S. or that come into the control of the U.S. The U.S. originally designated eight entities (3 North Korean, 4 Iranian, and 1 Syrian), and has subsequently designated eight additional entities.

TFI also led an inter-agency effort to develop the first-ever National Money Laundering Threat Assessment. The assessment tracks money-laundering threats over a large geographic area and identifies evolving vulnerabilities to assist the enforcement community to apply resources to the greatest threat areas.

By the close of FY 2005, TFI, through the Financial Crimes Enforcement Network (FinCEN), completed anti-money laundering regulations for 11 of the 15 targeted industries. FinCEN drafted regulations for the remaining industries; however, due to resource

constraints and the need for extensive consultation and coordination with other federal regulators, was unable to finalize regulations for all 15 industries.

Administering the Bank Secrecy Act: TFI, through FinCEN, safeguards the financial system from the abuses of financial crime by enforcing the Bank Secrecy Act (BSA). The BSA requires financial institutions to make reports available to law enforcement, keep records, and establish appropriate internal controls to guard against financial crime. Additionally, in its role as administrator of the BSA, FinCEN oversees and coordinates the sharing of financial intelligence analysis with its stakeholders. FinCEN works closely with its regulatory partners to take action when industry does not comply with the BSA. FinCEN encourages compliance by imposing civil monetary penalties or lesser enforcement remedies against violating institutions.

In 2005, FinCEN closed 76 enforcement cases and eliminated its historic case backlog. Unfortunately, FinCEN did not meet the FY 2005 performance measure of “1.1 years average time to process cases.” The actual result of 1.3 years resulted from focusing resources on eliminating the case backlog. By eliminating the case backlog, FinCEN is able to direct resources towards the timely and appropriate resolution of significant cases such as *AmSouth Bank* and *Arab Bank*. Those cases were processed in three months and eight months, respectively.

FinCEN facilitates information sharing through BSA Direct to track and share data within the enforcement community. The goal of BSA Direct is to accelerate the secure flow of financial information so that enforcement agencies can more readily use the information to prevent, detect, and prosecute financial crime, including terrorist financing. FinCEN enhanced BSA Direct with a new, easier to use, web-based functionality. Law enforcement users accessing BSA Direct data through the web-based system increased from 582 in FY 2001 to 3,344 in FY 2005, surpassing Treasury's target of 3,000 users.

Criminal Investigations: Beyond working to ensure taxpayers comply with tax laws, IRS enforcement actions contribute to national security and homeland defense. Terrorists and their supporters have raised funds by abusing tax-exempt and non-profit organizations ostensibly engaged in humanitarian relief or religious activities. TFI provides policy guidance to the IRS-Criminal Investigation Division in anti-money laundering, terrorist financing and financial crimes cases. Given that a significant amount of terrorism funding has come from within the United States, the IRS plays a unique role in combating the use of charitable organizations to raise funds for terrorist organizations. In addition to tax-exempt organizations, terrorist organizations also finance their operations using a variety of conventional criminal activities, such as stolen property, insurance fraud, smuggling and narcotics trafficking. All of these activities impact tax administration.

The IRS provides financial investigation expertise to the Federal Bureau of Investigation's Joint Terrorism Task Forces and the U.S. Attorney's Office Anti-Terrorism Task Forces in disrupting and dismantling terrorist financing. The IRS works closely with TFI to investigate and freeze accounts controlled by individuals or "charitable" organizations suspected of raising or facilitating the movement of funds used to support terrorism.

This year, the IRS Criminal Investigation Division (CI) had 162 terrorism related investigations in inventory. Approximately 50% of these investigations have a tax related component and are directly tied to CI's core mission. In addition, 86 cases were recommended for prosecution to the Department of Justice and 67 resulted in an indictment.

Enforcing Sanctions: The Office of Foreign Assets Control (OFAC) administers and enforces economic and trade sanctions against targeted foreign countries, terrorists, international narcotics traffickers and those engaged in activities related to the proliferation of weapons of mass destruction (WMD). OFAC acts

under the President's wartime and national emergency powers, as well as under authority granted by specific legislation, to impose controls on transactions and assets subject to U.S. jurisdiction. Many of the sanctions are based on United Nations and other international mandates, are multilateral in scope, and involve close cooperation with allied governments. Recent OFAC actions under several sanctions programs include:

- In January 2005, OFAC announced the designation of 15 companies and 24 individuals associated with a money-laundering cell of the Arellano Felix Organization involved in a money-laundering scheme centered on the use of currency exchange houses in Mexico laundering more than \$120 million in illicit proceeds from narcotics sales in the United States
- In May 2005, OFAC designated the Elehssan Society, including all its branches, as a charitable front for the Palestinian Islamic Jihad (PIJ), pursuant to E.O. 13224
- In May 2005, OFAC designated the Colombian conglomerate Grupo Grajales, its CEO, Raul Alberto Grajales Lemos, a key cartel leader and money launderer, 32 companies that form the Grupo Grajales business group and 30 other individuals. On June 16, 2005, Colombian authorities seized the Grupo Grajales companies in a criminal forfeiture action
- On June 28, 2005, OFAC executed Presidential Executive Order 13382, Blocking Property of WMD Proliferators and Their Supporters
- In July 2005, OFAC designated the Movement for Islamic Reform in Arabia (MIRA) as a Specially Designated Global Terrorist (SDGT). MIRA is run by al Qaeda affiliated SDGT Saad al-Faqih
- OFAC designated Viktor Bout's international arms trafficking network under E.O. 13348 with respect to Liberia and blocked approximately \$2 million in assets

Moving Forward

Treasury achieved results in combating financing of terrorists and other national security threats. Quantifying these results is challenging. Given the clandestine nature of the activities of terrorists and proliferators of WMD, it is impossible to estimate with any precision how much money intended for their support failed to reach their hands. Treasury is forced to rely on proxy indicators to determine the effectiveness of its actions. In FY 2006, TFI will implement more refined metrics to assess performance.

Looking forward, TFI will continue to enhance its abilities to identify, disrupt and dismantle the financial infrastructure of terrorists, proliferators of WMD, narco-traffickers, criminals, and other threats and to isolate their support networks. Additionally, TFI will improve analytical capabilities, particularly with respect to the financing of proliferators of WMD.

TFI plans to:

- Improve its outreach to state governments and financial industries newly covered by BSA regulations, and strengthen oversight compliance examination activities
- Complete anti-money laundering regulations
- Develop a stronger analytic capability
- Expand international terrorist financing information exchanges by upgrading the secure web system used by the Financial Intelligence Unit network
- Monitor, update and extend existing designations to capture the evasions of Specially Designated Global Terrorists and their support networks
- Track the development of new support structures and funding sources
- Support the “all fronts” attack on the flow of drugs across Mexico

Increase the Reliability of the U.S. Financial Systems

Treasury ensures the U.S. financial system’s reliability and security through the production of the nation’s coin and currency and supervision of national banks and savings associations. Two bureaus share the responsibility of meeting global demand for the world’s most accepted coins and currency: the United States Mint (Mint) and the Bureau of Engraving and Printing (BEP). These bureaus manufacture circulating coinage and popular numismatic products, and develop new designs for next generation currency to guard against counterfeiting. The Office of the Comptroller of the Currency (OCC) and Office of Thrift Supervision (OTS) promote the increased reliability of the U.S. financial system by supervising national banks, savings associations, and savings and loan holding companies, thereby ensuring adherence to applicable laws, rules, and regulations and providing a safe and sound financial system.

In FY 2005, the Mint and BEP:

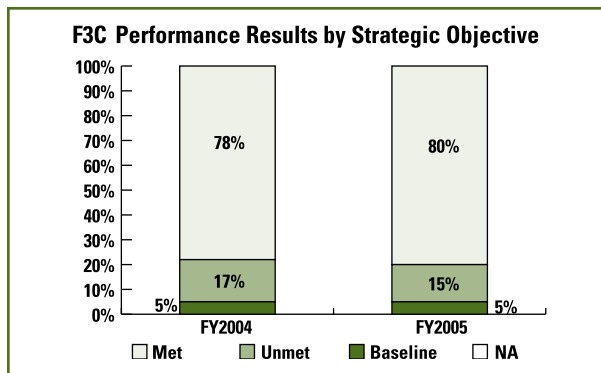
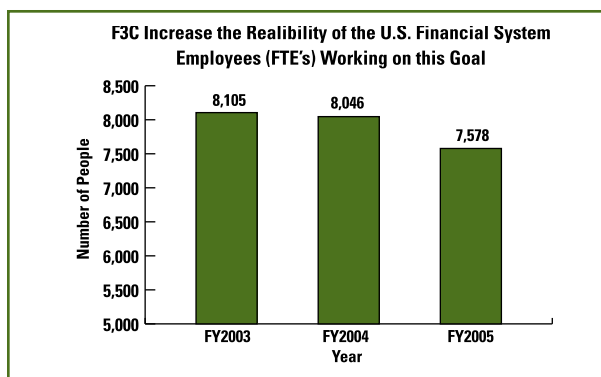
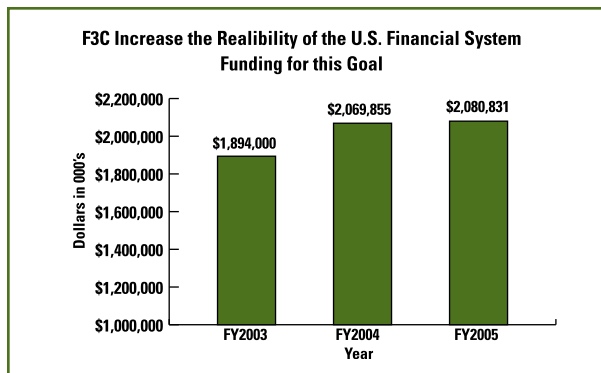
- Produced 14.2 billion coins – 700 million more than FY 2004
- Produced 8.6 billion paper currency notes – 1 million more than FY 2004

The OCC and OTS:

- Supervised 1,933 banks and 51 federal branches, with assets totaling approximately \$5.9 trillion
- Supervised 870 savings associations with \$1.4 trillion in total assets and 483 holding company enterprises with approximately \$7 trillion in consolidated assets

Performance Summary and Resources Invested

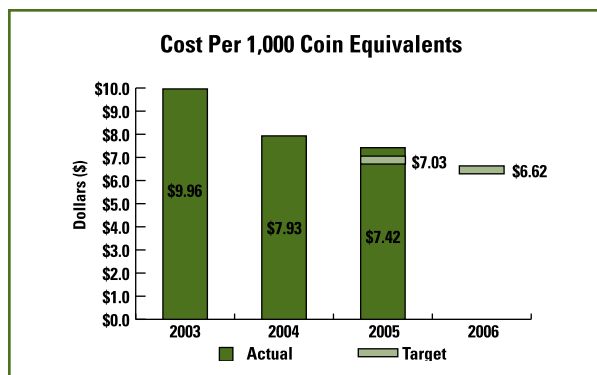
In FY 2005, Treasury spent \$2,080,831,000 with a workforce of 7,578 employees to sustain reliable financial systems. Treasury met 80% of its performance measures for this objective, did not meet 15% and designated the remaining 5% as “baseline” to assess the data and set appropriate targets for next year.



Discussion and Analysis

The Mint and BEP have streamlined processes and leveraged technology to produce the nation's coin and currency at significant cost savings providing additional value to the American people.

Producing Coins: The Mint's total revenues and collections increased to \$1.77 billion in FY 2005 from \$1.65 billion in FY 2004. Total operating results and profits before protection costs increased to \$823.5 million in FY 2005 from \$688.1 million in FY 2004. Total



margins before protection costs increased to 46.5% compared to 41.7% in the prior year despite a rise in the prices of the metals that are used in the fabrication of coins. The Mint was able to increase margins by shipping more coins, improving time to market and reducing manufacturing and Selling, General and Administrative costs. Because of the improved operating results and profits, the Mint returned \$775 million to the Treasury General Fund in FY 2005, compared with \$665 million in FY 2004.

The Mint's strategic plan focuses on adding value, ensuring integrity and realizing world-class performance. Two performance measures that improved in FY 2005 are cost per 1,000 coin equivalents and cycle time. The cost per 1,000 coin equivalents decreased 6% to \$7.42 in FY 2005 from \$7.93 in FY 2004, missing the target of \$7.03. The Mint plans to continue to reduce conversion costs for given production volumes through further implementation of lean manufactur-

ing techniques at the manufacturing facilities. Cycle time declined to 69 days as of September 2005 from 85 days in September 2004, but missed the target of 53 days. The primary cause for not reaching the target is the size of the dollar coin inventory maintained by the Mint. No new production of dollar coins is taking place for circulation because demand is currently being met by existing inventory. The Mint is currently working with the Federal Reserve Banks, the armored carrier industry, and commercial banking industry to reduce inventories.

Producing Currency: BEP streamlined its operations to produce currency at the lowest possible cost in FY 2005. Two performance measures used to assess production and delivery efficiency are: the dollar costs per 1,000 notes produced and security costs per 1,000 notes delivered. The cost per 1,000 notes produced increased by \$0.77, up from \$28.06 in FY 2004 to \$28.83 in FY 2005, but still exceeded the target by \$2.17. The security costs per 1,000 notes delivered decreased 3% to \$5.75 in FY 2005 from \$5.95 in FY 2004. Shipment discrepancies are prevented by a series of automated quality and accountability checks performed throughout the production process as well as by final verification prior to shipment to the customer.

BEP's program specifically addresses the nation's need for counterfeit-deterrent currency. To deter counterfeiters, Treasury redesigned the \$10 note and continued to use the latest technologies for security printing and processing. The \$10 note follows

the successful introductions of the redesigned \$20 note and the redesigned \$50 note in 2003 and 2004, respectively. BEP will continue its currency redesign efforts. The Department has already begun its redesign of the \$100 note and expects production to begin in 2007.

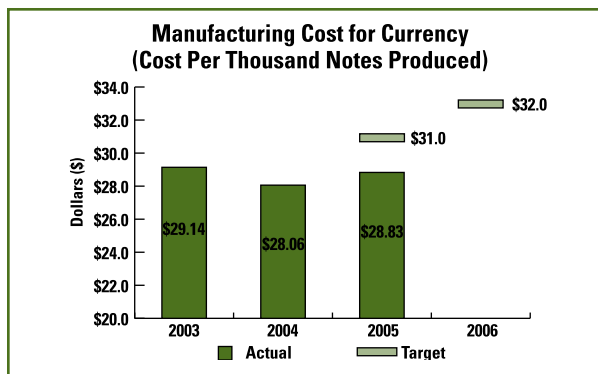
BEP's automated inspection equipment consistently produces high quality, counterfeit-deterrent currency. As a result, 99.9% of all notes delivered to the Federal Reserve met or exceeded their exacting quality standards.

Reducing cost provides value to taxpayers and BEP established ambitious annual targets for the cost of currency and other security items produced. In FY 2005, both the currency and postage stamp programs were completed below standard cost with lower than anticipated spoilage.

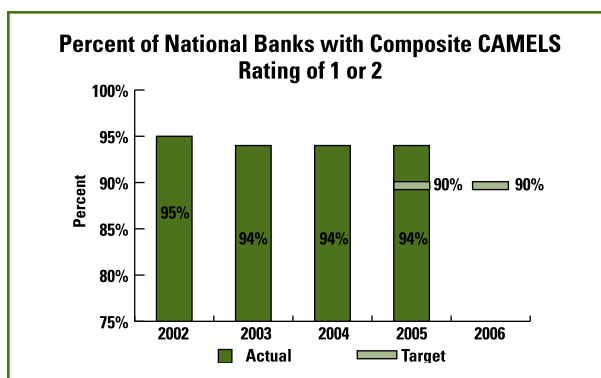
In FY 2005, 111 years of printing stamps at the BEP ended when the Bureau ceased stamp production. Throughout this relationship with the United States Postal Service, the Bureau continued to improve and update its creation of well-crafted, high quality postage stamps.

Through monthly reporting and analysis of production and cost performance data, program managers receive timely and effective feedback that they use to continually adjust and fine-tune production processes to achieve continuous improvement. For example, currency shipment discrepancies are prevented by a series of automated quality and accountability checks performed throughout the entire production process as well a final verification prior to shipment. BEP exceeded both security performance targets in FY 2005 for the number of currency shipment discrepancies (per 1000 notes delivered) and security costs per 1000 notes delivered.

Regulating National Banks and Savings Association: Treasury continually enhances the reliability of the U.S. financial system by administering bank and



savings association supervision programs. These programs consist of those ongoing supervision and enforcement activities undertaken to assure that each national bank or savings association is operating in a safe and sound manner and is complying with applicable laws, rules, and regulations relative to the bank or savings association and the customers and communities it serves.



Treasury, through the OCC, supervised 1,933 banks and 51 federal branches, with assets totaling approximately \$5.9 trillion. OCC supervision ensures that the national banking system operates in a safe and sound manner while complying with consumer protection laws and regulations. In FY 2005, 99% of all national banks were well capitalized relative to their risks. OCC examiners concluded that 94% of national banks earned the highest composite ratings of 1 or 2 under the standard method of evaluating a bank’s operations, to include capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk (CAMELS). For the relatively few problem national banks, 44% improved their composite CAMELS rating to either 1 or 2 since last year.

To ensure fair access and fair treatment of bank customers, banks are evaluated on their compliance with consumer protection laws and regulations. In FY 2005, 94% of national banks earned the highest consumer compliance ratings of 1 or 2, meeting the FY 2005 target of 90%.

A significant FY 2005 challenge has been Bank Secrecy Act/Anti-money Laundering (BSA/AML) supervision. To address this challenge, the OCC developed and successfully completed actions outlined in its FY 2005 – 2006 BSA/AML Operating Plan. The OCC completed BSA/AML/USA PATRIOT Act (USAPA) examinations in all identified high-risk mid-size banks, community banks, and Federal Branches during FY 2005. The OCC continued BSA/AML examinations and completed USAPA examinations in all large banks. Through June 30, 2005, OCC conducted 1,123 BSA/AML/USAPA examinations. During FY 2005, numerous actions were taken to improve the BSA/AML compliance program. New enforcement policy revisions were published to provide additional guidance on situations where formal actions should be taken. An ambitious outreach program was conducted that included nationwide conference calls and meetings around the country to answer questions about BSA/AML and supervisory standards. This program reached more than 24,000 people, mostly bankers. Foreign supervisors were provided with technical assistance and training on BSA/AML techniques used in OCC’s supervision process. The OCC and OTS, in collaboration with FinCEN and other bank regulators, issued the Federal Financial Institutions Examination Council Bank Secrecy Act/Anti-money Laundering Examination Manual.

Treasury, through OTS, supervises savings associations and their holding companies in order to ensure compliance with consumer laws, and to encourage a competitive industry.

In FY 2005, Treasury’s OTS regulated 870 savings associations with total assets of \$1.4 trillion. These savings associations operated in a safe and sound manner with 94% achieving an overall composite CAMELS rating of 1 or 2. The industry’s capital position remains strong with over 99% of savings associations meeting the well-capitalized standards.

OTS also supervises 483 holding company enterprises with approximately \$7 trillion in consolidated assets. Over half of all savings associations and 80%

of total savings association assets are owned by OTS-regulated holding companies.

More than 65% of all savings associations have total assets that are less than \$250 million and are generally community-based organizations. As community-based lenders, the majority of savings associations' loans are made to consumers. Direct loans to consumers, including single-family mortgages, make up 63% of aggregate savings association assets. Savings associations' asset quality is strong. Continued strong asset quality is dependent on stable real estate values, a favorable employment environment, and consumers' continued ability to service debt.

OTS closely monitors interest rate risk due to the thrift industry's natural concentration in longer-term mortgage loans, generally funded through shorter-term deposits and borrowings. OTS maintains an interest rate risk sensitivity model that stress-tests savings association portfolios to evaluate potential exposure to changing interest rates. The model allows OTS to assess interest rate risk exposure. OTS remains cautious of the potential impact of a rapid increase in market interest rates, and OTS will remain vigilant in monitoring savings associations for adverse trends.

OCC and OTS serve on several international task forces and working groups responsible for developing and implementing an international capital framework known as Basel II. Domestically, OCC and OTS, along with the other Federal Banking Agencies (FBA), are implementing Basel II as a modern risk-based capital framework that enhances risk management and refines capital adequacy on a basis broadly consistent with capital standards governing foreign banking organizations. A key aspect of this work was the fourth quantitative impact study (QIS4) designed to provide the agencies with a better understanding of how implementation of the Basel II Framework might affect minimum required risk-based capital within the U.S. banking system. The study results will help the Federal Banking Agencies develop an

interagency notice of proposed rulemaking and comprehensive guidance to be issued in FY 2006.

During the summer of 2005, Treasury's regulatory agencies issued interagency guidance on a wide variety of specific topics, such as customer identification program requirements, the provision of services to foreign embassies and foreign political figures, and information sharing requirements under section 314(a) of the USA PATRIOT Act. To address the specific issue of examination consistency, the agencies, in coordination with TFI, issued examination procedures that provide valuable guidance to both examiners and the banking industry. These interagency examination procedures were augmented by a series of nationwide examiner training and industry outreach efforts. The outreach efforts included a national rollout of the examination procedures by video conference that was broadcast to federal banking and state agency examiners at 38 sites in 13 cities; a series of nationwide conference calls for the banking industry; and regional outreach meetings in San Francisco, Dallas, Chicago, New York and Miami. Each regional outreach meeting included an industry session and separate examiner training session. In addition, the regional event in New York was simulcast over the Internet. Registration indicates that the events were attended by over 2,000 examiners and 10,000 representatives of the banking industry, trade associations, and other interested parties.

Moving Forward

Emerging technologies will create challenges for Treasury. The increased use of electronic transactions, coin counting machines, and improved distribution will likely moderate demand for newly issued coins and currency. Treasury will continually assess and analyze operations to monitor and hold-down the per-unit costs of production. Efforts to migrate to lines of business under the PMA arrangements for back-room administrative processing are expected to lead to cost savings in the long term. The immediate challenge will be to handle the migration of functions, without impacting the level and quality of service provided.

To realize Treasury's strategic focus on realizing world-class performance, maximizing taxpayer value, and developing a model workplace, the Department will:

- Invest in state-of-the-art equipment and a highly skilled workforce to ensure that Treasury remains the world's premier producer of coins and currency
- Continue to be an active member of the Advanced Counterfeit Deterrence (ACD) Committee
- Develop new products such as the new 24-Karat gold bullion coin as well as continue with programs such as the 50 States Commemorative Quarter Program
- Remain competitive by researching new materials and new technologies, reducing the time to market for new products, and implementing lean manufacturing and management techniques

In FY 2006, a key supervision issue will be monitoring the potential impact of a sudden and sustained rise in interest rates on banks' and savings associations' real-estate portfolios and the potential effects to other consumer lending portfolios.

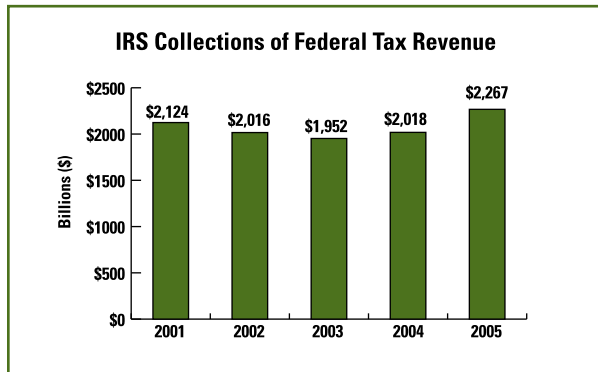
OTS will reinforce close attention to underwriting standards and lending practices with savings associations using these new product lines. The OCC will continue efforts to implement Basel II, revise capital rules for non-Basel II banks, and provide training.

Manage the U.S. Government's Finances Effectively

Collect Federal Tax Revenue When Due Through A Fair and Uniform Application of the Law

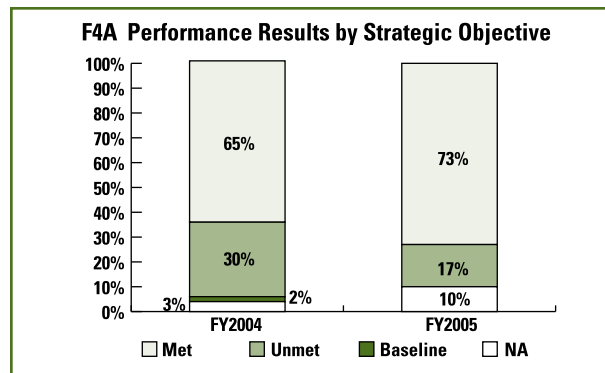
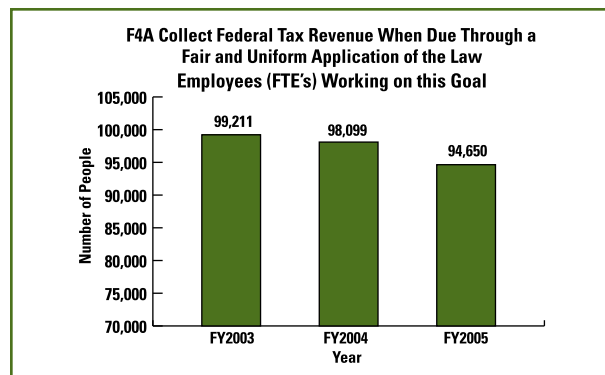
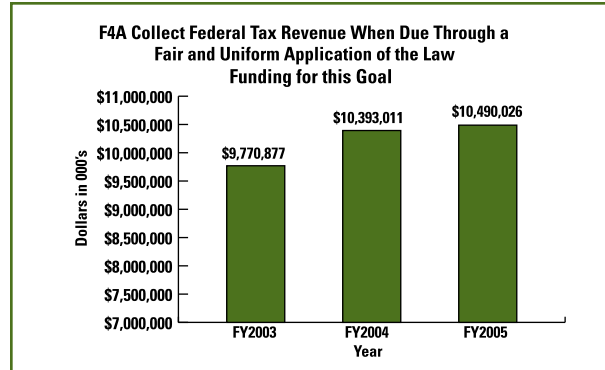
A key element in managing the Federal Government's finances effectively is collecting federal tax revenue. Treasury dedicates the largest percentage of its resources to this mission element. Three bureaus process and collect federal tax revenue: the Internal Revenue Service (IRS), the Alcohol and Tobacco Tax and Trade Bureau (TTB) and Financial Management Services (FMS).

In FY 2005, the IRS collected over 2 trillion dollars in revenue, with a record \$47.3 billion collected through enforcement activities. Enforcement revenue increased 9.7% over last year, and total IRS collections of federal tax revenue increased 12.3%. An additional \$14.71 billion in excise taxes was collected by TTB from producers and sellers of alcohol, tobacco, firearms and ammunition.



Performance Summary and Resources Invested

In FY 2005, Treasury spent \$10,490,026,000 with a workforce of 94,650 employees to collect federal tax revenue. Treasury met 73% of its performance measures for this strategic objective, did not meet 17%, and designated the remaining 10% as "baseline" to assess the data and set appropriate targets for the next year.



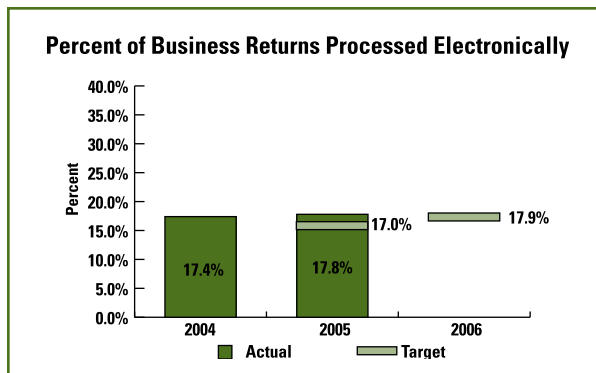
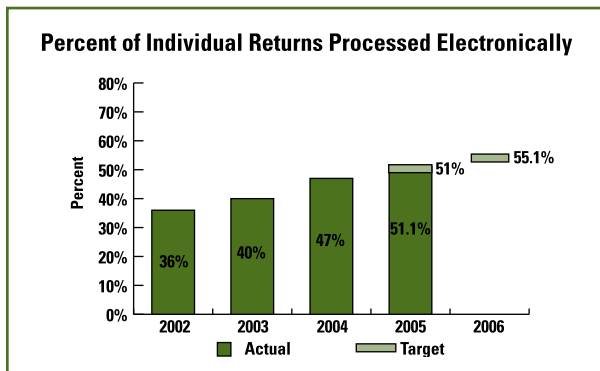
Discussion and Analysis

The IRS achieved an overall success rate of 81%, meeting 17 of 21 performance measures, compared to 67% in FY 2004. Of the four measures not meeting IRS's targets, three related to improving the quality of examinations while one related to reducing the backlog of cases.

Collection of Tax Revenue/ Processing Efficiency



The IRS educated taxpayers and stakeholders on the benefits of electronic filing, resulting in an electronic filing rate for individuals above 50% for the first time. A record 68 million taxpayers elected to file their returns electronically, helping IRS improve processing efficiency. Electronic filing eliminates manual sorting of paper tax returns, batching, assignment of document locator numbers and provides efficiencies such as data transcription, error correction and refund issuance. Moving the filing of information returns (W2s, 1099s, etc.) away from paper or magnetic media toward electronic filing by third parties streamlines the document matching process and improves the capability of IRS to uncover underreporting of taxable revenue. In FY 2005, IRS increased the electronic filing of information returns to 54.4%, an improvement of 24% over FY 2004. More electronic filing reduces the need for processing centers, and the IRS is implementing plans to scale them back.



Compliance/Reducing the Tax Gap

Reducing the tax gap is at the heart of IRS's enforcement program. The tax gap is the difference between what taxpayers should pay and what they actually pay. It results from taxpayers not paying their tax liability on time or failing to report their correct tax liability.

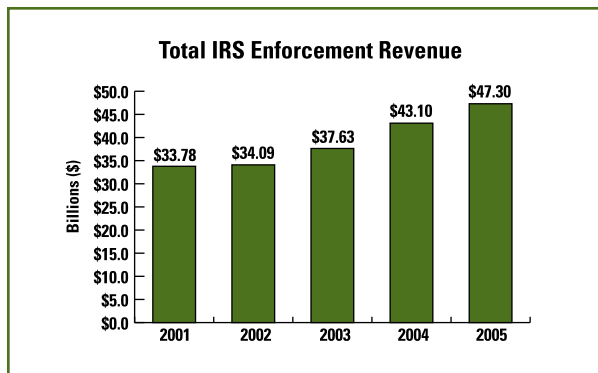


The IRS currently projects, based on compliance data from the 1980's, that the annual Federal gross tax gap is somewhere between \$312 billion and \$353 billion.

Based on IRS's March 2005 estimates, underreporting of income taxes, employment taxes, and other taxes represents about 80% of the tax gap. The single largest sub-component of underreporting involves the individual income tax, with individuals understating their incomes, taking improper deductions, overstating business expenses or erroneously claiming credits. The IRS's National Research Program (NRP) study confirmed that the majority of under-

stated income results from business activities, not wage or investment income.

The IRS, using the NRP, is focusing tax gap efforts on corrosive activities of corporations, high-income taxpayers and other major violators of the tax code. These efforts are working. Enforcement revenue from all sources was at a record level of \$47.3 billion in FY 2005. Targeting high-risk taxpayers improves IRS efficiency and reduces the burden on compliant taxpayers, and it increases enforcement presence where it is most needed.



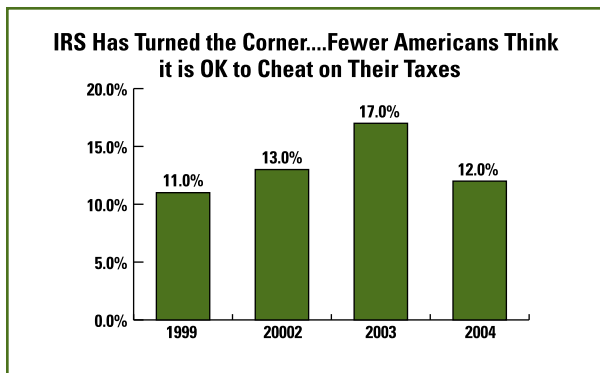
The IRS increased enforcement to improve taxpayer compliance while ensuring taxpayer confidence. For FY 2005, improved enforcement resulted in meeting or achieving 69% (9 of 13) of IRS’s targets through streamlining and centralizing work processes, improving workload selection techniques and increasing managerial involvement in casework. Refining case selection criteria resulted in shorter processing cycles and freed resources for casework. In addition, focusing on case quality and the use of embedded quality reports and data increased performance. The total of individual audits completed was 20% higher in FY 2005 than in FY 2004, while the number of high-income audits for the same period was 10% higher. The increase was made possible by focusing on more limited scope examinations and by using improved analytics, workload identification, and selection systems that targeted high-risk cases.

Small business audits increased 81% from last year. Corporate audits increased 15%, a significant gain given the size (over \$10 million in revenue) and complexity of these entities. Expanded examination coverage was achieved by increasing the focus on identification of limited non-compliant corporate returns and development of strategies to address issues at the entity level instead of the return level. Improved quality controls measuring critical elements of the examination, a reinforced focus on case quality to drive improvement efforts and the delivery of business results for the second consecutive year all led to better performance in 2005.

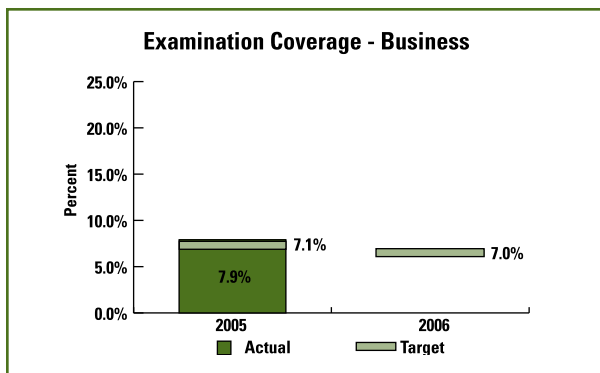
The IRS also improved performance in collecting tax revenue by improving workload selection techniques, reengineering outdated processes and deploying centralized processing to reduce overhead. Improved case selection tools, including risk-based modeling, is a critical component for ensuring timely processing of appropriate cases. For example, employment taxes (also known as trust fund or payroll) are high risk and one of IRS’s collection priorities. Risk-based modeling provides the IRS with earlier identification of potential noncompliance and provides the taxpayer with the best chance for resolving the issue. The IRS also reduced its inventory through timely and appropriate filing of Notices of Federal Tax Lien. Educating taxpayers about lien subordination, discharge and posting bonds or other collateral where appropriate has increased taxpayer compliance in meeting their outstanding liabilities. Because of these efforts, the IRS collected 14% more revenue and closed 12% more cases compared to FY 2004.

A heightened focus on enforcement increased taxpayer awareness of the importance of voluntary compliance. Overall taxpayer attitudes toward tax compliance softened somewhat in 2003, but rebounded in 2004. Attitudinal support for compliance rebounded as well, with nearly three out of four taxpayers agreeing that it is everyone’s duty to pay their fair share of taxes. Support for turning in tax evaders was at its highest recorded level, with nearly one of every four Americans agreeing that it is everyone’s personal

responsibility to report anyone who cheats on their taxes.



The IRS is focused on reducing the promotion and use of abusive tax schemes and avoidance transactions, while continuing to identify any taxpayers who underreport or underpay their taxes. During the past five years, the IRS has identified over 200,000 questionable returns prepared by practitioners on behalf of their clients. These returns claimed over \$700 million in refunds. Staff years devoted to return preparer investigations in FY 2005 increased by 12%. Since August 2002, more than 98,000 audits have been completed and over \$200 million in additional tax has been assessed on returns because of the ongoing return preparer investigations.

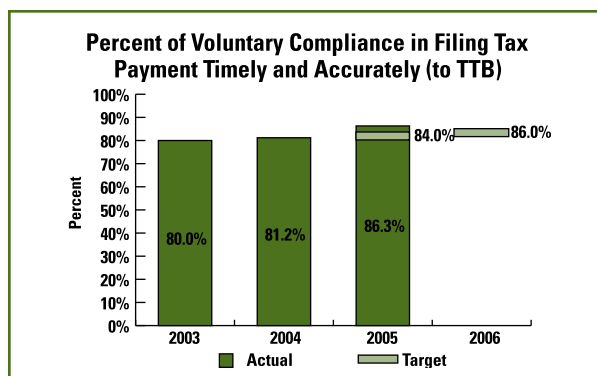


Before conducting an audit, the IRS offers taxpayers suspected of being involved in abusive tax shelters an opportunity to settle; in 2005 such offers generated more than \$4.7 billion in revenue. One significant tax shelter case was the Son of Boss, in which more than 1,200 qualified taxpayers elected to participate in a tax

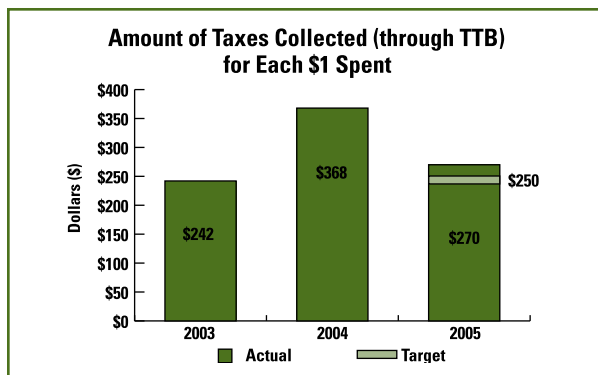
shelter settlement offer. The taxes, interest and penalties collected from the Son of Boss settlement have exceeded \$3.7 billion. A second settlement initiative is underway, in cooperation with the Securities and Exchange Commission. This abusive tax transaction involves transferring executive stock options or restricted family stock to family controlled entities for the personal benefit of executives. At least 42 companies and 700 executives participated in this abusive practice, and settlements have resulted in the collection of an additional \$1 billion through September 2005.

The combined detection and analytical capabilities of the Joint International Tax Shelter Information Centre will better enable the IRS and other participating tax agencies to take action against those who go abroad to plan, facilitate or engage in abusive tax transactions. The task force, which consists of tax officials from the U.S., U.K., Canada and Australia, is scrutinizing tax arbitrage by multinational corporations.

TTB also makes an effort to ensure that taxes due become taxes collected. TTB has roughly 7,300 taxpayers. Approximately 400 of the largest taxpayers account for 98% of the annual excise tax collections. To collect all the revenue due, a field approach is used to target non-compliant industry members and establish an identifiable presence that encourages voluntary compliance. TTB uses a risk model to evaluate and select the target audiences to audit. In FY 2005, TTB completed more than 60 audits of alcohol and tobacco companies, up from 54 audits in FY 2004.



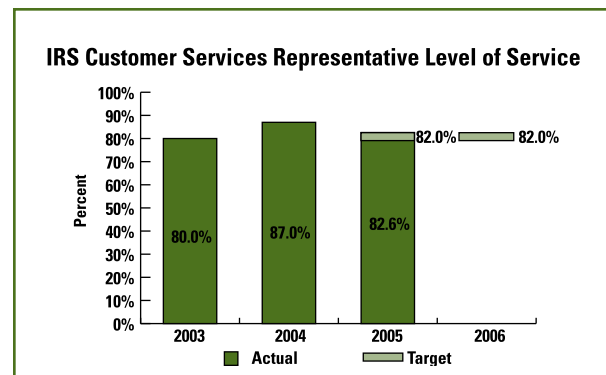
Treasury is focusing on linking goals and results to costs. In FY 2005, TTB calculated that it collected \$270 in alcohol and tobacco excise taxes for every dollar spent on administration. To help TTB benchmark its performance, the bureau has compared its operations to other countries. TTB found that it excelled against international benchmarks in terms of resources used as a percentage of taxes collected. The *“Tax Administration in the Organization for Economic Cooperation and Development (OECD) Countries: Comparison Info Series”* study found that TTB’s administrative costs of 0.37% of collections are below Sweden, which has administrative costs of 0.42% of collections (Sweden has the lowest cost of all 31 OECD member countries). Other efforts to link goals and results to costs include the development of cost per unit metrics in the tax collection arena. Some of these include cost per conviction in criminal cases at the IRS and the cost to process an excise tax return at TTB.



Taxpayer Service and Outreach

Assisting the public in understanding their tax reporting and payment obligations is the cornerstone of taxpayer compliance. For FY 2005, the IRS met or exceeded 100% (8 of 8) of the targets related to taxpayer service. Improvement efforts such as replacing paper with electronic processes and increasing quality control reviews raised the level of telephone customer service to an all-time high of 87% in FY 2004. For FY 2005, the IRS lowered its target to 82% to reflect the reduced level of funding appropriated for taxpayer

service programs. The IRS will continue to properly staff toll free call sites in order to achieve the optimal level of service based on the number of calls it expects to answer. Although the average time callers spent waiting for telephone assistance has dropped steadily over the last few years, the IRS experienced an increase in call waiting times based on increased demand and its plan to stabilize resources dedicated to telephone services.



The IRS processed over 130 million individual returns for the FY 2005 filing season (Tax Year 2004) and issued over 99 million refunds totaling over \$210 billion. For the 2005 filing season, IRS representatives also answered 33.4 million assistor telephone calls, while the automated telephone system handled nearly 25.7 million calls.

- Taxpayers received correct responses to 89% of tax law questions and 91.5% of account questions
- The IRS achieved an 82.6% level of service on answering toll-free calls from taxpayers, above the target of 82%
- The IRS continued to expand electronic tax products for businesses by increased marketing; expanded business e-file programs, including the acceptance of new forms and schedules; estates, trusts, and partnership tax returns; acceptance of amended returns; and acceptance of the new annualized employment tax return

The number of “hits” on the award-winning website IRS.gov totaled more than 4.8 billion, up 20% over last year. The high level of success is attributed to improvements in the expanded scope of electronically provided services. The IRS improved accuracy and timeliness of responses to taxpayer inquiries through online, self-service solutions such as the popular “Where’s my Refund?” application used by more than 22 million taxpayers to check on the status of their refunds this past filing season, a 49% increase over last year. Another feature allowed taxpayers to generate replacement checks if the first one was lost or was undeliverable. Taxpayers were also able to apply for and receive an Employer Identification Number via the Internet in less than five seconds.

Taxpayer Outreach: The IRS works to balance competing priorities of improving efficiency, reducing taxpayer burden and ensuring appropriate resources are on the front lines to combat egregious non-compliance. In FY 2005, IRS approached this challenge by expanding outreach efforts to bring more taxpayers into the system, increasing voluntary compliance levels and tax revenue, and improving service to compliant taxpayers.

IRS maintains a comprehensive library of educational materials for each type of taxpayer (individual, small business, corporation, etc.) on its website. In addition to providing educational materials that can be accessed by taxpayers, IRS also reaches out into neighborhoods through the Taxpayer Assistance Centers (TACs) and by using a dedicated staff of partners who provide tax filing assistance and education. In FY 2005, 6.6 million taxpayers visited a TAC to resolve account issues, obtain answers to tax law questions and to pick up needed tax forms. The number of taxpayers walking into TAC offices declined by 10%, as more taxpayers opted to use telephone or internet to resolve their issues. IRS partners reach groups including Spanish speaking taxpayers, taxpayers located in rural areas, taxpayers eligible for earned income credits and the elderly. The IRS increased the percent of e-filed returns in its volunteer return preparation program by 10%. More than

86% of Volunteer Income Tax Assistance returns are e-filed and nearly 70% of Tax Counseling for the Elderly returns are e-filed.

Another component of the IRS’s outreach strategy is establishing community-based partnerships and coalitions. These groups include the United States Armed Services, the United Way, numerous city and state governments and local organizations. Partners prepared nearly two million tax returns for low-income families in 2005 in addition to making taxpayer contacts through Earned Income Tax Credit (EITC) educational products and messages. Grassroots outreach efforts were conducted in major cities where the IRS hosted events to help citizens file their tax returns.

The IRS coordinated media activity throughout the filing season to draw attention to EITC benefits and filing requirements, including interviews with national news media and several local TV bureaus. The publication *Tax Hints 2005* was redesigned with a new interactive look using hyperlinks to make the electronic version easier to navigate.

Outreach for the individual taxpayer involves bringing new individual tax filers into the voluntary compliance system. In FY 2005, IRS continued to make its popular program “Understanding Taxes—a website for teachers and students” available. This web-based program was visited 717,000 times in FY 2005. IRS continues to develop products targeting non-English speaking taxpayers. IRS offered 266 different forms and notices in Spanish and developed a new marketing flyer in Spanish that highlights taxpayer service information.

Business taxpayers have unique needs in complying with tax laws since the majority of businesses must meet complex withholding and deposit requirements. The IRS has developed specialized programs to educate business taxpayers. IRS focused its outreach in three main areas: practitioner liaison, stakeholder engagement and supporting compliance initiatives.

Working with organizations to provide tax practitioners with information about IRS policies, practices, and procedures ensures compliance with tax laws. One of IRS's strategic initiative is issue management. Through effective issue management, IRS can resolve controversies on a more timely basis. This includes increasing the efficiency of the examination process and seeking alternative issue resolution tools. Issue management reduces taxpayer burden and makes IRS resources more effective by resolving or eliminating controversies before the tax return is filed.

Taxpayer Burden Reduction

IRS set a record for electronic filing, reaching 68 million returns. This represents an increase of approximately 11% and is the first time in IRS history that over half of all individual taxpayers filed electronically.

- Home computer usage by individuals to prepare and e-file tax returns totaled 17.1 million returns
- Tax professional use of e-file increased by 11%, with 47.6 million filing electronically
- In its third year, "Free File," the public private partnership between the IRS and a consortium of tax software companies, saw more than 5 million taxpayers use the free on-line filing service, a 43% increase

The focus on providing and promoting e-filing services resulted in the IRS exceeding all performance targets for electronic filing. The higher satisfaction rating with e-filing compared to paper filing improves taxpayer satisfaction. The NOP world favorability survey reported a favorable opinion level of 52% in 2004, up from 49% in 2003 and a substantial increase over its lowest point of 32% in 1998.

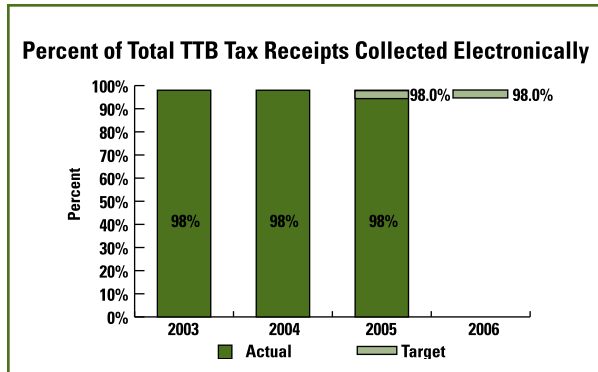
The IRS now requires many businesses and tax-exempt organizations to file their returns electronically. In 2005, new forms for filing extensions for corporations and information returns for private foundations were included in the suite of electronic

forms offered. The number of business return preparers participating in e-File doubled in FY 2005 with more than 7.7 million business returns filed electronically by nearly 6,000 participating providers.

The IRS is committed to making it easier for all taxpayers to understand their filing requirements by simplifying the tax process, enabling taxpayers to fulfill their reporting obligations more quickly and with less frustration.

Not only are many forms simpler to use, the access to online forms and publications has greatly reduced taxpayer burden in locating and understanding the forms. Internet tools such as the "IRS Withholding Calculator" provide self-service access to information previously reported in a lengthy publication. The IRS is also striving to make the EITC easier to claim by eligible taxpayers. In FY 2005, the IRS deployed the "EITC Assistant" on IRS.gov. The EITC Assistant is a web-based application to help taxpayers determine eligibility, filing status and estimated EITC amount. The EITC Assistant is available in both English and Spanish and reflects the EITC tax law changes, including new income limits for EITC eligibility. It also offers taxpayers the option to include nontaxable combat pay in earned income for the credit. The IRS deployed telephone and web self-service applications on IRS.gov to help taxpayers determine their certification status and explain determinations made during the certification process. IRS also enhanced the EITC Online Toolkit for tax professionals and launched EITC messages on Housing and Urban Development (HUD) kiosks in over 100 locations nationwide. Information provided online has contributed to the overall customer satisfaction of taxpayers with its speed, accessibility and accuracy.

TTB also strives to reduce the burden on taxpaying industries. TTB uses technology to reduce the paperwork burden by creating alternative electronic filing methods. TTB recently expanded the use of the *Pay.gov* program to allow all excise taxpayers to file and pay electronically.



Business Systems Modernization (BSM): The IRS's Business Systems Modernization program aims to modernize the tax system by providing real business benefits to taxpayers and IRS employees through new technology. In FY 2005, the IRS continued its BSM efforts by building upon its success of delivering projects, attaining cost and schedule targets, and realizing benefits to taxpayers. BSM delivered the majority of projects and releases on time and within budget, meeting or exceeding scope expectations.

In FY 2005, IRS's modernization efforts focused on maintaining modernization work for three key tax administration systems that will provide additional benefits to taxpayers and IRS employees, specifically:

- The Customer Account Data Engine (CADE) project
- Modernized e-File
- Filing and Payment Compliance (F&PC)

CADE replaces the IRS's legacy system, called the Master File, which is the repository of taxpayer information. It will be the single repository for account and return data. Release 1.2 went into production in January 2005 for filing season 2005. Over 1.4 million returns have been posted, totaling \$427 million in refunds generated. CADE processed its one-millionth tax return on March 31, 2005. The next CADE release was deployed in September 2005 with new capabilities that enable CADE to retain and process more taxpayer accounts. The key benefits of CADE include its ability to process refunds

more rapidly (CADE processes refunds on a daily basis), improve taxpayer service, support more timely account settlements, and provide a robust foundation for integrated systems.

In January 2005, Modernized e-File (MeF) deployed Form 7004 (Filing Extension for Corporations) and Form 990PF (Information Return for Private Foundations), and the tax law changes for filing season 2004. This allowed the IRS to establish regulations requiring large corporations and tax-exempt organizations to file electronically their income tax or annual information returns beginning in 2005. To date, MeF is processing returns 1120 and 990 at higher than expected volumes and still achieving performance goals. The IRS has accepted over 134,000 returns in 2005.

Moving Forward

Treasury will continue to work to reduce the tax gap and increase voluntary compliance. The IRS is focused on reducing the tax gap by discouraging and deterring non-compliance with the emphasis on corrosive activity by corporations, high-income individual taxpayers and other tax code violations. The agency's goals include collecting known tax debt by using Private Collection Agency (PCA) activities and increased collection work in Taxpayer Assistance Centers, identifying correct tax liabilities through increased audits and other enforcement activity, deterring and attacking fraud and properly determining pension revenue. Expanding data capture methods will expand enforcement. The IRS will continue to analyze tax information and compliance research studies to better define and quantify the tax gap, and will use the results of these efforts to better understand and counter the methods and means of those taxpayers who fail to report or pay what they owe.

Maximizing usage of online resources will provide a more efficient means of processing returns, payments, collections, and customer queries at reduced costs. The IRS will continue to work with private industry to expand internet-filing options and deploy e-Services

to include additional customer access to electronic account resolution. In addition, the IRS will further enhance web site functionality with new features such as improved search capabilities, tax applications with online calculators, and multi-lingual presentations. Efforts will continue to ensure that all published products are accessible in electronic formats.

Services to taxpayers will improve as new systems are implemented. The IRS will continue to gather best practices from high-performing sites and identify areas for improvement. Using electronic methods to replace paper processes will improve the response to customer inquiries and correcting errors. Development of online services and publications will continue, increasing the efficiency of the tax filing process and improving customer satisfaction.

New training tools and quality assurance procedures planned for FY 2006 will increase opportunities to improve quality of examinations. Revenue agents hired late in FY 2005 will have access to a new interactive electronic application developed to assist in closing cases, which is expected to reduce the backlog of cases and improved case closure performance.

TTB will continue its growing initiative in electronic government by consolidating the existing tax databases into the Integrated Revenue Information System (IRIS). Plans for FY 2006 include merging the Federal Excise Tax (FET) database into IRIS, thereby eliminating duplicate entries of taxpayer information (name, address, principal parties, etc). TTB will put into production the electronic Financial and Administrative Policies (eFAPs) program, which facilitates the electronic downloading of tax payment information into the FET database. This will eliminate manual entries into FET and the imaging of paper documents.

For additional information on IRS challenges, see the Management Challenges section as well as the Possible Future Effects of Existing Events and Conditions section.

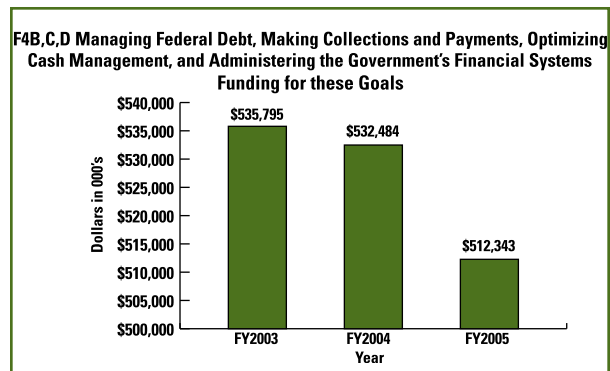
Manage Federal Debt Effectively and Efficiently

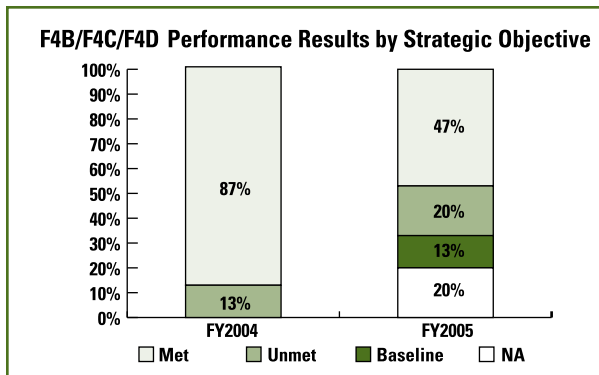
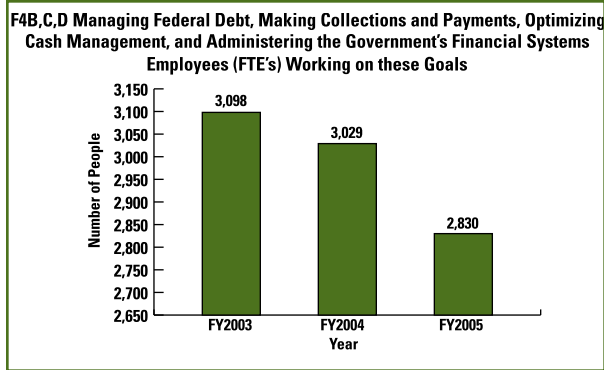
The Department determines and executes the federal borrowing strategy to meet the monetary needs of the Government at the lowest possible cost. Each year, Treasury borrows and accounts for trillions of dollars needed for the government to function. Moreover, as the government’s money manager, Treasury provides centralized payment, collection, and reporting services for the government.

The Bureau of the Public Debt (BPD) conducts Treasury debt financing operations by issuing and servicing Treasury securities. Debt is held by individuals, corporations, state or local governments, federal agencies, and foreign governments. In FY 2005, more than \$4 trillion in marketable securities were auctioned and issued and approximately \$33 trillion in non-marketable securities were issued to the public and government accounts.

Performance Summary and Resources Invested

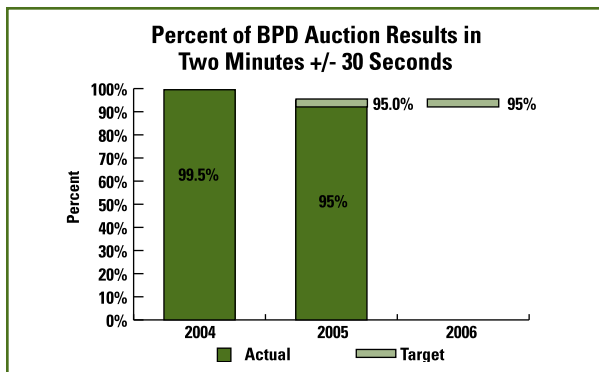
In FY 2005, Treasury spent \$512,343,000 with a workforce of 2,830 employees to manage the federal debt. In FY 2005, Treasury met 47% of its performance measures for these objectives, did not meet 20% and designated the remaining 13% as “baseline” to assess the data and set appropriate targets for next year. Data was not available for 20% of the performance measures due to revisions or discontinuance of those measures.





Discussion and Analysis

BPD met its performance goal of announcing Treasury auction results within two minutes plus or minus thirty seconds of the auction close 95% of the time. As a result, Treasury minimized the cost of borrowing, because with shorter release times, exposure to adverse market movements and the implicit market premium are reduced.

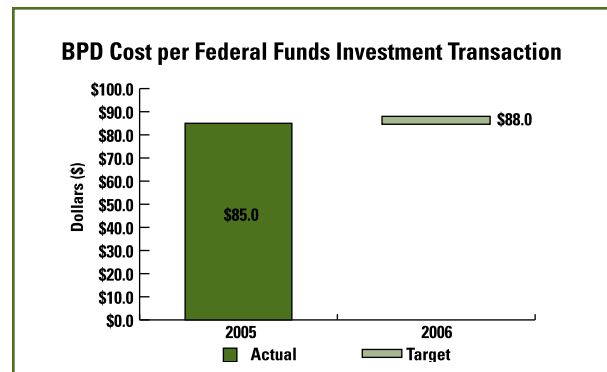


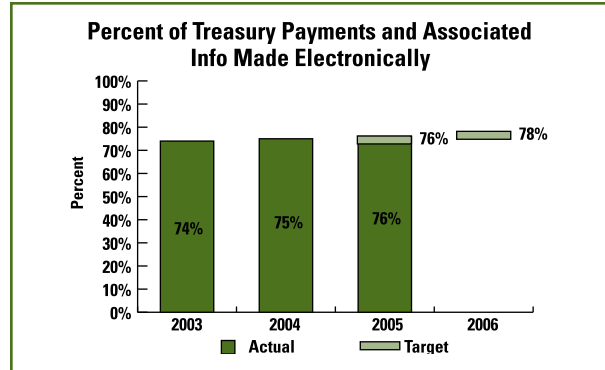
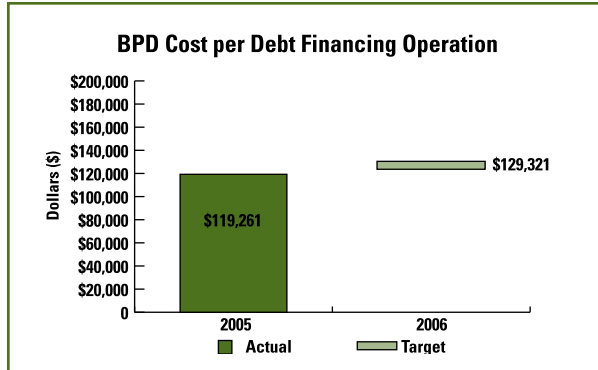
BPD's goal of processing 90% of retail customer service transactions within 13 business days was missed by 1.3%. Two things contributed to this: (1) abnormally high volumes of transaction requests, and (2) a disruption to the normal workflow. The announced termination of the Series HH bonds and the exchange of Series EE/E bonds for Series HH bonds resulted in a spike in transaction requests. Additionally, BPD worked to reengineer the customer service business processes.

In FY 2005, the Office of Financial Markets expanded Treasury's Inflation-Protected Securities (TIPS) offerings to include 5-year notes, and reopened the 20-year bond. TIPS are auctioned to the public, and help to diversify Treasury's investor base, lessen operational risks, and lower borrowing costs. The expanded offerings, coupled with efforts to promote investors' understanding of TIPS, has improved liquidity, increased investor interest, and increased demand.

Treasury improved efficiency in the Government Agency Investment Services (GAIS) program. GAIS supports federal, state, and local government agency investments in non-marketable Treasury securities and manages over \$3 trillion in assets. Over 72% of GAIS transactions were conducted online.

BPD adopted Rapid Application Development (RAD) to utilize standardized development and design tools, reuse programming functionality, and use standard release schedules to define, design, develop, and



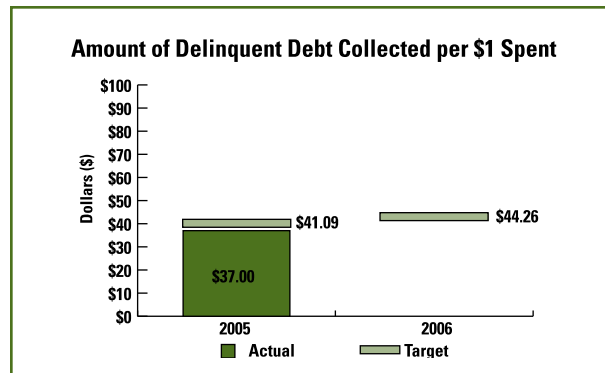


deploy system functionality. This process has delivered new functionality every four months to enhance investors' ability to purchase and manage holdings of Treasury securities online. The RAD process focuses on challenges, prioritizes requirements, and promotes business re-engineering.

previous collection amounts. FMS collected \$37 in delinquent debt for every dollar spent on administration. Virtually all collection tools at FMS have shown increasing collection trends over the last few years.

Make Collections and Payments on Time and Accurate

Treasury works as the nation's disburser, manager and accountant of public monies to distribute payments, finance public services, and balance the government's books.



The Financial Management Service (FMS) administers the government's payments, collections, and debt collections systems. FMS oversees a daily cash flow in excess of \$50 billion, and distributes 85% of federal payments each year worth close to \$1.5 trillion timely and accurately. In FY 2005, FMS issued 76% of 952 million non-Defense payments electronically, and, once again, 100% of check and Electronic Funds Transfer (EFT) payments were made accurately and on time. These payments include income tax refunds, Social Security benefits, veterans' benefits, and other federal payments.

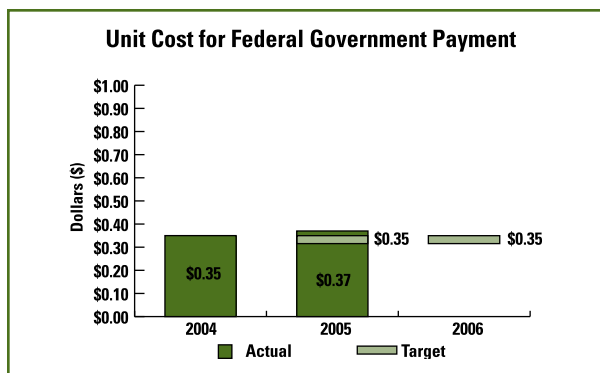
FMS did not meet the target percentage of government collections that are collected by electronic mechanisms compared to total government collections. This was due to increased IRS Lockbox collections, which represent paper checks mailed from individuals and small businesses. However, FMS collected record cash receipts of \$2.7 trillion in FY 2005, which was a 12.5% increase over \$2.4 trillion in FY 2004. The percentage of electronic collections increased 10.2% over last year. EFTPS processed over 76 million revenue payments at a value of \$1.7 trillion and \$6.1 billion was collected through Pay.gov, a 575% increase in the number of transactions and an approximate 60% increase in dollar volume

Additionally, FMS collects delinquent debts owed the federal government. For FY 2005, FMS collected over \$3.2 billion in delinquent debt, exceeding all

compared to FY 2004. Since inception, *Pay.gov* has processed 5.8 million transactions with an approximate value of \$19.1 billion.

FMS still faces obstacles to increase the growth of electronic payments. EFT payments are less costly and more secure for the taxpayers. Overall, the direct deposit growth rate for federal benefit payments has leveled off to less than 0.7% a year, a decrease of almost two-thirds since the late 1990's. To confront this challenge, a six-month pilot marketing campaign called *Go Direct* was completed in FY 2005. *Go Direct* is designed to increase the percentage of federal benefit payments issued via direct deposit – particularly Social Security and Supplemental Security Income (SSI). The pilot was successful. The six-month targets were exceeded, and tens of thousands of Social Security and SSI check recipients signed up for direct deposit. As a result of the successful pilot, the *Go Direct* campaign was expanded to markets nationwide in September 2005.

FMS did not meet its goal of processing a payment for 35 cents due to increased expenses from Enterprise Architecture (EA) enhancements. The cost per payment was 37 cents. FMS will continue to improve efficiencies in payments delivery, concentrating on expanding electronic payments to contain costs.



Optimize Cash Management and Effectively Administer the Government's Financial Systems

Before the Department can make payments it must manage the government's cash position to ensure that funds are available. Treasury monitors the government's receipts and payments and accurately forecasts the government's current and future daily cash requirements.

The Office of Fiscal Projections (OFP), BPD, and FMS are all involved in cash management and administering the government's financial systems. OFP manages the government's cash position to ensure that funds are available on a daily basis to cover federal payments and to maximize investment earnings and minimize borrowing costs. To optimize cash management, Treasury measures the difference between actual and projected receipts. In FY 2005, OFP continued to improve in forecasting receipts, outlays, debt and overall cash. This year, variance was 5.0%, compared to 3.3% in FY 2004. The slight increase in variance was mainly due to the unanticipated increase in tax receipts in April.

This year, BPD received an unqualified audit opinion on its *FY 2005 and FY 2004 Schedules of Federal Debt*. This represents the largest single liability on the government-wide financial statement. Additionally, BPD has successfully introduced quarterly financial statements in FY 2005.

FMS was successful in publishing all government-wide financial data relating to U.S. Treasury cash-based accounting reports (i.e., the Daily Treasury Statement, the Monthly Treasury Statement, and the Annual Combined Report) with 100% accuracy and timeliness for the second consecutive year.

Moving Forward

Treasury will review annually the industry for advancements in technology and business processes, and will continue to apply best practices in its analysis. Improvements in forecast accuracy have a direct impact on reducing borrowing costs and increasing the return on investment.

Treasury is committed to financing the Federal Government at the lowest possible cost. BPD will continue to meet the “two minute” securities auction standard and redesign the auction system to ensure it keeps pace with business and contingency needs. At the same time, BPD will continue to progress towards a paperless environment for savings bonds.

Treasury will continue to accurately account for and report on federal debt. To improve the availability and usefulness of financial information, BPD will begin producing monthly financial statements in FY 2006, and daily financial statements in FY 2007.

Treasury will continue to enhance its business processes and systems to support its customers, both public investors in Treasury securities and government agencies. A key element of this direction is the expansion and refinement of BPD’s Enterprise Architecture to support the delivery of exceptional customer service in the most cost-efficient manner.

The Department continues to work towards an “all-electronic Treasury,” integrating e-commerce technologies. FMS will continue to streamline payments and collections processes and invest in state-of-the-art technology. This is an integral part in processing payments and collections accurately, timely, and more safely and securely for the taxpayer. These efforts will decrease costs and increase efficiencies.

In FY 2006, FMS plans to increase the percentage of government receipts collected electronically to 83%. FMS will be converting more checks to electronic collections at the various collection lockboxes, expanding pay.gov to other federal agencies, and will continue to expand EFTPS for taxpayers.

FMS will focus on incorporating all non-Treasury disbursed salary and vendor payments into its offset programs for collecting delinquent debt. In October 2005, FMS replaced the current debt program Cross-Servicing system with FedDebt. FedDebt will provide a single point of entry for agencies to refer their debts to FMS for collection and to access the delinquent debtor database. FMS will also continue to roll out Debt Check, FMS’s program to help agencies bar delinquent debtors from obtaining new loans or loan guarantees.

Finally, FMS will continue to place increased emphasis on program activities related to strengthening Government-wide accounting operations through the continued rollout of the new Government-wide accounting system. This system will significantly reduce agency reporting and reconciliation requirements. As part of the system redesign, FMS will provide agencies with a web-based account statement resembling a bank statement that will contain summarized Treasury fund account balance activity. Agencies will have daily access to key data on the account statement for reconciliation and fund reclassification through a web-based system. As a result, fund balance information will be available to agencies on a near real-time (one-day lag) basis.

M Managing the Department of the Treasury

Strategic Goals	Strategic Objectives
Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of Treasury	Protect the Integrity of the Department of Treasury
	Manage Treasury Resources Effectively to Accomplish the Mission and Provide Quality Customer Service

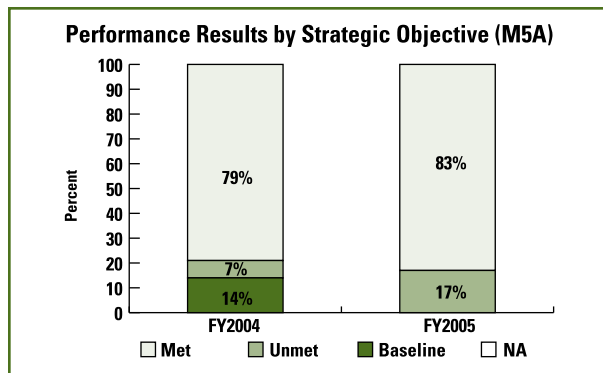
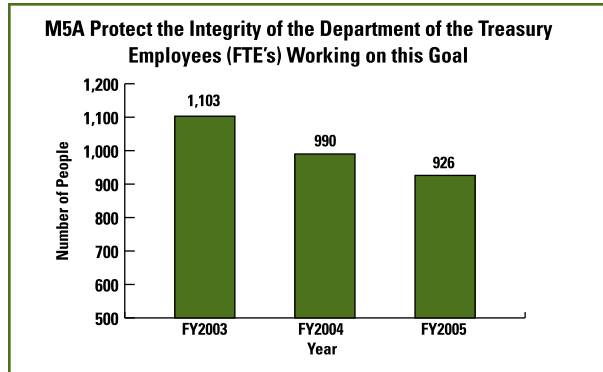
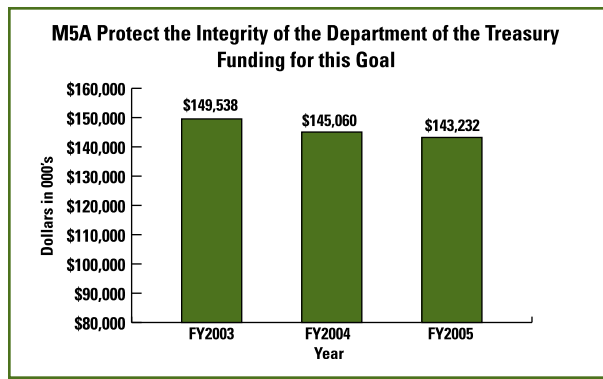
Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury

Protecting the Integrity of the Department of Treasury

The Treasury Department has two Inspectors General (IGs) that provide independent oversight of the Department’s activities: the Treasury Inspector General for Tax Administration (TIGTA) and the Office of the Inspector General (OIG). TIGTA’s audit and investigative services protect and promote the fair administration of the tax system and ensure that the IRS is accountable in its administration of the internal revenue laws. The OIG has audit and investigative responsibilities for the non-IRS organizations within the Department. Both offices keep the Congress, the Secretary of the Treasury, and management informed on issues, problems, and deficiencies related to the administration of programs and operations, and any need for corrective action.

Performance Summary and Resources Invested

In FY 2005, the Department of Treasury spent \$143,232,000 with a workforce of 926 employees to protect the integrity of the Department. Treasury met 83% of its performance measures and did not meet 17% for this strategic objective.



Discussion and Analysis

In FY 2005, OIG issued 54 audit and evaluation reports, completed 100% of all statutory audits by the required dates and met applicable standards for sampled audits.

The OIG opened 168 new investigations and referred 72 for criminal prosecution, civil litigation or administrative corrective action. All investigations sampled met applicable President's Council for Integrity and Efficiency standards.

Investigative work prevents, detects and investigates complaints of fraud, waste and abuse. This includes the detection and prevention or deterrence of employee misconduct and fraud or related financial crimes within or directed against Treasury. Approximately 7,000 complaints requiring investigation are reviewed each year. For example, in March 2005, two people were convicted because of OIG's investigation, in partnership with the FDIC and the FBI, into the Sinclair National Bank failure. Both individuals were sentenced and ordered to pay \$4.2 million in restitution. In another case, the Treasury OIG participated in an investigation concerning a missing shipment of nickels from a U.S. Mint facility valued at \$180,000. The contractor's tractor-trailer containing the nickels for shipment to the Federal Reserve Bank in Louisiana was eventually located, and as a result approximately \$160,000 worth of nickels were recovered and five subjects were arrested.

In FY 2005, TIGTA issued 180 audit reports, resulting in potential financial accomplishments of \$83.4 billion and potentially impacting 2.8 million taxpayer accounts in areas such as privacy and security, burden and rights. Audit recommendations led to improvements in systems modernization, tax compliance, tax return processing, and the implementation of tax law changes. Results included:

- Identifying shortcomings in the IRS's processes to identify and investigate improper tax refunds to prisoners

- Reporting on extensive waste, mismanagement and project failings in the implementation of the HR Connect System
- Determining that the IRS's Office of Appeals operates with a substantial degree of independence. As a result, the IRS plans to promote the independence of the Office of Appeals to restore the damaged credibility of the appeals process

Investigative work at TIGTA is designed to protect the integrity of tax administration. This includes investigating allegations of bribery, threats, and external attempts to corrupt tax administration. In FY 2005, TIGTA processed over 8,000 complaints of alleged criminal wrongdoing or administrative misconduct, opened and closed approximately 3,500 cases and achieved an 82% positive results ratio from its investigations. Investigations helped to indict six former employees of Mellon Financial Services for initially hiding, and then destroying, approximately 80,000 unprocessed federal tax returns, vouchers, and checks in an attempt to conceal their inability to fulfill their contractual requirements. Another TIGTA investigation revealed that a former lockbox employee stole 30 taxpayer remittance checks that totaled more than \$2.7 million.

Moving Forward

OIG has developed initiatives that, if approved, will increase the OIG's audit and investigative capacity. The first initiative will improve audit coverage of anti-money laundering and counter-terrorist financing programs. The second will reduce investigative delays resulting from agents carrying a disproportionately high caseload due to the significant number of complaints of fraud, waste and abuse; will permit completion of investigations in a timely manner; and will enable establishment of a proactive integrity program. OIG closed its San Francisco field office at the end of FY 2005 and consolidated the bank audit function in Washington, D.C. Through this FY 2006 shift in resources, OIG anticipates increasing the comprehensiveness and regularity of its audits of anti-money laundering, counter-terrorist financing and other high risk activities.

In addition, the OIG plans to:

- Improve audit coverage of anti-money laundering and counter-terrorism financing programs
- Reduce investigative delays resulting from agents carrying a disproportionately high caseload in order to complete investigations in a timely manner
- Establish a proactive integrity program

In order to ensure that audit recommendations continue to improve, TIGTA plans to continue:

- Performing work that balances statutory audit coverage and discretionary audit work
- Addressing major management challenges such as computer security, taxpayer protection and rights, and ensuring quality taxpayer service
- Monitoring the IRS's modernization efforts to identify problems the IRS may encounter as it implements new programs and rolls out information systems
- Monitoring the IRS's efforts to achieve its strategic goals, eliminate identified material weaknesses and achieve the President's Management Agenda initiatives

In order to ensure that TIGTA's investigative programs continue to improve each year, the office plans to continue:

- Investigating complaints of wrongdoing that could potentially impact the integrity of tax administration
- Conducting investigations that concentrate on three core areas: employee integrity, external attempts to corrupt tax administration, and employee and infrastructure security
- To heighten integrity awareness through the regular delivery of integrity awareness presentations to IRS employees, law enforcement agencies, tax practitioners and community groups
- To liaison with federal, state, and local law enforcement agencies

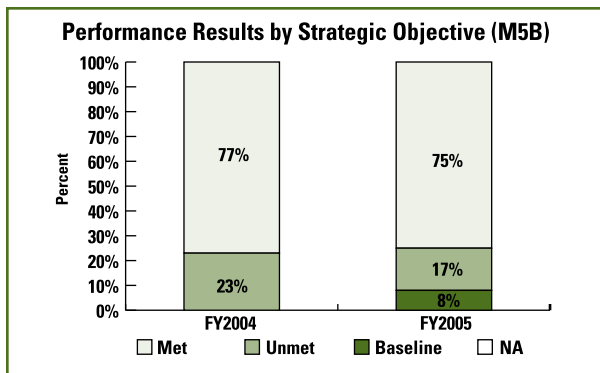
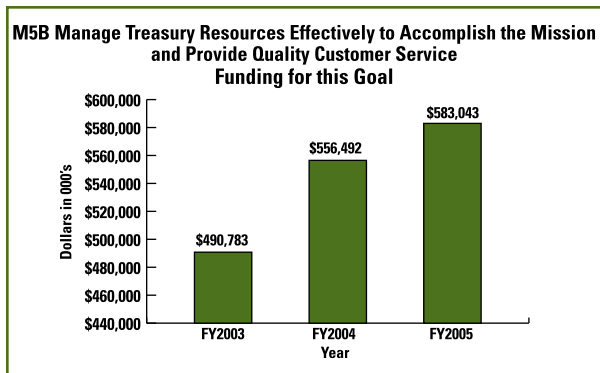
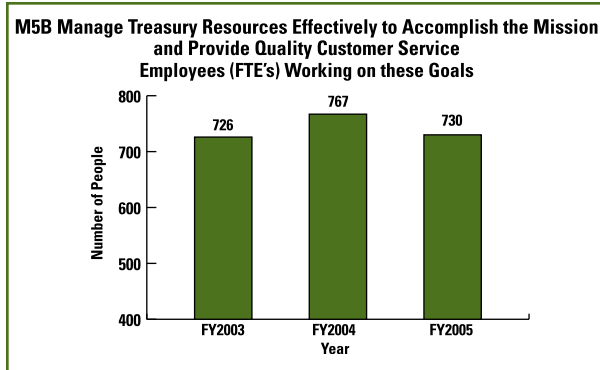
Managing Treasury Resources Effectively to Accomplish the Mission and Provide Quality Customer Service



Treasury ensures that taxpayers receive the most efficient and effective use of their tax dollars by building a strong institution that is citizen-centered, results-oriented, and actively implements the principles of the President's Management Agenda (PMA).

Performance Summary and Resources Invested

In FY 2005, Treasury spent \$583,043,000 with a workforce of 730 employees to manage the Treasury resources. In FY 2005, Treasury met 75% of its performance measures for this objective, did not meet 17% and designated the remaining 8% as "baseline" to assess the data and set appropriate targets for next year.



Discussion and Analysis

Treasury works to manage the Department effectively through the principles of the PMA. In 2001, the President challenged the Federal Government to become more efficient, effective, results-oriented and accountable. Over the past four years, the PMA has become the framework for organizing the efforts cited by the President and for focusing on results.

This agenda reflects the President’s commitment to achieve immediate, concrete and measurable results that matter to the American people.

The President holds each agency accountable for its performance in carrying out the PMA. This is done through quarterly scorecards issued by OMB. Two rating categories are used – one for “status,” which assesses whether a department has satisfied the overall goals or long-term criteria to accomplish an initiative and the other for “progress,” which measures the extent to which the agency has followed its plan. To convey an agency’s performance, the Administration developed a simple grading system of red, yellow and green.



The Department is meeting the President’s challenge to improve the management of Treasury’s people and its resources. On the most recent scorecard, the Department achieved a “green” progress score in four out of six initiative areas, indicating that plans are in place and implementation is progressing to accomplish the PMA objectives.

The PMA originally identified five key government-wide areas. In FY 2005, the Administration added an initiative on eliminating improper payments that applies to a more limited number of agencies, including Treasury.

Initiative	Status		FY 2005 Progress			
	FY 2004	FY 2005	Q1	Q2	Q3	Q4
Human Capital	Y	Y	G	G	G	G
Competitive Sourcing	Y	G	Y	G	G	G
Financial Performance	R	R	Y	R	Y	Y
E-Government	R	R	G	G	Y	G
Budget Performance Integration	Y	Y	G	G	G	G
Improper Payments	N/A	R	N/A	G	Y	Y

● Green for Success
 ● Yellow for Mixed Results
 ● Red for Unsatisfactory

Human Capital: Treasury strategically manages its workforce by aligning human capital strategies to agency mission, goals and objectives. Treasury uses strategic workforce planning and flexible tools to recruit, retain and reward employees, thus developing a diverse and high-performing workforce.

In FY 2005, Treasury’s Human Capital status score remained Yellow. The Treasury Human Capital team developed a results-oriented performance culture. They identified mission critical occupation competency gaps, reported Department-wide human capital survey results, and strengthened the accountability process. The Treasury Human Capital team:

- Demonstrated bureau progress in meeting the 45-day hiring model
- Demonstrated progress in promoting and sustaining diversity
- Demonstrated a linkage between organizational and individual performance

Moving forward, the Human Capital team must meet two criteria to reach Green status. Treasury will finish work on completing a plan to further reduce skills gaps in mission critical occupations and competencies and use outcome measures to make human capital decisions, demonstrate results, make key program and budget decisions, and drive continuous improvement in the agency to ensure accountability.

Competitive Sourcing: Through Competitive Sourcing, Treasury leverages public-private competition, resulting in effective delivery of services at the lowest cost possible to American taxpayers. Competitive Sourcing allows Treasury to look internally and externally for the most efficient ways to achieve its mission.

Treasury improved its score for Competitive Sourcing from Yellow to Green in both progress and status in FY 2005. The Competitive Sourcing team accomplished this by establishing four goals at the beginning of the year: (1) integrate HR Connect (Treasury’s on-line human capital system) and the Federal Activities Inventory Reform (FAIR) Act, (2) create a Shared Services concept so that Treasury could leverage existing competitive sourcing expertise in conducting studies, (3) develop a demand analysis for conducting potential studies, and (4) improve coordination Treasury-wide.

In FY 2005, Treasury integrated the FAIR Act inventory in to HR Connect. As a result, the Department is potentially able to use the results to help guide future budget decisions, leveraging the query and scenario testing capabilities of HR Connect.

Treasury continued to oversee competitions, issue appropriate guidance to bureaus on initiatives and coordinate reporting to the Office of Management and Budget and Congress on the FAIR Act and Congressional mandates. Treasury had significant results this fiscal year including:

- Realized cost savings and avoidance from Competitive Sourcing to exceed \$250 million over the next five years
- Initiated eight competitive sourcing studies covering almost 5,000 FTE, and
- Earned the Presidents Quality Award for management excellence and exemplary performance

Moving forward, the Department can maintain its green status by:

- Completing studies on time
- Establishing the processes, procedures, and framework for Most Efficient Organization (MEO) use of sub-contracts
- Managing and monitoring post-implementation of competitive sourcing studies

Improved Financial Performance: Treasury works to comply with the Federal Financial Management Improvement Act (FFMIA) and accounting processes to produce accurate and timely information to support operating, budget and policy decisions.

Treasury accounted for public funds accurately and timely by implementing the three-day close of the monthly accounting books and the monthly Treasury statement for the federal government. This year, Treasury’s Financial Performance team met its reporting deadlines and was provided a clean annual audit. In late FY 2005, the Financial Performance team submitted a corrective action plan for the IRS’s new revenue accounting system, a key PMA requirement.

Treasury’s continued emphasis on reducing material weaknesses during the year resulted in a reduction from eight to seven material weaknesses. Treasury continues to face many challenges in the Financial Performance initiative, and this year remains Red in status.

To improve financial performance, Treasury is reengineering processes and working to develop the financial system’s capability to comply with the FFMIA to produce accurate and timely information to support operating, budget and policy decisions. This will facilitate internal analysis, resolve known, auditor-reported and FFMIA material weaknesses, prevent new material weaknesses and enhance external financial statement reporting.

Moving forward, Treasury will continue to implement corrective actions to resolve material weaknesses. Treasury has an established schedule of planned actions in place to address its material weaknesses (a copy of the schedule is in the appendix).

Expanded E-government: Expanding electronic government products and services across Treasury makes the workforce and agency more efficient and effective. In support of the PMA, Treasury is focused on completing a Departmental Enterprise Architecture and Information Technology capital planning process to direct future IT investments. Additionally, Treasury works to manage projects to meet cost/schedule/performance goals, certify and accredit Treasury systems to protect information from unauthorized access and theft, and fully participate in all Presidential E-Government Initiatives.

In FY 2005, Treasury continued to make progress toward its goal of achieving Green for overall status, although the status score remained Red. Treasury was Green for progress for three quarters. During FY 2005, Treasury results included:

- Establishing a New IT Governance Process to oversee approximately \$2.7 billion in information technology investments
- Strengthening the Treasury Capital Planning and Investment Control processes
- Developing an OMB-approved E-Government Implementation Plan
- Maturing the Enterprise Architecture (EA) plan and receiving a rating of “effective” from the Federal Enterprise Architecture Program Management Office

Moving forward, Treasury will improve its performance in complying with the Federal Information Security Management Act (FISMA), continue to integrate and utilize the Treasury EA and, most importantly, standardize implementation of Earned Value Management (EVM) analysis within the IT capital planning process.

Budget and Performance Integration: By working to assess the effectiveness and efficiency of its programs, Treasury is better able to allocate scarce resources. Budget and performance integration links strategic planning, budgeting and program evaluation functions, and incorporates the Program Assessment Rating Tool (PART) evaluation process in the budget and planning decision-making process.

Treasury’s Budget and Performance Integration initiative must overcome two issues to earn a Green status score, develop marginal cost measures for four core Treasury missions and resolve past “Results Not Demonstrated” PART scores. Treasury’s score is Yellow in status and Green in progress.

Treasury worked to improve its budget and performance program in 2005. Treasury worked with OMB, the Office of Inspector General, the Treasury Chief Financial Officer’s Council and key bureau contacts to assess each of Treasury’s 299 performance measures using an analytical technique called “value mapping.” As a result, Treasury reduced the number of performance measures by 58%, while improving the overall quality of the remaining measures. The smaller set of measures has also added focus to the performance program and simplified measures monitoring.

During FY 2005, Treasury also:

- Conducted seven PART evaluations, all receiving scores of moderately effective or effective
- Improved Treasury’s PART scores 36% over the prior year
- Used PART results to assess bureaus’ FY 2007 funding requests
- Developed and publicized estimated marginal costs measures for six core mission areas of Treasury
- Completed implementation of a finance/performance dashboard to monitor key mission results

Moving forward, Treasury will achieve Green during FY 2006 by developing marginal cost measures for the remaining four core mission areas of Treasury and resolving past PART evaluations that were scored “Results Not Demonstrated.” Treasury’s efforts to achieve a Green status score will be supported by the comprehensive performance framework implemented this year. The framework will guide future budget and performance integration efforts. Treasury will also implement marginal cost metrics for the remaining mission areas.

Eliminating Improper Payments: Treasury is committed to ensuring accurate and appropriate federal payments. Accordingly, Treasury sets performance targets to track progress on eliminating improper payments. Treasury is working currently with the Office of Management and Budget to develop a risk assessment plan to identify vulnerable programs and create measurement systems and corrective action plans that include aggressive, yet feasible, reduction targets across the Department.

Treasury’s score is Red in status and Yellow in progress. This PMA initiative is tied to the Improper Payments Information Act of 2002. Detailed information on Treasury’s plan to address the Act and, subsequently the PMA, can be found in Part IV of this report.

The Program Assessment Rating Tool (PART)



“My budget substantially reduces or eliminates more than 150 government programs that are not getting results, or duplicate current efforts, or do not fulfill essential priorities. The principle here is clear: Taxpayer dollars must be spent wisely or not at all.”

President George W. Bush,
2005 State of the Union Address

Program evaluation is a core management tool used by Treasury to allocate resources and promote efficiency and effectiveness. In addition to regular independent program evaluations conducted by Treasury bureaus, Treasury also works with OMB to evaluate 20% of its programs each year through the PART process.

All programs that undergo a PART evaluation receive weighted scores in four categories: program purpose and design, strategic planning, program management and program results and accountability. The weights are as follows:

Categories	Weight
Program Purpose and Design	20%
Strategic Planning	10%
Program Management	20%
Program Results/Accountability	50%

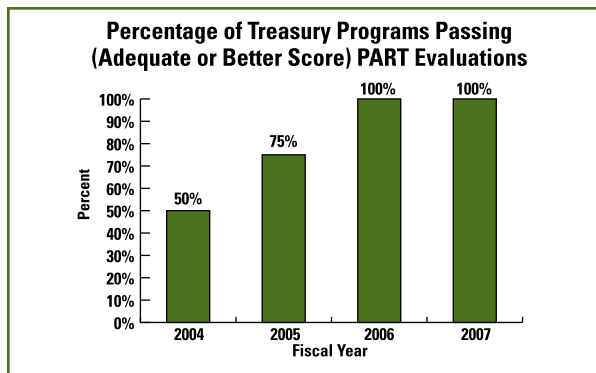
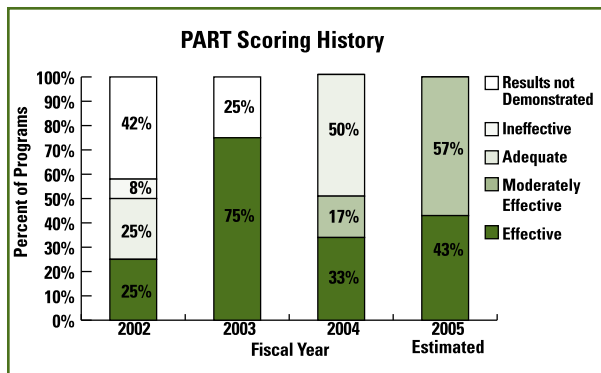
PART scores are summarized by OMB as a qualitative rating of “Effective,” “Moderately Effective,” “Adequate,” “Results Not Demonstrated” or “Ineffective.”

Like the PMA, the PART process provides Treasury a framework for assessing performance. By using in-depth performance questions, PART allows Treasury leadership to evaluate how well a program is meeting its intended objectives, how effectively and efficiently it is managed, the extent to which the program supports Treasury’s overarching strategic goals and how well the program achieves results.

The Table below details all of the Treasury programs that have received OMB PART evaluations thus far. For a full list of PART evaluations see the appendix (FY 2005 PART scores not final at time of publication).

Treasury made program evaluation and PART a top priority in FY 2005 and made a strong commitment to improve. While the results are still pending, Treasury expects a 36% increase in its score compared to last year’s aggregate result. Treasury’s improved PART scores in 2005 were a result of: (1) significant improvements in goals and measures; (2) a half-day training session that included an exchange of lessons learned across bureaus; and (3) solid evidentiary procedures. All seven PART programs evaluated in 2005 (for the 2007 budget year) received effective or moderately effective ratings, demonstrating Treasury’s commitment to focusing on program results.

Treasury’s progress in improved program performance is indicated in the two charts below.



Program	Bureau	Year PART Conducted	Rating
Consumer Product Safety Activities	TTB	2002	Adequate
International Development Association	DO	2002	Adequate
Circulating Coinage	Mint	2002	Effective
Bank Supervision	OCC	2002	Effective
Thrift Supervision	OTS	2002	Effective
Earned Income Tax Credit	IRS	2002	Ineffective
Collection	IRS	2002	Results not Demonstrated
Bank Enterprise Award	CDFI	2002	Results not Demonstrated
Office of Technical Assistance	DO	2002	Adequate
Office of Foreign Assets Control	DO	2002	Results not Demonstrated
Tropical Forest Conservation Fund	DO	2002	Results not Demonstrated
Global Environment Facility	DO	2002	Results not Demonstrated
New Currency Manufacturing	BEP	2003	Effective
Debt Collection	FMS	2003	Effective
Administering the Public Debt	BPD	2003	Effective
Submission Processing	IRS	2003	Results not Demonstrated*
African Development Fund	DO	2003	Results not Demonstrated
IRS Taxpayer Advocate Service	IRS	2004	Moderately Effective
IRS Taxpayer Service	IRS	2004	Adequate
Financial and Technical Assistance	CDFI	2004	Adequate
FMS Collections	FMS	2004	Effective
Mint Numismatic	Mint	2004	Effective
New Market Tax Credits	CDFI	2004	Adequate
FinCEN BSA Collection & Dissemination	FinCen	2005	Moderately Effective
FMS Payments	FMS	2005	Effective
IRS Examinations	IRS	2005	Moderately Effective
IRS Criminal Investigations	IRS	2005	Moderately Effective
Submission Processing - Re-do	IRS	2005	Moderately Effective
Mint Protection	Mint	2005	Effective
TTB Collect the Revenue	TTB	2005	Effective

*Re-PARTed in FY 2005 with a Moderately Effective Rating

Additional details of OMB recommendations and actions planned or underway for each program can be found in the appendix of this report.

