

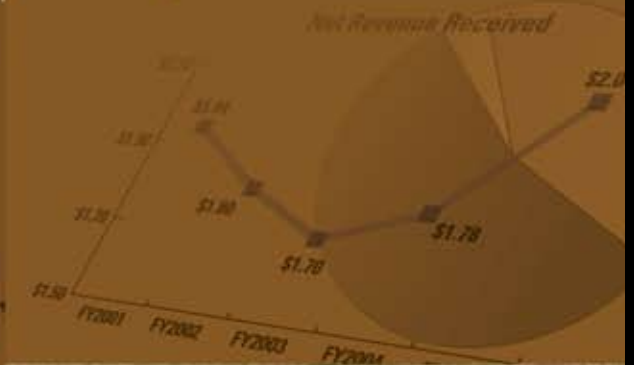


The Department
of the Treasury

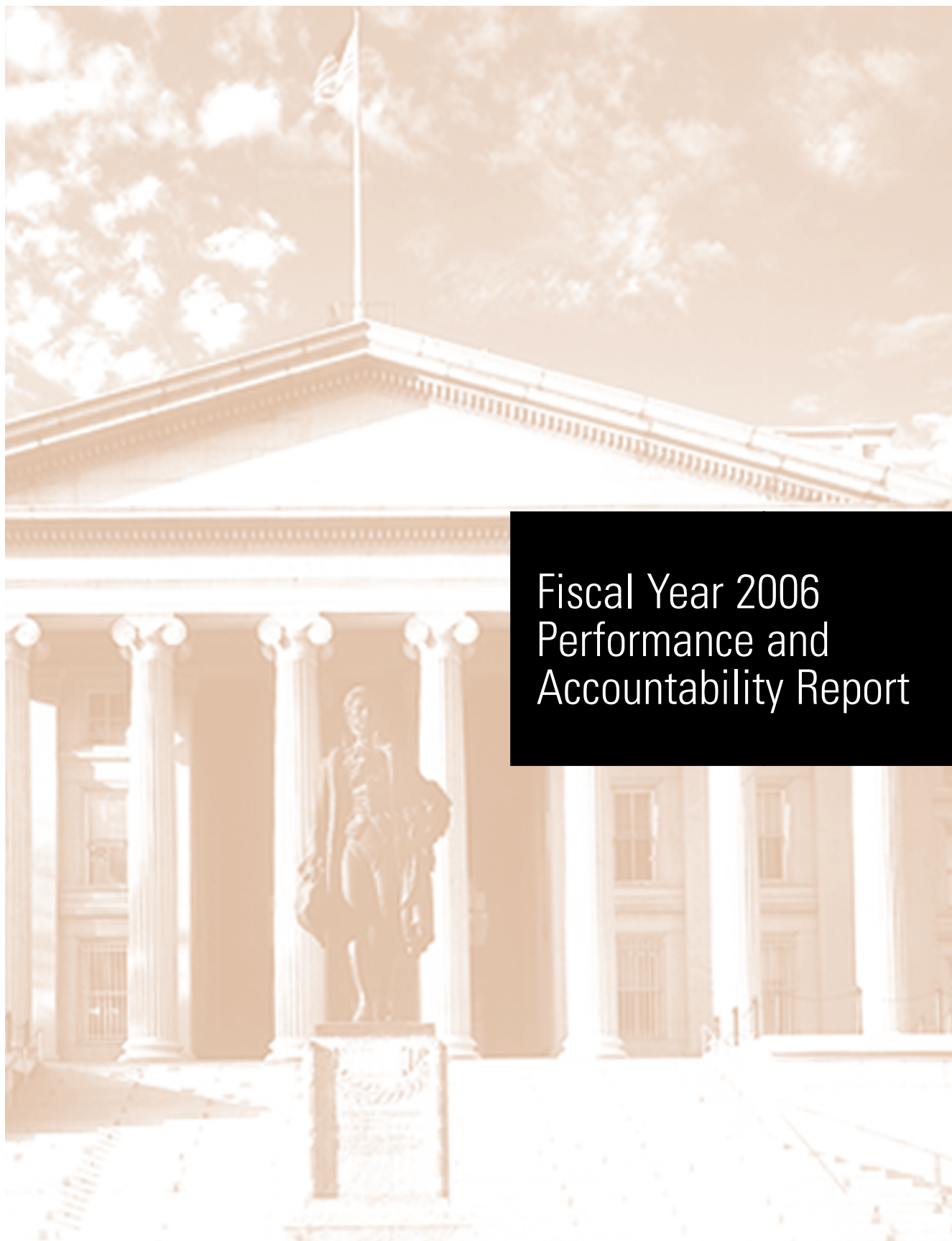
Fiscal Year 2006



Performance *and* Accountability Report



The Department of the Treasury



Fiscal Year 2006
Performance and
Accountability Report

Contents

Major Sections

About this Report	v
Message from the Secretary	vii
Message from the Assistant Secretary for Management & Chief Financial Officer	ix
Part I: Management’s Discussion and Analysis	1
Mission, History, Leadership Changes	3
Operations Highlights	5
Performance Highlights	6
Financial Highlights	7
Executive Summary	9
Analysis of Financial Statements	19
Improper Payments Information Act and Recovery Act	26
Material Weaknesses, Audit Follow-up, and Financial Systems	29
Part II: Annual Performance Report	31
Performance Scorecards	33
Creating the Conditions for Economic Prosperity	36
Managing the U.S. Government’s Finances Effectively	50
Managing the Treasury	79
Part III: Annual Financial Report	89
Inspector General’s Transmittal Letter	91
Independent Auditors’ Report on Department’s Financial Statements	93
Management’s Response to Auditors’ Report	105
Financial Statements	107
Notes to the Financial Statements	115
Required Supplemental Information (Unaudited)	159
Part IV: Appendices	167
Appendix A: Full Report of the Treasury’s FY 2006 Performance Measures by Focus and Strategic Goal	169
Appendix B: Completeness and Reliability of Performance Data	233
Appendix C: Improper Payments Information Act and Recovery Act	235
Appendix D: Management Challenges and Response	243
Appendix E: Material Weaknesses, Audit Follow-up, and Financial Systems	267
Appendix F: Organizational Structure	281
Appendix G: Program Assessment Rating Tool (PART) Evaluations	283
Appendix H: Glossary of Acronyms	297

This page left intentionally blank

About this Report

Purpose

The Department of the Treasury's Performance and Accountability Report (PAR) for FY 2006 provides information that enables Congress, the President and the public to assess the Department's performance relative to its mission and stewardship of the resources entrusted to it. The Treasury Department's report is designed around three areas of focus: Creating the Conditions for Prosperity (Economic), Financing the U.S. Government and Preserving the Integrity of Financial Systems (Financial), and Managing the Department's Operations (Management). Each of the three areas of focus has one or more strategic goals with supporting objectives and performance measures that outline the Treasury Department's approach and measure progress.

How this Report is organized

MESSAGE FROM THE SECRETARY

The Secretary's message includes an assessment of whether financial and performance data in the report is reliable and complete, and a statement of assurance as required by the Federal Managers' Financial Integrity Act (FMFIA) indicating whether management controls are in place and financial systems conform to government-wide standards. The Secretary's message sets the tone for conveying the Department's value to the public.

MESSAGE FROM THE ASSISTANT SECRETARY FOR MANAGEMENT/ CHIEF FINANCIAL OFFICER

The Assistant Secretary's message describes progress and challenges pertaining to the Department's financial management, including integration of budget and performance, information on the Department's management controls program under FMFIA and financial management systems under the Federal Financial Management Improvement Act of 1996.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Discussion and Analysis section provides a summary of the entire report. It includes a summary of the most important performance results and challenges for FY 2006; a brief analysis of financial performance; a description of systems, controls, and legal compliance; and information on the Department's progress in implementing the President's Management Agenda.

PERFORMANCE SECTION

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

FINANCIAL SECTION

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

APPENDICES

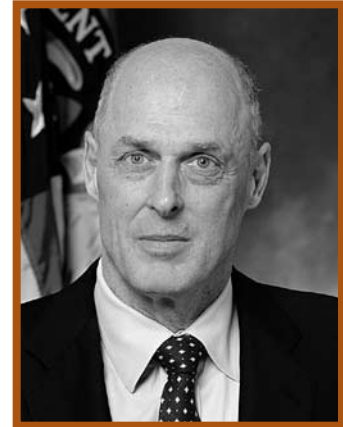
This section contains more detailed information on the Department's performance results, including information on program evaluations, revisions to indicators or targets, an organizational structure, in-depth information on the Improper Payments Information Act, Management Challenges and Responses, and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

This page left intentionally blank

Message from the Secretary

November 15, 2006

On behalf of the Department of the Treasury, I am submitting the Department's Performance and Accountability Report for Fiscal Year (FY) 2006. This report presents information on the Department's financial, management and programmatic results for the previous year and provides a transparent picture of the Department's successes and shortcomings.



The Treasury Department continues to focus on its core mission of promoting the conditions necessary for growth and stability in the U.S. and world economies. This mission highlights the Department's dedication to managing the government's finances, promoting economic opportunity at home and abroad through sound fiscal policy, and strengthening national security by combating the financial war on terror and safeguarding the U.S. financial system.

In executing our mission, and through sound stewardship and the increased use of new technologies, the Department improved efficiencies for collecting taxes and disbursing payments. In FY 2006 the Treasury Department continued to move toward an all-electronic environment and achieved record levels in electronically filed tax returns and revenue collection transactions. Education and outreach efforts resulted in more than 600,000 beneficiaries of Social Security and other federal payments enrolling in direct deposit, saving the government 77 cents per payment transaction, and providing improved security for these vital sources of income for our nation's citizens.

The senior managers at the Treasury Department and I are committed to efficient and effective management practices, and we continue to implement the principles of the President's Management Agenda. In FY 2006, the Treasury Department improved its score in Human Capital to the highest rating by implementing workforce management initiatives such as Senior Executive Service pay-for-performance and training and mentoring over 1,300 current and future managers Department-wide to strengthen leadership competencies. The Department expanded electronic government products and services, improved internal efficiency and effectiveness, and enhanced services to other governmental agencies and the public.

While the Treasury Department has made progress in addressing the management challenges identified by the Inspector General, we simply must do better. I recognize the need for continued improvement and the Department is implementing specific actions to build upon that progress. For example, we are strengthening policy guidance and instituting stronger oversight and accountability mechanisms for the management of information technology investments. The Department will also build upon the progress made in FY 2006 to bring its systems into compliance with federal IT security policies, standards, and guidelines. The Deputy Secretary and I are committed

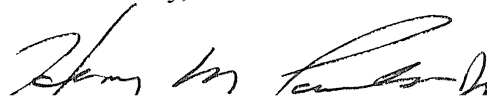
to regular engagement across the Department to ensure that we are focused on addressing these challenges.

In FY 2006, the Department improved the number of performance targets achieved, and significantly reduced the number of metrics lacking results from the previous year. In the coming year, the Department will continue to refine its set of performance measures to focus on important outcomes that generate value for the American people.

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

The Treasury Department will continue to serve the American public by promoting the conditions that lead to economic growth, job creation for our citizens, and the safeguarding of our financial systems.

Sincerely,

A handwritten signature in black ink, appearing to read "Henry M. Paulson, Jr.", written in a cursive style.

Henry M. Paulson, Jr.
Secretary of the Treasury

Message from the Assistant Secretary for Management and Chief Financial Officer

November 15, 2006

Secretary Paulson's message emphasizes the Treasury Department's core mission to promote the conditions necessary for growth and stability in the U.S. and world economies. The Office of Management supports this mission by securing the resources for the Department's \$17 billion operating budget.



The Department of the Treasury not only is our nation's primary revenue collector but also manages the public debt on behalf of the Federal government. The results of these complex and enormous operations are reflected in the Department's financial statements: almost \$9 trillion in assets and liabilities, net costs of \$414 billion, budgetary resources of \$503 billion, and gross revenues of \$2.6 trillion. The American public entrust the Department with the stewardship of these resources.

In FY 2006, the Office of Management took Department-wide action to review and strengthen internal controls of financial reporting pursuant to new requirements established by the Office of Management and Budget (OMB). This significant effort was carried out through the dedicated efforts of the Department's Chief Financial Officers Council and many other employees across the Department. Internal controls not only apply to financial programs, but are a key factor in every Treasury Department program and activity. Consequently, we are taking steps to ensure that the performance plans of senior executives and their direct reports include specific elements and measures for correcting internal control weaknesses. Additionally, on a quarterly basis, Department bureau heads review and assess key internal control issues such as material weaknesses, reportable conditions, and key audit areas.

The Office of Management continued to provide timely and accurate financial information to the Department's managers through the 3-Day Close initiative, generating financial statements and budget execution data by the fourth day following the end of each month. Moreover, we made progress in information systems security, with 95% of the systems now fully certified and accredited, and with continued success in the Human Capital initiative under the President's Management Agenda.

The Department strengthened corporate management in FY 2006 by instituting the Executive Planning Board (EPB). The EPB is chaired by the Assistant Secretary for Management and Chief Financial Officer and includes several other senior Treasury leaders. The board reviews all bureau and policy office budget submissions and recommends funding levels to the Secretary. In FY

2006, the EPB identified critical Department-wide issues and challenges and found ways to optimize resources to benefit the Treasury Department as a whole.

As the Secretary noted, the Treasury Department again received an unqualified audit opinion on its financial statements, despite long-standing material weaknesses in financial systems. These weaknesses prevent the Department from achieving full compliance with Federal financial systems requirements and, along with weaknesses in non-financial areas, result in providing only qualified assurance that the Department is meeting Federal management control objectives. The Treasury Department eliminated one material weakness for FY 2006, with no new weaknesses identified, leaving six open material weaknesses. Several of these control weaknesses involve complex systems solutions that will require several years to mitigate.

The Office of the Assistant Secretary for Management and Chief Financial Officer is determined to address current and future challenges. For example, we are revising our Strategic Plan. The new strategic plan will use an integrated management system, based on the principles of continuous improvement, to achieve strategic goals, objectives and outcomes for a highly decentralized organization. We will continue the certification program for bureau Chief Information Officers and program managers in FY 2007, ensuring the accuracy of earned value management data provided on information technology investments. In addition, the Department will continue its program to review bureau information technology governance structures, capital planning processes, and select investments. Finally, the Department will maintain its emphasis on strong internal controls and corporate management, with the goal of closing two material weaknesses each year from FY 2007 to FY 2009.

These are only a few examples of the Treasury Department's commitment to improving service to the American public. Effective management not only is a priority, but it is an integral element of the Department's 217 year history and it is incumbent on us to continue this noble legacy.

Sincerely,

A handwritten signature in cursive script that reads "Sandra L. Pack".

Sandra L. Pack