Part II: Annual Performance Report

Performance Scorecard

The following scorecard indicates the FY 2006 results for a selection of key Treasury Department performance measures. For a complete list of official performance measures see Appendix A.

Measure	FY 2006 Planned	FY 2006 Actual	Target Met?	FY 2007 Planned
Financial				
Cost to Process a Federal Revenue Collection Transaction	1.37	1.1*	✓	1.33
Unit Cost for Federal Government Payments	.35	.37		.35
Percent of Payments Made Electronically	78	77		79
Percent of Payments Made Accurately and On-time	100	100	✓	100
Percent of Debt Auction Results Released in Two Minutes +/- 30 Seconds	95	100	✓	95
Percent of Retail Customer Service Transactions Completed Within Thirteen Business Days	90	98	✓	90
Cost Per Federal Funds Investment Transaction	90.15	55.06	✓	64.5
Percentage of Government-wide Accounting Reports Issued Accurately	100	100	✓	100
Variance Between Estimated and Actual Receipts	5	3.9	✓	5
Percent of Thrifts That Are Well Capitalized	95	99.9	✓	95
Percent of Banks That Are Well Capitalized	95	99	✓	95
Average Time to Process Enforcement Matters (in years)	1	1	✓	1
Percentage of customers satisfied with BSA Direct E-filing component	Baseline	92	✓	90
Increase the Number of Outreach Engagements With the Charitable and International Financial Communities	105	45		70
Number of Countries Assessed for Financial Action Task Force Compliance	45	5		12
Cost Per 1,000 Currency Notes	28.5	27.49	✓	32.5
Cost Per 1,000 Coin Equivalents	6.62	7.55		6.96
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 (Actual relate to those CDFI awardees and NMTC allocates that submitted required annual performance data, for relevant reporting period, timely to the Fund).	29,158	22,329		34,009
Administrative costs per number of Bank Enterprise Award (BEA) Applications processed	1,280	1,630		1,455
Improve International Monetary Fund (IMF) Effectiveness and Quality Through Periodic Review of IMF Programs	90	100	✓	90
Level of MDB grant financing and satisfactory results measurements (Grants as a % of IDA FY Commitment)	30.4	25		30
Number of New FTA and BIT Negotiations Underway or Completed	9	12	✓	7
Management				
Percent of Statutory IG Audits Completed By the Required Date	100	100	✓	100
Average Calendar Days for TIGTA to Issue Final Audit Report	325	334		325
Number of Open Material Weaknesses	2	1	✓	1
Management Cost Per Treasury Employee	40.27	40.59		38.21

Internal Revenue Service Performance Scorecard

Measure	FY 2006 Planned	FY 2006 Actual	Target Met?	FY 2007 Planned
Customer Service Representative (CSR) Level of Service	82%	82%	✓	82%
Customer Contacts Resolved per Staff Year	7,477	7,414		7,555
Percent of Eligible Taxpayers Who file for EITC	80%	TBD	*	TBD
Customer Accuracy – Tax Law (Phones)	90%	90.9%	✓	90.5%
Customer Accuracy – Accounts (Phones)	92%	93.2%	✓	92.6%
Timeliness of Critical Filing Season Tax Products to the Public	92%	83%		93%
Timeliness of Critical Other Tax Products to the Public	85%	61.2%		86%
Percent of Individual Returns Processed Electronically	55%	54.1%		58.8%
Percent of Business Returns Processed Electronically	18.6%	16.6%		20.6%
Refund Timeliness – Individual (Paper)	99.2%	99.3%	✓	99.2%
Taxpayer Self Assistance Rate	45.7%	46.8%	✓	47.5%
Examination Coverage – Individual	0.9%	1.0%	✓	1.0%
Field Examination – Embedded Quality [1]	Baseline	*	Baseline	TBD
Office Examination – Embedded Quality [1]	Baseline	*	Baseline	TBD
Examination Quality – Industry	80%	85%	✓	84%
Examination Quality – Coordinated Industry	92%	96%	✓	93%
Examination Coverage – Business	7.5%	7.4%		8.4%
Examination Efficiency – Individual	121	128	✓	128
Automated Underreporter Efficiency	1,759	1,832	✓	1,834
Automated Underreporter Coverage	2.30%	2.40%	✓	2.30%
Collection Coverage – Units	52%	54%	✓	52%
Collection Efficiency – Units	1,650	1,677	✓	1,717
Field Collection Embedded Quality [1]	Baseline	84.2%	Baseline	TBD
Automated Collection System (ACS) Accuracy	88%	91%	✓	89%
Criminal Investigations Completed	3,945	4,157	✓	3,960
TEGE Determination Case Closure	112,400	107,761		112400+
BSM Project Cost Variance by Release/Sub-release [1]	Baseline	**	Baseline	10%
BSM Project Schedule Variance by Release/Sub-release [1]	Baseline	**	Baseline	10%

KEY:

* Performance reported after close of calendar year

** Cost and Schedule variance is based on +/- 10% and is reported on several project releases/sub-releases (See Appendix A for full results on these measures).

[1] These measures were not reported in the FY 2005 PAR and are baseline in FY 2006

\+ The target was revised based on the implementation of a new staggered amendment filing process.

Treasury Strategic Goals and Objectives

Below is a crosswalk that links the Department'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 the Treasury Department 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
Economic	**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
Financial	**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

** NOTE: When costing our strategic objectives - All funding charts presented in this section are estimated costs based on allocating the Department's net cost of operations by strategic objective.

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

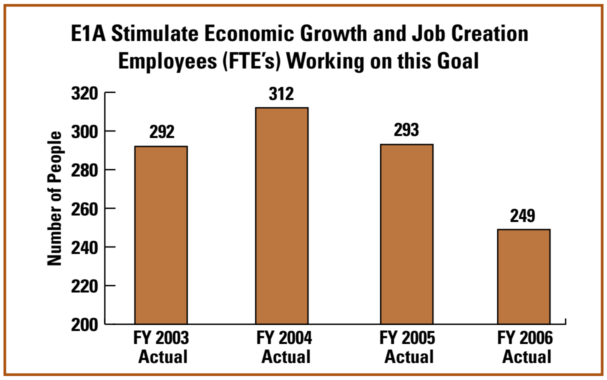
Stimulate Economic Growth and Job Creation

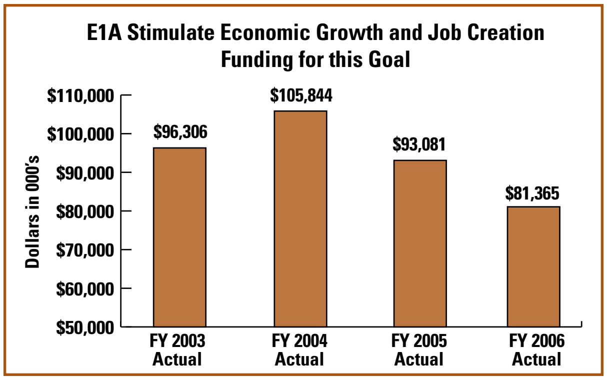
The Department of the Treasury, with other agencies and organizations, works to stimulate economic growth and raise living standards in the United States and abroad.

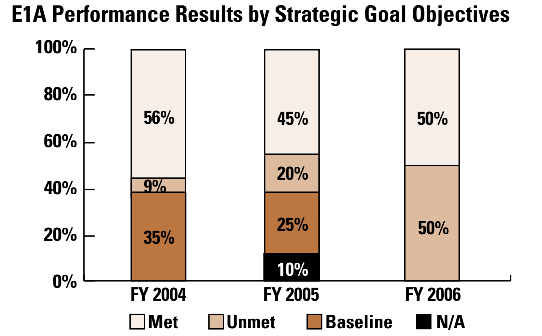
To achieve conditions promoting prosperity and stability in the U.S. and world economies, we must stimulate economic growth. This is accomplished through policies addressing overall economic development, implementing pro-growth tax programs, regulating banking and financial institutions, advocating for free trade, promoting assistance programs in distressed communities, expanding opportunities for American businesses and workers in the global economy, creating good jobs with mobility and wage growth, averting or mitigating financial crises and, in general, accelerating and sustaining the economic performance of the nation. Modernizing entitlement programs before they destabilize the economy is a critically important aspect of this, as is keeping the economy performing at peak potential by encouraging and supporting American competitiveness through innovation.

Performance Summary and Resources Invested

In FY 2006, the Treasury Department spent $81.36 million with a workforce of 249 employees to stimulate economic growth and job creation. The Department of the Treasury met 50 percent of its performance measures for this objective.

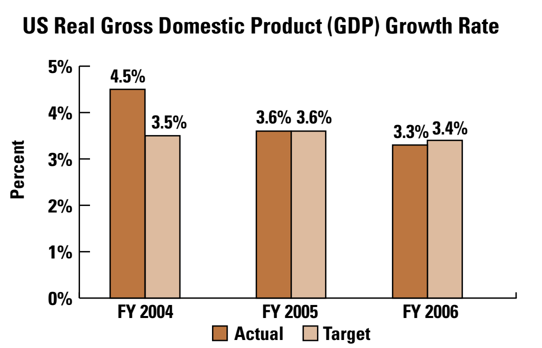




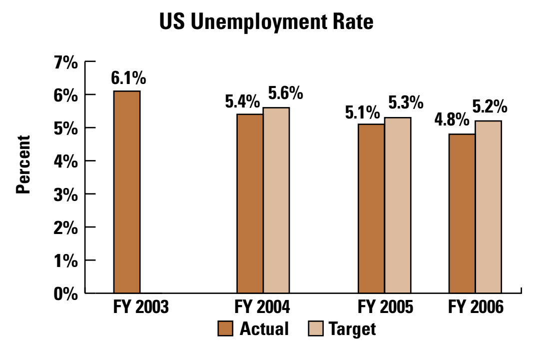


Discussion and Analysis

Economic Policies: The Department of the Treasury develops and implements economic policies to stimulate economic growth and job creation. While drawing a direct relationship between the Department's actions and economic indicators is difficult, policy makers help to create an environment conducive to strong economic growth and a healthy labor market. In FY 2006, growth in the real Gross Domestic Product (GDP), the broadest measure of the economy's performance, was 3.3 percent, slightly below that of FY 2005, at 3.6 percent. The solid pace of expansion contributed to job creation and helped lower the unemployment rate from an average of 5.1 percent, in FY 2005, to 4.8 percent in FY 2006.

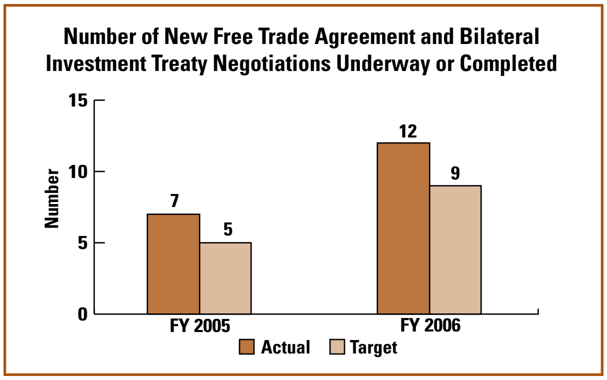


Each year, the Department's Office of Economic Policy participates in an interagency working group which is responsible for developing the economic assumptions that serve as the foundation for the Administration's budget forecast. In FY 2006, the Department of the Treasury made several important contributions to this effort, including a detailed presentation on the components of potential GDP. Economic Policy's work in this area was used to develop the forecast for economic growth and estimated tax receipts in formulating the President's overall financial plan for the federal government.



Removing International Barriers to Trade and Investment: The Treasury Department participates in the negotiation of international agreements that remove trade and investment barriers. These agreements lead to enhanced global market efficiency, and increased job and business opportunities for Americans. The U.S. seek 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, enhancing international economic and financial stability. The Department participates actively in these negotiations, which are facilitated through the World Trade Organization or through U.S.-initiated bilateral and regional Free Trade Agreements (FTAs) and Bilateral Investment Treaties (BITs).

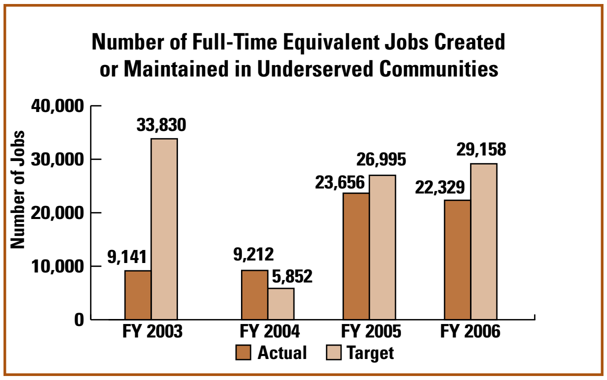
In July 2005, the U.S. Congress passed the Central American – Dominican Republic Free Trade Agreement (CAFTA-DR) and to date, the agreement was implemented by El Salvador, Honduras, Nicaragua, and Guatemala. The Treasury Department co-led the financial services negotiations and was a significant participant in negotiations of the investment provisions. Once fully implemented, CAFTA-DR will end most tariffs on more than $32 billion of two-way trade between the United States and Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua.



In FY 2006, negotiations were concluded on three FTAs – Oman, Peru, and Colombia. Open FTA negotiations launched earlier include Panama, Thailand, Ecuador and the United Arab Emirates (UAE). In addition, FTA negotiations were launched with Korea and Malaysia.

BITs contain provisions that help ensure 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 developed last year, the Department conducts on-going negotiations with Pakistan. In addition, Congress ratified a FY 2006 BIT with Uruguay.

Creating Opportunity in Economically Distressed Communities: The Community Development Financial Institutions (CDFI) Fund's CDFI Program awardees and New Markets Tax Credit (NMTC) allocatees create jobs in economically distressed communities, by lending to and investing in business and real estate projects. In FY 2006, the CDFI Fund reported 22,329 jobs created or maintained by awardees and allocatees.



Financial Assistance Awardees Exceed Leverage Goal: The CDFI Fund's Financial Assistance component gives financial awards to CDFIs that demonstrate the greatest ability to leverage non-federal dollars which support comprehensive business plans that create community development impact in underserved markets. In FY 2006, the Fund made $24 million in Financial Assistance awards to CDFIs that primarily serve rural and urban low-income communities. In addition, awardees leveraged the Fund's award dollars with $1.4 billion in private and non-CDFI Fund dollars, therefore significantly exceeding the $1.1 billion leveraging goal and marking this the second consecutive year the goal was surpassed. The leverage ratio of $27 of private and non-CDFI Fund dollars for every $1 of Financial Assistance awards held constant from FY 2005 to FY 2006.

Native Initiatives Awardees Surpass Growth Expectations: The CDFI Fund's Native Initiatives are designed to overcome barriers preventing access to credit, capital and financial services in Native American Communities. Through these initiatives, the CDFI Fund provides monetary awards and training aimed at increasing the number and capacity of existing or new CDFIs serving Native Communities. In FY 2006, the CDFI Fund issued $4.3 million in Native Initiative awards to 23 CDFIs, and Native CDFI awardees' reported asset growth of 182 percent, far exceeding the 33 percent projection. This asset growth represent required timely reporting of performance data to the Fund by 7 Native CDFI awardees. Most organizations experienced growth and one start-up CDFI had a ten-fold increase in its assets.

Bank Enterprise Award (BEA) Program: The BEA Program provides insured depository institutions with financial incentives to expand investments in CDFIs and increase direct lending, investment, and service activities in economically distressed communities. The BEA Program provided modest monetary awards for large increases in community development, thereby leveraging the CDFI Fund's dollars and putting more capital to work. BEA applicants showed an increase of over $318 million in community development activities from FY 2005 to FY 2006, surpassing the CDFI Fund's goal of $81 million by nearly 293 percent.

New Markets Tax Credit (NMTC) Program: The NMTC Program allows taxpayers a federal income tax credit for making qualified equity investments in designated Community Development Entities (CDEs), which must utilize the investment in low-income communities. In FY 2006, the CDFI Fund and the IRS made $3.5 billion in tax credit allocations providing recipients the ability to raise capital and invest. The CDEs, in FY 2006, made $2 billion in loans and investments exceeding the $1.6 billion projection. The CDEs used NMTC proceeds to finance a variety of community activities throughout the United States, many of which would not have been undertaken without the benefit of this tax credit.

In an effort to improve service to the American public, the CDFI Fund began two independent program evaluations in FY 2006. The first was a review of the NMTC Program; the second was a review of the CDFI and Training Programs. Evaluation results, including recommendations for program improvements, are expected in FY 2007.

Moving Forward

In FY 2007, the Office of Economic Policy will continue to advance its analytical and forecasting capabilities. Special emphasis will be placed on streamlining and improving analyses and the flow of information to policy makers.

While the CDFI Fund did not achieve its jobs goal for FY 2006, it will continually make changes to programs to help communities in need. The shortfall was driven by an overestimation of the number of jobs that the NMTC Program would create or maintain per year. The CDFI Fund developed the jobs target based on the only actual data available for this relatively young program – 8 FY 2003 allocatees' performance data on 28 transactions. The Fund is currently reviewing the most recent performance data, which includes data on hundreds of transactions financed by more than 50 allocatees, and will revise future year's performance targets based on these.

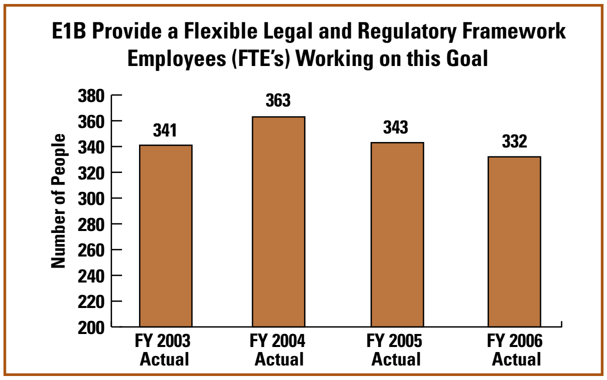
BITs and the investment provisions in FTAs contain stipulations that help ensure the most efficient and effective use of capital, and provide the legal framework to enhance investor confidence, economic growth, and greater opportunities for American workers and employers. In its ongoing efforts to expand BITs with other nations, the Treasury Department will continue to negotiate a formalized agreement with Pakistan based on the model developed last year.

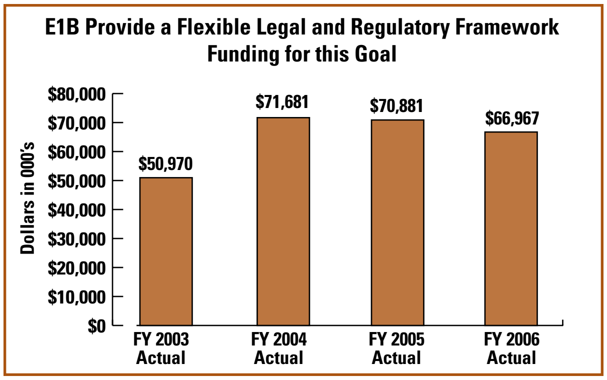
Provide a Flexible Legal and Regulatory Framework

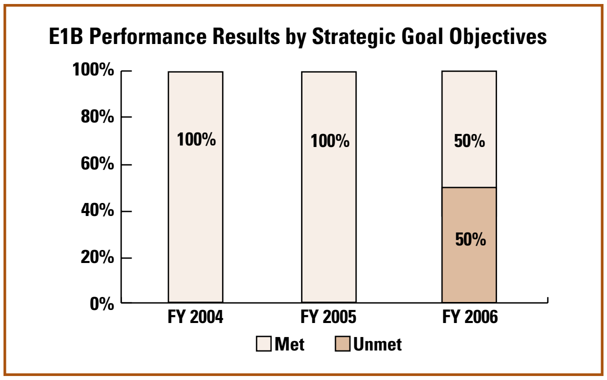
The Department of the Treasury is the primary regulator and supervisor of national banks, savings associations, and savings and loan holding companies. The Treasury Department's regulation efforts are performed through the Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision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

Performance Summary and Resources Invested

In FY 2006, the Treasury Department spent $66.96 million with a workforce of 332 to provide a flexible legal and regulatory framework, and met 50 percent of its performance measures for this objective.







Discussion and Analysis

The OCC evaluates the suitability of banks and their subsidiary structures and activities. A responsive and efficient licensing operation is essential to meet the needs of banks that seek to become or are part of the national banking system. In FY 2006, the OCC received approximately 3,760 corporate applications and notices. Of the 2,425 decisions issued on applications, 94 percent were completed within the established timeframe, while providing a consistently high level of services as rated by applicants. In addition, the OCC received 1,367 applications and notices electronically, an increase of 8.8 percent over the 1,256 received in FY 2005. Electronic filing reached 36 percent of all applications and notices received in FY 2006. This activity promotes safety and soundness of these institutions.

In FY 2006, OCC issued 78 legal opinions on significant topics which include permissible bank premises, trust company involvement in closed-end investment funds, and use of cash-settled derivative transactions. Of the opinions subject to the established processing time frame, 90 percent were issued on time, slightly higher than the target of 86 percent.

Under the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA), federal bank and thrift regulations are reviewed at least once every ten years in an effort to eliminate burdensome, unnecessary and outdated regulatory requirements. During FY 2006, the OCC, the OTS, and the federal banking agencies conducted this review process. The federal banking agencies sponsored numerous banker outreach events across the country to gain insight into issues the industry considers burdensome. Congress passed and President Bush signed into law the "Financial Services Regulatory Relief Act of 2006" which provides regulatory burden relief for the financial services, and banking and thrift industries. The law allows regulators to adjust exam cycles of healthy institutions for greater efficiency; modernizes record keeping requirements for regulators, and requires the federal banking agencies to propose within six months a simple, uniform privacy notice to comply with the Gramm-Leach-Bliley Act of 1999.

During FY 2006, the OCC, the OTS, and the federal bank regulators, issued final risk management guidance on non-traditional mortgage products, concentrating in commercial real estate lending and financial transactions with a complex structure. In addition, the guidance addressed the importance of managing potentially heightened risk levels to ensure that consumers have sufficient information to clearly understand loan terms and make the best decision. The guidance "Interagency Questions and Answers Regarding Community Reinvestment," was published in the March 2006 *Federal Register* and implements recent changes to the Community Reinvestment Act (CRA) regulations, as well as, addressing changes dealing with CRA consideration available for bank activities that revitalize or stabilize designated disaster areas and underserved or distressed middle-income rural areas, and the new community development test for banks with assets between $250 million and $1 billion.

The OTS, like the OCC, charters, examines, supervises, and regulates federal savings associations, in addition to their holding companies. The OTS strives to reduce regulatory burden on savings associations while maintaining effective supervision. To achieve this goal, the OTS is improving the application process, limiting assessment rate increases, and reviewing and making suggested improvements to burdensome statutes and regulations. The OTS tailors examinations based on savings association's risk profile; smaller savings associations undergo streamlined exams, while larger and more complex savings associations are comprehensively reviewed.

In 2006, the 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 fourth consecutive year, the OTS managed its operations to ensure that assessment rate increases did not exceed the inflation rate.

Moving Forward

The 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 national banks' ability to operate under uniform national standards. In FY 2007, the OCC will propose a notice of proposed rulemaking to eliminate or streamline existing requirements or procedures, and enhance national banks' flexibility in conducting authorized activities, either by revising provisions currently contained in OCC regulations, or by codifying, and thus making generally applicable, conclusions that the OCC has reached in case-by-case determinations. The OTS will work with Congress in 2007 to further reduce regulatory burden for all insured depository institutions.

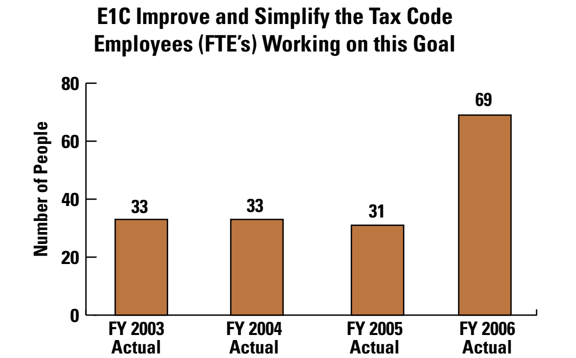
The OCC and the OTS will continue to monitor their performance to efficiently control cost, while ensuring the safety and soundness of the national bank and thrift industry. Both organizations use the performance measure of total cost per $100,000 of assets regulated to track their success in achieving their targets. Improvements in processes and procedures will continue to be implemented to improve efficiency.

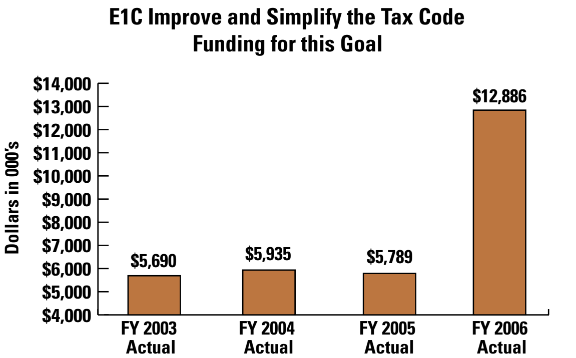
Improve and Simplify the Tax Code

The Treasury Department is focused on simplifying and reforming the tax code, which will reduce the cost of compliance and contribute to economic growth. The Department's Office of Tax Policy conducts this analysis.

Performance Summary and Resources Invested

In FY 2006, the Department of the Treasury spent $12.88 million with a workforce of 69 employees committed to the analysis and development of proposals to improve and simplify the tax code. Performance measure data was not available for this objective due to revisions or discontinuance of measures.





New performance measures are being developed for this activity

Discussion and Analysis

In FY 2006, the Department's Office of Tax Policy and the IRS continued to work together with the President's Advisory Panel on Federal Tax Reform. In November 2005, the Panel issued a report entitled "Simple, Fair, and Pro-Growth: Proposals to Fix America's Tax System" which recommends two options for fundamental reform of the federal tax system. The Department of the Treasury is evaluating the Panel's report and considering options for reform.

Moving Forward

In September 2006, the Department announced a comprehensive strategy for reducing the tax gap in FY 2007 and beyond. The strategy builds upon the current efforts of the Treasury Department, working with the Office of Management and Budget, to improve compliance. Four key principles guided the development of this strategy:

- Unintentional taxpayer errors and intentional taxpayer evasion should both be addressed
- Sources of noncompliance should be targeted with specificity
- Enforcement activities should be combined with a commitment to taxpayer service
- Policy positions and compliance proposals should be sensitive to taxpayer rights and maintain an appropriate balance between enforcement activity and imposition of taxpayer burden

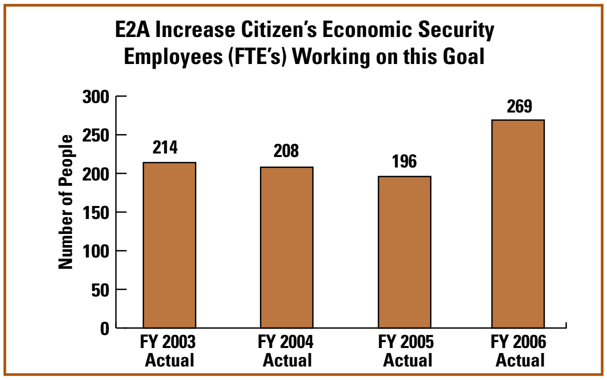
Promote Stable U.S. and World Economies

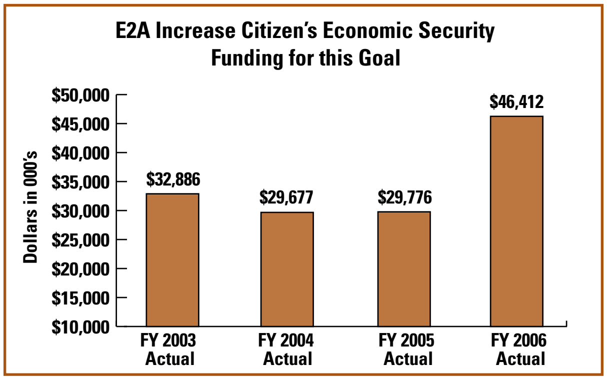
Increase Citizens Economic Security

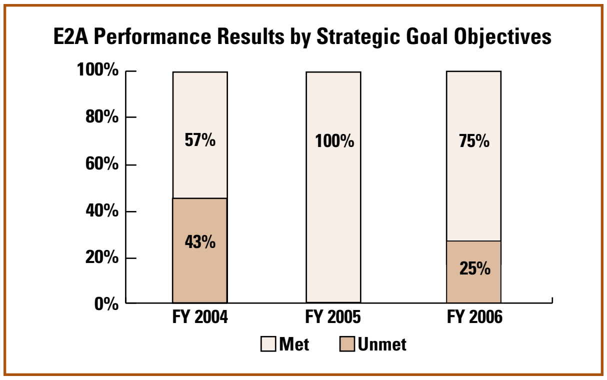
The Treasury Department promotes a stable U.S. economy by encouraging personal savings, protecting the security of pensions, ensuring the privacy of personal information in financial transactions, and protecting consumers from fraud and deception. The Office of International Affairs (IA), the Office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

Performance Summary and Resources Invested

In FY 2006, the Department of the Treasury spent $46.41 million with a workforce of 269 employees to increase citizens' economic security. The Department met 75 percent of its performance measures for this objective.







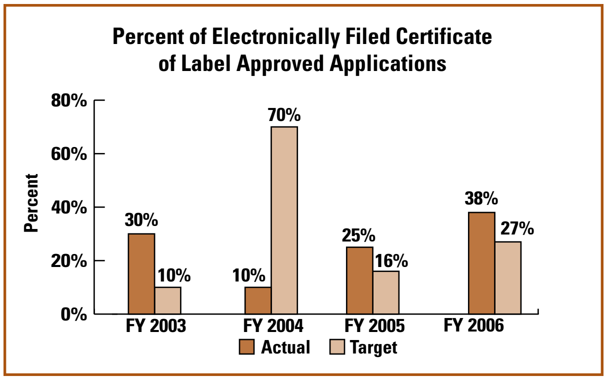
Discussion and Analysis

Pensions: The Treasury Department's Office of Economic Policy (EP) supported the Administration's initiative to ensure secure pensions for citizens through fundamental reform of the defined-benefit pension system.

Gulf Coast Redevelopment and Flood Insurance Reform: EP provided analysis and developed options in support of the Administration's initiatives to encourage post-Katrina Gulf Coast redevelopment and to reform the flood insurance system.

Avian Influenza: EP helped create coordinated epidemiological and economic models to evaluate policy options in the event of an influenza pandemic.

Regulation: TTB uses business regulation to protect alcohol consumers from fraud and deception. Prior to introducing most alcoholic beverages into interstate commerce, TTB requires that importers and bottlers obtain either a Certificate of Label Approval (COLA) or an exemption from such. Personal and financial background investigations, as well as inspections of operations are conducted. In FY 2006, the Department approved 80,000 of the 111,000 COLA applications received.



Monitoring the Economy: The Department of the Treasury promotes a stable economy by conducting timely, in-depth analysis of economic developments and emerging trends. In FY 2006, the Treasury Department prepared over 400 updates on breaking economic news and more than two dozen studies for the Secretary. By sharing these materials with key policy makers at other agencies, economic stability is enhanced and relevant economic issues are properly understood.

Improving Receipts Forecasting Capabilities: EP participated in the Revenue Forecasting Workgroup to identify recent trends in tax receipts based on monthly budget reporting and daily cash flows, and recent changes in key macroeconomic indicators, which could result in a re-estimate of the major budget receipt categories. The work of this group, which also includes representatives from Tax Policy and Domestic Finance, helps improve the accuracy of the Department's annual forecast of the variance between estimated and actual tax receipts.

Entitlement Reform: EP supported the important goal of entitlement reform, and developed a comprehensive framework for evaluating and understanding Social Security reform. This framework is instrumental in educating policymakers about Social Security reform, and as a communication tool to discuss reform. In FY 2006, the Department's primary focus of the health care work was to study, in a variety of contexts, the causes and consequences of high health care spending, which is critical to stimulating economic growth and job creation over the long-term.

Financial and Currency Education: The U.S. Treasurer's Office is the only office in the Treasury Department older than the Department itself. The Treasurer advises the Directors of the BEP and the Mint on various collaborative outreach and educational efforts, as well as serves as an advisor to the Secretary and Deputy Secretary of the Department on matters relating to coinage, currency, and the production of other items by the Treasury Department, and improving currency and financial education.

In FY 2006, the Treasurer played an instrumental role in an educational campaign for public awareness on the newly designed $10 bill, by participating in numerous events both domestically and internationally. In addition, the Treasurer served as a key member of the Anti-counterfeit Deterrence Committee, which coordinates with the Treasury Department, the Federal Reserve, and the U.S. Secret Service in analyzing threats, monitoring counterfeit activity, evaluating deterrence tools, and implementing design changes.

During FY 2006, the Treasurer underscored the success of the U.S. economy and promoted financial education for all Americans, particularly advocating establishing a relationship with a traditional financial institution, and planning and saving for the future. The Treasurer is committed to educating the public on the many federal resources available on personal finance topics, through keynote remarks at conferences across the country, interviews, and the Department public service announcements. The Treasurer is a key spokesperson for Treasury's Go Direct campaign, an effort to educate federal benefit payment recipients of the advantages, safety, and security of receiving their payments by direct deposit rather than by paper check.

In addition, the Treasurer initiated coordination activities within the Department to address special challenges faced by the estimated 10 million American households currently considered "unbanked," or who do not have an established relationship with a traditional financial institution. This ongoing effort continues to focus on developing possible approaches to encourage this portion of the U.S. population to become "banked" and save for the future.

Moving Forward

In FY 2007, the Revenue Forecasting Workgroup will help the Department of the Treasury again meet its forecast target for the annual variance between estimated and actual tax receipts. The Workgroup will continue to improve the forecasting process.

The Office of Economic Policy will continue to support the important goal of entitlement reform, with the goal of providing timely, usable, and comprehensive analyses to advance the policy process.

For FY 2007, the Treasurer will continue the efforts to focus on possible approaches to encourage American households to establish a relationship with a traditional financial institution and save for the future.

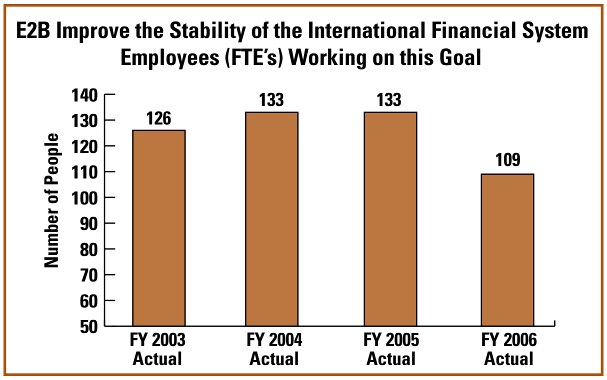
Improve the Stability of the International Financial System

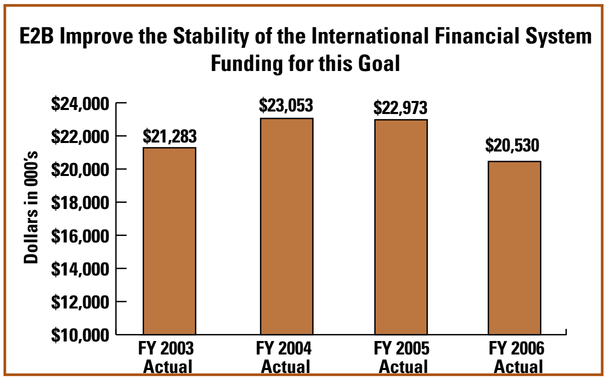
The Treasury Department plays an important role in the global economy, monitoring over 160 economies to ensure stability and transparency in the global marketplace. The Department works with foreign governments, financial institutions and international organizations to promote free and fair trade practices, target development assistance, identify global financial trends, and expand prosperity in the United States and around the world.

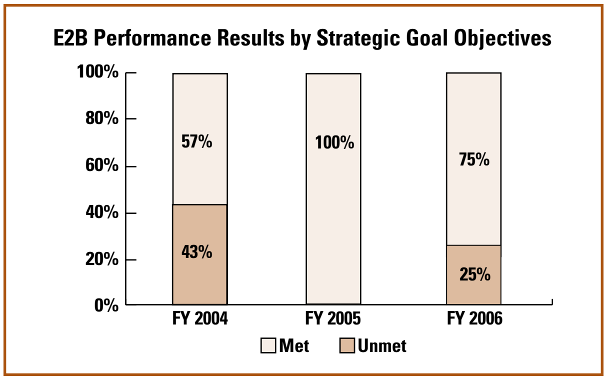
The Department seeks to stimulate international economic growth and job creation through the Office of International Affairs (IA) by working to open markets for increased trade and investment, encourage growth in developing countries, and promote responsible international debt, finance, and economic policies.

Performance Summary and Resources Invested

In FY 2006, the Treasury Department spent $20.53 million with a workforce of 109 employees to improve the stability of the international financial system. The Department met 75 percent of its performance measures for this objective.







Part II – Annual Performance Report

Creating the Conditions for Economic Prosperity

Discussion and Analysis

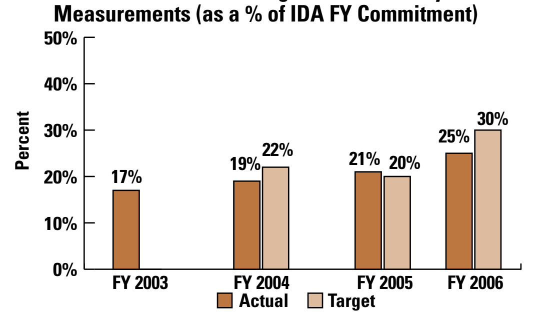
Promoting Free Trade and Budget Savings: The Treasury Department supports trade liberalization and budget discipline through its role in negotiating and implementing international agreements pertaining to official export subsidies. The Department secured agreements in the Organization for Economic Cooperation and Development (OECD) that reduced subsidies in export credits and tied aid flows valued at over $70 billion annually. These agreements open markets, level the playing field for U.S. exporters, and save the U.S. taxpayer about $800 million annually. Cumulative budget savings from these agreements are estimated at over $11 billion since 1991.

In addition, the Department, with the support of a Congressional mandate and using the G7 forum (United States, Canada, United Kingdom, Japan, France, Germany, and Italy) and the OECD, negotiated and reached an agreement to subject untied aid financing to new OECD rules. Under this 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 $8 billion annually since 1993.

G8-Broader Middle East and North Africa (BMENA) Initiative: Across the Middle East, countries lack the strong, well-regulated, efficient financial systems that allocate resources to productive activities which 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 addresses this deficiency by providing training, technical assistance, and policy advice. The Department's goal is to secure a more prosperous Middle East by influencing development of the financial sector, which will create jobs and opportunities for the region, and allow it to become an increasingly important U.S. trading partner.

Egypt: The Treasury Department, 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 4.1 percent in 2004, to 5.7 percent in the first half of 2006. If maintained, this growth will boost job creation and help protect Egypt against economic shocks as it opens its markets.

Level of MDB Grant Financing and Satisfactory Results Measurements (as a % of IDA FY Commitment)



Brazil: From August 2005 through July 2006, Brazil's economy created 413,000 new jobs. During the Department's consultations with Brazil, in July 2006, discussions focused on the global outlook, the benefits of increased trade openness, strategies to increase investment in productive infrastructure, and policies promoting research and innovation.

China: During FY2006, the Department of the Treasury continued to promote greater exchange rate flexibility, a more balanced economy, and the modernization of China's financial system. In addition to holding bilateral and multilateral discussions with the Chinese leadership, the Department established a permanent, full-time Financial Attaché office in Beijing to significantly bolster its engagement with China. The Department established a financial regulator Working Group with the Chinese to discuss key regulatory issues and held the first two meetings of this group. These efforts helped bring about Chinese President Hu Jintao's April 2006 public statement that, "China will continue to develop the foreign exchange market [and] increase the flexibility of the exchange rate." Between October 2005 and October 2006, the Renminbi (RMB) fluctuated between 8.092 and 7.8965 to the dollar and appreciated by 2.32 percent. In FY 2006, China introduced inter-bank foreign currency trading, reaching an agreement with the Chicago Mercantile Exchange to develop and trade currency futures allowing the RMB hedging, and undertook steps to further reduce capital flow restrictions.

Multilateral Debt Relief Initiative (MDRI) for the Heavily Indebted Poor Countries (HIPC): In July 2006, President Bush and other G8 leaders endorsed MDRI debt relief for Heavily Indebted Poor Countries (HIPC). The Department of the Treasury developed and successfully negotiated the financial structure of an agreement which will result in 100 percent cancellation of debt obligations owed the International Development Association (IDA), African Development Fund (AfDF), and International Monetary Fund (IMF) by eligible countries. Under the agreement, 22 countries are currently eligible to receive $34 billion in relief, with an additional 16 countries eligible once they reach "Completion Point". Total relief provided is approximately $52 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.

Afghanistan: The Department of the Treasury has taken a number of steps to support Afghanistan's economic growth and development. The Department worked closely with Afghanistan and its major creditors, particularly Russia, to provide significant debt relief. The Paris Clubs debt relief process will take a few years to complete, ultimately leaving Afghanistan with a much more sustainable foreign debt level. In addition, the Department provided Afghanistan important technical assistance on debt, banking, and financial enforcement issues, and assisted them with putting in place procedures that will help prevent their financial system from being used for illicit purposes. The Treasury Department works closely with the IMF, World Bank, and Asian Development Bank on programs to strengthen Afghanistan's economy.

India: The Treasury Department's international efforts include ongoing dialogue with Indian financial sector officials to achieve further liberalization of India's economy. These efforts involved discussions with senior policy officials from regulatory agencies on both sides. Although India continues to gradually liberalize its economy by cutting tariff rates each year, the pace of liberalization should be accelerated to benefit India and the rest of the world. In addition, the Department continues working through bilateral and multilateral channels to assist India in strengthening its efforts to stop illicit financial flows.

Southeast Asia: Collectively, the Southeast Asia region is now one of the most active trading partners of the United States. In FY 2006, to further enhance this important relationship, the Department provided aid in:

- Crafting the economic dimension of the United States-Association of Southeast Asian Nations (ASEAN) Enhanced Partnership. Under this partnership, the U.S. and the ten ASEAN countries negotiated a new Trade and Investment Framework Agreement.
- Promoting free flow of capital and goods in the region, and leading the financial services aspects

of free trade agreement negotiations with Thailand and Malaysia.

- Engaging in bilateral dialogue with Southeast Asian finance ministries and central banks to focus on fiscal responsibility, currency flexibility, financial sector modernization, infrastructure development, regional financial arrangements (such as the Chiang Mai swap arrangements), and preparation for a possible avian influenza pandemic.
- Working with Southeast Asia countries to stop illicit financial flow and develop stronger domestic controls through bilateral engagement and multilateral forums like the Asia-Pacific Group on Money Laundering.

Jordan: In FY 2006, the United States provided Jordan with almost $297.5 million in Economic Support Fund (ESF) assistance. The goal is for Jordan to become economically self-sufficient and no longer dependent on United States' assistance. The Treasury Department worked closely with Jordanian financial authorities providing policy advice and support. The Department continued to press Jordanian authorities for the removal of inefficient and costly fuel subsidies which has become an enormous drain on the government's resources. With Jordan's implementation of fuel price increases, the final stage scheduled for March 2007, combined with fiscal discipline, will foster economic stability while supporting continued private sector job growth, and allow for a reduction in U.S. foreign aid as the Jordanian economy adjusts to these various shocks.

Iraq: One of the United States' primary goals in Iraq is to help the newly established unity government function effectively, while rebuilding its security infrastructure. Once accomplished, the U.S. can reduce its presence by shifting responsibility to the Iraqi Government.

Real success can only happen with a rejuvenated Iraqi economy, and meaningful employment opportunities will help restore a flourishing middle class and weakening support for insurgents and militias. A credible, sustainable budget is the first step in Iraq's return to the international financial system. A restored oil sector will provide Iraq with the resources to finance its own reconstruction and security. The Department's staff works closely with Iraqi officials providing policy advice and assistance. Key to this effort is the Treasury Department's Financial Attaché in Baghdad, who serves as the head of the Fiscal and Financial Affairs Office of the Iraq Reconstruction Management Office, and supervises the Deputy Financial Attaché.

In FY2006, the Department helped Iraq secure the second portion of an historic debt reduction deal under the Paris Club, negotiate a Stand-by Arrangement with the IMF following the successful conclusion of an Emergency Post-Conflict Assistance program, and strengthen financial management and budget execution capabilities. In addition, the Treasury Department began leading U.S. outreach to negotiate an international agreement, through which Iraq will commit to a series of economic, political, and security reforms, and in exchange, receive increased donor support.

Turkey: The Department continued to work closely with Turkish authorities to support an extremely successful economic stability program. Turkey has a large, fast-growing economy with a major emerging market, and its economic stability is critical to the United States' interests in the region. Its stability is also important to the financial health of the International Monetary Fund (IMF), as Turkey is the IMF's debtor. In FY 2006, Turkey's economy was strong enough to weather sharp currency depreciation; validation of its stability is demonstrated through Turkey's formal negotiations to join the European Union (EU).

Encouraging Small Business Growth in Eurasia: Established in 2000, the Small and Medium Enterprise (SME) Fund leverages capital from the European Bank for Reconstruction and Development (EBRD) to lend to SMEs through local banking systems in 15 Southeast European and former Eastern Bloc countries. As in the U.S., SMEs generate the bulk of growth and job creation. As of July 2006, more than 1.1 million loans were provided to entrepreneurs and the total loan volume exceeded $7.7 billion with a total U.S. share of contributions as $39.1 million. Each $1 of U.S. funding leverages $199 of new lending.

Moving Forward

The Treasury Department will continue to study, recommend, and support Administration policy initiatives which strengthen the U.S. economy, create more jobs for Americans, and enhance citizens' economic security. The Department will actively work to improve the U.S. pension system, reform social security, and improve the federal income tax system.

In FY 2007, the Department will continue measuring IMF programs to ensure efficiency and effectiveness while striving to meet performance targets. Last year was the first year IMF programs were measured and the targets were not met.

In addition, the Department of the Treasury will continue to support the broader Middle East and North Africa to build strong, well regulated, and efficient financial systems, which allocate resources to productive activities that provide employment, goods, and services for rapidly growing populations. The Department will continue dialogue with China, including through the U.S. – China Strategic Economic Dialogue that is co-chaired by Secretary Paulson, to address global and current account trade imbalances, and increase exchange rate flexibility.

F Managing the U.S. Government's Finances Effectively

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

Preserving 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

The Treasury Department'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. Created in 2004, TFI marshals all of the Department's intelligence and enforcement functions with the twin aim of safeguarding the financial system against illicit use, and combating rogue nations, terrorist facilitators, weapons of mass destruction (WMD) proliferators, money launderers, drug kingpins, and other national security threats.

In strong partnership with the Departments of Justice, State, and Homeland Security, as well as the Intelligence Community, TFI utilizes a range of financial authorities to prevent the flow of funds to terrorist organizations, WMD proliferators, narcotic traffickers and other threats. These efforts are beginning to yield encouraging results. For example, this partnership had success impeding access to funds and the financial system by terrorist groups such as al Qaida and Hamas. In addition, TFI, working with the international community, was successful limiting North Korea's ability to abuse the global financial system to support its proliferation and illicit activities.

TFI unifies leadership for the functions of:

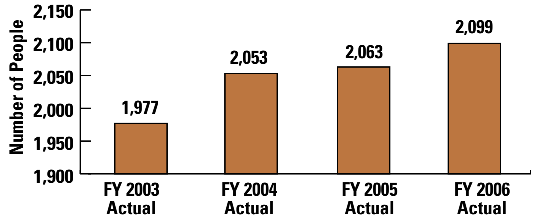
- The Office of Intelligence and Analysis (OIA)
- The Office of Terrorist Financing and Financial Crimes (TFFC)
- The Financial Crimes Enforcement Network (FinCEN)
- The Office of Foreign Assets Control (OFAC)
- Internal Revenue Service – Criminal Investigation Division (IRS-CI)
- The Treasury Executive Office for Asset Forfeiture (TEOAF)

The Department's range of activities against national security threats include: (1) intelligence analysis on the financial and other support networks for terrorist groups, WMD proliferators, and other serious national security threats, (2) promoting international cooperation to 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, narcotics traffickers and other threats.

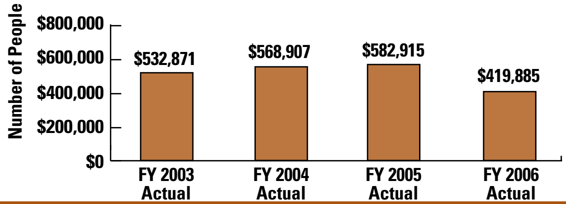
Performance Summary and Resources Invested

In FY 2006, the Department of the Treasury spent $419.88 million with a workforce of 2,099 employees to fight the financial war on terror. The Treasury Department met 20 percent of its targets for this objective, did not meet 27 percent and designated 7 percent as baseline to assess the data and set appropriate targets for next year; and 46 percent were unavailable due to revisions or discontinuance of the measures.

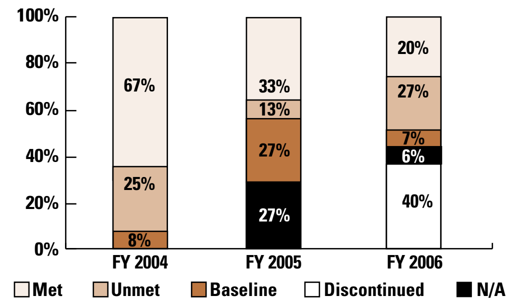
F3A and F3B Disrupt and Dismantle the Financial Infrastructure of Terrorists, Drug Traffickers, and Other Criminals and Isolate their Support Networks and Execute the Nations Financial Sanctions Policies
Employees (FTE's) Working on this Goal



F3A and F3B Disrupt and Dismantle the Financial Infrastructure of Terrorists, Drug Traffickers, and Other Criminals and Isolate their Support Networks and Execute the Nations Financial Sanctions Policies
Funding for these Goals



F3A & F3B Performance Results by Strategic Objectives



Discussion and Analysis

Developing an Increased Role in the Intelligence Community: TFI's policy actions to combat the financial and other support networks for terrorist groups, WMD proliferators, and other key national security threats are driven by the analytic efforts of the Office of Intelligence and Analysis (OIA). In 2004, Congress created the OIA, TFI's in-house intelligence component, to improve the Department's intelligence and analytic capabilities. OIA's responsibilities include the receipt, analysis, collation, and dissemination of foreign intelligence and foreign counterintelligence information related to the operation and responsibilities of the Department of the Treasury.

Their mission is to support the formulation of policy and execution of the Department authorities by providing:

- Expert analysis and intelligence production on financial and other support networks for terrorist groups, proliferators, and other key national security threats
- Timely, accurate, and focused intelligence support on the full range of economic, political, and security issues

In 2005, OIA began weekly meetings to review potential targets, assess the full range of possibilities, and assign follow-up action. Intelligence information and analyses are incorporated into all aspects of policy deliberations.

Through OIA, TFI is better integrated into the intelligence community. OIA analysts work closely with their intelligence community counterparts, and have begun to collaborate more frequently on intelligence analytic products. In addition, OIA hired a Requirements Officer, in 2005, who is focused on working with the U.S. Intelligence Community to tailor its intelligence collection specifically to the Department's needs. In FY 2006, the Treasury Department played a lead role in the Baghdad-based Iraq Threat Finance Cell (ITFC), an inter-agency effort to enhance the collection, analysis, and dissemination of intelligence to combat the Iraqi insurgency. OIA analysts served at the ITFC on a rotational basis.

TFI components are involved in:

- Freezing the assets of terrorists, proliferators, drug kingpins and support networks
- Cutting off corrupt foreign jurisdictions and financial institutions from the U.S. financial system
- 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.

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 WMD. OFAC acts under the President's wartime and national emergency powers, and 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.

In FY 2006, OFAC, in support of U.S. policy objectives, pursued designations of entities engaged in the proliferation of WMD, continued its efforts to expose terrorist networks, and built on its success of dismantling networks associated with drug cartels. In addition, OFAC worked closely with the Departments of State and Justice to help establish and identify targets for four new sanction programs, which include Sudan's Darfur region, Côte d'Ivoire, Belarus, and the Democratic Republic of Congo.

Underscoring the importance of complying with sanctions, in December 2005, OFAC and the Federal Reserve Board, jointly, assessed total monetary penalties of $80 million against ABN-AMRO, a large Dutch bank with U.S. operations, in connection with violations of the Iran and Libya sanction programs.

Implementing Tools to Prevent the Spread of Weapons of Mass Destruction: OFAC, under TFI's leadership, plays a significant role in disrupting and dismantling proliferators of WMD. In FY 2006, OFAC continued to implement Executive Order 13382, Blocking Property of Weapons of Mass Destruction Proliferators and Their Supporters. OIA provided vital intelligence support to OFAC in this critical area. Executive Order 13382 enables the Treasury and State Departments to designate WMD proliferators and their supporters, freezing their U.S. assets and prohibiting U.S. persons from doing business with them. In the last year, OFAC designated 19 proliferation entities and one individual.

Notable targets designated in FY 2006, under the WMD program, included Iranian and Chinese companies that supplied Iran's military and Iranian proliferators with missile-related and dual-use components; and a Swiss company that acted as a technology broker for North Korean military goods with weapons-related applications.

TFI works closely with its international partners to encourage other countries to develop authorities similar to Executive Order 13382. Aggressive outreach strategy is occurring bilaterally, as well as through international organizations and activities, such as the Proliferation Security Initiative (PSI) and the G7. Both of these groups released high level statements this year referencing the importance in combating proliferation financing.

Denying Terrorists' Access to Funds: Combating terrorism continued to be a top priority for all TFI components. Supported by information gathered and prepared by OIA, OFAC's actions continued to expose the financial networks of terrorist groups including al Qaida, Hizballah, Hamas, Jemaah Islamiyah, and the GSPC (Salafist Group for Preaching and Combat), and designated financiers and companies in Southeast Asia, the Persian Gulf, the Horn of Africa, South America's Tri-Border Area, Europe, and the United States. Recent targets included:

- Two overseas branches of the International Islamic Relief Organization (IIRO), which is headquartered in Saudi Arabia, as well as Abd al Hamid Sulaiman Al-Mujil, the head of IIRO's branch in the Eastern Province of Saudi Arabia. These branch offices, while holding themselves out as purely charitable organizations, were bankrolling the al Qaida network in Southeast Asia
- Several individuals and entities known for their role in financing the Libyan Islamic Fighting Group, an al Qaida affiliate
- Four top leaders of the al Qaida linked to Southeast Asian Terrorist Organization "Jemaah Islamiyah."

Ongoing efforts to disrupt Hizballah's financial network were highlighted by a regulatory action, taken by OFAC, to cut off Iran's Bank Saderat from even indirect access to the U.S. financial system. Bank Saderat was a significant facilitator of Hizballah's financial activities and served as a conduit between the Government of Iran and a range of terrorist groups, including Hizballah, Hamas, the Popular Front for the Liberation of Palestine-General Command (PFLP-GC), and the Palestinian Islamic Jihad (PIJ). Other designation actions directed at Hizballah included:

- The Islamic Resistance Support Organization (ISRO), a so-called "charity" operated by Hizballah;
- Bayt al-Mal and the associated Yousser Company, which together functioned as Hizballah's unofficial treasury, holding and investing its assets and serving as intermediaries between Hizballah and the mainstream banks.

In addition to designations, TFI develops and implements domestic and international policies, strategies, and initiatives to identify and address vulnerabilities in the U.S. and international financial system.

Countering Money Laundering: The Department of the Treasury continues to promote anti-money laundering as a key to attacking terrorist financing and 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 investigators a roadmap to the activities of those who would facilitate criminal activity; lead to the recovery and forfeiture of illegally obtained assets; and create broad deterrence against criminal activity.

International cooperation is a critical element in this fight. The Treasury Department leads the U.S. delegation to the Financial Action Task Force (FATF), the international standard setting body charged with safeguarding the global financial system against money laundering and terrorist financing. In FY 2006, as a member of the FATF, the Department:

- Actively participated in and led numerous FATF initiatives, including efforts to strengthen international counter terrorist financing standards

- Influenced the creation of an initiative within the FATF to strengthen the world's defenses of counter-terrorist financing
- Coordinated the adoption of a new international standard through the FATF, *Special Recommendation IX*, calling on governments to establish regimes to address cross border movement of illicit currency and bearer negotiable instruments
- Coordinated research and published the FATF typologies Report on "Money Laundering and Terrorist Financing Trends and Indicators;"
- Responded to Questionnaires and defended the U.S. position in face-to-face meetings with FATF Assessors
- Collaborated with the Department of Homeland Security's Immigration and Customs Enforcement (ICE) to produce a comprehensive report on trade-based money laundering

In addition, TFFC worked closely with representatives from 16 federal bureaus and offices across law enforcement, regulatory, and policy communities to produce the U.S. Government's first-ever Money Laundering Threat Assessment report. For this assessment, the working group used arrest and forfeiture statistics, case studies, regulatory filings, private sector and government reports, and field observations. The report analyzes more than a dozen money laundering methods and serves as a first step in a government-wide process to develop strategies to counteract vulnerabilities identified.

Safeguarding the nation's financial system through administration of the Bank Secrecy Act (BSA) and analysis, collection and dissemination of BSA information: TFI, through the Financial Crimes Enforcement Network (FinCEN), effectively administers and enforces the Bank Secrecy Act (BSA), another important weapon in combating money laundering and illicit finance. The BSA requires financial institutions to make reports of suspicious activities available to law enforcement, keep records, and establish appropriate internal controls to guard against financial crime. As administrator of the BSA, FinCEN oversees and coordinates the sharing of financial intelligence and analysis with its law enforcement and regulatory partners.

FinCEN works closely with its regulatory partners to take action against institutions that violate the compliance and enforcement provisions of the BSA; an example of an action taken includes the imposition of stiff monetary penalties as appropriate. Timely enforcement action communicates urgency to financial institutions, and is paramount to deterring non-compliance. In FY 2006, FinCEN met their target measure of 1.0 years average time to process cases. The year-to-date actual result of 1.0 years reflects effective use of resources.

By the close of FY 2006, FinCEN had executed memoranda of understanding (MOU) governing the exchange of information with 48 federal and state regulatory agencies, surpassing its projected target of 45. These agreements provide a solid foundation for FinCEN to improve upon its ability to monitor industry compliance by providing vital data on various industry segments. FinCEN will be in a position to extend the reach of its compliance efforts even further as it completes MOUs with additional agencies and increases the resources available to make effective use of the data.

In addition, FinCEN provides authorized law enforcement, regulatory and intelligence agencies direct access to BSA data. Several of FinCEN's ongoing efforts will continue to improve its systems for analyzing and disseminating information. During FY 2006, FinCEN, in partnership with the IRS, provided its partners access to BSA data through the WebCBRS system, a new, easier to use web-based interface, through which BSA data can be accessed. FinCEN also conducted a baseline survey of their users of the BSA Direct E-Filing system to determine overall satisfaction level and identify where improvements are needed. In FY 2006, 92 percent of respondents were satisfied with the BSA Direct E-Filing system.

FinCEN supports law enforcement and its regulatory industry partners by facilitating information sharing and providing analyses of BSA data. In FY 2006, a survey of FinCEN's customers found that 69 percent rated FinCEN's analytic products as valuable, not meeting its annual target. FinCEN's original target of 75 percent respondents rating their analytic product as valuable, was established in FY 2005, and based on one year of data. This measure is currently being revised through the FY 2006 Program Assessment Rating Tool (PART) process.

FinCEN issues regulations and guidance for implementing and integrating BSA compliance programs within different segments of the financial services industry. In FY 2006, FinCEN issued the following proposed and final rulings:

- Requiring financial institutions doing business with foreign entities to implement appropriate due diligence policies, procedures, and controls with correspondent accounts established or maintained for certain foreign financial institutions, in accordance with Section 312 of the USA PATRIOT Act
- Requiring mutual funds to report suspicious activity
- Requiring certain insurance companies to establish anti-money laundering programs and report suspicious activity
- Proposing special measures against foreign financial institutions deemed to be of primary money laundering concern, in accordance with Section 311 of the USA PATRIOT Act

FinCEN enhanced its outreach program by increasing the amount of written guidance provided to the regulated industries concerning Bank Secrecy Act compliance.

FinCEN continued to support anti-money laundering policy initiatives and investigations at the federal and state level by producing advanced BSA data analyses tailored to law enforcement and other partner agencies needs. Examples of the analytical products that were valuable to FinCEN's customers include:

- Three assessments, using the analysis of all BSA reports, identified potential money laundering hotspots and significant changes in financial activity. The report helped federal and state authorities to allocate drug and cash interdiction resources along the southwest border. The recipients of these reports were the Texas Department of Public Safety, the Arizona Attorney General's office, the El Paso Intelligence Center, the Office of National Drug Control Policy and the National Drug Intelligence Center
- An assessment of vulnerabilities in the limited liability corporation (LLC) structure and formation process, which could be exploited by illicit international transactions, formed the basis for FinCEN recommendations to increase regulation of state business incorporation practices, and contributed to coordination among federal agencies investigating abuse of LLCs

FinCEN, as the financial intelligence unit (FIU) for the United States, plays a leadership role in Egmont Group, a cooperative network of 101 FIUs from around the globe. In FY 2006, FinCEN supported cooperative efforts to combat money-laundering, terrorist financing and other financial crimes by:

- Enhancing reciprocal international sharing of financial intelligence information
- Providing training to personnel from foreign FIUs
- Facilitating efficient and secure communication among FIUs through the Egmont Secure Web system
- Promoting the establishment or strengthening of FIUs in jurisdictions lacking one, and

assisting in the enhancement of anti-money laundering and counter-terrorist financing programs within existing FIUs

FinCEN led international efforts by hosting a meeting to counter terrorist financing activities in the tri-border area of Argentina, Brazil, and Paraguay. The FIUs from these three countries and the United States, known as the 3 + 1 Group, compared data, examined common trends and developed strategies to address the situation.

Supporting Criminal Investigations: In addition to ensuring taxpayers comply with tax laws, Internal Revenue Service (IRS) enforcement actions contribute to national security. Terrorists and their supporters use the cover of humanitarian, religious, or charitable work performed by tax-exempt non-profit organizations to raise funds. Funding also comes from more conventional criminal activities, such as property theft, insurance fraud, smuggling, and narcotics trafficking. Some of these terrorist activities occur within the United States and adversely impact tax administration, uniquely positioning the IRS to fight such abuses. TFI provides policy guidance to the IRS' Criminal Investigation Division (CI) in such cases. The IRS works closely with TFI and OFAC to investigate and freeze accounts controlled by individuals and alleged charitable organizations suspected of moving funds used to support terrorism.

The IRS provides financial investigation expertise to the FBI's Joint Terrorism Task Force and the U.S. Attorneys' Anti-Terrorism Advisory Council, as well as IRS-CI supports FinCEN by conducting BSA investigations, and provides a detailee to OFAC.

During FY 2006, IRS' CI had:

- 212 terrorism related investigations, a 31 percent increase over FY 2005
- 52 terrorism cases were recommended for prosecution, resulting in 44 indictments
- Over 34 percent of the prosecution recommendations included tax violations; CI maintained a conviction rate of 92 percent in these cases

Outreach to the International Banking Community: In accordance with its international private sector outreach strategy, TFI initiated private sector anti-money laundering/counter terror-finance (AML/CFT) dialogues, linking the U.S. banking sector with those from the Middle East/North Africa (MENA) region and the Latin American region, to the support of relevant financial and regulatory authorities.

In collaboration with its interagency and regional partners, TFI successfully facilitated the launch of the U.S.-MENA Private Sector Dialogue on AML/CFT, through the initial AML/CFT Conference in Cairo, in March 2006. Bankers and financial and regulatory authorities, from the U.S. and the region, discussed a range of challenges associated with the development and implementation of effective AML/CFT jurisdictional and institutional measures. In June, TFI initiated a similar dialogue with the Latin American banking community, and hosted at the Department a roundtable discussion of U.S. and regional interests, to help frame this initiative.

Outreach to the Charitable Sector: Outreach to the charitable sector represents a fundamental objective for the Department of the Treasury in its broader campaign to combat terrorist financing. The Department's ongoing engagement with the charitable community strives to protect charities from terrorist abuse and empower them to adopt and implement effective safeguards against terrorist exploitation.

At the close of the fiscal year, TFFC published, in December 2005, the revised version of its Anti-Terrorist Financing Guidelines: Best Practices for U.S.-Based Charities. In addition, the Treasury Department continued to provide information on the risks and typologies of terrorist abuse, such as those discussed in the Department's paper on risks associated with terrorist exploitation of post-earthquake relief efforts in Pakistan.

Countering Narcotics: In FY 2006, TFI worked closely with law enforcement, bank regulators, and other appropriate parties to identify evolving trends in drug proceeds money-laundering, and then communicate these to the U.S. financial industry.

In addition, OFAC's Specialty Designated Narcotics Traffickers (SDNT) Program continued to see significant activity. OFAC targeted the North Valle drug cartel in four separate actions which resulted in the designation of 22 individuals and 29 companies. Designations under this program included individuals involved with managing a large Colombian department store chain on behalf of two previously designated leaders of the North Valle drug cartel. Shortly after these designations, Colombian authorities seized the department store chain, along with other companies and properties. These four actions also targeted companies in Colombia, the British Virgin Islands, Mexico, Panama, and the United States.

In September 2006, OFAC's success in exposing the two notorious Cali cartel leaders, Miguel and Gilbert Rodriguez Orejuela, culminated with guilty pleas. The Rodriguez Orejuela brothers not only admitted to over two decades of drug trafficking, but also confessed to laundering the proceeds through the network of companies that OFAC targeted in over a dozen investigations in the past decade. An agreement was reached for the forfeiture of $2.1 billion in assets levied against personal and business entities worldwide. These entities are comprised of the 246 front companies that were already designated by OFAC, in the last 11 years and under at least 12 separate OFAC designation actions.

The Kingpin program targets narcotics traffickers and money laundering organizations worldwide. In FY 2006, OFAC targeted groups in Southeast Asia, Mexico, and Colombia, designating several individuals and companies that are part of the network of previously designated Wei Hsueh-kang and the United Wa State Army (UWSA); the UWSA is the largest and most powerful drug trafficking organization in Southeast Asia. In FY 2006, OFAC designated 21 individuals and 19 companies from Mexico, to include money service businesses, which form part of the Arellano Felix Organization (AFO); and five individuals of the Arriola Marquez Organization (AMO). In addition, OFAC used the Kingpin program to target the FARC, a Colombian rebel group known by its Spanish acronym, which is heavily involved in narcotics trafficking activities. OFAC designated nine FARC leaders, including the organization's international representative.

Moving Forward

Although the Treasury Department is making progress 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 weapons of mass destruction, it is impossible to estimate what portion of the money intended for their support was blocked, and the Department relied on proxy indicators to estimate the effectiveness of its actions; more refined measures to assess performance will be implemented in the future.

In FY 2007, TFI will continue to work to further safeguard the financial system by enhancing its abilities to isolate, disrupt and dismantle the financial infrastructure of national security threats, such as terrorists, proliferators of weapons of mass destruction, narcotics traffickers, and other criminals. In addition, TFI plans to:

- Continue to develop and expand intelligence analytic capabilities, policy strategies, and enforcement efforts to combat the financial support networks for terrorist groups, WMD proliferators, and other key national security threats

- Cover and address the most pressing and emerging national security issues in support of senior leadership and policymakers
- Continue efforts to establish the Department as a fully integrated member of the IC (OIA)
- Monitor, update and extend existing designations to counter the evasive tactics of Specifically Designated Global Terrorists and their support networks (OIA, OFAC)
- Monitor, update and extend existing designations to counter the evasive tactics of proliferators of weapons of mass destruction (OFAC, OIA)
- Continue to build OIA as a center of analytic expertise on the financial and other support networks for terrorists groups, WMD proliferators and other key national security threats (OIA)
- Continue to work with foreign governments and international organizations to encourage the development in other countries of authorities to identify, track, and freeze proliferators' assets (TFFC, OFAC)
- Continue to engage in outreach and develop guidance to the charitable community about appropriate protective measures against terrorist abuse (TFFC)
- Discuss in the FATF how existing AML/CFT international standards should be supplemented, amended, or applied to address the vulnerabilities associated with trade-based money laundering (TFFC)
- Organize a follow-up conference for the US-MENA private sector dialogue in December 2006, and an AML/CFT conference in the Latin American region for early 2007 (TFFC)
- Increase global capacity in AML/CFT efforts by continuing bilateral and multilateral engagements with international partners (TFFC, OFAC, FinCEN)
- Improve outreach to state governments and financial industries newly covered by BSA regulations (FinCEN)
- Strengthen oversight and compliance examination (FinCEN)
- Continue to revise anti-money laundering regulations (FinCEN)
- Continue major enforcement actions for systemic non-compliance of BSA requirements (FinCEN)
- Improve coordination with other agencies to identify and educate unregistered money services businesses (FinCEN)
- Use advanced analytical tools to improve geographic and industry threat assessments (FinCEN)
- Continue facilitating efficient and secure communication among FIUs through the Egmont Secure Web application (FinCEN)
- Improve outreach to U.S. law enforcement and regulatory agencies on the benefits of connecting to the Egmont Group's global network of FIUs (FinCEN)
- Upgrade information technology to improve retrieval and sharing of BSA data with a growing user population (FinCEN)
- Use BSA data analysis to identify regulatory issues within the financial industries (FinCEN)
- Evaluate reducing the current $3,000 recordkeeping and travel rule threshold (FinCEN)
- Collaborate with the Electronic Payments Association regarding automated clearinghouse wire transfer information (FinCEN, OFAC)
- Collaborate with law enforcement, federal banking agencies and industry to address potential abuse of cover payments (FinCEN, OFAC)

Increase the Reliability of the U.S. Financial Systems

The Department of the Treasury ensures the U.S. financial system's reliability and security through the production of the nation's coins and currency and supervision of national banks and savings associations. Two bureaus share the responsibility of producing the world's most accepted coins and currency. The United States Mint manufactures circulating coinage and popular numismatic products; the Bureau of Engraving and Printing (BEP) designs next generation currency to guard against counterfeiting and manufactures the nation's paper currency. The Office of the Comptroller of the Currency (OCC) and the 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 2006, the Mint and BEP:

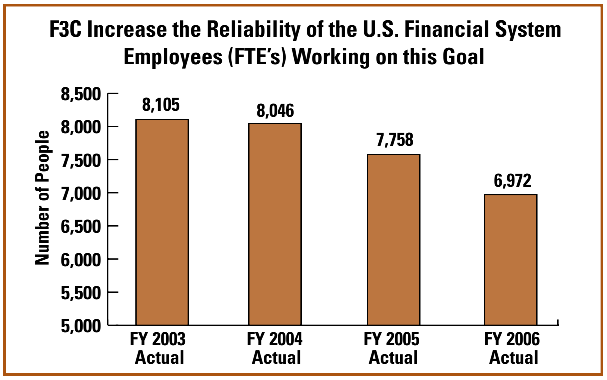
- Produced 16.2 billion coins – 2 billion more than FY 2005
- Produced 8.2 billion paper currency notes – 400 million less than FY 2005
- Reduced currency production costs by $1.34 per one thousand notes delivered

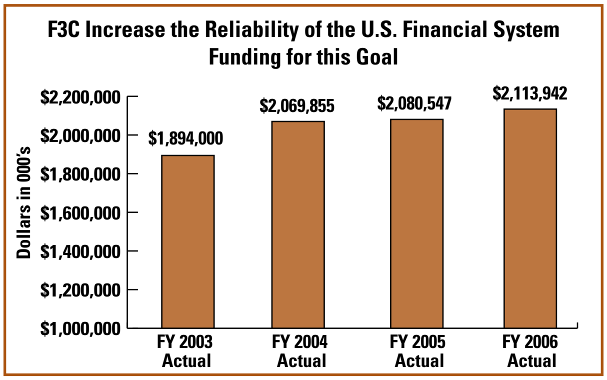
The OCC and OTS:

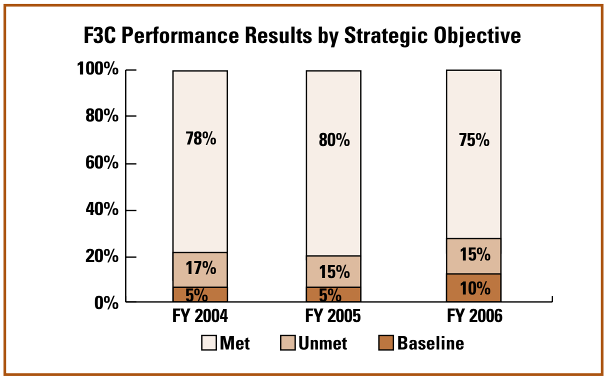
- Supervised 1,852 institutions with national bank charters and 49 federal branches, with assets totaling approximately $6.5 trillion.
- Supervised 854 savings associations with $1.53 trillion in total assets and 480 holding company enterprises with approximately $7.5 trillion in consolidated assets

Performance Summary and Resources Invested

In FY 2006, the Treasury Department spent $2.113 billion with a workforce of 6,972 employees to sustain reliable financial systems. The Department met 75 percent of its performance measures for this objective, did not meet 15 percent and designated the remaining 10 percent as baseline to assess the data and set appropriate targets for next year.





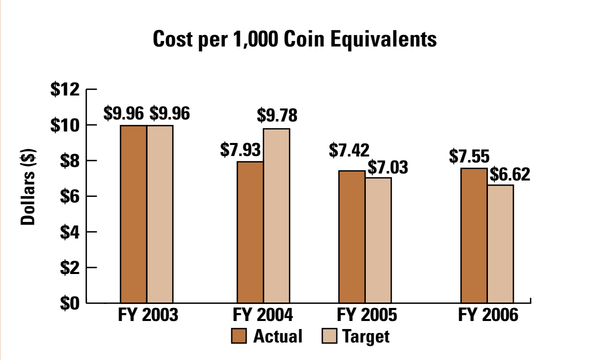


Discussion and Analysis

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

Producing Coins: In FY 2006, the Mint had revenue and other financing sources of $2.3 billion, a 31 percent increase from $1.7 billion in FY 2005. These results reflect an increase in demand for both circulating and numismatic products. The Mint returned $750 million to the Treasury General Fund as a result of operations, compared to $775 million in FY 2005. Despite an increase in demand, this reduction in funds returned was due primarily to much higher costs for metal used to fabricate coins.

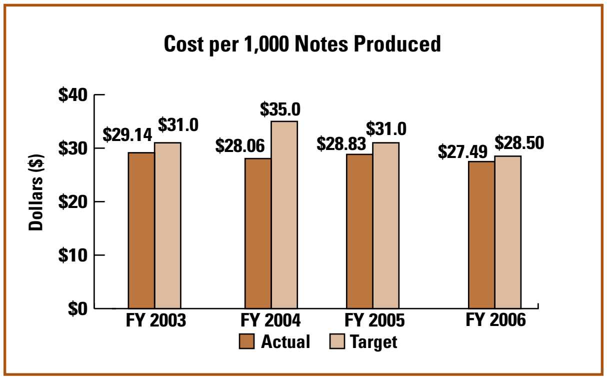
The cost per 1,000 coin equivalents increased two percent to $7.55 in FY 2006, from $7.42 in FY 2005, missing the very aggressive target of $6.62. The increase in conversion cost was the result of rising energy costs, replenishment of shipping and packaging supplies, overtime to support new numismatic products, and an increase in depreciation expense. Cycle time increased slightly from 69 days, in 2005, to 72 days, in 2006, having no effect on the overall program or activity performance. Rising metal prices had a significant impact on production cost, causing the penny and the nickel to cost more than their face value. The Mint is working with Congress to evaluate alternative materials and other opportunities to reduce production cost.



The Mint's numismatic and bullion sales increased from $588.2 million in FY 2005, to $1.03 billion in FY 2006. Particularly noteworthy was the introduction of the first ever U.S. Government issued 24-karat gold coin.

Producing Currency: In FY 2006, BEP streamlined its operations to reduce the cost of producing notes. BEP uses two performance measures to assess production and delivery efficiency: manufacturing costs per 1,000 notes produced and security costs per 1,000 notes delivered.

Cost per 1,000 notes produced decreased from $28.83, in FY 2005, to $27.49, in FY 2006; and security cost were favorable at $6.00 per thousand notes produced against a performance target of $6.25 per thousand notes delivered. In FY 2006, the currency program was completed below standard costs.



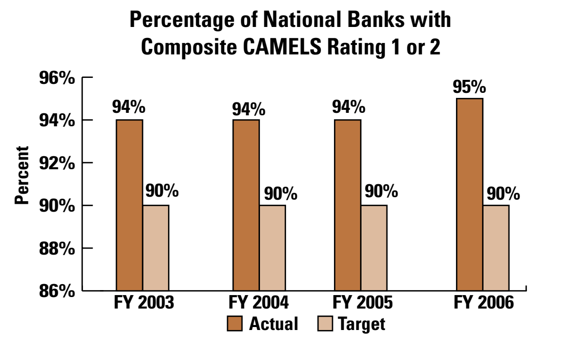
BEP's currency production program specifically addresses the nation's need for counterfeit-deterrent currency by applying the latest technologies in security printing and processing. In FY 2006, the Treasury Department introduced the redesigned $10 note which followed successful introductions of the redesigned $20 and $50 notes in 2003 and 2004, respectively. Redesign of the $5 and $100 notes is scheduled for circulation in 2008 and 2009. The new notes are part of the current multi-year initiative which implemented the most ambitious currency redesign in U.S. history. Due to BEP's consistent automated inspection equipment, more than 99 percent of all notes delivered to the Federal Reserve met or exceeded exacting quality standards.

Analysis and reporting of production and cost data gives managers feedback used to fine-tune production processes. 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.

Regulating National Banks and Savings Associations: The Treasury Department continually enhances the reliability of the U.S. financial system by administering supervision programs over national bank and saving associations to ensure that the industry operates in a manner consistent with safety and soundness principles, and complies with applicable laws, rules, and regulations.

The Department of the Treasury, through the Office of the Comptroller of the Currency (OCC), supervised 1,852 institutions with national bank charters and 49 federal branches, with assets totaling approximately $6.5 trillion. OCC supervision ensures the safe and sound operation of the national banking system. In FY 2006, 99 percent of all national banks were well capitalized relative to their risks. OCC examiners concluded that 95 percent of national banks earned the highest composite ratings of 1 or 2 according to standard evaluation methods. These evaluations assess capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk (CAMELS). In FY 2006, those national banks, which had problems in the prior year, 46 percent improved their composite CAMELS rating to either 1 or 2.

To ensure fair access and treatment for all bank customers, banks are evaluated on compliance with consumer protection laws and regulations. In FY 2006, 94 percent of national banks earned the highest consumer compliance ratings of 1 or 2, thereby meeting the FY 2006 target.



In FY 2006, the OCC implemented a new efficiency measure, OCC costs relative to every $100,000 in bank assets regulated. The baseline for this year is $8.84 and the OCC is in the process of establishing future targets.

Bank Secrecy Act (BSA) supervision remained a high priority for OCC in FY 2006. The OIG identified industry compliance of BSA as a significant challenge. To address this, comprehensive initiatives to strengthen BSA and AML compliance were implemented. Highlights include:

- Completed 90 percent of compliance reviews of non-high risk community banks and mid-size banks, in accordance with the USA PATRIOT Act
- Developed national pool of BSA examiners who have attained Anti-Money Laundering (AML) Specialist certification
- Delivered BSA training to Large Bank Examiners-in-Charge and compliance specialists
- Increased the number of AML training sites from 4 in 2005, to 8 in 2006

In FY 2006, the FFIEC released the revised BSA/AML Examination Manual, reflecting an ongoing commitment of federal banking agencies and FinCEN, to provide current and consistent guidance, and safeguard operations from money laundering and terrorist financing. The update further clarifies supervisory expectations and incorporates regulatory changes since the previous year's release; revisions to the manual were a collaborative effort of the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, OCC, OTS and FinCEN. The Conference of State Bank Supervisors served in a consultative role while OFAC collaborated on revisions to the section that addresses compliance with regulations they enforce.

The Treasury Department, through OTS, supervises savings associations and their holding companies to ensure compliance with consumer laws, and encourage a competitive industry. The OTS regulated 854 savings associations with total assets of $1.53 trillion. These savings associations operated in a manner consistent with safety and soundness, and with 93 percent achieving an overall composite CAMELS rating of 1 or 2. The industry's capital position remains strong with over 99 percent of savings associations meeting the well-capitalized standards. The OTS regulates 480 holding company enterprises with approximately $7.5 trillion in consolidated assets. Over half of all savings associations and 79 percent of total savings association assets are owned by OTS-regulated holding companies. From January 2005 through June 2006, OTS conducted 1,069 BSA examinations, initiating 37 enforcement actions to address significant violations of applicable laws and regulations.

In FY 2006, the OTS hosted an outreach event for the industry on BSA/AML compliance issues, providing informative briefings by OTS senior staff on topics of BSA/AML best practices, avoiding common violations, and the consequences of noncompliance. This event provided a valuable opportunity for over 1,400 compliance officers, risk managers, auditors, attorneys and senior bank and thrift managers to interact directly with OTS experts.

In FY 2006, 63 percent of thrifts had assets of less than $250 million and as community-based lenders, the majority of savings associations' loans are made to consumers. Direct loans to consumers make up 62 percent of aggregate savings association assets. Savings associations' asset quality is strong, but quality is dependent on stable real estate values, a favorable employment environment, and consumers' continued ability to service debt. OTS maintains an interest rate risk sensitivity model that evaluates potential exposure to changing interest rates. OTS remains cautious of the potential impact of a rapid increase in market interest rates and real estate market volatility that could affect the safety and soundness of the industry and have a profound economic impact.

The federal banking agencies are continuing efforts to implement the international Basel II risk-based capital framework. The OTS is supportive of the Basel IA efforts to increase risk sensitivity in the existing Basel I capital rules and to mitigate competitive inequities that may arise with the implementation of Basel II. The OTS believes that Basel II warrants close scrutiny and refinement as the process continues. OTS is a leader among the four Federal banking agencies in developing capital modifications to Basel I for the considerable majority of financial institutions that will not adopt Basel II. Domestically, OCC and OTS, along with the other Federal Banking Agencies (FBA) are evaluating issues to ensure that the new framework results in safe and sound capital allocation and fair competition among all financial institutions.

Moving Forward

In FY 2007, 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 will be a critical issue for the supervision of banks and thrifts. The OTS will pay close attention to underwriting standards and lending practices of savings associations. Expanding transparency in the financial sector will also continue to be an important goal. By ensuring that banks and thrifts have adequate and effective BSA/AML programs in place, and by exercising balanced discretion and judgment in supervisory actions, OCC and OTS will continue to enhance transparency and combat money-laundering. During

FY 2007, the OCC and OTS will continue the Basel II implementation process.

In FY 2007, the United States Mint will continue efforts to modernize coin production materials and technology, increase the flexibility and future capability of the workforce, and respond to the opportunities presented to meet the demand for numismatic products. In addition, the Mint will introduce five new 50 State quarter-dollar coins, and commemorative coins honoring the San Francisco Old Mint, the Jamestown 400th Anniversary, and the Little Rock Central High School Desegregation 50th Anniversary. New products authorized by the Presidential $1 Coin Act include circulating $1 coins honoring Presidents of the United States, featuring four coins each year minted in order of their periods of service. FY 2007 will feature Presidents Washington, Adams, Jefferson and Madison. The Act also authorizes the mintage of complementary gold bullion coins and bronze medals honoring the spouses of the presidents.

During FY 2007, BEP will continue the research and development of new counterfeit deterrent features for possible use in future currency note designs, which will further protect our nation's currency. The redesigned $5 note will begin circulating in spring 2008 and a new $100 note is scheduled for circulation in 2009. In addition, BEP plans to attain ISO 14001 certification for its environmental management systems to demonstrate its commitment to sound environmental stewardship. BEP will seek designation as an Occupational Safety and Health Administration (OSHA) Voluntary Protection Program (VPP) site. In the VPP, management, labor, and OSHA establish cooperative relationships at workplaces that have implemented a comprehensive safety and health management system. VPP designation is OSHA's official recognition of the outstanding efforts of employers and employees who have achieved exemplary occupational safety and health.

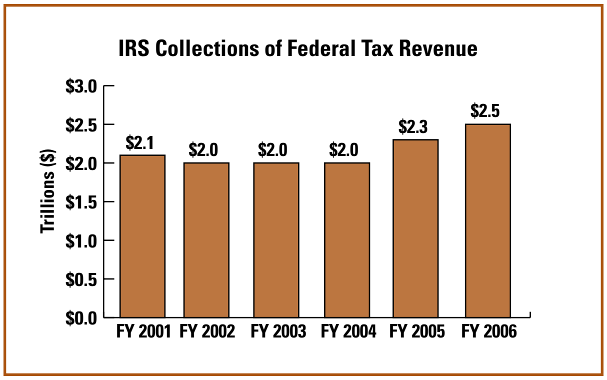
Manage the U.S. Government's Finances Effectively

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

Collecting federal taxes and other revenue is integral to the Department of the Treasury's core mission of effectively managing the federal government's finances. The Department dedicates the largest percentage of its resources to this mission. Three Department 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).

FMS manages the collection of federal revenues such as individual and corporate income tax deposits. The most important program that supports electronic collections is the Electronic Federal Tax Payment System (EFTPS). EFTPS is a tax payment system that offers all business and individuals the convenience of making their federal tax payments electronically 24 hours, 7 days a week, instead of using checks. In FY 2006, collections through EFTPS totaled $1.9 trillion with EFTPS-Online collections totaling $283.63 billion on volume of 15.6 million transactions. This represented an increase of 35.93 percent in dollar collections, and 38.36 percent in transaction volume, over FY 2005. Approximately 5.2 million taxpayers actively enrolled and paid through EFTPS; nearly 1.297 million of whom have enrolled through EFTPS-Online.

In FY 2006, the IRS, through FMS, collected 2.5 trillion dollars in revenue, with a record $48.7 billion collected through IRS enforcement activities. Total IRS collections of tax revenue increased 11 percent and enforcement revenue increased 3 percent over last year.

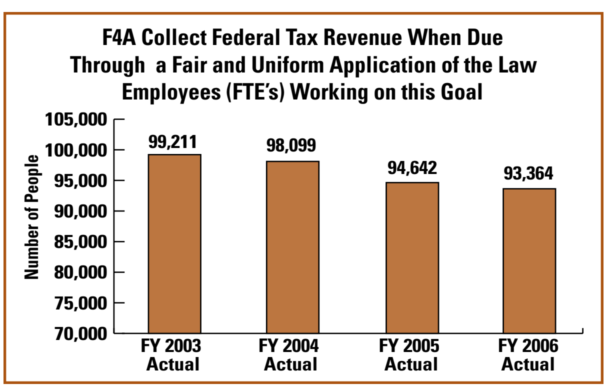


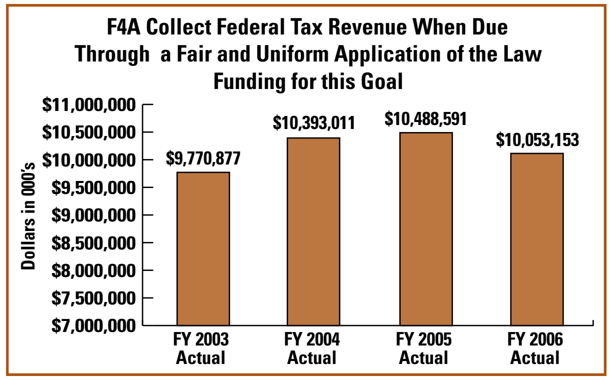
TTB collected an additional $14.786 billion in excise taxes from producers and sellers of alcohol, tobacco, firearms and ammunition.

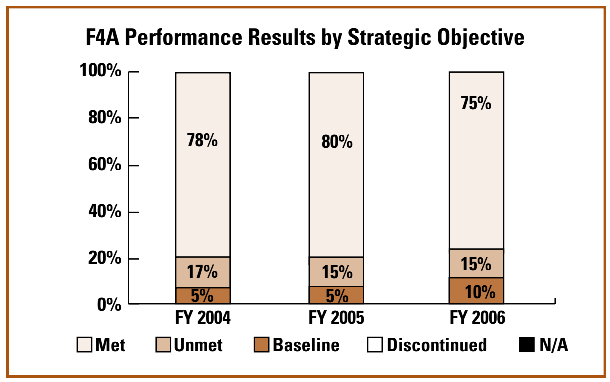
Performance Summary and Resources Invested

In FY 2006, the Treasury Department spent $10.05 billion with a workforce of 93,364 employees to collect federal tax revenue. For this objective, the Treasury Department met 75 percent of its targets, did not meet 15 percent, and designated 10 percent as baseline to assess the data and set appropriate targets for next year.

Of the above totals, TTB spent approximately $45.75 million with 282 employees. TTB provided reimbursable services in its Puerto Rico operations and spend approximately $1,700,000 with a workforce of 15 employees. TTB met all five of their Collect the Revenue measures, with one new measure being a baseline.







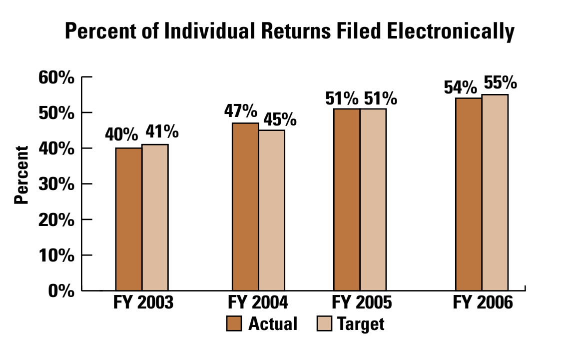
Discussion and Analysis

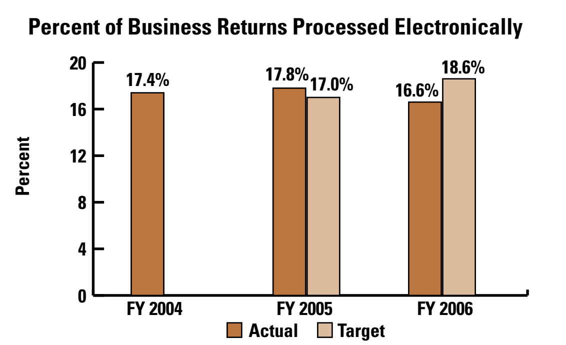
The IRS met 15 of 22 performance measures, achieving an overall success rate of more than 68 percent. The seven measures for which IRS did not meet its performance targets related to electronic filing, delivery of tax products, determination case closures, customer contacts and examination coverage for businesses. The target for this last measure, examination coverage for businesses, was missed by only 1 percent due to the IRS being prevented from taking enforcement action on a significant number of partnership return examinations involving a tax shelter promoter.

Collection of Tax Revenue/ Processing Efficiency

For FY 2006, despite not meeting its aggressive individual electronic filing target, the IRS set another record for the number of returns filed electronically. More than half or 72.8 million individual returns were filed through electronic means representing a 6.6 percent increase over FY 2005. Highlights of IRS' electronic filing:

- Home computer filing increased 18.5 percent or 20.2 million returns, the most significant increase in electronic filing.
- Professional tax preparation use of e-file increased 9.4 percent or 52.1 million returns
- The Free File Alliance, the partnership between IRS and a consortium of tax preparation software companies, had 4 million use the free service, a 22.6 percent decrease from 2005, due to a change in eligibility requirements
- Customer use of on-line services increased
  - More than 1.3 billion web pages were viewed on IRS.gov, an increase of 4 percent over 2005
  - More than 24.7 million taxpayers used "Where's My Refund?", an increase of 11.8 percent over 2005

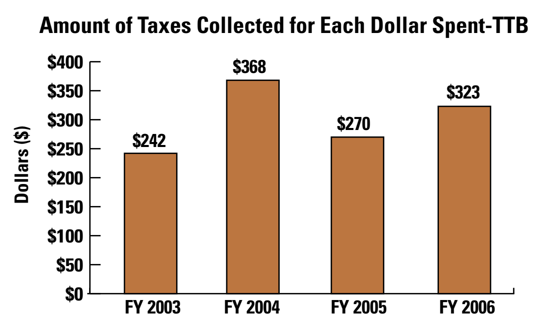




For FY 2006, the IRS did not meet its business electronic filing target primarily due to the elimination of Telefile, resulting in an increase of 3 million paper employment returns while there were 325,000 fewer electronic employment returns.

Electronic filing provides numerous benefits such as eliminating manual sorting of paper returns, batching, and the assignment of document locator numbers while providing efficiencies like data transcription, error correction, and refund issuance. Increased electronic filing reduces the need for processing centers and in FY 2006 the IRS completed the remaining actions for the closure of the Memphis Submission Processing Center, and continues planning efforts to phase out its Philadelphia Submission Processing Center.

TTB administers federal taxes on tobacco, alcohol, firearms and ammunition; collecting revenue from more than 7,500 organizations. Approximately 200 of the largest taxpaying organizations account for 98 percent of all excise tax collections annually. To collect revenues owed the federal government and achieve high levels of voluntary compliance, a field approach is used to target non-compliant industry members and a risk model is used to evaluate and select the audit targets. In FY 2006, TTB completed more than 128 audits of alcohol and tobacco companies, up from 110 audits in FY 2005.

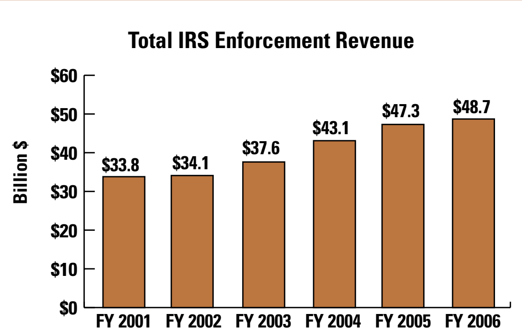


In FY 2006, TTB collected $323 in alcohol and tobacco excise taxes for every dollar spent. TTB benchmarks its performance by comparing its operations to those of similar entities in other countries, and found that it excels in terms of resources used as a percentage of taxes collected.

Compliance/Reducing the Tax Gap

In FY 2006, the IRS updated its estimate of the tax gap which is the difference between what taxpayers should pay and what they actually pay. A tax gap results from taxpayers not filing tax returns, not paying reported tax liabilities on time, or failing to report the correct tax liabilities. New estimates show that underreporting of income taxes, employment taxes, and other taxes account for about 80 percent of the tax gap. The largest percentage of underreporting is by individuals understating their income, taking improper deductions, overstating business expenses, or erroneously claiming credits. The majority of understated income is related to business activities as opposed to wages or investment income.

The IRS focused on combating corrosive activities of major tax code violators, including delinquent corporations and high income individuals in FY 2006. These efforts are having a positive impact on collecting additional tax revenue; enforcement revenue collected from all sources was at a record level of $48.7 billion in FY 2006. In addition, targeting high-risk taxpayers improves IRS efficiency, reduces burden on compliant taxpayers, and concentrates enforcement presence where it is most needed.



In FY 2006, as a result of audit findings, TTB collected $4.4 million and identified $8.1 million in taxes, penalties, and interest potentially due.

The IRS continues to focus its enforcement efforts on improving taxpayer compliance while ensuring taxpayer confidence. For FY 2006, the IRS met 83 percent of its enforcement targets. Focusing on limited scope examinations, productivity enhancements, improved analytics, improved workload identification, and selection systems that target high-risk cases resulted in:

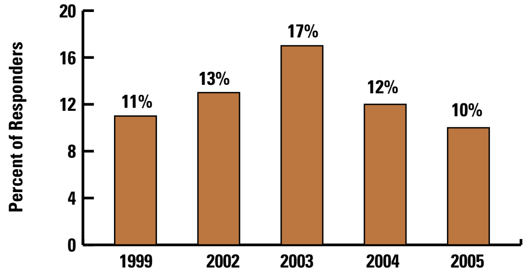
- 7 percent improvement in individual audits
- 18 percent increase in high income audits
- 8 percent increase in small-business audits
- 10 percent increase in automated underreporter closures
- 15 percent increase in collection case closures
- 9 percent increase in revenue received from collection activities

In addition, in FY 2006, the IRS met its coverage, efficiency and embedded quality annual targets. Improvements in pipeline inventory management, decreased cycle time, and targeted training all contributed to improved productivity; improved quality controls for examinations and a reinforced focus on case quality improved performance.

In FY 2006, the IRS continued to streamline and improve its examination process by focusing on high risk issues, resulting in shortened cycle time for large corporations. In FY 2006, the time from assigning a large corporate return to a revenue agent until the final closing decreased 18 percent, from 17.5 months in FY 2005, to 14.3 months in FY 2006. The improvements to the examination process ultimately increased inventory turnover and closures.

A heightened focus by the IRS on publicizing high profile enforcement cases increased taxpayer awareness on the importance of voluntary compliance. Indicators of taxpayer attitudes toward compliance rebounded in 2004 and 2005, with more than seven out of ten taxpayers agreeing it is everyone's duty to pay their fair share of taxes. In 2005, over 30 percent of Americans, as compared to 24 percent in 2004, agreed that it is everyone's responsibility to report anyone who cheats on their taxes.

IRS Has Turned the Corner...
Fewer Americans Think it is OK to Cheat on Their Taxes



Enforcement of criminal statutes is an integral component of the IRS' efforts to enhance voluntary compliance of the tax laws. Criminal investigations completed exceeded FY 2005 performance and the FY 2006 target by more than 212 cases. The referral acceptance rate, 71.8 percent, and the total number of referrals accepted, 445, were both higher than FY 2005. In FY 2006, the proliferation of abusive tax schemes presented a significant risk to the integrity of the nation's tax system. Fraudulent and abusive financial schemes are characterized by the use of trusts; limited liability companies; limited liability corporations; foreign accounts; foreign credit and debit cards; and complex, multi-layered transactions designed to facilitate income tax evasion. The IRS used parallel proceedings, one of its most effective tools to combat abusive tax schemes. This tool enables the IRS to prevent promoters of abusive schemes from engaging in further promotional activities while a criminal investigation is in progress.

In FY 2006, the IRS upgraded its BSA database to provide an improved management information system for an intensified campaign that will focus on combating money laundering and high risk money service businesses.

In addition, the IRS participated on the Joint International Tax Shelter Taskforce, with other officials from the U.S., United Kingdom, Canada and Australia, tasked with scrutinizing tax arbitrage by multi-national corporations. A Joint International Tax Shelter Information Centre, through its advanced detection analytical capabilities, will improve the IRS' and other participating tax agencies abilities to take action against those who go abroad to plan, facilitate, or engage in abusive tax transactions.

In FY 2006, the IRS continued to research ways to reduce Earned Income Tax Credit (EITC) erroneous payments, as well as identify trends in the diverse EITC taxpayer population. The IRS launched the second year of its EITC return preparer study, which emphasizes tracking, researching and monitoring preparers' behavior.

The IRS provided assistance to taxpayers in identifying and resolving disputes earlier in the examination process, through its Pre-filing Agreement (PFA) and Industry Issue Resolution (IIR) programs. These new programs are beneficial to the taxpayer and the IRS, enabling both parties to reach agreement on contentious issues through a cooperative effort and before filing the return, therefore reducing costs, burden and further delays. In FY 2006, the IRS received over 230 PFA requests, accepting 152; of those, 55 percent were closed with an agreement and 20 percent were withdrawn. On a five point scale, taxpayers reported an overall program satisfaction level of 4.7 on the PFA, and 4.6 on the IIR programs.

Taxpayer Service

Helping the public understand tax reporting and payment obligations is the cornerstone of taxpayer compliance. Expanding education, outreach, and service options offered to taxpayers encourages greater voluntary compliance, thus reducing the tax gap. In FY 2006, the IRS continued to improve service to taxpayers in telephone assistance, tax return processing, and electronic filing.

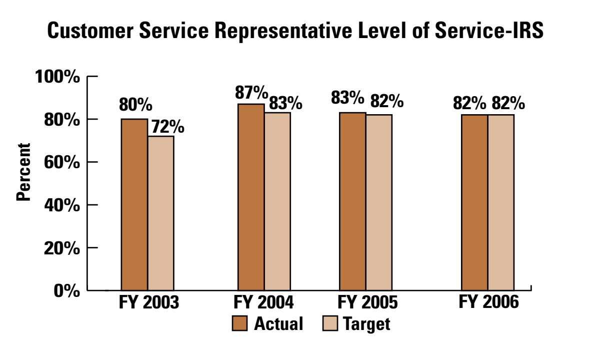
The IRS delivered a successful 2006 filing season in the midst of a very challenging year. Despite natural disasters that impacted a large number of taxpayers and required an unprecedented response from the agency, the IRS met or exceeded 50 percent of its performance targets related to taxpayer service. The following highlight IRS' performance:

- Processed more than 134.7 million individual returns, compared to 128.6 million last year, and issued more than 100 million refunds totaling $226 billion, compared to 97.1 million refunds totaling $205.1 billion
- Achieved an 82 percent level of service for toll-free calls, meeting the FY 2006 target
- Answered 32.7 million assistor telephone calls and completed nearly 24.3 million automated calls
- Correctly responded to more than 91 percent of tax law questions and 93 percent of account questions received via the telephone

More taxpayers are interacting with the IRS through various electronic media such as the Internet, e-filing and payment, e-services, and the IRS' website. In FY 2006, the IRS redesigned its website to improve search and navigation capabilities, and received the Annual Government Solutions Center Pioneer Award for Innovative Use of Technology in a Government Program. This award recognizes government agencies that make substantial progress in adding or improving electronic solutions under the President's Management Agenda.

In FY 2006, FMS continued to work with IRS on a number of initiatives to further expand the use of the Electronic Federal Tax Payment System (EFTPS) and reduce the number of paper coupons.

All 400 Taxpayer Assistance Centers (TACs) remained open and services were consistent with the 2005 filing season. In addition, wait time at the TACs was minimized with more than 80 percent of customers being served in 30 minutes or less. The accuracy of response to tax law questions increased to 83 percent, compared to 75 percent in FY 2005. With the availability of improved online service options to taxpayers, visits to the TACs were down 10 percent from FY 2005, while usage of the IRS.gov website increased nearly 10 percent. "Where's My Refund?" an online application which allows the user to check the status of a tax return, experienced almost a 12 percent increase in usage over last year. Telephone assistance calls decreased as more taxpayers opted to use automated phone and Internet services. Productivity improvements resulted in fewer resources expended in addressing account workload and taxpayer correspondence cases.



As a result of the hurricanes in 2005, legislation was passed requiring over 230 changes to 78 tax products. Despite late passage of the legislation, 83 percent of the filing season tax products deemed critical and over 61 percent of other tax products were delivered to the public on time. The IRS will continue its efforts to simplify tax forms and publications making them more user-friendly with the ultimate goal of providing all of its published products in electronic format.

Taxpayer Outreach

Improved service options for the taxpaying public and simplifying the tax process are essential strategies supporting the IRS strategic goal to improve taxpayer service. Helping the public to understand their tax reporting and payment obligations remains a vital part of maintaining public confidence in administering the tax laws. The IRS expanded its outreach by relying on partner organizations such as state taxing authorities and a cadre of volunteer groups to serve taxpayer needs. Through its 12,300 Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites the IRS provided free tax assistance to the elderly, disabled, and limited English proficient individuals and families. The 69,000 volunteers located at the sites filed approximately 2.3 million returns, a 7 percent increase over FY 2005.

In addition to conducting its own outreach and education activities, the IRS partnered with private education and outreach programs. During FY 2006, the IRS provided resources and support for over 290 Partner Coalitions, resulting in the electronic filing of 1.9 million returns. Partner Coalitions or Community-based Coalitions are groups of community organizations with common interests and a shared commitment of helping working families. Benefits of these partnerships include the ability to coordinate existing activities of multiple organizations and the ability to share ideas and resources to reach a common goal. One of the larger partnerships, Connect America, provides free tax assistance to disabled veterans and free tax preparation and asset building strategies for low-income families. In 2006, the IRS was the first federal agency to receive an award as Connect America's Partner of the Year for 2005, for its efforts to provide free tax assistance to disadvantaged groups.

The 2006 filing season nationwide marketing and education campaign, aimed at reducing EITC error, reached a wide audience of taxpayers, tax practitioners, members of the media, and partner organizations. The IRS held grassroots events in New Orleans and Houston to focus on hurricane victims; and in Denver and New York for certain limited English proficiency communities. These events provided information and free tax preparation to over 1,000 people and, through the help of volunteers, nearly 300 returns were prepared. Over 1.5 million viewed the EITC pages on IRS.gov and a million used the EITC Assistant, a web-based application to help taxpayers determine eligibility, filing status, and estimated EITC amount. In addition, the IRS provided answers to more than 160,000 EITC questions through telephone assistance.

In FY 2006, the IRS played a significant role supporting the government's emergency response to the record 2005 hurricane season. Within days of the storms, the IRS provided the Federal Emergency Management Agency (FEMA) 2,500 telephone operators who answered nearly one million disaster related calls. In addition, the IRS provided assistance to the Small Business Administration (SBA) and the Department of Labor to expedite income verification for disaster loans and unemployment benefits. The IRS processed more than 1.3 million requests for tax information from the SBA, expediting the disaster claims process.

During FY 2006, the IRS answered over 288,000 taxpayer questions, on the toll-free telephone lines, relating to tax matters such as claiming property and personal losses, applying for filing extensions, and requesting extensions on existing tax liabilities due to financial hardships resulting from the hurricane. In addition, the IRS secured agreements with several tax professional and practitioner organizations to provide assistance at local disaster relief centers and free casualty loss tax return preparation for low income taxpayers. Many VITA sites remained open after April 17, 2006, to help disaster impacted taxpayers.

In FY 2006, the IRS' Identity Theft Program Office and Communications and Liaison organization implemented a communication strategy to educate taxpayers and employees about significant identity theft issues. Outreach channels included DVDs, public service announcements, and presentations at the IRS' Tax Forums to educate tax professionals on requirements to secure taxpayer data. The IRS also provided similar educational services to persons with limited English proficiency.

Taxpayer Burden Reduction

The complexities of the tax laws and the taxpayer's familiarity and skills with tax return preparation (paper/electronic) have a significant impact on burden. As a result, many taxpayers find it more convenient and beneficial to prepare tax returns electronically or use a tax preparer. The IRS is addressing the taxpayer burden through its strategic objective of simplifying the tax process.

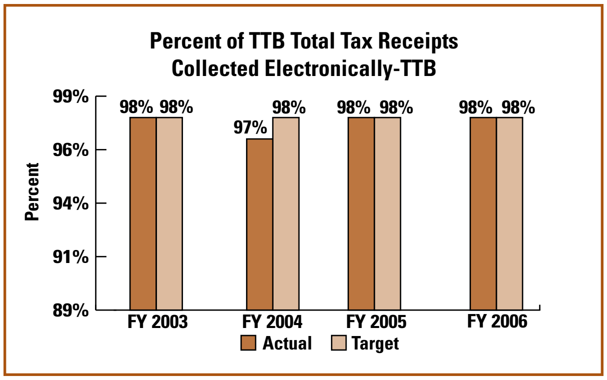
The taxpayer burden measures time and out-of-pocket expense taxpayers incur in meeting their tax responsibilities. The estimated FY 2006 burden was 6.7 billion hours, compared with 6.4 billion hours in FY 2005, an increase of 251 million hours. The increase in burden was a result of new forms and changes to existing forms dictated by the 10 different laws enacted in 2005. To help taxpayers file accurately and timely tax returns that are less burdensome, the IRS simplified the forms and instructions, to a more computer friendly format.

As in previous years, the IRS partnered with external stakeholders including taxpayers, practitioners, citizen groups, industry groups, software developers, and state and federal agencies to receive suggestions for reducing taxpayer burden. As a result, in FY 2006, the IRS launched a number of new forms and procedures designed to reduce burden without compromising tax administration objectives. The following highlight some of these:

- Unemployment tax returns redesigned to reduce filing burden for 950,000 small business owners and governmental entities. The new Form 940 and 944 allow certain employment tax filers to file annually rather than quarterly and make a single payment with the annual return.
- Revised Schedule K-1 for Form 1041 provides streamlined instructions for beneficiaries and is capable of being scanned to reduce the number of transcription errors. The new Schedule K-1 is expected to reduce 4.27 million hours of burden for 3.5 million taxpayers.
- Implementation of Alternative Minimum Tax (AMT) Calculator to assist taxpayers in determining if they are subject to the AMT and need to complete tax Form 6251. The alternative minimum tax is figured separately and eliminates many deductions and credits, thus increasing the tax liability for individuals who would otherwise pay less tax.
- Simplification of the process for requesting a filing extension for individual returns, Form 4868, which now automatically grants an additional six month extension to file. The redesign of the extension process allowed an additional 2 million taxpayers the ability to e-file/e-pay and eliminated 5 million duplicate filings. Similar changes were made to the extension process for corporate taxpayers. Automating the process affected 15.5 million submissions, reducing taxpayer burden by 9 million hours, and processing costs by 50 percent.

In addition, the IRS provided assistance to taxpayers by identifying and resolving disputes that might become controversial earlier in the examination process through its Pre-filing Agreement (PFA) and the Industry Issue Resolution programs. These programs reduce costs, burden, and delays for the taxpayer, enabling businesses and the IRS to reach agreement on contentious issues through cooperative efforts before a return is filed. In FY 2006, the IRS received over 230 PFA requests, accepting 152; of these, 55 percent were closed with an agreement, and 20 percent were withdrawn, either by the taxpayer or the IRS. On a five point scale, taxpayers reported an overall program satisfaction level of 4.7 on PFA and 4.6 for the IIR programs.

TTB, like the IRS, strives to reduce taxpaying burden on the industries of alcohol, tobacco, firearms and ammunitions. TTB uses technology to reduce paperwork burden and recently expanded the use of the Pay.gov program, allowing all excise taxpayers to file and pay electronically.



FY 2006 was the first full year the TTB infrastructure operated separately from the Department of Alcohol, Tobacco and Firearms' (ATF) IT infrastructure. (ATF is now part of the Department of Homeland Security). TTB's IT team developed and implemented the Electronic Forms Acceptance and Processing System (EFAPS), which electronically automates the entire filing process and has disaster recovery and security features.

Business Systems Modernization (BSM)

The BSM program combines industry best practices and government expertise in business and technology solutions to develop a modernized tax administration system that meets taxpayer needs and fulfills revenue collection requirements.

Over the last two years, BSM established a foundation of disciplined project delivery and accomplishment. The program achieved its targets for both cost and schedule components while transitioning from a contractor-led program to an IRS-led program, achieving a degree of success not seen since the program's inception.

In FY 2006, the IRS implemented an updated release of it modernized e-File project, which expands taxpayer base served through combined federal and state processing of corporate and tax-exempt organizations income tax returns. For certain corporations, it is mandatory to file by this means because corporate returns typically include hundreds, or even thousands, of pages of information and are very complex; by receiving the data electronically it precludes the IRS from having to convert the data for use in an examination. Electronic capture of return information allows the IRS to quickly deliver the data to analysts and agents for compliance risk assessment and action. Modernized e-file processed 375,000 corporate returns for the 2006 filing season.

The IRS introduced their new Customer Account Data Engine (CADE) capabilities for the 2006 filing season, supporting faster refunds to taxpayers than previously possible with legacy systems. For example, direct deposit refunds were issued up to seven days faster while paper refunds were issued up to 13 days faster. With this system 7.3 million returns were processed, an increase of more than a 400 percent over the prior year; and 7 million refunds were issued totaling in excess of $3.4 billion. CADE improved taxpayer service by allowing access to current information up to seven days sooner, increasing the likelihood of single telephone call resolution, and allowed for faster issue detection and more timely account settlement. CADE is expected to process an estimated 33 million returns in 2007.

The IRS delivered release functionality for Filing & Payment Compliance, which provides for the identification of cases to be issued to Private Collection Agencies (PCAs). The system identified and delivered the first 12,500 cases to three PCAs in September 2006.

Moving Forward

The Internal Revenue Service supports the Administration's goals to reduce the federal deficit by increasing tax receipts collected through taxpayer service and enforcement compliance. The IRS collects 97 percent of the revenues that fund the United States government.

Enhance Enforcement of the Tax Law: The most recent estimate of the tax gap was $345 billion in Tax Year 2001. The need to address this gap is one of the primary forces driving all IRS activity from enforcement to taxpayer activities service.

The IRS enforcement programs yield a return on investment; each dollar invested yields at least four dollars in revenue. The complexity of the nation's current tax system is a significant reason for the tax gap and helping taxpayers understand their obligations under tax law is critical to addressing this gap. The IRS remains committed to helping taxpayers understand the tax laws and the remittance of proper tax amounts. Future efforts to reduce the tax gap include developing and implementing corporate strategies to ensure optimum, balanced audit coverage and improved resource allocation.

The IRS has a robust, balanced, and comprehensive plan to help reduce improper payments, which include base compliance activities and redesign efforts. In FY 2006, the IRS opened over 520,000 examinations of EITC returns, for tax year 2005, based on enhanced scoring and selection methodology, completed more than 515,000 examinations, uncovered 315,000 misreported income cases, issued over 650,000 math error notices, developed and implemented an enterprise research strategy in partnership with internal and external organizations to better focus EITC compliance and outreach activities, and continued the third year of the Qualifying Child test to better understand the effect of certification on EITC participation, claim accuracy, and burden. Analyzing the final results of these tests will be imperative to assessing their effectiveness in reducing erroneous EITC over claims while maintaining high participation rates by eligible taxpayers. Collectively, these enforcement efforts prevented nearly $2 billion in erroneous payments. Redesign efforts include a process to score and select amended returns for examination; a risk-based scoring strategy to identify and select cases for examination that ensures the IRS works the most egregious and productive examination cases; systemic assignment of examination cases to campuses using new data such as capacity and risk-based scores; and, integration of a decision support tool which automates issue identification, increases consistency in case documentation and, eliminates duplicative data entry when the case is closed.

Refund fraud increased significantly since 2001 and is constantly evolving and becoming more complex and sophisticated. Through the Questionable Refund Program (QRP) and the Return Preparer Program (RPP), the IRS will continue to combat this growing problem by identifying and stopping the payment of fraudulent refund claims. The IRS will also persist in identifying and investigating unscrupulous return preparers and their clients.

Improved Taxpayer Services: Providing taxpayer service over multiple channels to align content, delivery, and resources with taxpayer and partner expectations will be achieved by the implementation of the Taxpayer Assistance Blueprint (TAB). Elements of the TAB are designed to reduce taxpayer burden, increase voluntary compliance, and improve workforce performance by establishing a credible taxpayer-partner baseline of needs, preferences, and behaviors. Institutionalizing key research, operational, and assessment activities will help the IRS manage and improve service delivery.

Modernize the IRS through its People, Processes, and Technology: The IRS will continue to use the latest technology to optimize both taxpayer service and enforcement programs. The IRS will continue to implement its revised BSM strategy, emphasizing the incremental release of projects to deliver value sooner with less risk. Modernization efforts will continue to focus on three key tax administration systems that provide additional benefits to taxpayers and the IRS employees: Customer Account Data Engine (CADE) project, Modernized e-file (MeF), and Filing and Payment Compliance (F&PC). An example of continued modernization efforts is the expansion of the MeF taxpayer base, to include the automation of Partnership Income tax returns, which will enable nearly 2.7 million small business and self-employed taxpayers to benefit from modernized electronic filing.

Recognizing the responsibility for safeguarding Americans' most sensitive financial information, the IRS will continue taking significant steps to deploy its three-fold strategy focusing on technological solutions (encryption), employee education and awareness, and critical analysis of IRS policies and procedures.

Targeted training, activities to promote retention, and engagement of employees are important elements of the IRS Strategic Plan, and necessary to sustain an engaged and productive workforce. To meet changing business and technological demands, the IRS will focus on implementing a retention program that identifies targeted occupations, skill sets, and hard to fill positions. The program will feature integration of all recruitment, hiring, and compensation efforts; along with the development of new and improved methods of predicting future attrition through retirements. Developing activities specifically targeted toward mitigating the impact of retirements and those necessary to attract and retain new hires with advanced skills, will continue to be critical to IRS' business goals.

TTB will continue to hire CPAs as a significant portion of its workforce, and in addition to the pilot program for Pay Demo, which provides pay banding for mission critical occupations, TTB has implemented the Telework/Flexiplace program to help maintain a viable workforce.

Manage Federal Debt Effectively and Efficiently

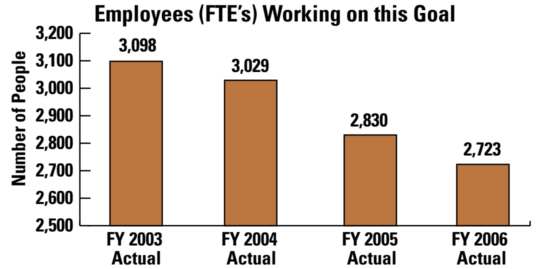
The Department determines and executes the federal borrowing strategy to meet the monetary needs of the government at the lowest possible cost. Each year, the Treasury Department borrows and accounts for trillions of dollars necessary for the government to function. Moreover, as the government's money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

The Bureau of the Public Debt (BPD) conducts the Department's debt financing operations by issuing and servicing Treasury securities. Debt is held by individuals, corporations, state and local governments, federal agencies, and foreign governments. In FY 2006, more than $4 trillion in marketable securities were auctioned and issued and $32 trillion in non-marketable securities were issued to the public and government accounts.

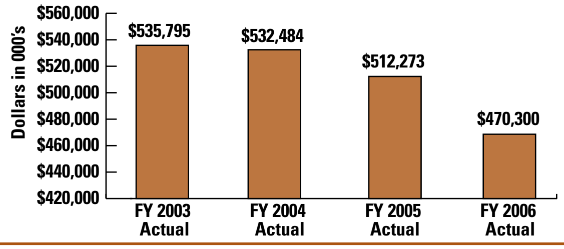
Performance Summary and Resources Invested

In FY 2006, the Department spent $470.3 million with a workforce of 2,723 employees to manage the federal debt. In addition, the Treasury Department met 83 percent of its performance measures for this objective.

F4B,C,D Managing Federal Debt, Making Collections and Payments, Optimizing Cash Management, and Administering the Government's Financial Systems Employees (FTE's) Working on this Goal



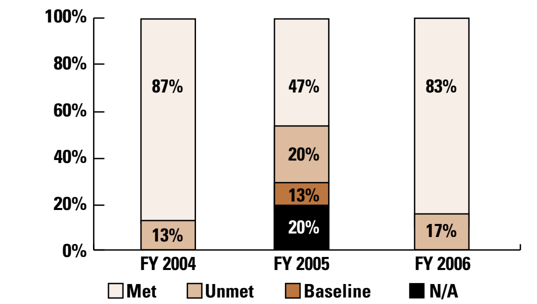
F4B,C,D Managing Federal Debt, Making Collections and Payments, Optimizing Cash Management, and Administering the Government's Financial Systems Funding for These Goals



Part II – Annual Performance Report

Managing the U.S. Government's Finances Effectively

F4B, F4C &F4D Performance Results by Strategic Objective

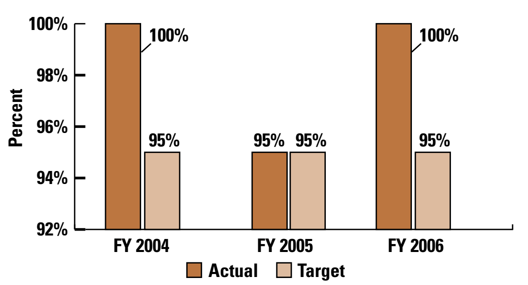


Discussion and Analysis

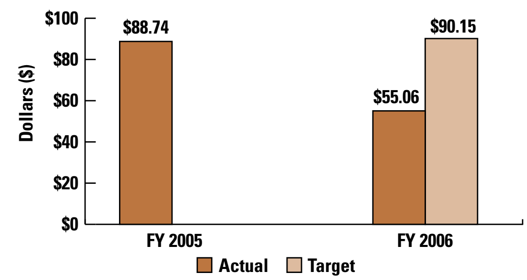
In FY 2006, BPD met its performance goal of announcing Treasury auction results within its target timeframe 100 percent of the time. The Department minimized the cost of borrowing; with a shorter release time, exposure to adverse market movements and the implicit market premium are reduced. Due to ongoing improvement in work processes and efficient use of resources, BPD met its goal of processing 90 percent of retail customer service transactions within 13 business days.

In FY 2006, Domestic Finance's Office of Financial Markets continued to offer 5 year and 20 year Treasury's Inflation-Protected Securities (TIPS). TIPS are auctioned to the public, and help to diversify Treasury's investor base, lessen operational risks, and lower borrowing costs. The offerings, coupled with outreach efforts, have improved liquidity and increased investor interest and demand.

Percent of Auction Results Released in 2 Minutes +/- 30 Seconds

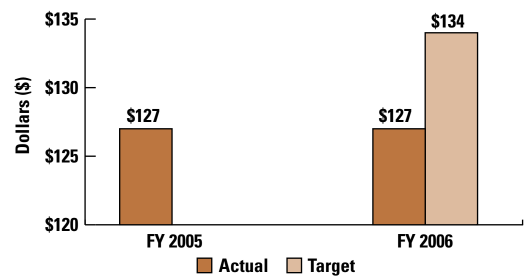


Cost per Federal Funds Investment Transaction



*FY 2006 Actual on this chart is an estimate

Cost per Debt Financing Operation



*FY 2006 Actual on this chart is an estimate

In FY 2006, after a four year absence, the Department reintroduced regular issuance of the 30-year bond to diversify funding options and stabilize the average maturity of the public debt. Previously, 20-year TIPS were the longest dated marketable securities issued by the Department of the Treasury.

The Treasury Department 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 $3.7 trillion in customer assets. In FY 2006, over 97 percent of GAIS transactions were conducted online, as compared to 72.7 percent in FY 2005.

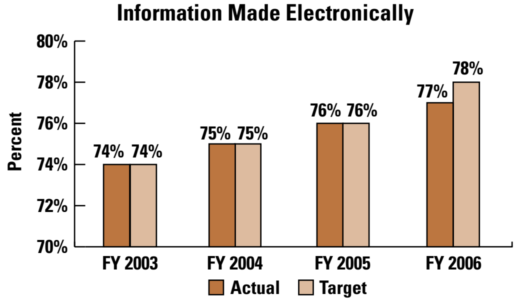
This increase in online GAIS transactions resulted from three factors: (1) all loans receivable transactions were conducted using the Government-Wide Accounting application, (2) regulatory changes effective in August 2005 required investors in state and local government securities to perform all investment transactions online using the SLGSafe internet application, and (3) the Federal Investments Program made a comprehensive effort to convert and train its user community to conduct investment transactions through the FedInvest internet application.

Make Collections and Payments on Time and Accurate

The Treasury Department functions as the nation's disburser, manager and accountant of public monies by distributing payments, financing public services, and balancing 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 of almost $60 billion, and distributes 85 percent of federal payments each year worth close to $1.9 trillion timely and accurately. In FY 2006, FMS made 100 percent of its payments accurately and on-time, including income tax refunds, Social Security benefits, veterans' benefits, and other federal payments. FMS continued to transition from paper checks to electronic transactions issuing 77 percent of over 964 million non-Defense payments electronically. In FY 2006, FMS continued to expand and market the use of electronic media to deliver federal payments, improve service to payment recipients, and reduce government program costs. These efforts helped to decrease the number of paper checks issued and minimize costs associated with postage on the re-issuance of lost, stolen or misplaced checks.

Percent of Treasury Payments and Associated Information Made Electronically



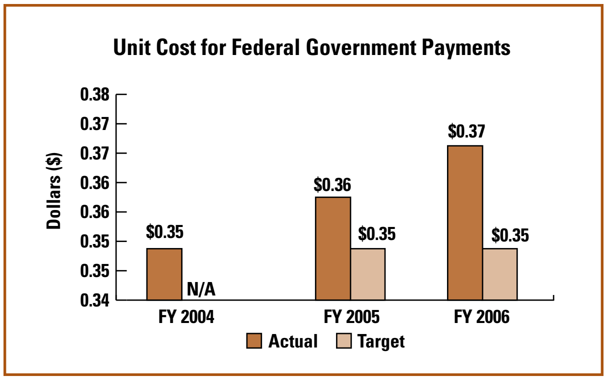
In FY 2006, FMS issued over 8.5 million fewer checks than FY 2005, continuing to face obstacles to increase the growth of electronic payments. EFT payments are less costly and more secure for the taxpayers. The direct deposit growth rate for federal benefit payments leveled off from the increases of the late 1990's. To increase the use of direct deposit for federal benefit payments, FMS began a nationwide campaign called "Go Direct," which encourages check recipients to switch from paper checks to direct deposit; saving 77 cents per transaction. During the first full year of the campaign, over 600,000 check recipients converted to direct deposit, saving millions of dollars for taxpayers.

FMS collected $2.9 trillion in FY 2006 which was an increase of 10.1 percent over FY 2005. FMS develops and operates a variety of collection mechanisms and systems to promote the use of electronics in the collections process, and assist agencies in converting collections from paper to electronic media programs such as Electronic Federal Tax Payment System (EFTPS). EFTPS is an accurate, secure and convenient way to make all federal tax payments, including corporate, excise, and employment taxes, and 1040 quarterly estimated taxes via the internet or a telephone voice response system. EFTPS processes 95 percent of U.S. tax dollars and is required to be used by businesses with annual federal tax obligations above $200,000.

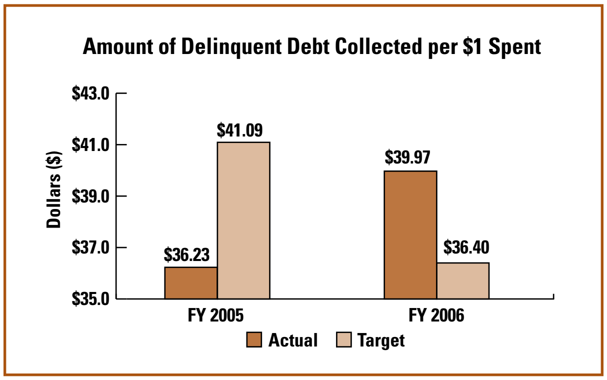
In FY 2006, to further expand the use of EFTPS, FMS conducted a marketing effort to encourage tax preparers and small businesses to pay federal taxes electronically through this system. The campaign was successful in reducing the number of Federal Tax Deposit (FTD) coupons by 8.1% or 3.4 million over last year.

In addition, FMS assisted government agencies to convert collections, at the point of receipt, from paper to electronic media receipt, including imaging paper remittances and invoices. Services such as the Paper Check Conversion Over-the-Counter System

(PCC-OTC) and Electronic Check Processing (ECP) facilitate the conversion to electronic media.



In FY 2006, FMS collected a record of $3.336 billion of delinquent government and child support debt; approximately $40 of delinquent debt is collected per $1 of program costs. Collection amounts have increased steadily since the inception of the program.



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

The Department must manage the government's cash position to ensure that funds are available for payment, and monitor the government's receipts and payments to accurately forecast the government's current and future daily cash requirements.

Domestic Finance's Office of Fiscal Projections (OFP), BPD, and FMS are involved in cash management and administering the government's financial systems. OFP ensures that funds are available on a daily basis to cover federal payments and maximize investment earnings while minimizing borrowing costs. The OFP continually implements new and improved methods for forecasting receipts, outlays and debt. The OFP monitors its forecasting process by measuring the variance between forecasted and actual budget receipts. In FY 2006, forecasted receipts were within 3.9 percent of actual – a 20 percent improvement over the goal, which was established in FY 2005, and was to be no more than a 5 percent variance between forecasted and actual receipts.

In addition to meet its performance measure Domestic Finance expanded its monthly meetings to include representatives from Economic Policy and the revenue estimating staff of Tax Policy. These meetings focused on identifying revisions to key macro-economic indicators and the impact that revisions, both retrospective and prospective, had on current receipt projections. The success of this process was evident by the annual performance, which exceeded the tolerance for FY 2006 and resulted in a reduction of the forecast variance from FY 2005.

In FY 2006, BPD received an unqualified audit opinion on its *FY 2005 and FY 2004 Schedules of Federal Debt*, representing the largest single liability on the government-wide financial statement. In addition, BPD successfully introduced monthly financial statements in FY 2006, providing more timely financial information.

FMS maintains the federal government's books and accounts of monetary assets and liabilities, by operating and overseeing the government's central accounting and reporting system. In FY 2006, 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 percent accuracy and timeliness. For the second consecutive year, FMS released the Financial Report of the United States Government 75 days after the close of the fiscal year.

Moving Forward

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

Over the past several years, the Fiscal Service has been exploring new and innovative ways to invest excess cash, including the implementation of a program to auction off excess cash at competitive market rates. More recently, Fiscal has initiated a pilot program to invest a small portion of the Department's cash balances in reverse repurchase transactions. The pilot will be evaluated in FY 2007.

The Department of the Treasury is committed to financing the Federal Government at the lowest possible cost. BPD will continue to meet its target timeframe for auctions, and will replace the auction system to ensure it continues to meet business and contingency needs. In addition, BPD will continue to progress towards a paperless environment for savings bonds. BPD's goal in FY 2007 is to complete 90 percent of retail customer service transactions within 12 business days and by FY 2010 within 10 business days.

The Treasury Department will continue to accurately account for and report on federal debt. To improve the availability and usefulness of financial information, BPD will begin producing daily financial statements by year-end FY 2007.

In order to focus directly on mission-related activities, the Office of Management and Budget encourages federal agencies to use Shared Service Providers (SSP) for administrative services. The Department of the Treasury plans to leverage BPD's designated SSP, Administrative Resource Center (ARC), to reduce costs by improving the delivery of services in human capital, financial management, and procurement.

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 and timely, and safely and securely for the taxpayer. These efforts will decrease costs and increase efficiencies.

In FY 2007, FMS will continue to increase the percentage of government receipts collected electronically to 81 percent. FMS will continue working towards their goal of converting more checks to electronic collections at the various collection lockboxes, expanding *Pay.gov* to other federal agencies. In addition, FMS will continue to expand EFTPS for taxpayers.

To increase the amount of delinquent debt collected, FMS will focus on incorporating all non-Treasury disbursed salary and vendor payments, as well as other payment types into its offset program. These efforts will allow increased debt collection from delinquent government contractors and vendors.

In October 2005, the current debt program Cross-Servicing system was replaced with *FedDebt*, a system which provides a single point of entry for agencies to refer their debts to FMS for collection. FMS will continue to roll out *Debt Check*, a program to help agencies bar delinquent debtors from obtaining new loans or loan guarantees.

In FY 2007, FMS will continue to revamp government-wide accounting processes to provide more useful and reliable financial information on a regular basis through the new government-wide accounting system, which will significantly reduce agency reporting and reconciliation requirements. As part of the system redesign, FMS will provide agencies with a web-based account statement that resembles a bank statement that summarizing Treasury fund account balance activity. Agencies will have daily access to critical data for reconciliation and fund reclassification. As a result, fund balance information will be available to agencies on a one-day turnaround. The new accounting processes will be rolled out to agencies by major transaction type with full implementation occurring over the next few years.

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

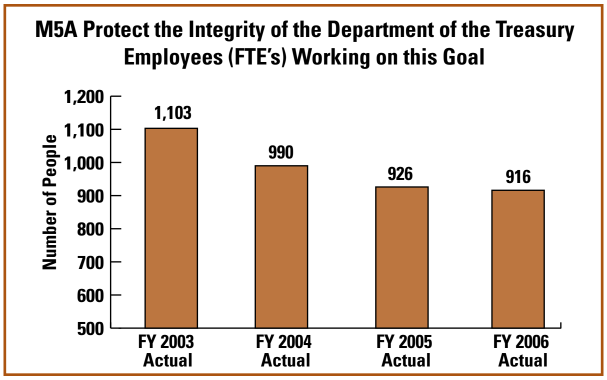
Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury

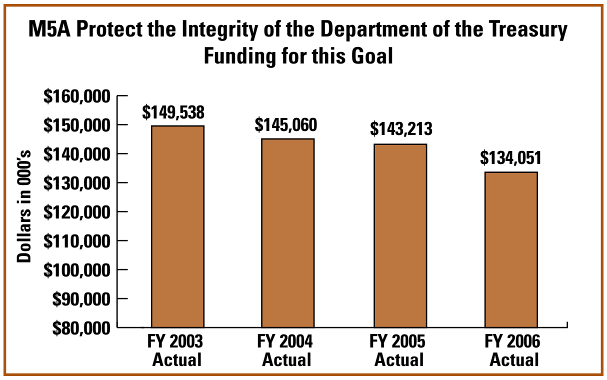
Protecting the Integrity of the Department of Treasury

The Treasury Department has two Inspectors General (IGs) that provide independent oversight of the Department's activities: the Office of Inspector General (OIG) and the Treasury Inspector General for Tax Administration (TIGTA). The OIG has audit and investigative responsibilities for all non-IRS organizations within the Department (eight bureaus and all departmental offices). The 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. Both Inspectors General keep the Congress, the Secretary of the Treasury, and bureau and departmental management informed on issues, problems, and deficiencies in administering Department programs and operations, and any necessary corrective actions.

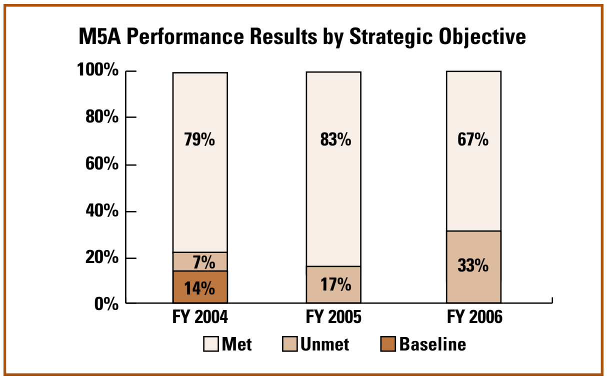
Performance Summary and Resources Invested

In FY 2006, the Treasury Department spent $134.05 million with a workforce of 916 employees to conduct audits and investigations. The Department met 67 percent of its performance measures for this objective.





Note: OIG expended $16,830 and with a workforce of 115 FTEs. TIGTA expended $131,953 and with a workforce of 850 FTEs.



Discussion and Analysis

In FY 2006, the OIG issued 57 audit products, completed 100 percent of all statutory requirements, and met all required professional standards for sampled audits. FY 2006 audits identified $35 million in potential monetary benefits or cost savings, and focused on a number of the Department's most serious management challenges identified by the Inspector General. Most notably, completed audits identified weaknesses in: (1) Treasury Communications Enterprise procurement, (2) information security at several bureaus, (3) OCC and OTS examinations for compliance with Office of Foreign Assets Control (OFAC) sanctions, and (4) OCC's enforcement action against Wells Fargo Bank for Bank Secrecy Act (BSA) deficiencies. The audit of the Department's FY 2005 financial statements resulted in an unqualified or clean opinion, however one material weakness related to IRS financial management was reported.

The OIG completed its FY 2005 and FY 2006 independent evaluations of the Department's information security policies and practices pursuant to the Federal Information Security and Management Act (FISMA). The FY 2006 evaluation found that while the Department made progress in accounting for its inventory of systems, it remained in non-compliant with FISMA. In addition, the IG issued its annual management and performance challenges memorandum to the Secretary citing five challenges which are: (1) corporate management, (2) management of capital investments, (3) information security, (4) linking resources to results, and (5) anti-money laundering and terrorist financing/Bank Secrecy Act enforcement.

The OIG has criminal, civil, and administrative investigative responsibilities for all Department programs and operations excluding the IRS. In FY 2006, the OIG reviewed 488 complaints for potential investigation or inquiry, opened 129 new investigations, referred 61 for criminal prosecution and had administrative corrective action taken on 29. All investigations sampled met applicable standards set by President's Council for Integrity and Efficiency.

The OIG prevented, detected, and investigated a variety of crimes which include: identity theft, forged and stolen treasury checks, fraud involving disaster recovery funds, and other crimes. Examples of OIG investigations include:

- Banking officials who perpetrated a multi-million dollar bank fraud, thereby jeopardizing the safety and soundness of their institutions.
- An individual who schemed to defraud the Federal Emergency Management Agency (FEMA) of more than $100,000 in relief funds intended for victims of Hurricanes Katrina and Rita by employing the stolen identities of others.
- A Department employee who falsely reported the theft of Privacy Act protected information. This case highlighted information security weaknesses and identity theft vulnerabilities.
- A Department employee who was arrested pursuant to a plea agreement, pled guilty to one charge of 18 USC 642, possession of tools and materials for counterfeiting purposes, in connection with his theft of a number of partially printed sheets of $100 bills from BEP.

In FY 2006, the OIG auditors and investigators, working collaboratively with Department program managers, began a proactive initiative to identify potentially fraudulent Federal Employee Compensation Act (FECA) claims, as well as opportunities to improve internal program controls. These investigations led to the arrest and indictment of a former employee who received $270,000 in FECA benefits over 4 years. Similar initiatives are being undertaken by OIGs at other federal agencies.

The TIGTA's audit and investigative services protect and promote the fair administration of the tax system, and ensure the IRS is accountable in its administration of the internal revenue laws.

The TIGTA issued 171 audit reports, in FY 2006, resulting in potential financial accomplishments of $ 1.8 billion and potentially impacting 1,798,152 million taxpayer accounts in areas such as taxpayer burden and taxpayer rights. Audit recommendations lead to improvements in systems modernization, tax compliance, tax return processing, and the implementation of tax law changes. Results include:

- Identifying data discrepancies in the IRS' Taxpayer Assistance Center Closure Model that affect the IRS' ability to accurately determine cost savings.
- Recommending the IRS' Commissioner of the Small Business/Self-Employed Division, convene a study group to develop a business case for filers of Form 5471 (Information Return of U.S. Persons with Respect to Certain Foreign Corporations) and Form 5472 (Information Return of a 25 percent. Foreign Owned U.S. Corporation or a Foreign Corporation Engaged in U.S. Trade or Business).
- Estimating there are approximately 22,500 licensed tax practitioners not compliant with their individual tax obligations, necessitating identification and referral to the IRS' Office of Professional Responsibility.

Investigative work by the TIGTA is designed to protect the integrity of tax administration, which includes investigating allegations of bribery, threats, and external attempts of tax administration corruption. In FY 2006, the TIGTA achieved a 79 percent positive results ratio from its investigations, more than 8,772 complaints of alleged criminal wrongdoing or administrative misconduct, and closing 3,412 cases.

As of April 2006, an investigation of reported tax payment thefts from a Lockbox, operated by the Bank of America, revealed 54 remittance checks were identified as stolen. (Payment checks of taxes are made out to the Department of Treasury, not the IRS). The TIGTA estimates the cumulative value of stolen checks was approximately $2.8 million; to date, the TIGTA's investigation resulted in the court ordered seizure and recovery of $500,293.67. In May 2006, another TIGTA investigation revealed a temporary employee of the Bank of America altered 15 stolen checks totaling $330,009.04.

Moving Forward

In FY 2007, the OIG will increase oversight of the Department's BSA and intelligence systems development efforts, as well as other high risk capital investments. In addition, the OIG will:

- Increase audit coverage of programs designed to counter money-laundering and terrorist financing
- Complete 100 percent of statutory audits on time
- Timely investigate complaints of fraud, waste, and abuse in non-IRS programs
- Continue the proactive integrity program

In FY 2007, the TIGTA will ensure that audit recommendations continue to improve by:

- Addressing major management challenges such as computer security, taxpayer rights and protection, and ensuring quality taxpayer services
- Monitoring the IRS' modernization efforts to identify problems encountered in the implementation of new programs and information systems
- Monitoring IRS' efforts to achieve its strategic goals, eliminating identified material weaknesses and achieving the President's Management Agenda initiatives

In addition, the TIGTA will ensure that investigative programs continue to improve by:

- Investigating complaints of wrongdoing that may 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

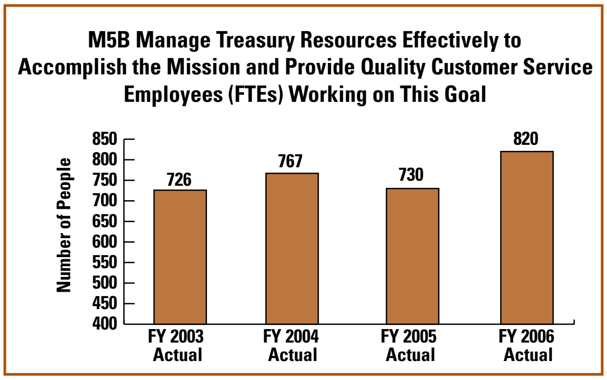
- Heightening integrity awareness through the regular delivery of presentations to IRS employees, law enforcement agencies, tax practitioners and community groups

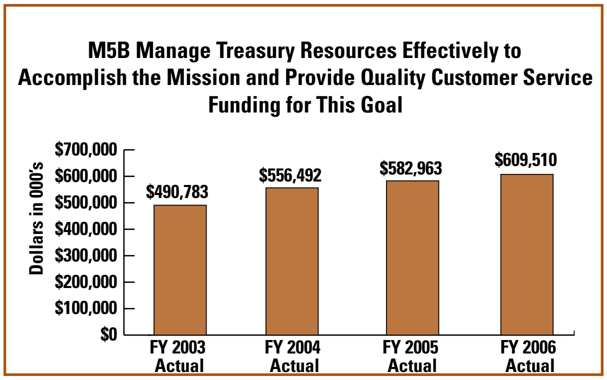
Managing Treasury Resources Effectively to Accomplish the Mission and Provide Quality Customer Service

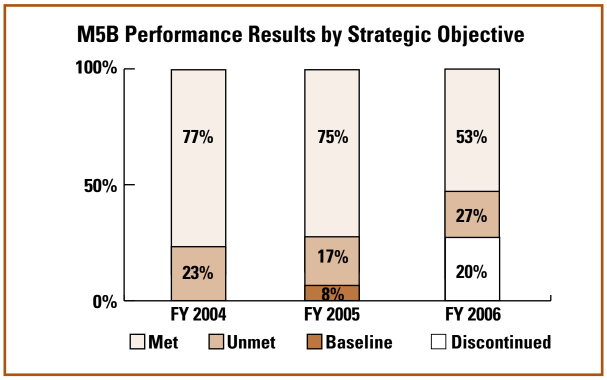
The Treasury Department ensures that taxpayers receive the most efficient and effective use of their tax dollars by building a strong institution that is citizen-centered, results-oriented, and actively implements the principles of the President's Management Agenda (PMA).

Performance Summary and Resources Invested

In FY 2006, the Treasury Department spent $609.5 million with a workforce of 820 employees to manage Department-wide policies and programs. In addition, the Department of the Treasury met 53 percent of its performance measures for this objective, did not meet 27 percent, and the remaining 20 percent was unavailable due to the discontinuance of the measure.







Discussion and Analysis

The Department of the Treasury works to manage the Department effectively through the principles of the President's Management Agenda (PMA). In 2001, the President challenged the Federal Government to become more efficient, effective, results-oriented and accountable. Over the past five 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 an agency 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.

In FY 2006, the Department continued to be successful in two initiatives, Competitive Sourcing and Human Capital; in the E-Government initiative the status score went up; while the Budget Performance, Improper Payments, and Financial Performance initiatives remained unchanged. Some initiatives showed progress by increasing the score one level for the quarterly rating.

The Department of the Treasury is responsible for six initiatives identified by the PMA, five standard initiatives that are government-wide and one that is limited to the Department.

President's Management Agenda

Initiative	Status		FY 2006 Progress			
	FY 2005	FY 2006	Q1	Q2	Q3	Q4
Human Capital	Y	G	G	G	G	G
Competitive Sourcing	G	G	G	G	G	Y
Financial Performance	R	R	G	G	G	G
E-Government	R	Y	Y	G	Y	Y
Budget Performance Integration	Y	Y	G	G	Y	Y
Improper Payments	R	R	Y	Y	Y	Y

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

Human Capital: In FY 2006, during a year of challenges, the Treasury Department's Human Capital initiative was successful by continuing to align its workforce with its human capital goals and objectives. Consistent with its human capital vision, the Department used strategic workforce planning and flexible tools to recruit, retain, and reward employees, fostering a diverse and high-performing workforce.

In FY 2006, the Department's human capital activities focused on results-oriented performance, leadership succession planning, and accountability. The Office of Personnel Management approved the Treasury Department's program for succession planning and accountability, a condition for remaining successful in the PMA Human Capital initiative. This program ensures that future management acquires appropriate skills to enable them to lead the Department in an ever-changing environment.

FY 2006 human capital successes include:

- Achieving a goal of 100% of supervisors', managers', and executives' performance plans that contain elements directly linked to the Department's mission
- Training over 1,300 current and future managers in leadership competencies
- Strengthening the accountability system through Department-wide policy which emphasizes compliance with federal laws and regulations, and merit system principles.

In FY 2007, human capital strategies are aimed at reducing under representation in mission-critical occupations and the Department's leadership ranks. Continued emphasis will be on expanding pay-for-performance systems throughout the Department, and conducting accountability and compliance reviews, ensuring that improvement action is taken where needed.

Competitive Sourcing: Through Competitive Sourcing, the Treasury Department utilizes public-private competition to effectively deliver services at the lowest possible cost to the American taxpayer. Competitive Sourcing allows the Department to look internally and externally for the most efficient ways to achieve its mission.

In FY 2006, the Department of the Treasury remained successful in the Competitive Sourcing initiative. The Competitive Sourcing team accomplished this by:

- Migrating and conducting the Federal Activities Inventory Reform (FAIR) Act in

HR Connect, the Department's on-line human capital system

- Creating a Shared Services concept to optimize existing competitive sourcing expertise
- Developing a demand analysis system for conducting potential studies
- Improving coordination of competitive sourcing activities Department-wide

In FY 2006, the Treasury Department continued to oversee A-76 competitions by issuing appropriate guidance and coordinating reporting efforts to the OMB and Congress on the FAIR Act and Congressional mandates. Significant results of the Department's activities this fiscal year include:

- Realizing over $10 million in cost savings and avoidance from Competitive Sourcing
- Continued oversight of competitive sourcing actions covering 2,700 FTE

In FY 2007, the Department will complete studies on time, establish the process, procedures, and framework for Most Efficient Organization (MEO) use of sub-contracts, and manage and monitor post-implementation of competitive sourcing studies.

Improved Financial Performance: The Treasury Department continued to work toward full compliance with the Federal Managers Financial Improvement Act (FMFIA) and improved financial management processes to produce accurate and timely information that supports operating, budget and policy decisions.

In FY 2006, the Department of the Treasury accounted for public funds accurately and timely through a successful three day closing process at the end of each month. The Department's Financial Performance team met its reporting deadlines and was provided a clean annual audit.

In addition, the Treasury Department continued emphasis on reducing material weaknesses during the year resulting in a reduction from seven to six material weaknesses.

In FY 2007, the Department will continue to implement its corrective action plan to address material weaknesses.

Expanded E-government: Expanding electronic government products and services department-wide improve internal efficiency and effectiveness, and enhanced service to the public. In FY 2006, the Treasury Department continued to improve its enterprise architecture, information technology (IT) capital planning processes, and cyber security practices department-wide. The Department managed projects to meet cost, schedule and performance goals, certified and accredited Treasury systems to protect information from unauthorized access and theft, and fully participated in all applicable Presidential E-Government Initiatives.

During FY 2006, accomplishments include:

- Improving Treasury-wide Capital Planning and Investment Control policies and processes, including executive certification of quarterly project performance reporting
- Applying standard definitions for systems under the Federal Information Security Management Act (FISMA) and establishing a new system inventory to improve future management and reporting
- Integrating Treasury Enterprise Architecture (EA) and IT Capital Planning processes
- Completing all required E-Government initiative implementation milestones

In FY 2007, the Department will continue to improve its compliance with FISMA, and strengthen the oversight and management of Treasury IT investments using the Treasury Enterprise Architecture.

Budget and Performance Integration: In FY 2006, the Treasury Department embarked on revising its Strategic Plan. This plan clearly defines the strategic priorities and articulates outcome-oriented goals and objectives. The Department's senior leadership sponsored the effort and served as champions for the teams developing outcomes, strategies and measures.

The Treasury Department tested its mission, goals and strategies against a set of future possibilities to ensure their robustness. The Department identified 10 value chains, groups of programs with a common purpose, recognizing that outcomes connect us across different programs and organizations. The new Treasury Strategic Plan will add a vision statement, and a set of core values, both of which serve to integrate and draw the Department toward a compelling picture of its future. Finally, the strategic plan will establish an integrated management system that links budget and cost to outcomes, enabling the Department to measure the value it produces for the American people.

Eliminating Improper Payments:: The score for this initiative remained unchanged. The Department continuously works with the Office of Management and Budget (OMB) to develop improved error measurement methodology for the Internal Revenue Service (IRS) Earned Income Tax Credit (EITC) program. EITC, due to erroneous payments, is the only high-risk program in the Treasury Department.

In FY 2007, the IRS has committed to providing a corrective action plan to OMB, which includes aggressive reduction targets, for EITC's erroneous payments, that will produce effective results. Additional information on this PMA initiative and the Department's plan to address the Act can be found in Part IV of this report.

The Program Assessment Rating Tool (PART)

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

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 gives the Treasury Department a framework for assessing performance in its major programs. Through the use of in-depth performance questions, PART allows the 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 the Department's overarching strategic goals and how well the program achieves results.

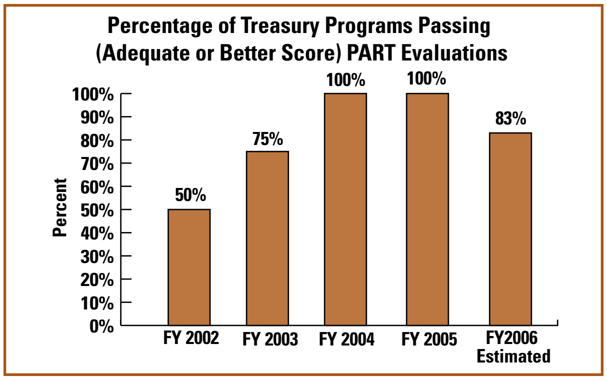
The Table below details all of the Treasury Department programs that have received OMB PART evaluations thus far. For a full list of PART evaluations see the appendix. (FY 2006 PART scores not final at time of publication).

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

The Treasury Department continues to work towards achieving strong PART scores by: (1) improving goals and measures; (2) providing a training session that includes an exchange of lessons learned across bureaus; and (3) solid evidentiary procedures. Additional details of OMB recommendations and actions planned or underway for each program can be found in appendix of this report.

Scores are pending for the programs that were evaluated through the PART process for the FY 2007 (2008 budget year) and will be reported in the FY 2007 Performance and Accountability Report.

The Department's progress in program performance is indicated in the chart below:



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