Department of the Treasury

Performance & Accountability Report

Fiscal Year 2007

The United States Department Of The Treasury

Our Mission

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

Our Values

Service – *Work for the benefit of the American people.*

Integrity – *Aspire to the highest ethical standards of honesty, trustworthiness, and dependability.*

Excellence – *Strive to be the best, continuously improve, innovate, and adapt.*

Objectivity – *Encourage independent views.*

Accountability – *Responsible for our conduct and work.*

Community – *Dedicated to excellent customer service, collaboration, and teamwork while promoting diversity.*

DEPARTMENT OF THE TREASURY

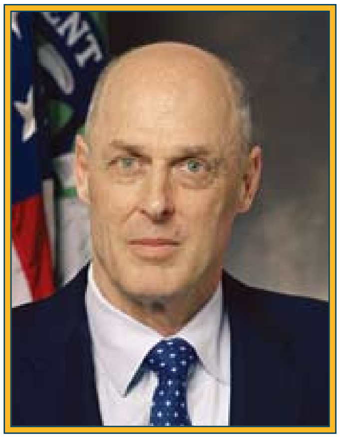
FISCAL YEAR 2007

PERFORMANCE & ACCOUNTABILITY REPORT

Contents

Major Sections

Message from the Secretary



November 15, 2007

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

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

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

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

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

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

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

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

Sincerely,

Henry M. Paulson, Jr.
Secretary of the Treasury

Message from the Assistant Secretary for Management and Chief Financial Officer

November 15, 2007

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

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

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

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

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

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

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

Sincerely,

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

About this Report

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

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

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

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

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

How this Report is organized

MESSAGE FROM THE SECRETARY

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

MESSAGE FROM THE ASSISTANT SECRETARY FOR MANAGEMENT/ CHIEF FINANCIAL OFFICER

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

PERFORMANCE SECTION

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

FINANCIAL SECTION

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

APPENDICES

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

Our Mission

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

Our Organization

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2007 Leadership Changes

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

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

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

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

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

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

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

Directory of Key Officials and Senior Management

Secretary of the Treasury	Henry M. Paulson, Jr.
Deputy Secretary of the Treasury	Robert M. Kimmett

Departmental Offices	
Chief of Staff	Jim Wilkinson
Executive Secretary	Taiya Smith
U.S. Treasurer	Anna Cabral
General Counsel	Robert Hoyt
Public Affairs:	
Asst Secretary & Director of Policy Planning	Michele Davis
Legislative Affairs:	
Asst Secretary	Kevin Fromer
Economic Policy:	
Asst Secretary	Phillip Swagel
International Affairs:	
Under Secretary	David McCormick
Asst Secretary	Clay Lowery
Domestic Finance:	
Under Secretary	Robert Steel
Asst Secretary Fiscal	Kenneth Carfine
Asst Secretary Fin Inst	David Nason
Asst Secretary Fin Markets	Anthony Ryan
Comm Dev Fin Inst Fund	Kim Reed
Tax Policy:	
Asst Secretary	Eric Solomon
Terrorist Finance and Intelligence:	
Under Secretary	Stuart Levey
Asst Secretary Terr Fin	Patrick O'Brien
Asst Secretary Intel Ana	Janice Gardner
Director, OFAC	Adam Szubin
Asst Secretary Mgmt/CFO	Peter McCarthy

Inspectors General	
Acting IG	Dennis Schindel
TIGTA IG	J. Russell George

Bureau of Engraving and Printing	
Director	Larry Felix

U.S. Mint	
Director	Edmund Moy

Financial Crimes Enforcement Network	
Director	James Freis

Internal Revenue Service	
Acting Commissioner	Linda Stiff

Financial Management Services	
Commissioner	Kenneth Papaj

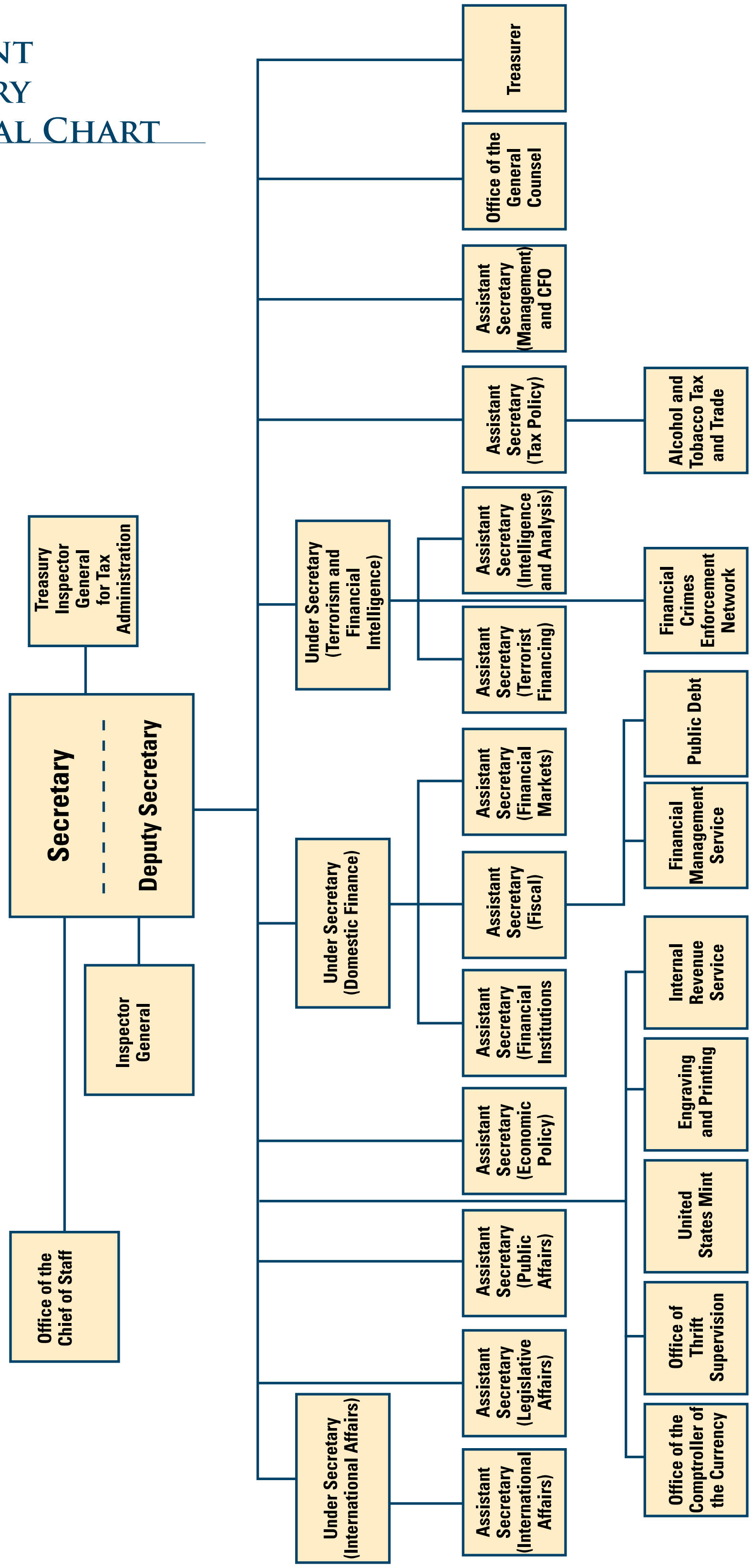
Bureau of the Public Debt	
Commissioner	Van Zeck

Office of the Comp of the Currency	
Comptroller	John Dugan

Office of Thrift Supervision	
Director	John Reich

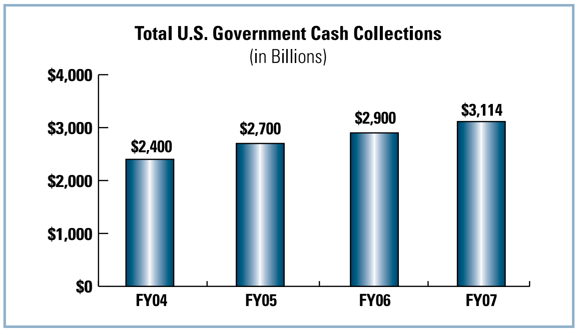
Alcohol and Tobacco Tax and Trade	
Administrator	John Manfreda

The Department of the Treasury Organizational Chart



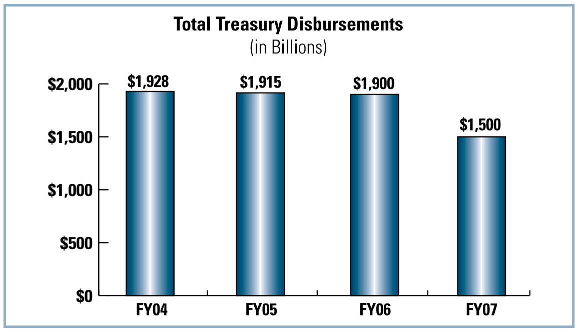
Operational Highlights

Collected



- U.S. Government Receipts : $3.11 trillion
- Delinquent Debt Collected : $3.7 6 billion
- Collected through the Electronic Federal Tax Payment System: $2.46 trillion
- Enforcement revenue collected from all sources was at a rec ord level of: $59.2 billion

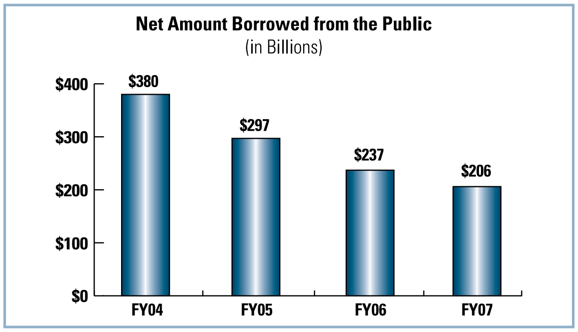
Disbursed



- Total Treasury Disbursements: $1.5* trillion
- Volume of electronic disbursements made through Treasury's Regional Finance Centers: 764 million
- Volume of check payments made through Treasury's Regional Finance Centers: 215 million

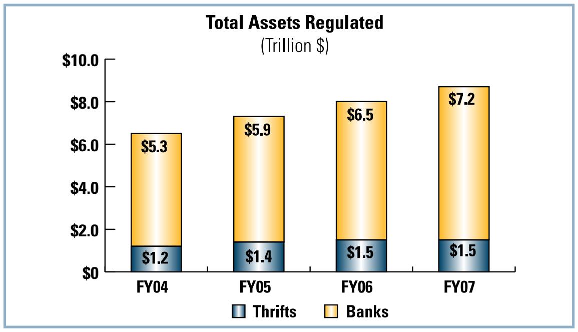
* Treasury Disbursements only

Borrowed



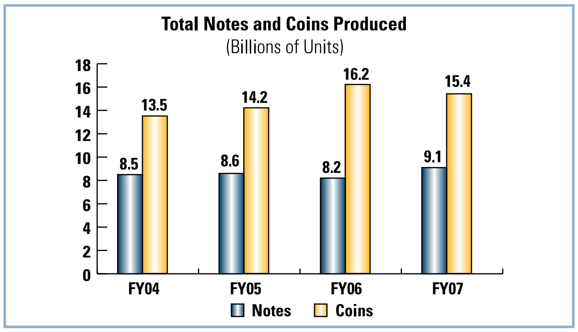
- Net Amount Borrowed from the Public: $206 billion
- Marketable Treasury Securities issued: $4.4 trillion
- Non-Marketable Treasury Securities issued to the public and government accounts: $34 trillion
- Number of Savings Bonds Issued : 28 million
- Interest Paid by Treasury (including interest credited to Trust Fund): $430 billion

Regulated



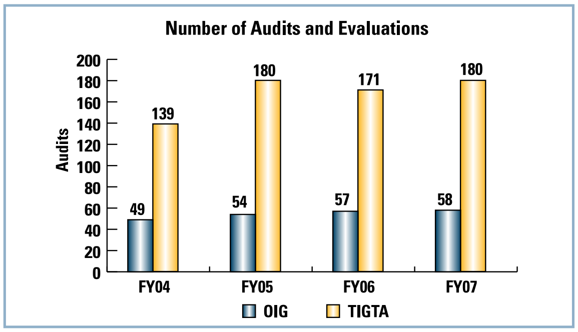
- Number of National Banks Regulated: 1755
- Number of Federal Branches Regulated: 49
- Number of thrifts and Savings Associations Regulated: 836

Manufactured



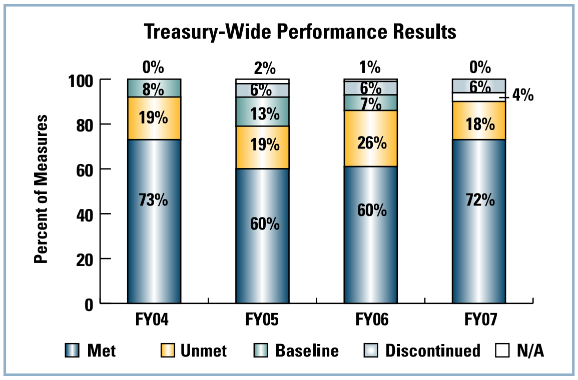
- Produced 9.1 billion currency notes
- Produced 15.4 billion coins

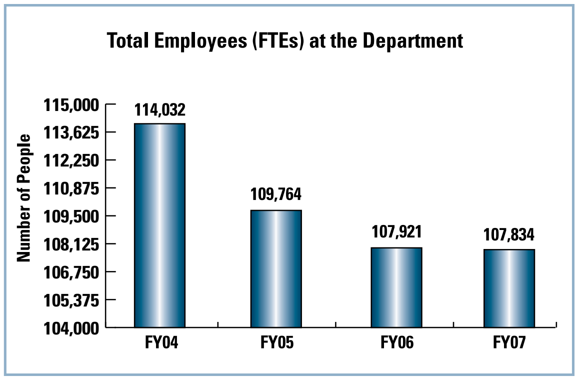
Assured

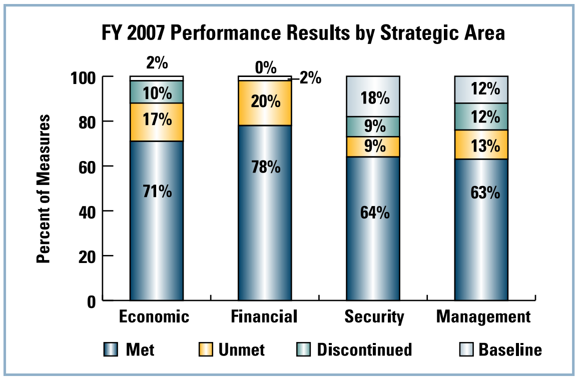


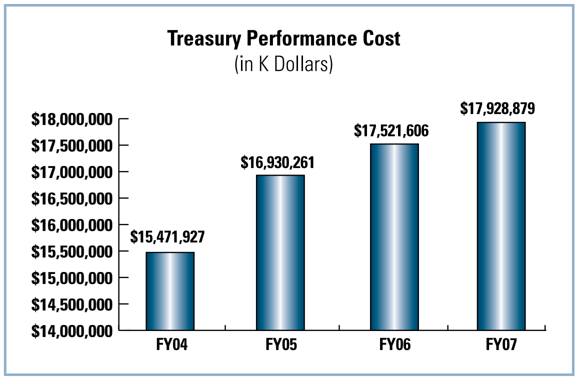
- Performed 244 audits and evaluations through the efforts of the Inspectors' General

Performance Highlights





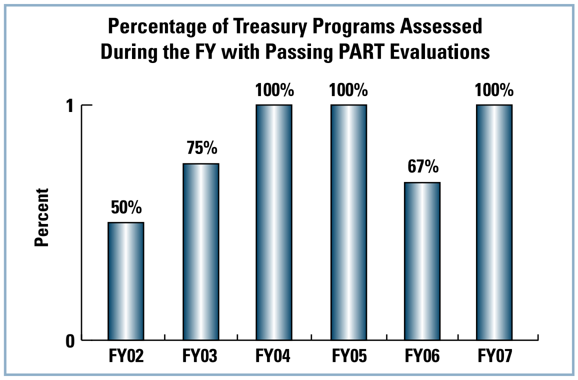




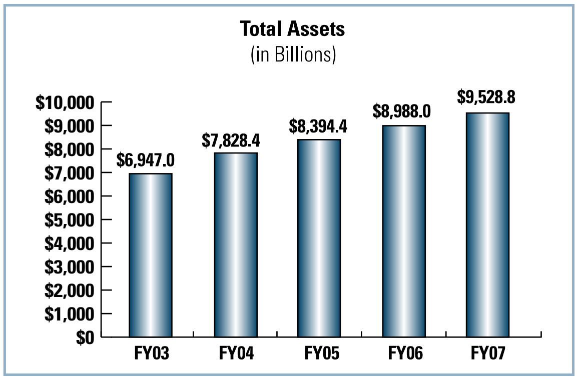
President's Management Agenda

Initiative	Status FY 2004	Status FY 2005	Status FY 2006	Status FY 2007	FY 2007 Progress Q1	Q2	Q3	Q4
Human Capital	Y	Y	G	G	G	G	G	G
Competitive Sourcing	Y	G	G	Y	Y	R	Y	Y
Financial Performance	R	R	R	Y	G	G	G	G
E-Government	R	R	Y	Y	R	G	G	Y
Performance Improvement	N/A	Y	Y	Y	G	G	G	G
Improper Payments	N/A	R	R	R	Y	Y	Y	Y
Credit Management	N/A	N/A	N/A	Y	N/A	G	G	G

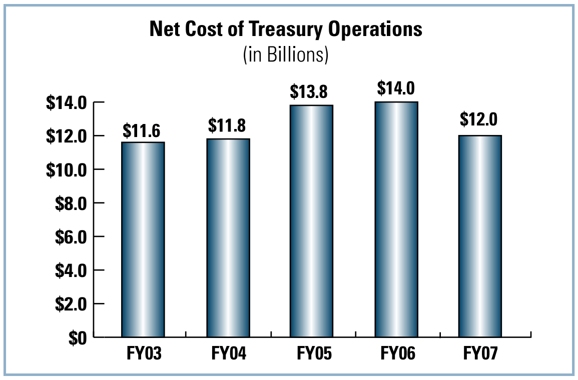
G Green for Success Y Yellow for Mixed Results R Red for Unsatisfactory



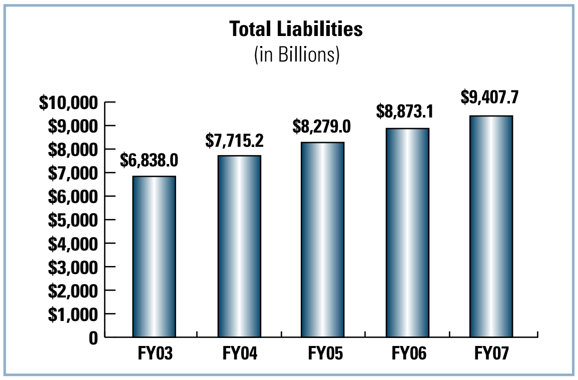
Financial Highlights



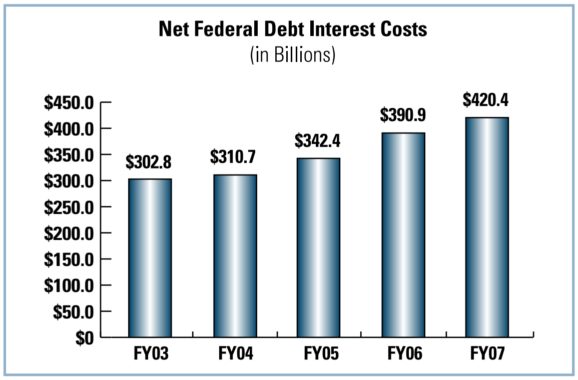
The increase of $540.8 billion in total assets in fiscal year 2007 is largely due to the increase in future funds required from the General Fund of the U.S. Government to pay for the federal debt owed to the public and other Federal agencies.



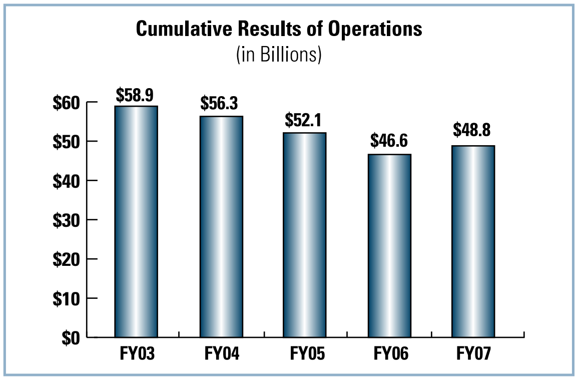
The decrease of total net cost of operations from $14.0 billion in fiscal year 2006 to $12.0 billion in fiscal year 2007 is largely due to the increase in revenue in the economic program and the decrease in cost for the financial program.



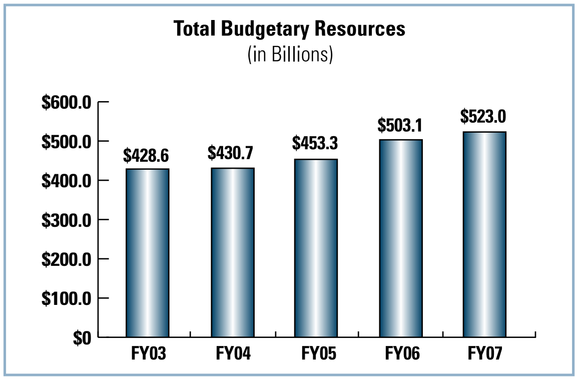
Total liabilities increased by $534.6 billion from fiscal year 2006 to fiscal year 2007. The majority of the increase is due to borrowings from other federal agencies and debt issued to the public.



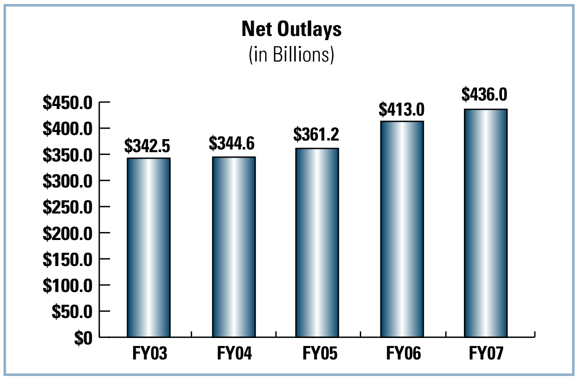
The increase of $29.5 billion in net interest paid on the federal debt is due to the increase in the debt and higher interest rates. Total federal debt and interest payable increased by $511.8 billion in fiscal year 2007.



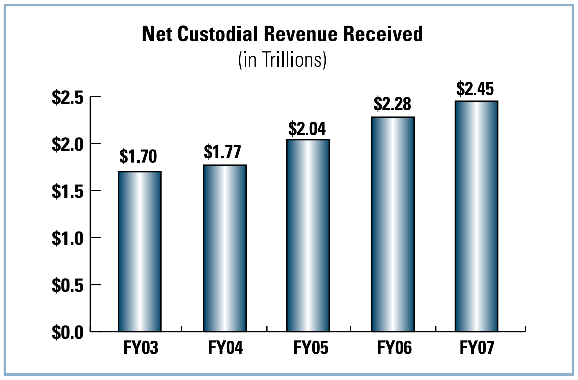
The net increase of $2.2 billion in cumulative results of operations was largely due to an increase in the earnings of the Exchange Stabilization Fund from exchange rate fluctuations between the U.S. dollar and foreign currencies.



The majority of the increase in total budgetary resources for fiscal year 2007 was due to the increase in funding to pay for the interest on the federal debt.



The majority of the $23.1 billion increase in net outlays was due to the increase in interest payments on the federal debt.



Total custodial revenue collected on behalf of the U.S. Government increased by $167.3 billion. The majority of the increase is attributed to the rise in individual and corporate income taxes due to increased economic activity.

Note: On March 1, 2003, several Treasury law enforcement bureaus were divested to either the Department of Homeland Security or Department of Justice. Fiscal year 2003 data includes these bureaus from October 1, 2002 to February 28, 2003.

Part I: Management's Discussion & Analysis

Executive Summary

The Department of the Treasury shoulders a great responsibility for the American people. While the Department performs a critical role in U.S. and global economies, it continually evolves to meet the ever changing needs of the nation. The Treasury Department provides cash management for the federal government, currency and coin production, administration of the tax code, oversight of the financial sector, and plays an integral role combating the financing of terrorism, the proliferation of weapons of mass destruction, and other threats to our national security.

In fiscal year 2007, the Department of the Treasury released its Strategic Plan for Fiscal Years 2007-2012. This plan was developed collaboratively with employees and senior management, and was tested and refined against a changing global environment. Additionally, the Department went beyond linking performance to the budget, and established an Integrated Management System to address continuous improvement and add value for its stakeholders. The Strategic Framework shown on the following page illustrates the four strategic priorities in which the Department operates, and provides the foundation for this report. These four areas are:

The Financial Focus: Managing the government's finances effectively includes collecting money due to the U.S. Government by maximizing voluntary compliance with tax laws and regulations, making payments, and financing the federal government by continually improving financial management processes. The Department oversees, accounts for, and reports on government collections and expenditures, and is responsible for collecting delinquent debt owed the government. The Treasury Department forecasts receipts and payments, determines borrowing needs, and executes the borrowing strategy to meet the financial demands of the federal government at the lowest possible cost over time.

The Economic Focus: The Treasury Department performs policy and operational roles in promoting prosperous U.S. and world economies, raising living standards, and protecting domestic and international economic and financial systems. As the principal economic advisor to the President, the Secretary of the Treasury utilizes the policy expertise of the Department to address national and global economic and financial challenges.

The Security Focus: The sponsorship of terrorism and the potential acquisition of weapons of mass destruction by rogue regimes and non-state entities represent a grave threat to U.S. national security and all free and open societies. The Treasury Department implements targeted financial measures and other forms of sanctions against terrorists and their support networks, with the goal of stopping the flow of money to terrorist groups, state sponsors of terrorism, proliferators of weapons of mass destruction (WMD), drug traffickers, money launderers, and regimes that constitute a threat to the United States. The Department leads the U.S. Government's multi-faceted effort to keep the world's financial systems accessible to legitimate users, while excluding those who wish to exploit these systems for illegal purposes through law enforcement and appropriate financial regulatory initiatives.

The Management Focus: Management's primary role and responsibility in the Department is to create the conditions that allow all programs and activities to perform efficiently and effectively. The Treasury Department continues to develop integrated plans where policies and operations align to produce maximum value for the American people.

The Treasury Department's Strategic Framework

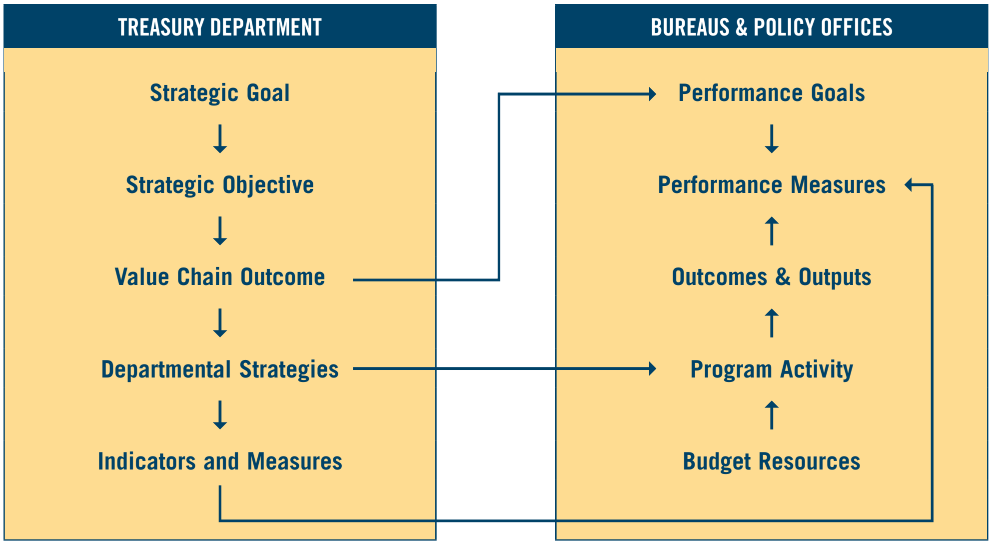
The Treasury Department's strategic framework is a summary of goals, objectives, and outcomes. This framework provides the basis for performance planning and continuous improvement.

	Strategic Goals	Strategic Objectives	Value Chains**	Strategic Outcomes
Financial	Effectively Managed U.S. Government Finances	Cash resources are available to operate the government	Collect Disburse Borrow Invest Account	• Revenue collected when due through a fair and uniform application of the law at the lowest possible cost • Timely and accurate payments at the lowest possible cost • Government financing at the lowest possible cost over time • Effective cash management • Accurate, timely, useful, transparent and accessible financial information
Economic	U.S. and World Economies Perform at Full Economic Potential	Improved economic opportunity, mobility and security with robust, real, sustainable economic growth at home and abroad	Strengthen Regulate	• Strong U.S. economic competitiveness • Free trade and investment • Decreased gap in global standard of living • Competitive capital markets • Prevented or mitigated financial and economic crises
		Trust and confidence in U.S. currency worldwide	Manufacture	• Commerce enabled through safe, secure U.S. notes and coins
Security	Prevented Terrorism and Promoted the Nation's Security Through Strengthened International Financial Systems	Pre-empted and neutralized threats to the international financial system and enhanced U.S. national security	Secure	• Removed or reduced threats to national security from terrorism, proliferation of weapons of mass destruction, narcotics trafficking and other criminal activity on the part of rogue regimes, individuals, and their support networks • Safer and more transparent U.S. and international financial systems
Management	Management and Organizational Excellence	Enabled and effective Treasury Department	Manage	• A citizen-centered, results-oriented and strategically aligned organization • Exceptional accountability and transparency

** Value Chains – Programs grouped by a common purpose.

The Strategic-Operational Relationship

The relationship between the Department's strategic goals and its annual program performance goals are depicted in the chart below.



The Treasury Department's **strategic goals** are stated as long-term outcomes which will assist the organization in achieving its mission. **Strategic objectives** are broad-based outcome statements for a group of value chains. **Value chains** are programs grouped by a common purpose. **Strategic** or **value chain outcomes** are important results for each of the Department's major functions. Departmental **strategies** are agency-wide methods used to achieve value chain outcomes and guide program activities.

To achieve **performance goals**, program resources must be properly managed to generate desired **outcomes and output**. Departmental **indicators and measures** are used to guide the development of long-term and annual performance targets associated with performance goals, which are essential components of the annual performance budget.

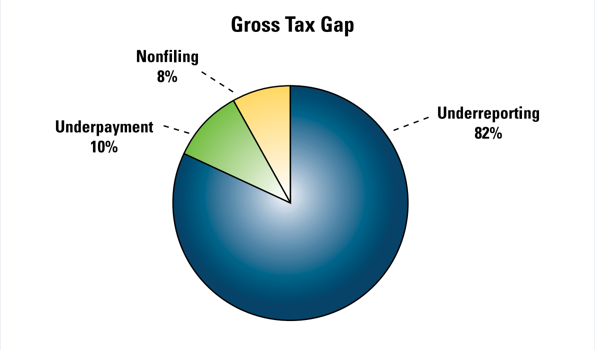
The Tax Gap

The tax gap represents the amount of noncompliance with tax laws. The most recent IRS estimate of the gross tax gap, completed in 2006, was $345 billion for tax year 2001.

The net tax gap is currently estimated as follows:

Net Tax Gap	
Gross Tax Gap	$345 billion
Enforced and Other Late Payments	$55 billion
Net Tax Gap	**$290 billion**

The components of the tax gap are:



In August 2007, the IRS released the report, "Reducing the Federal Tax Gap: A Report on Improving Voluntary Compliance," a follow-up to Treasury's "Comprehensive Strategy for Reducing the Tax Gap" issued in September 2006. The report presents the current tax gap activities and the steps taken to improve compliance. The report:

- Details information on steps being taken to reduce opportunities for tax evasion, leverage technology, and support legislative proposals that will improve compliance
- Presents an outreach approach to ensure all taxpayers understand their tax obligations
- Recognizes the importance of having a multi-year research program to help the IRS under-stand both the scope of and reasons for noncompliance

This report, combined with legislative changes and tax simplification, will guide the IRS's efforts to reduce the tax gap.

Strategic Goal
Effectively Managed U.S. Government's Finances

The Treasury Department manages the nation's finances by collecting money due to the United States, making its payments, managing its borrowing, investing when appropriate, and performing central accounting functions. The ability of the Department of the Treasury to manage the nation's finances with integrity is paramount to maintaining financial stability and enabling economic growth.

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

Collecting federal taxes and other revenue is integral to the Department of the Treasury. Increasing voluntary compliance with the tax laws reduces the cost of tax administration, increases revenue, lessens the need to borrow, and ultimately lowers the cost of government. To reduce the tax gap, the Department must execute its comprehensive, integrated, multi-year strategy, while remaining sensitive to taxpayer rights and maintaining an appropriate balance between enforcement activity and the burden of compliance on taxpayers.

The IRS delivered a successful 2007 filing season, addressing new challenges associated with the implementation of the telephone excise tax refund, the split refund capability, and new legislation. The IRS processed more than 139.7 million individual returns and issued over 105.5 million refunds totaling $244 billion. Additionally, 57.1 percent of individual returns were electronically filed, an increase of 5 percent over 2006; 19.1 percent of business returns were electronically filed, an increase of 15 percent over 2006; 22.5 million returns were filed on home computers, an increase of 11 percent over 2006; 57.2 million returns were e-filed by tax professionals, an increase of 10 percent over 2006; and over 4.1 million taxpayers used the free services offered by the Free File Alliance.

In fiscal year 2007, the IRS continued to improve its enforcement results; revenue from all enforcement sources reached $59.2 billion, an increase of 22 percent over fiscal year 2006..
In addition, the IRS Examination and Collection Programs targeted contributors to the tax gap by increasing the number of

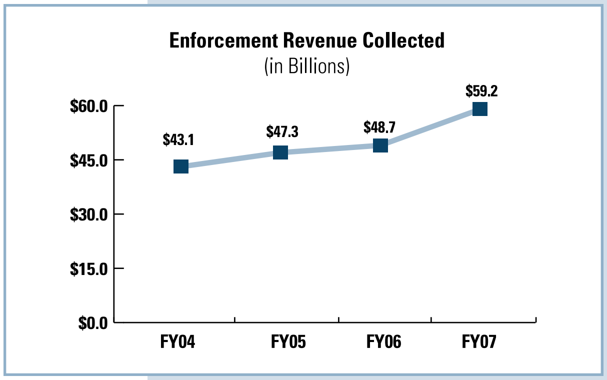
audits of high-income taxpayers by 29 percent, individual taxpayers by 8 percent, and small business and corporations by 17 and 3 percent respectively; and the closure of collection cases increased by 12 percent.

The TTB administers the collection of federal taxes on tobacco, alcohol, and firearms and ammunitions from more than 8,000 organizations; 200 of these account for 98 percent of all excise tax collections annually. In fiscal year 2007, the TTB collected $14.7 billion in excise taxes, interest, and other revenues, and voluntary compliance, by industry members, was 75 percent of taxpayers filing payments on or before the scheduled due date.

The FMS manages the collection of federal revenue for individual and corporate income tax deposits, and recovers delinquent government and child support debt by providing centralized debt collection, oversight, and operational services to Federal Program Agencies (FPA) and states. In fiscal year 2007, the FMS collected a record $3.1 trillion through a network of more than 9,000 financial institutions with 79 percent of the dollars collected electronically; an increase of 6 percent for total revenue collected over fiscal year 2006. In addition, a record $3.76 billion was collected in delinquent debt; consisting of $1.7 billion in past due child support, $1.47 billion in federal non-tax debt, $243 million in state tax offsets, and $343 million in tax levies.

Strategic Outcome
Timely and accurate payments at the lowest possible cost

The Treasury Department, through the FMS, plays an important role in providing critical services to millions of U.S. taxpayers as it issues government payments such as Social Security benefits, tax refunds, and veterans' benefits to the correct recipient at the proper time. As the government's financial manager, the FMS oversees a daily cash flow of nearly $60 billion, disbursing 85 percent of the federal government's payments or nearly one billion payments to over 100 million people, valued at nearly $1.5 trillion.



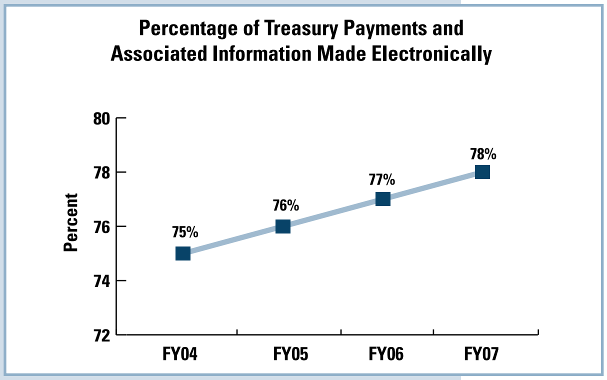
In fiscal year 2007, revenue from all enforcement sources reached $59.2 billion, an increase of 21.5 percent enforcement revenue over fiscal year 2006. IRS Examination and Collection programs targeted contributors to the tax gap; the IRS increased their audits of high-income taxpayers by 29 percent.

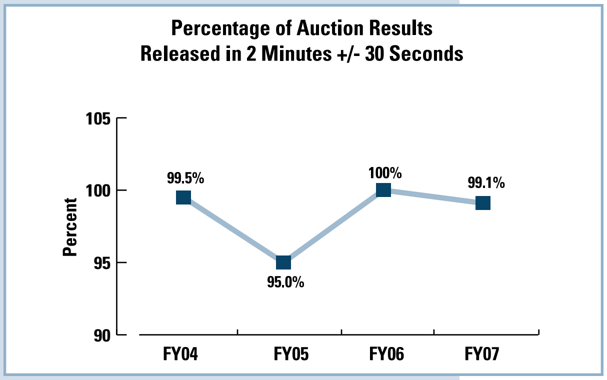
IRS Helps Taxpayers Avoid Phishing Schemes

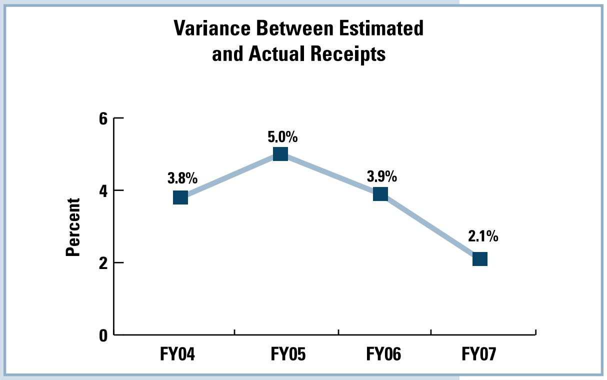
Phishing is an attempt to criminally and fraudulently acquire sensitive information by masquerading as a trustworthy entity in an electronic communication.Taxpayers should be aware that the IRS does not send unsolicited e-mail. The IRS never asks taxpayers for PIN numbers or passwords for credit card, bank, or other financial accounts. Recipients of questionable e-mail, that appears to come from the IRS, should not open any attachments or click on any links contained in the e-mail; instead the e-mail should be forwarded to phishing@irs.gov

Foreclosure Tax Relief Available

The IRS unveiled a special new section on their website for people who have lost their homes due to foreclosure. The section includes a worksheet designed to help borrowers determine whether any of the foreclosure-related relief provisions apply to them. In some cases, eligible taxpayers may qualify to settle their tax debt for less than the full amount due using an offer-in-compromise. The IRS urges struggling homeowners to consider their options carefully before giving up their homes through foreclosure.







Strategic Outcome
Government financing at the lowest possible cost over time

The Department determines and executes the federal borrowing strategy to meet the monetary needs of the government at the lowest possible cost. The federal government finances its expenditures in excess of tax receipts through the sale of debt obligations at various maturities. The Treasury Department's activities minimize the interest paid on the national debt over time and enhance market liquidity.

The BPD conducts the debt financing operations by issuing and servicing Treasury securities. In fiscal year 2007, the BPD conducted more than 200 auctions and issued more than $4 trillion in marketable Treasury bills, notes, bonds, and Treasury Inflation-Protected Securities, while providing retail investment services to 50 million retail customers holding $278 billion in Treasury securities.

Expeditiously releasing detailed auction information minimizes the time bidders are exposed to the risk of adverse market movements, encouraging more aggressive bidding, and enabling the federal government to borrow at more favorable rates. In fiscal year 2007, the BPD consistently met its performance goal of releasing securities auction results within two minutes, plus or minus 30 seconds.

Strategic Outcome
Effective cash management

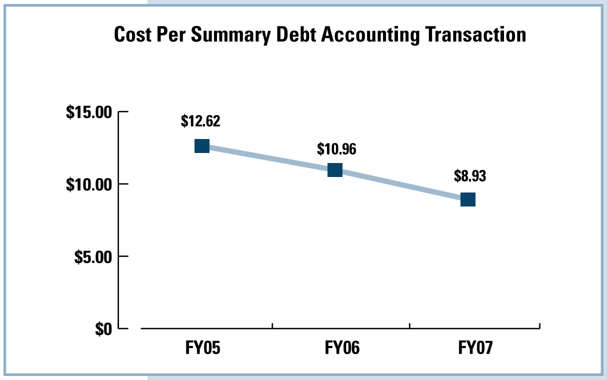
The Department of the Treasury ensures that funds are available on a daily basis to cover federal payments, maximize investment earnings, and minimize borrowing costs through accurately forecasting receipts, outlays, and debt. Forecasting accuracy continued to improve this year; the variance was 2.1 percent, as compared to 3.9 percent in fiscal year 2006.

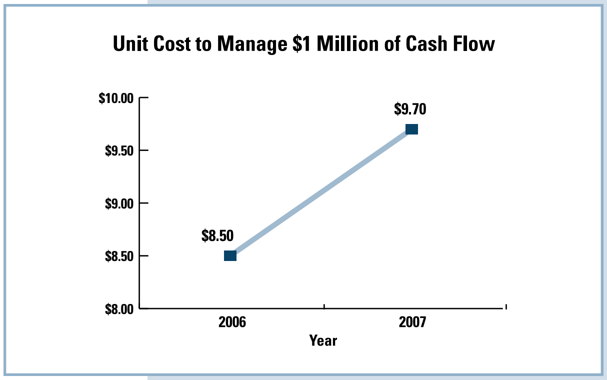
Over the past several years, the Department explored new and innovative ways to invest excess cash. The Treasury Department invested $6.7 trillion in overnight and short-term investments through the Term Investment Option (TIO) Program and the Repurchase (Repo) Program. By reinvesting excess cash through the TIO and the Repo, the Department earned an additional $33 million; these programs earn market rates of interest.

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

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

In addition, the FMS continues to improve its policies, procedures, information systems, and internal controls used to prepare the government-wide consolidated financial statements. During a 2006 audit, the Government Accountability Office (GAO) made recommendations to the FMS regarding their internal controls; with continued effort, the FMS has implemented 74 of the 143 recommendations, and continues to resolve issues within their authority.



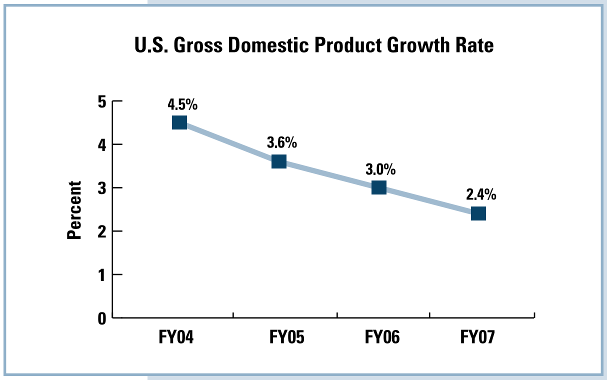


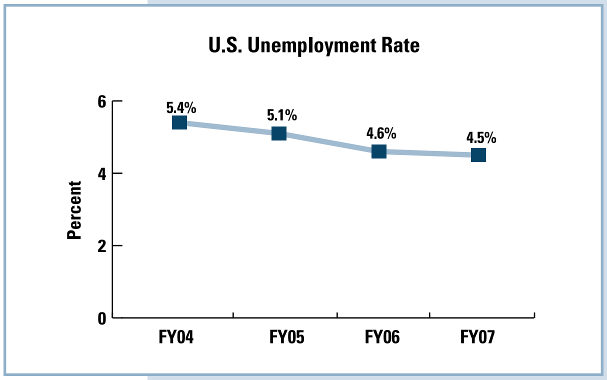
Strategic Goal
U.S. and World Economies Perform at Full Economic Potential

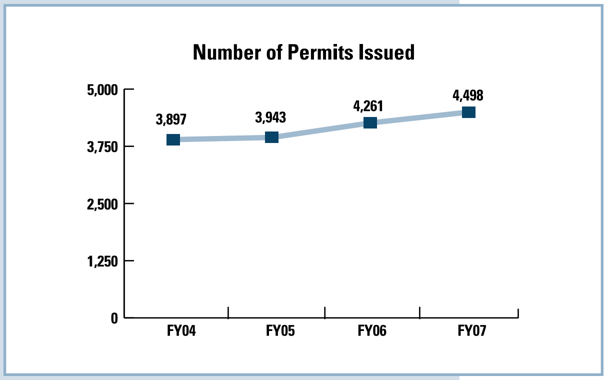
To achieve conditions that enable economies to perform at full economic potential, the Treasury Department encourages economic growth through the development and implementation of policies that effectively regulate banking and financial markets, create pro-growth tax policies, and advocate free trade.

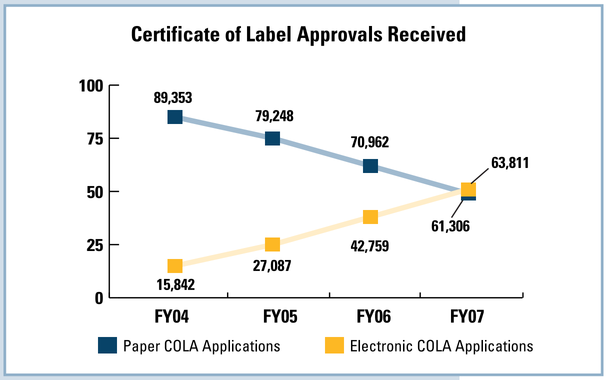
Strategic Outcome
Strong U.S. economic competitiveness

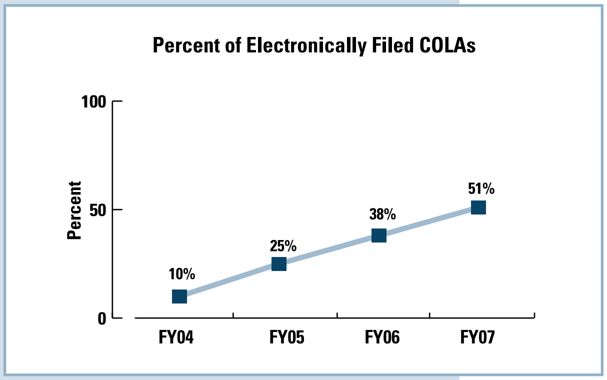
Strong economic competitiveness is critical to robust economic growth worldwide, continued investment in the United States, and job creation. The Treasury Department's contribution to the facilitation of a prosperous financial infrastructure, a balanced macro economy, market efficiency, technological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











creating an environment conducive to strong economic growth and a healthy labor market.

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

The TTB contributes to economic growth by through its permitting and labeling processes, and international trade program. Permitting and labeling helps safeguard the consumer by protecting them from fraud and deception, and by promoting market and product integrity. The TTB accomplishes this by requiring producers to submit certificate of label approval applications, which have increased 30 percent over the last four years.

The TTB's International Trade Program helps keep the U.S. economy strong by facilitating import and export trade in alcohol and tobacco products. As an example, the program assists in ensuring tequila exports, valued at $400 million per year, continue from Mexico to the United States without interruption.

The Community Development Financial Institutions (CDFI) Fund's Program awardees and New Markets Tax Credit allocatees create jobs, in economically distressed communities, by lending to and investing in business and real estate projects. In fiscal year 2007, the CDFI Fund reported 35,022 jobs created or maintained by awardees and allocatees.

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 CDFI's serving Native Communities. In fiscal year 2007, the CDFI Fund issued $3.6 million in Native Initiative Awards to 19 CDFIs, resulting in a growth of 35 percent of native CDFI Awardees' assets; in fiscal year 2006, $4.3 million was awarded to 23 CDFIs.

Strategic Outcome
Competitive capital markets

U.S. capital markets make a vital contribution to the nation's wealth and prosperity by directing investments toward innovation, promoting economic growth, and ensuring that the allocation of resources are directed toward the most efficient use. Capital markets give U.S. citizens the confidence to invest, earn higher returns on savings, and reduce the cost of borrowing. The challenge facing U.S. regulators today is preserving the public interest while preventing excessive regulatory burden on financial markets and institutions.

In fiscal year 2007, in an effort to encourage a responsible and measured approach, the Department launched a study of the regulatory framework for securities, banking, and insurance. In addition, a three part plan was announced to encourage competitive capital markets, and draw on recent trends, such as globalization, to leverage competitiveness and increase the benefit to the economy.

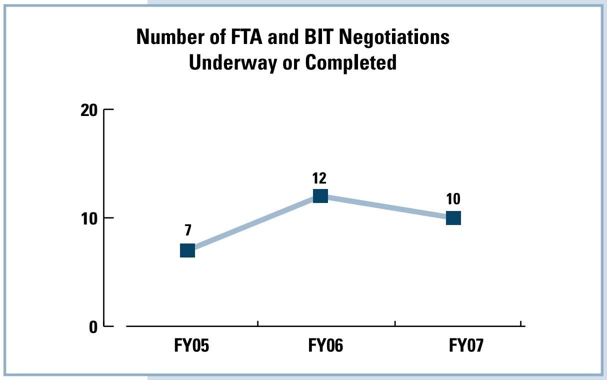
Strategic Outcome
Free trade and investment

Foreign investment in the U.S. strengthens the economy, improves productivity, creates good jobs, spurs healthy competition, and is vital for a robust and sustainable economy. Foreign-owned companies directly provide jobs to over five million workers, and indirectly provide an additional five million jobs, due to foreign-owned subsidiaries procuring about 80 percent of their inputs from the U.S. markets.. In fiscal year 2007, these companies produced about 6 percent of U.S. output, provided 10 percent of U.S. total capital investment, 13 percent of research and development, and 20 percent of exports.

The Treasury Department participates in the negotiation and the implementation of international agreements to remove trade and investment barriers, stimulate domestic and global growth, and allow for increased employment opportunities for Americans. The U.S. seeks strong commitments from its trading partners to ensure those markets are open to U.S. exporters and investors. Once implemented, these agreements serve as a core element for a trading partner's economic infrastructure, enhancing international economic and financial stability. In fiscal year 2007, 10 trade and

Competitive Capital Markets

The U.S. capital markets are the most efficient and transparent in the world. Leading the world in mergers and acquisitions advice, venture capital, private equity, hedge funds, derivatives, securitization skills, and exchange traded funds. With this expertise, U.S. financial institutions have contributed greatly to economic success throughout the world. The Treasury Department's efforts to enhance U.S. market competitiveness include pursuing a modernized regulatory structure, encouraging the development and adoption of industry best practices for asset managers and investors in hedge funds, Modernizing the Treasury Department's Cash Management and Debt Management, completing Basel II rulemaking, empowering all investors through financial education, and encourage international investment.



CAFTA-DR

The Central America-Dominican Republic-United States Free Trade Agreement (CAFTA-DR) includes seven signatories:

1. United States (2006)
2. El Salvador (2006)
3. Guatemala (2006)
4. Honduras (2006)
5. Nicaragua (2006)
6. Dominican Republic (2007)
7. Costa Rica (2007)

The U.S. Congress approved the CAFTA-DR in July 2005 and the President signed the implementation legislation on August 2, 2005. Costa Rica was the last country to approve the agreement, resulting in a national referendum being passed on October 8, 2007. U.S. exports to the CAFTA-DR countries increased by 16 percent, based on the most recent data available.

investment negotiations were either concluded or underway; an increase of approximately 43 percent over the performance target.

In fiscal year 2007, the U.S. concluded FTA negotiations with Korea. Once approved by Congress and fully implemented, the Korea FTA will end tariffs on more than $78 billion of trade between the United States and Korea. With Costa-Rica's approval, the CAFTA-DR has been approved by all partner countries. Once this agreement is executed, this FTA will end most tariffs on more than $32 billion of two-way trade between the U.S. and the CAFTA-DR countries. In addition, the Panama FTA was signed in June 2007. This agreement will provide new opportunities to U.S. workers, manufacturers, and service providers, as well as expand markets for U.S. farmers and ranchers; another building block in the Department's efforts to create a Western Hemisphere free trade area.

The Department of the Treasury supports trade liberalization and budget discipline through its role in negotiating, implementing, and policing international agreements to reduce official export subsidies. By negotiating agreements, the Treasury Department drastically reduced the subsidies that other governments can provide when financing national exports. The volume of this financing activity is approximately $70 billion annually. These agreements open markets and level the playing field for U.S. exporters, and save U.S. taxpayers about $800 million each year.

The Paris Club

The first meeting of the Paris Club, a voluntary informal organization, was in 1956 when Argentina agreed to meet its public creditors in Paris, France. The objective of the Paris Club is to find manageable solutions for debtor nations that have payment difficulties. Club creditors agree to provide a country with debt relief under certain conditions. The Paris Club has reached 400 agreements regarding 84 debtor countries since its inception. The total amount of debt covered $505 billion since 1983.

Strategic Outcome
Prevented or mitigated financial and economic crises

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

In fiscal year 2007, the Department's Office of International Debt Policy (IDD) worked to implement major initiatives that are providing massive debt reduction to heavily indebted poor countries committed to economic reform and poverty reduction. Through the Heavily Indebted Poor Countries (HIPC) Initiative, the Multilateral Debt Relief Initiative (MDRI), and the 2007 agreement for additional debt relief from the Inter-American Development Bank, more than $86 billion has been agreed to in debt relief for 22 countries.

To qualify for the MDRI, countries must complete the HIPC initiative, or with respect to the IMF have a per capita income below US$380 and outstanding debt to the IMF. In addition to these standards the IMF Executive Board added that eligible countries must be current on their obligations to the Fund, and demonstrate satisfactory performance in macroeconomic policies, implementation of a poverty reduction strategy, and public expenditure management. At the close of fiscal year 2007, twenty-two countries had completed the HIPC initiative and received MDRI debt relief from the MDBs and IMF. Two non-HIPC countries were eligible and benefited from the MDRI relief from the IMF.

In fiscal year 2007, the Department of the Treasury promoted sustainable economic growth, and supported the global war on terror by advancing debt reduction for Iraq and Afghanistan. The IDD spearheaded Afghanistan's entry into the HIPC Initiative, to reduce its debts by over 92 percent, more than $11 billion. In addition, the IDD continued to provide support for Iraq's efforts to obtain debt relief from additional creditors, implementing the 2004 Paris Club, which was designed to bring debt down to a manageable level. Debt restructuring bolsters economic development and reduces dependency on the U.S. and international community.

The Department of the Treasury, through the OCC and OTS, is the primary regulator and supervisor of national banks, savings associations, and savings and loan holding companies.

During fiscal year 2007, the Department of the Treasury, Department of Housing and Urban Development (HUD), and others in the Administration carefully focused on evaluating the challenges faced by individuals in the subprime market. The Treasury Department and HUD took several actions to provide assistance to homeowners, including the pursuit of legislation modernizing the Federal Housing Administration. Due to the threat of increased foreclosures, temporary changes were proposed to the federal tax code provision that currently considers cancelled mortgage debt on primary residences as taxable income.

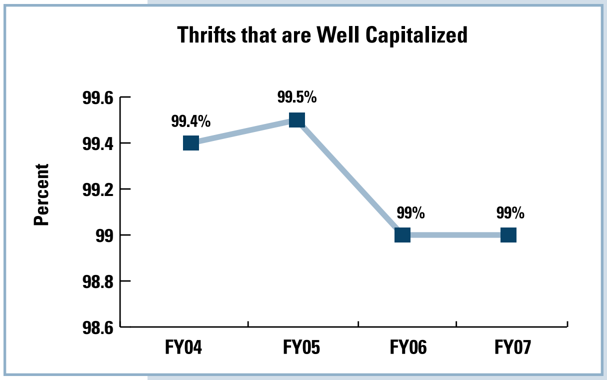
The OCC and the OTS worked with other federal banking regulators to issue guidance on subprime mortgage lending and non-traditional mortgage products. This guidance articulates consumer protection standards to ensure borrowers obtain loans they can afford to repay. Additionally, the agencies worked with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

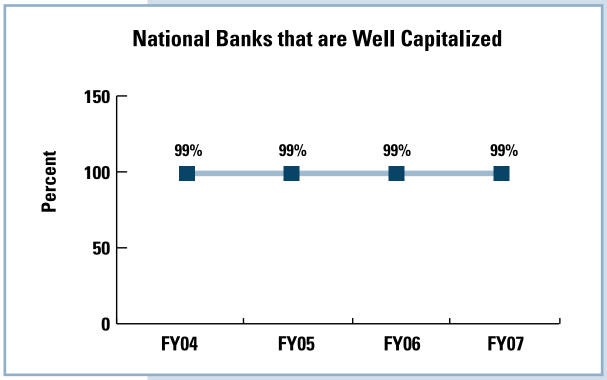
Financing the ownership of homes has been a focus of thrift institutions throughout their history. Thrifts currently hold over $1 trillion in housing-related loans and securities. In addition, the thrift charter is used extensively by some thrifts to make small business, consumer retail, and commercial real estate loans.

Adequate capital absorbs losses, promotes public confidence, and provides protection to depositors and the FDIC insurance funds. It also provides a financial cushion that allows a thrift institution to continue operating during periods of loss or other adverse conditions. As of June 2007, the OTS supervised 836 thrift institutions with assets totaling $1.5 trillion, and 472 hold-

www.helpwithmybank.gov

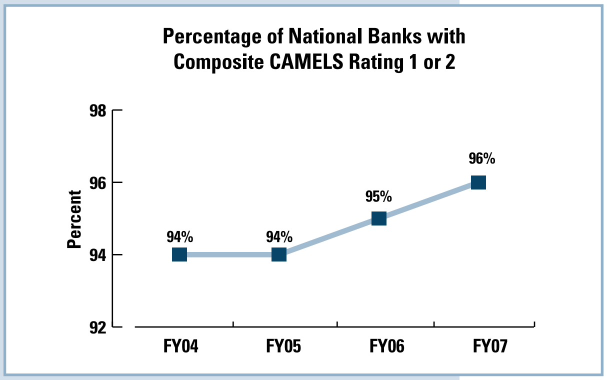
The OCC recently launched helpwithmybank.gov, a new website dedicated to providing answers to common questions and assistance to national bank customers. The website presents information with straightforward, easy-to-use terms in a simple question-and-answer format. Topics include credit cards, interest rates, check cashing, late payments, mortgages, and many others. The site also provides guidance on how to determine if a bank is a national bank or operating subsidiary and who to contact if the bank is not. The OCC hopes to work with other financial regulators to expand this effort to support all bank customers.



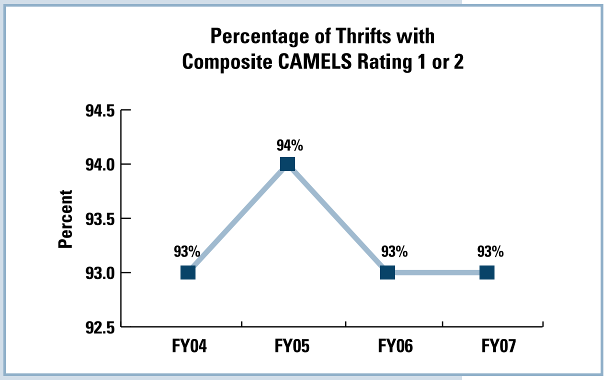


Capital Markets

Citigroup Inc., Bank of America Corp. and JPMorgan Chase & Co. have agreed to create a rescue fund to buy distressed debt from markets affected during the fiscal year 2007 financial crises. The fund has the potential to reach $100 billion to bail out troubled global credit markets. The joint effort is the result of more than a month of discussions with the Treasury Department with the intention of increasing confidence in the market for mortgage-backed securities while avoiding a government bailout.



CAMELS is an interagency bank and thrift-rating system used b U.S. supervisory authorities to rate financial institutions. The rating is based on six factors, which make up the acronym, Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk. Banks are assigned a rating on a scale of one to five, with one being the best. A composite rating Of "1" or "2" generally is considered to be a high-quality or satisfactory institution, while banks with a rating of "3", "4", or "5" are considered to be less-than-satisfactory. This system allows supervisory authority to identify the banks that are in need of attention.



ing company enterprises with U.S. domiciled consolidated assets of approximately $8.5 trillion; 93 percent of the regulated thrifts achieved an overall composite CAMELS rating of 1 or 2, with 99 percent well-capitalized. The OCC supervised 1,755 institutions with national bank charters and 49 federal branches with assets totaling approximately $7.2 trillion. Relative to their risk, 99 percent of all national banks were well-capitalized, and 96 percent of national banks earned the highest composite CAMEL rating of 1 or 2 under the standard method of evaluating a bank's operations.

Strategic Outcome

Decreased gap in global standard of living

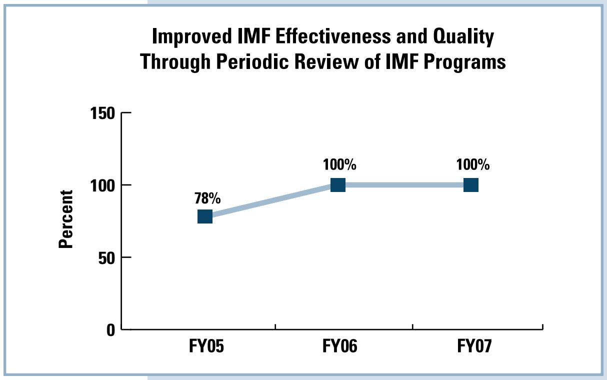
Sustained strong economic growth creates opportunities, improves quality of life, and reduces poverty.

The Department's Office of Multilateral Development Banks (MDBs) advances the United States' development agenda of promoting economic growth, and reducing poverty through its oversight and participation in global and regional MDBs. To decrease the gap in global standards of living, the Department initiated a number of reforms to increase the effectiveness of the development assistance provided by the MDBs.

The Multilateral Debt Relief Initiative (MDRI), a landmark effort agreed to in 2005, will cancel 100 percent of debt owed to the World Bank's International Development Association, the African Development Fund, and the International Monetary Fund (IMF) by the world's poorest and most heavily indebted countries. In fiscal year 2007, through U.S. efforts, a similar landmark debt relief initiative, the Fund for Special Operations at the Inter-American Development Bank, was approved. With the support of this initiative, the MDBs have increased new resources to debt-vulnerable countries in the form of grants - not loans - which is integral to ending the lend-and-forgive cycle. For two consecutive years, nearly $2.7 billion in grant funding has been provided to the poorest and most debt vulnerable countries by the concessional arms of the World Bank, the African Development Bank, and the Asian Development Bank. With the adoption of debt sustainability frameworks at the MDBs, assistance to the poorest and most debt distressed countries will be solely through grants.

In July 2007, the U.S. Treasury Department and the International Finance Corporation (IFC) launched the Latin America and

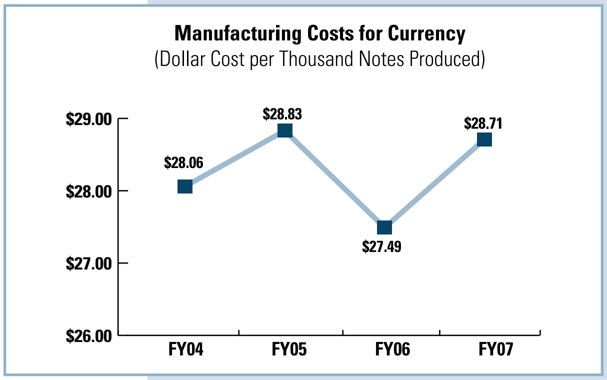
Caribbean (LAC) Infrastructure Development Program of the Americas to help drive private sector investment in this region. The $17.5 million program, managed by the IFC, aids in identifying sustainable infrastructure projects suitable for private participation, makes information publicly available, provides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

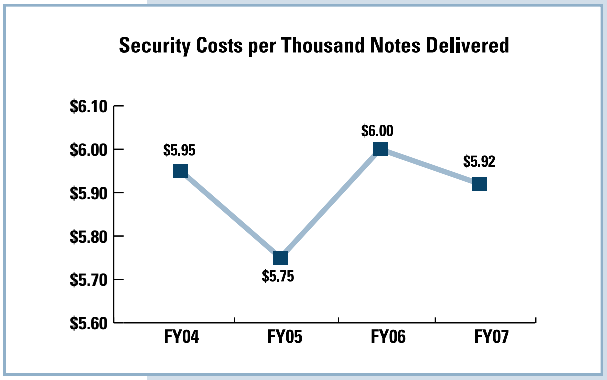


Strategic Outcome
Commerce enabled through safe, secure U.S. notes and coins

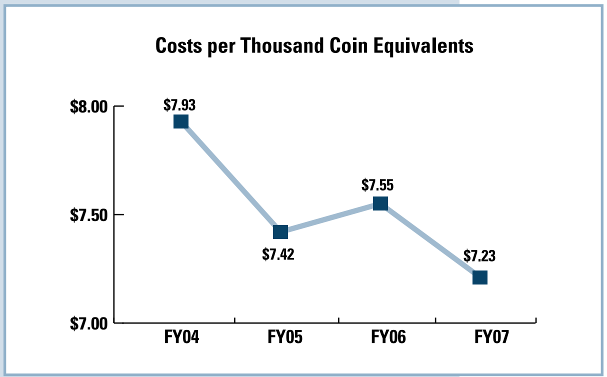
Trust and confidence are vital to the continued global acceptance of U.S. currency, and to protect the global user from counterfeiting schemes, U.S. currency is redesigned and manufactured. The Department reliably provides safe, secure, cost-efficient, high quality U.S. notes, security documents, and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

The Bureau of Engraving and Printing (BEP) designs next generation currency to guard against counterfeiting, and manufactures the nation's paper currency. In fiscal year 2007, the BEP maintained its position as a world-class securities printer providing its customers with superior products through excellence in manufacturing and technological innovation. The BEP continued to produce U.S. currency at the highest quality while incorporating state-of-the-art counterfeit-deterrent features. In fiscal year 2007, the BEP delivered 9.1 billion paper currency notes, meeting the Federal Reserve's exacting quality standards of 100 percent defect free, while under running their budget by $32 million.

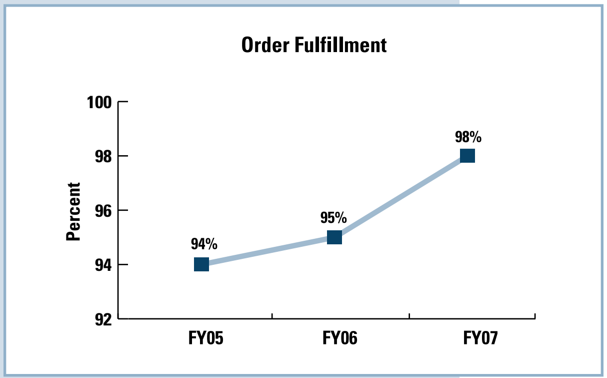




In fiscal year 2007, the BEP met its performance target for costs per 1,000 notes produced. Manufacturing costs increased from $27.49, in 2006, to $28.71, in 2007, due to changes in the production program and the production of higher cost denominations, but were still below target. Security costs were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



The United States Mint H.I.P. Pocket Change web site was launched in July 1999. H.I.P. Pocket Change is a fun educational tool for students and teachers that generate interest in coins, the United States Mint, and U.S. history. Check it out at: www.usmint.gov/kids/



The United States Mint manufactures circulating coinage and popular numismatic products. In fiscal year 2007, the Mint successfully launched the first three circulating Presidential $1 coins. The Presidential $1 Coin Act of 2005, created this educational program to honor the presidents, in chronological order by term in office, with four different designs being released each year. In addition, the Mint issued the first three First Spouse gold coins honoring the spouses of each of the presidents.

Rising metal prices continue to have an impact on production cost. For the second consecutive year, the penny and the nickel cost more to produce than their face value; the Department is exploring alternative materials in an effort to overcome production challenges.

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

Strategic Goal
Prevented Terrorism and Promoted the Nation's Security through Strengthened International Financial Systems

While promoting financial and economic growth at home and abroad, the Treasury Department performs an important, unique, and growing role in protecting national security. The Department's sanctions, regulatory law enforcement, and intelligence authorities, provide powerful tools for the United States to apply pressure against threats to national security, and safeguard the international financial and economic systems,keeping them free and open to legitimate users.

Strategic Outcome

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

Since 2001 and the inception of an Executive Order, 483 individuals and entities were designated by the U.S. Government as terrorists, their financiers, or facilitators. In fiscal year 2007, three Libyan individuals, members of both al-Qa'ida and the Libyan Islamic Fighting Group, were designated for executing various activities from recruitment, to military training, to procurement of explosive components.

The Department in cooperation with the State Department, continued to target proliferators of WMD and their supporters, freezing their U.S. assets, and prohibiting U.S. individuals from doing business with them. The Department designated Bank Sepah, the fifth-largest Iranian state-owned financial institution, for providing extensive financial services to Iranian entities responsible for developing missiles capable of carrying WMD. Bank Sepah's isolation has potentially made it more difficult for Iran to facilitate some of its missile proliferation-related activities.

The OFAC's Specially Designated Narcotics Traffickers Program continued to see significant activity in fiscal year 2007, targeting additional leaders of Colombia's North Valle cartel and their financial networks, including 30 individuals in Colombia, and 42 front companies. In fiscal year 2007, the OFAC targeted Medellin-based narcotics trafficker Fabio Enrique Ochoa Vasco for designation, along with his extensive criminal and financial network of 65 individuals and 45 companies. In addition, after targeting two leaders of Colombia's Cali Cartel, Miguel and Gilberto Rodriguez Orejuela, their front man, Fernando Gutierrez Cancino, pled guilty to money laundering charges and agreed to forfeit his right, title, and interest in all business entities. These entities are part of the 246 front companies that were designated over the past 11 years, and under at least 12 OFAC actions targeting Colombian drug cartels.

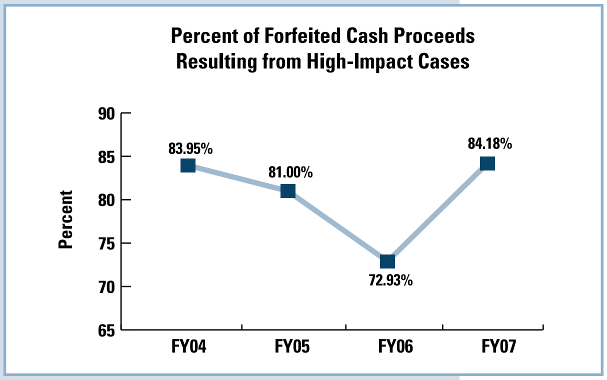
The TFI engages in outreach and education to advance the Department's unique security mission. The Terrorist Financing and Financial Crimes (TFFC) initiated a series of private sector Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT) dialogues, linking the U.S. banking sector with those from the Middle East/North Africa and Latin American regions. These dialogues raise awareness of terrorist financing and money laundering risks, facilitate a better understanding of effective practices and programs to combat the risks, and strengthen implementation of effective AML/CFT controls.

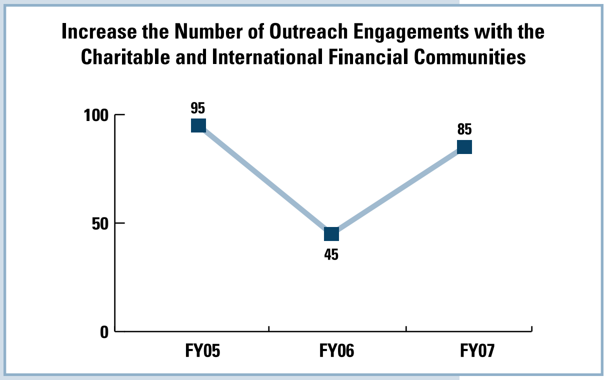
The Department of the Treasury participated in the U.S. Government interagency working group that published the 2007 National Money Laundering Strategy. This strategy built on a solid foundation of successful initiatives and programs introduced in previous strategies. As globalization opens borders to travel and trade, and global payments and clearing systems evolve, new money laundering opportunities are created and exploited, the strategy addressed these emerging money laundering trends.

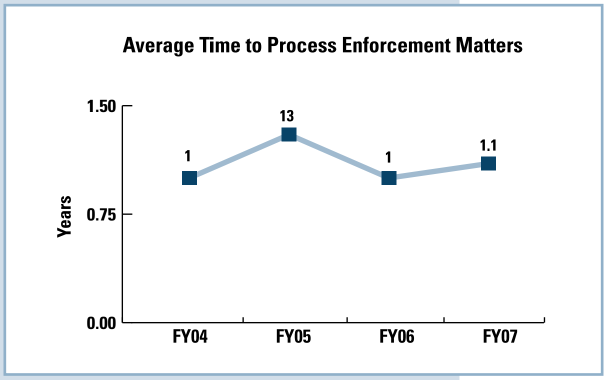
TFFC spearheads a Muslim-American outreach initiative, which included planning the U.S. Treasury Department's annual iftaar dinner, a traditional meal to break the daily fast during the Muslim holy month of Ramadan. The dinner is held to honor Muslim-Americans and to thank them for their contributions to the U.S. economy and community as a whole. Through this initiative and other outreach programs, the Department is constructively engaging Muslims in order to create a better environment for partnerships on a range of Treasury issues with the Muslim-American community.

The Treasury Department Intelligence Operations Center has become a fully-functional 24 hour/ 7 days-a-week operation, providing timely, relevant, and accurate intelligence to support:

- Treasury's participation in the NSC policymaking process
- Policymaker's engagement with counterparts abroad, including normalizing the sharing of economic and financial intelligence
- Identification and dissemination of high-priority intelligence to senior Treasury decision-makers







Strategic Outcome

Safer and more transparent U.S. and international financial systems

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

To improve the consistency of the application of BSA rules regulating financial institutions, the FinCEN's regulatory policy efforts focus on efficient and effective administration of the BSA. This is achieved through briefings to increase understanding of how the BSA's regulatory requirements generate information for law enforcement. The FinCEN requires that financial institutions create policies, procedures, and systems to make the financial system transparent and protect it from becoming a conduit for financial crime. In fiscal year 2007, the FinCEN published amended BSA regulations, including special measures against Banco Delta Asia, and its subsidiaries, casino recordkeeping and reporting requirements, and guidance for certain foreign accounts under the anti-money laundering program/special due diligence rules.

In addition, the FinCEN published guidance to improve consistency in the interpretation and application of BSA regulations, and advance the understanding of regulatory expectations, including a report on the risk of money laundering related to the Shell companies and information on compliance requirements for reporting suspicious transaction reporting at mutual funds.

Strategic Goal Management and Organizational Excellence

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

Strategic Outcome

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

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

In fiscal year 2007, the Department of the Treasury released its Strategic Plan for Fiscal Years 2007-2012. This plan was developed collaboratively with employees and senior management, and was tested and refined against a changing global environment. Additionally, the Department went beyond linking performance to the budget, and established an Integrated Management System to monitor continuous improvement and make changes as necessary.

Through an established strategic framework, the Department will use performance planning and budgeting to determine funding that will achieve intended results. Performance measures with long-term and annual targets will be used and funding will be tied to the level of performance that needs to be achieved. As part of the management process, a number of options can be executed to improve value for stakeholders.

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

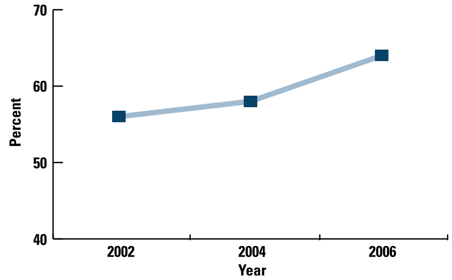
In fiscal year 2007, the Department continued to be successful in the Human Capital initiative; for the Performance Improvement, Competitive Sourcing, Financial Performance, and E-Government initiatives each had mixed results during the year; while the Improper Payments initiative remained unchanged.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

Protecting Citizens' Personally Identifiable Information

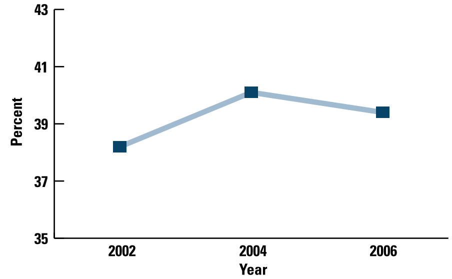
Safeguarding personally identifiable information and preventing its breach is essential to ensuring the Department retains the trust of the American public. The Treasury Department has initiated a policy to encrypt all data on mobile computers and devices. To date, the Department has encrypted 100 percent of its laptop computers. Additionally, the Department of the Treasury is actively engaged in activities to oversee its compliance with privacy protection requirements and the breach of personal information.

Selected Federal Human Capital Survey Questions

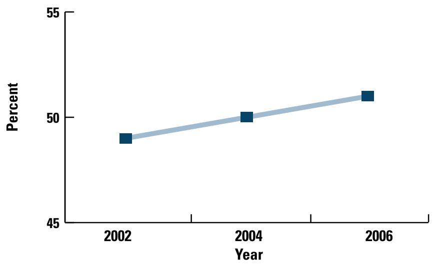
FHCS - Recommend My Organization as a Good Place to Work



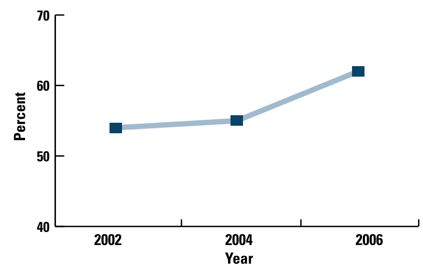
FHCS - Promotions in My Work Unit are Based on Merit



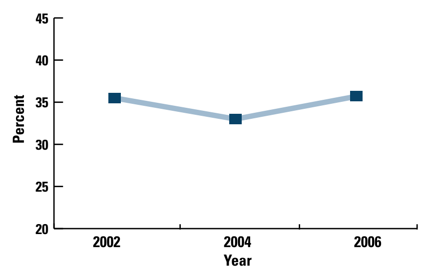
FHCS - Employees are Rewarded for Providing High Quality Products and Services to Customers



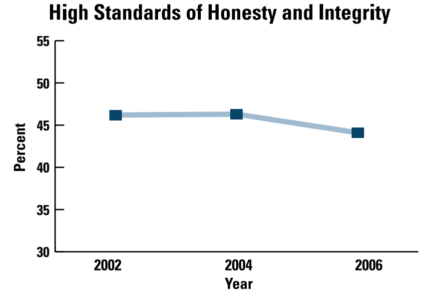
FHCS - I Feel Encouraged to Come Up with New and Better Ways of Doing Things



FHCS - In My Organization, Leaders Generate High Levels of Motivation and Commitment in the Workforce



FHCS - My Organization's Leaders Maintain High Standards of Honesty and Integrity



President's Management Agenda

Initiative	Status				FY 2007 Progress			
	FY 2004	FY 2005	FY 2006	FY 2007	Q1	Q2	Q3	Q4
Human Capital	Y	Y	G	G	G	G	G	G
Competitive Sourcing	Y	G	G	Y	Y	R	Y	Y
Financial Performance	R	R	R	Y	G	G	G	G
E-Government	R	R	Y	Y	R	G	G	Y
Performance Improvement	N/A	Y	Y	Y	G	G	G	G
Improper Payments	N/A	R	R	R	Y	Y	Y	Y
Credit Management	N/A	N/A	N/A	Y	N/A	G	G	G

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

Strategic Outcome
Exceptional accountability and transparency

Good management begins with accountability and responsibility for the people, property, and money that the Department manages. Internal control is a key tool to fulfill the Treasury Department's obligations to the American people. It serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. The Treasury Department continues to strengthen and improve the execution of its mission through the application of sound internal controls over financial reporting.

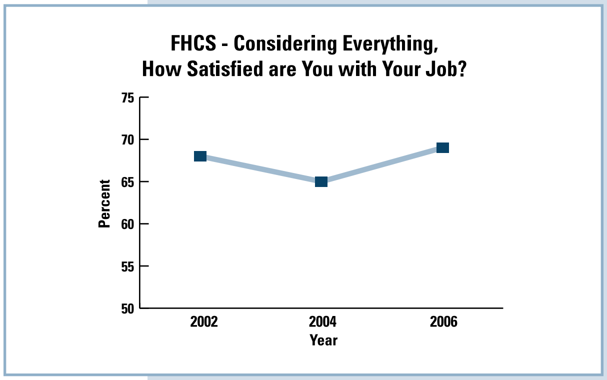
In fiscal year 2007, testing and assessments were completed Department-wide. No new material weaknesses were found through the assessment of financial reporting under A-123, Appendix A; however, the IRS continues to address issues related to the revenue accounting system, one of its material weaknesses.

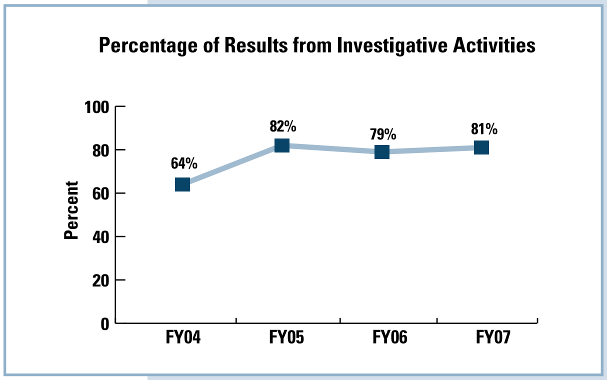
The OIG auditors conduct financial, performance, and information technology audits within the Treasury Department. These audits are intended to save taxpayer dollars, improve the Department's effectiveness and efficiency, and help prevent waste and detect fraud and abuse in Department programs and operations. During fiscal year 2007, the OIG completed 64 audit products and referred 188 cases for criminal, civil, or administrative action.

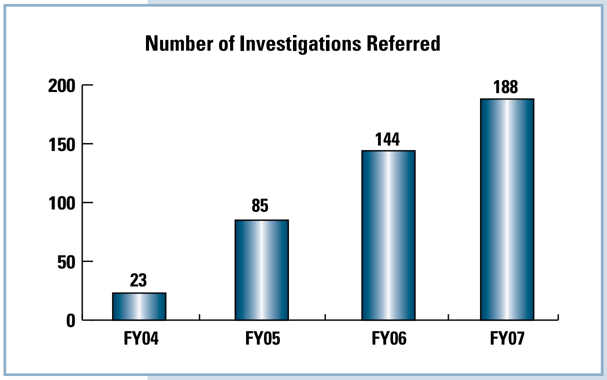
The TIGTA's audit and investigative services promote and protect the fair administration of the internal revenue laws, and their oversight is essential to the efficiency and equity of the federal tax administration system. In addition, the TIGTA's offices assist in maintaining taxpayers' confidence in the federal tax system by ensuring that the IRS is managed fairly and effectively, and violators of the public's trust are detected and appropriately sanctioned.

In fiscal year 2007, the TIGTA issued 180 audit reports; one specifically addressing whether the proper amounts of Social Security and Medicare taxes are being collected for tips and wages reported on Social Security and Medicare Tax on Unreported Tip Income Form. It is estimated that an additional $108 million in Social Security and Medicare taxes each year could be assessed.

The IRS's ability to deliver taxpayer service, enforce tax laws effectively, and collect the proper amount of taxes can be undermined by employee misconduct; over 50 percent of current investigations involve alleged employee misconduct. The TIGTA's investigations of employee misconduct include extortion, theft, taxpayer abuse, false statements, financial fraud, and unauthorized access to confidential taxpayer records. In fiscal year 2007, approximately 81 percent of the 3,597 closed investigations generated positive results, including 1,663 cases of employee misconduct referred for action and 206 cases accepted for criminal prosecution. In addition, the TIGTA opened 521 new unauthorized access cases and closed 621 cases, 594 of which resulted in personnel action against IRS employees.







Performance Scorecard

The following scorecard indicates the fiscal year 2007 results for a selection of key Treasury Department measures. For a complete list of official performance measures refer to Appendix A.

Performance Measure	FY 2007 Planned	FY 2007 Actual	Target Met?	FY 2008 Planned
Financial				
Percentage of voluntary compliance in filing tax payments timely and accurately (in terms of number of compliant industry members)	74.0%	75.0%	Y	75.0%
Percentage of voluntary compliance in filing tax payments timely and accurately (in terms of revenue)	86.0%	86.37%	Y	87.0%
Percentage of total tax receipts collected electronically	98.0%	98.0%	Y	98.0%
Percentage collected electronically of total dollar amount of Federal Government Receipts	80.0%	79.0%	N	80.0%
Unit cost to process a federal revenue collection transaction	$1.33	Est $1.19	Y	$1.30
Amount of delinquent debt collected per $1 spent	$36.50	Est $42.09	Y	$36.75
Amount of delinquent debt collected through all available tools (in Billion $)	$3.20	$3.76	Y	$3.30
Percentage of delinquent debt referred to FMS for collection compared to amount eligible for referral	94.0%	100.0%	Y	95.0%
Percentage of Government-wide accounting reports issued accurately	100.0%	100.0%	Y	100.0%
Percentage of Government-wide accounting reports issued timely	100.0%	100.0%	Y	100.0%
Cost per summary debt accounting transaction	$10.98	Est $8.93	Y	$10.88
Variance between estimated and actual receipts	5.0%	2.1%	Y	5.0%
Cost per debt financing operation	$228,409	Est $216,801	Y	$249,679
Percent of auction results released in 2 minutes +/- 30 seconds	95.0%	99.1%	Y	95.0%
Cost per TreasuryDirect assisted transaction	$6.16	Est $6.03	Y	$7.05
Cost per TreasuryDirect online transaction	$2.96	Est $2.79	Y	$2.44
Percentage of retail customer service transactions completed within 12 business days	90.0%	99.43%	Y	90.0%
Percentage of Treasury Payments and associated information made electronically	78.0%	78.0%	Y	79.0%
Percentage of Paper Check and Electronic Funds Transfer Payments made accurately and on-time	100.0%	100.0%	Y	100.0%
Unit Cost for Federal Government Payments	$0.39	Est $0.38	Y	$0.38
Field collection embedded quality	86.0%	84.0%	N	86.0%
Timeliness of critical other tax products to the public	79.6%	84.0%	Y	86.0%
Timeliness of critical filing season tax products to the public	85.2%	83.5%	N	86.0%
Taxpayer self assistance rate	48.6%	49.5%	Y	51.5%
Automated collection system accuracy	91.0%	92.9%	Y	92.0%
Percent individual returns processed electronically	57.0%	57.1%	Y	61.8%
Percent of business returns processed electronically	19.5%	19.1%	N	20.8%
Customer accuracy – Accounts (Phones)	93.3%	93.4%	Y	93.5%
Customer accuracy - Tax law phones	91.0%	91.2%	Y	91.0%

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Performance Measure	FY 2007 Planned	FY 2007 Actual	Target Met?	FY 2008 Planned
Customer contacts resolved per staff year	7,702	7,648	N	8,000
Customer Service Representative (CSR) Level of Service	82.0%	82.1%	Y	82.0%
Refund timeliness - Individual (paper)	99.2%	99.1%	N	99.2%
Examination coverage-Individual	1.0%	1.0%	Y	1.0%
Examination coverage-Business	8.2%	7.2%	N	6.8%
Field exam embedded quality	87.0%	85.9%	N	87.0%
Examination quality - (LMSB) Industry	88.0%	87.0%	N	90.0%
Examination quality – (LMSB) Coordinated industry	97.0%	96.0%	N	97.0%
Office exam embedded quality	89.0%	89.4%	Y	89.4%
Automated Underreporter Efficiency	1,932	1,956	Y	1,808
Automated Underreporter Coverage	2.5%	2.5%	Y	2.7%
Examination efficiency – Individual	136	137	Y	136
Collection efficiency – units	1,723	1,828	Y	1,751
Collection coverage – units	54.0%	54.0%	Y	54.0%
Economic				
Improve International Monetary Fund (IMF) effectiveness and quality through periodic reviews of IMF programs	90.0%	100%	Y	90.0%
Rehabilitated problem national banks as a percentage of the problem national banks one year ago (CAMELS 3, 4, or 5)	40.0%	52.0%	Y	40.0%
Percentage of national banks that are categorized as well-capitalized	95.0%	99.0%	Y	95.0%
Percent of thrifts with composite CAMELS ratings of 1 or 2	90.0%	93.0%	Y	90.0%
Percent of thrifts that are well-capitalized	95.0%	99.0%	Y	95.0%
Percentage of grant and loan proposals containing satisfactory frameworks for results measurement	90.0%	92.0%	Y	90.0%
Number of new Free Trade Agreement negotiations and Bilateral Investment Treaty negotiations underway or completed	7	10	Y	Discontinued
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	34,009	35,022	Y	28,676
Dollars of private and non-CDFI Fund investments that CDFIs are able to leverage because of their CDFI Fund Financial Assistance. (in millions)	$861.00	$778.00	N	$643.00
Administrative costs per Financial Assistance application processed	$6,920	Est $7,180	N	$6,920
Percent of Electronically filed Certificate of Label Applications	47.0%	51.0%	Y	48.0%
Unit Cost to process a Wine Certificate of Label Approval	Baseline	$34.00	Y	$34.00
Manufacturing costs for currency (dollar cost per thousand notes produced)	$32.50	$28.71	Y	$33.00
Percent of currency notes delivered to the Federal Reserve that meet customer quality requirements	99.9%	100.0%	Y	99.9%
Cost per 1,000 coin equivalents	$7.27	$7.23	Y	$7.15
Order fulfillment	96.0%	98.0%	Y	96.0%
Currency shipment discrepancies per million notes	0.01%	0.01%	Y	0.01%
Percentage of national banks with composite CAMELS rating 1 or 2	90.0%	96.0%	Y	90.0%

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Performance Measure	FY 2007 Planned	FY 2007 Actual	Target Met?	FY 2008 Planned
Security				
Average time to process enforcement matters (Years)	1.0	1.1	N	1.0
Number of federal and state regulatory agencies with which FinCEN has concluded memoranda of understanding information sharing agreements	50	50	Y	52
Percentage of customers finding FinCEN's analytic reports highly valuable	Baseline	82.0%	Y	79.0%
Percentage of customers satisfied with the BSA Direct E-filing	90.0%	94.0%	Y	90.0%
Management				
Number of open material weakness (significant management problems identified by GAO, the IGs and/or the Bureaus) (President's Management Agenda) Targeted for Closure in fiscal year 2007	1	0	N	1
Complete investigations of EEO complaints within 180 days	50.0%	51.6%	Y	50.0%
Operating Expenses as a Percentage of Revenue – Consolidated/Integrated Administrative Management	12.0%	4.3%	Y	12.0%
Operating Expenses as Percent of Revenue – Financial Management Support Services	12.0%	15.1%	N	12.0%
Percent of statutory audits completed by the required date	100.0%	100.0%	Y	100.0%
Percentage of audit products delivered when promised to stakeholders	Baseline	68.0%	Y	60.0%
Percentage of recommendations made that have been implemented	Baseline	90.0%	Y	80.0%
Percentage of results from investigative activities	73.0%	81.0%	Y	76.0%
KEY: Some measures have estimates for their actual fiscal year data – due to information not available at the time of publication of this document.				

Scorecard Shortfalls

The information below explains the shortfalls for key performance measures shown above that did not achieve the target level of performance. The Appendix A shows the full suite of performance measures, data, and shortfalls.

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

The IRS was within one percent of meeting its performance target for the measure "Refund Timeliness-Individual." Delays that caused this shortfall were attributed to the increase in the number of Individual Taxpayer Identification Number applications, verification of required documentation that is often submitted in foreign languages, and the Individual Taxpayer Identification Number system caused instabilities by malfunctioning during peak processing season.

For fiscal year 2007, the actual data for the performance measure "Field Examination Embedded Quality" was 85.9 percent, missing its target by 1.1 percentage points. The target predicted a 10 percent improvement factor for weak quality attributes, however this did not occur. After not meeting its target, the IRS planned actions to improve its quality score by studying the consistency between the Embedded Quality Review and the National Quality Review Systems' processes.

For fiscal year 2007, the FMS set its target at 80 percent for the performance measure "Percentage collected electronically of total dollar amount of federal government receipts." Results indicated that the FMS missed the target by one percent; this due to the large number of the paper 1040 form tax remitters. Most online tax preparation sites charge fees for filing the 1040 forms electronically, discouraging e-filing. The FMS will continue to work with the appropriate entities to reduce associated costs and encourage electronic filing.

The IRS missed its fiscal year 2007 target of 8.2 by one percentage point for the performance measure "Examination Coverage – Business Corporations." Key factors contributing to this shortfall included the implementation of currency and cycle time initiatives. An increase in time spent on the Compliance Assurance Program to addresses issues in a pre-filing environment resulted in fewer numbers of closed returns from a comparable current coordinated industry case examination; the Issue Management System consumed more agent time than planned.

Summary of Management Challenges and High-Risk Areas

The Department of the Treasury's Inspectors General and the Government Accountability Office has identified the most significant, high-risk challenges facing the Department. While these challenges do not necessarily indicate deficiencies in performance, progress has been made in fiscal year 2007; they represent inherent risks that must be monitored continuously. The Treasury Department is committed to addressing these challenges in fiscal year 2008. Below are the management challenges identified by the IGs.

- Corporate Management
- Management of Capital Investment
- Information Security
- Linking Resources to Results
- Anti-Money laundering and Terrorist Financing/Bank Secrecy Act Enforcement
- Modernization of the Internal Revenue Service
- Tax Compliance Initiatives
    - Business and Individual
    - Tax-Exempt Entities
- Security of the Internal Revenue Service
- Providing Quality Taxpayer Service Operations
- Complexity of the Tax Law
- Human Capital
- Erroneous and Improper Payments
- Taxpayer Protection and Rights
- Processing Returns and Implementing Tax Law Changes During the Tax Filing Season
- Using Performance and Financial Information for Program and Budget Decision

Although it critical for the Department to address all of these challenges, a selected few are discussed below, noting the actions taken during fiscal year 2007. (For the comprehensive response to the full list, refer to Appendices D).

Information Security: In fiscal year 2007 the Treasury Department launched a privacy awareness training course for all employees highlighting the policies and practices necessary to safeguard and protect citizens' data. Although the Department met its goal of encrypting 100 percent of its laptops during fiscal year 2007, the Treasury Department will continue to work towards properly safeguarding all of its information assets. By fiscal year 2009, the Department plans to achieve 100 percent compliance with Security Configuration installation and the industry standard of 90 percent maintenance.

Linking Resources to Results: In July 2007, the Treasury Department issued its new strategic plan for fiscal years 2007-2012. In this plan, the Department went beyond linking performance to the budget, and established an Integrated Management System to monitor continuous improvement. Performance planning and budgeting will determine funding, which will be tied to the desired level of performance. The Integrated Management System will be implemented during fiscal year 2008.

Treasury recognizes that lacking relevant and reliable cost accounting information, federal managers may not understand and control the full cost of programs. And without a link between performance and cost, agencies are not in a position to establish cost reduction goals and maintain or improve performance results because they do not know how much it costs to deliver outcomes.

In 2008, the Chief Financial Officers Council work group will continue to refine the Departmental managerial cost accounting model, establish key cost accounting goals for all of the Department's components, and develop a plan for future Departmental oversight of cost accounting implementation and use as a management tool. Additionally, the Department will work diligently in fiscal year 2008 to more fully integrate budget and performance, linking changes in funding levels to corresponding changes in performance.

Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act (BSA) Enforcement: The Department of the Treasury plays a key role in the U.S. Government's efforts to track and cut off the flow of funds to terrorist and other national security threats. The Department initiated a series of private sector Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) dialogues. These dialogues raise awareness of terrorist financing and money laundering risks, facilitate a better understanding of effective practices and programs to combat the risks, and strengthen implementation of effective AML/CFT controls.

The Treasury Department effectively administers and enforces the BSA, an important tool in combating anti-money laundering. The BSA requires that financial institutions report on suspicious activities, keep records, and establish appropriate internal controls to guard against financial crime. As the administrator of the BSA, the Department oversees and coordinates the sharing of financial intelligence and analysis with its stakeholders, and works closely with regulatory partners to take action against violating institutions.

Tax compliance Initiatives: In fiscal year 2007, the IRS continued compliance efforts that promote taxpayer confidence and support the Department's goal to reduce the tax gap. The IRS improved its ability to estimate non-compliance to pinpoint areas where taxpayers are not in compliance with federal tax laws. This year, two reporting compliance studies began; one addresses Subchapter S Corporations, the second is looking at the Tax Year 2006 individual income. When completed, these studies will enable the IRS to better leverage limited enforcement resources and reduce the burden on compliant taxpayers.

Complexity of the Tax Law: In fiscal year 2007, the IRS took steps to reduce taxpayer burden, including the review of existing tax products with the goal to simplify. The IRS also incorporated taxpayer feedback, research, and focus group results to obtain taxpayer information relative to product changes. In an effort to ease the burden associated with the complexity of the tax system and recent revisions to the tax laws, the IRS continued to provide important and current information needed to file tax returns on the IRS.gov website. For individual taxpayers, the IRS designed a "1040 Central" page which contains news releases, fact sheets and tax tips, all designed to keep taxpayers informed of changes. The IRS also developed a three-point plan, that expanded Earned Income Tax Credit (EITC) outreach initiatives, identified ways to simplify and improve the forms, and outlined efforts to improve the IRS.gov website, making it more user friendly for EITC filers.

Erroneous and Improper payments: In fiscal year 2007, the IRS protected about $2.6 billion in revenue through Earned Income Tax Credit (EITC) enforcement efforts which included the examination of almost 500,000 returns claiming EITC, approximately 390,000 document matching reviews, and 400,000 math error process corrections. In addition, the IRS met all the Improper Payment Improvement Act requirements for the EITC, providing a current estimate of erroneous payment amounts, an explanation of the methodology to calculate the amount and an action plan to reduce the number and amount of those payments.

Analysis of Financial Statements

The following are the condensed financial statements of the Department as of and for the years ended September 30, 2007 and 2006. The complete financial statements and auditors' report are in part III of this report.

Condensed Consolidated Balance Sheets

As of September 30, 2007 and 2006
(In Millions)

ASSETS	2007	2006
Intra-governmental Assets		
Due From the General Fund	$ 9,052,624	$ 8,540,195
Other Intra-governmental Assets	322,255	326,552
Total Intra-governmental Assets	**9,374,879**	**8,866,747**
Cash, Foreign Currency, and Other Monetary Assets	92,330	63,892
Gold and Silver Reserve	11,062	11,062
Investments and Related Interest	10,074	9,325
Tax, Other and Related Interest Receivables, Net	27,559	21,962
Other Assets	12,903	14,990
Total Assets	**$ 9,528,807**	**$ 8,987,978**
LIABILITIES		
Intra-governmental Liabilities		
Federal Debt and Interest Payable	$ 3,974,788	$ 3,673,117
Other Intra-governmental Liabilities	343,466	320,817
Total Intra-governmental Liabilities	**4,318,254**	**3,993,934**
Federal Debt and Interest Payable	5,054,250	4,844,074
Other Liabilities	35,204	35,056
Total Liabilities	**9,407,708**	**8,873,064**
NET POSITION		
Unexpended Appropriations	72,317	68,270
Cumulative Results of Operations	48,782	46,644
Total Net Position	**121,099**	**114,914**
Total Liabilities and Net Position	**$ 9,528,807**	**$ 8,987,978**

Condensed Consolidated Statements of Net Cost

For the Years Ended September 30, 2007 and 2006

(In Millions)

	2007	2006
Cost of Treasury Operations:		
Net Financial Program Cost	$ 11,735	$ 12,413
Net Economic Program (Revenue)/Cost	(456)	1,188
Net Security Program Cost *	300	0
Net Management Program Cost	440	428
Total Net Cost of Treasury Operations	**12,019**	**14,029**
Net Federal Costs (primarily interest on the Federal Debt)	429,302	399,806
Net Cost of Treasury Operations, Federal Debt Interest, and Other Federal Costs	**$ 441,321**	**$ 413,835**

** Treasury's Strategic Plan for fiscal years 2007 – 2012 includes a new Security Program. Subcomponent reporting assignments were also realigned with the New Strategic Plan.*

Condensed Consolidated Statement of Changes in Net Position

For the Year Ended September 30, 2007

(In Millions)

	Combined Earmarked Funds	Combined All Other Funds	Eliminations	Consolidated Total
UNEXPENDED APPROPRIATIONS				
Beginning Balance	$ 202	$ 68,068		$ 68,270
Budgetary Financing Sources				
Appropriations Received	390	450,832		451,222
Appropriations Used	(390)	(446,667)		(447,057)
Other	(2)	(116)		(118)
Total Budgetary Financing Sources	(2)	4,049		4,047
Total Unexpended Appropriations	**200**	**72,117**		**72,317**
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balance	31,614	15,030	0	46,644
Budgetary Financing Sources	708	446,666	(43)	447,331
Other Financing Sources (Uses)	299	(3,679)	(492)	(3,872)
Total Financing Sources	1,007	442,987	(535)	443,459
Net Cost of Operations	2,764	(444,620)	535	(441,321)
Net Change	3,771	(1,633)	0	2,138
Cumulative Results of Operations	**35,385**	**13,397**	**0**	**48,782**
Net Position - Year End	**$ 35,585**	**$ 85,514**	**$ 0**	**$ 121,099**

Condensed Consolidated Statement of Changes in Net Position

For the Year Ended September 30, 2006

(In Millions)

	Combined Earmarked Funds	Combined All Other Funds	Eliminations	Consolidated Total
UNEXPENDED APPROPRIATIONS				
Beginning Balance	$ 202	$ 62,980		$ 63,182
Budgetary Financing Sources				
Appropriations Received	298	417,468		417,766
Appropriations Used	(298)	(412,116)		(412,414)
Other	0	(264)		(264)
Total Budgetary Financing Sources	0	5,088		5,088
Total Unexpended Appropriations	**202**	**68,068**		**68,270**
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balance	30,817	21,309	0	52,126
Budgetary Financing Sources	441	412,061	(30)	412,472
Other Financing Sources (Uses)	4	(3,653)	(470)	(4,119)
Total Financing Sources	445	408,408	(500)	408,353
Net Cost of Operations	352	(414,687)	500	(413,835)
Net Change	797	(6,279)	0	(5,482)
Cumulative Results of Operations	**31,614**	**15,030**	**0**	**46,644**
Net Position - Year End	**$ 31,816**	**$ 83,098**	**$ 0**	**$ 114,914**

Condensed Combined Statements of Budgetary Resources

For the Years Ended September 30, 2007 and 2006

(In Millions)

	2007	2006
Budgetary Resources:		
Unobligated Balance, Brought Forward	$ 57,540	$ 64,670
Recoveries of Prior Year Unpaid Obligations	474	380
Budget Authority	474,974	446,742
Other Budget Authority	(10,008)	(8,701)
Total Budgetary Resources	**$ 522,980**	**$ 503,091**
Status of Budgetary Resources:		
Obligations Incurred	$ 465,530	$ 445,551
Unobligated Balance	46,455	47,093
Unobligated Balance Not Available	10,995	10,447
Total Status of Budgetary Resources	**$ 522,980**	**$ 503,091**
Change in Obligated Balance		
Total Unpaid Obligated Balances, Net	$ 52,448	$ 45,738
Obligations Incurred, Net	465,530	445,551
Gross Outlays	(460,302)	(438,494)
Recoveries of Prior Year Unpaid Obligations, Actual	(474)	(380)
Changes in Uncollected Customer Payments from Federal Sources	191	33
Total Unpaid Obligated Balance, Net, End of Year	**$ 57,393**	**$ 52,448**
Net Outlays		
Gross Outlays	$ 460,302	$ 438,494
Offsetting Collections and Distributed Offsetting Receipts	(24,232)	(25,467)
Net Outlays	**$ 436,070**	**$ 413,027**

Condensed Statements of Custodial Activity

For the Years Ended September 30, 2007 and 2006

(In Millions)

	2007	2006
SOURCES OF CUSTODIAL REVENUE		
Revenue Received		
Individual and FICA Taxes	$ 2,201,464	$ 2,034,209
Corporate Income Taxes	395,320	380,426
Other Revenues	142,005	146,937
Total Revenue Received	**2,738,789**	**2,561,572**
Less Refunds	(292,684)	(277,778)
Net Revenue Received	**2,446,105**	**2,283,794**
Accrual Adjustment	5,588	554
Total Custodial Revenue	**2,451,693**	**2,284,348**
Disposition of Custodial Revenue:		
Amounts Provided to Fund the Federal Government	2,445,619	2,283,420
Other	6,074	928
Total Disposition of Custodial Revenue	**2,451,693**	**2,284,348**
Net Custodial Revenue Activity	**$ 0**	**$ 0**

Auditors' Report on the Treasury Department's Financial Statements

The Department received an unqualified audit opinion on its fiscal year 2007 financial statements. The auditor reported a material weakness in financial management and other significant deficiencies in: (1) Information Controls and Security Programs Over Financial Systems, and (2) Financial Management Practices at the Department Level.

Summary of Financial Statement Audit

Audit Opinion	UNQUALIFIED				
Restatement	NO				
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Financial Management Practices at the IRS	1	0	0	0	1

Limitations on the Principal Financial Statements

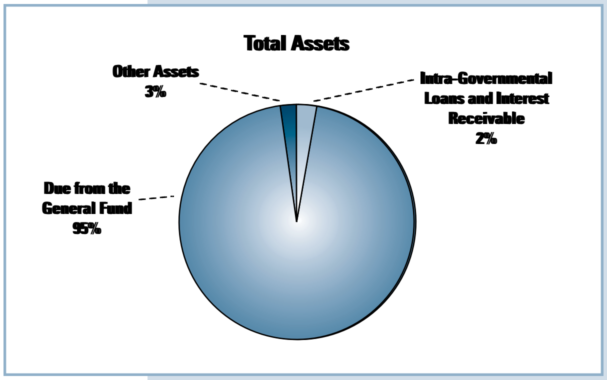
The principal financial statements have been prepared to report the financial position and results of operations of the Department of the Treasury, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the Department of the Treasury, in accordance with GAAP for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The financial statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

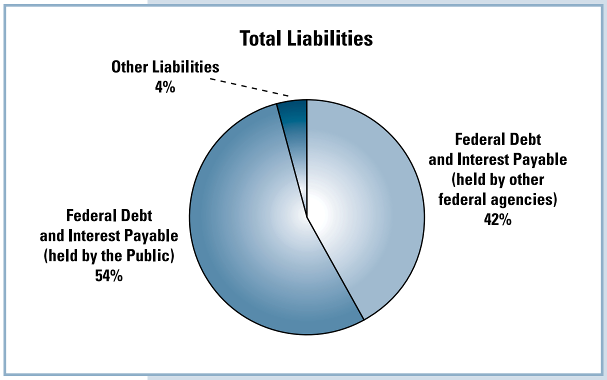
Financial Highlights

The following provides the highlights of Treasury's financial position and results of operations for fiscal year 2007.

Assets. Total assets increased from $9.0 trillion at September 30, 2006 to $9.5 trillion at September 30, 2007. The primary reason for the increase is the rise in the federal debt, which causes a corresponding rise in the "Due from the General Fund of the U.S. Government" account ($9.1 trillion.) This account represents future funds required from the General Fund of the U.S. Government to pay borrowings from the public and other federal agencies.

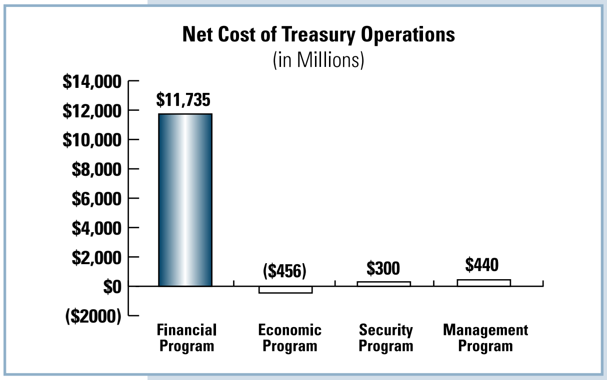


The majority of loans and interest receivable ($236.9 billion) included in "Other Intra-governmental Assets" are the loans issued by the Federal Financing Bank to other federal agencies for their own use or to private sector borrowers, whose loans are guaranteed by the federal agencies. In addition, $175 million loans and interest receivable from non-federal entities include certain loans and credits issued by the United States to various foreign governments. These loans are due and payable in U.S. denominations.

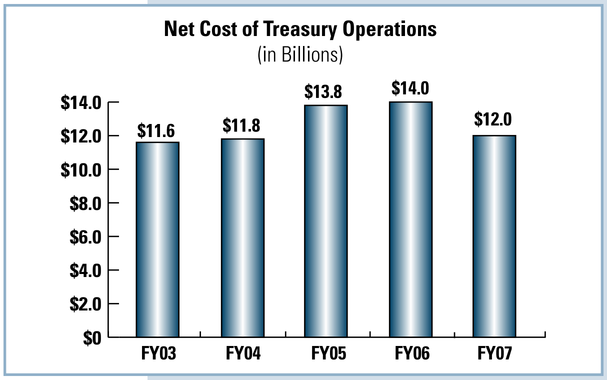


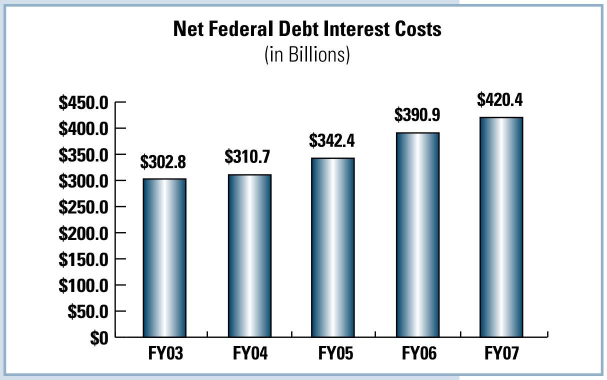
Liabilities. Intra-governmental liabilities totaled $4.3 trillion, and include $4.0 trillion of principal and interest payable to various Federal agencies such as the Social Security Trust Fund. These borrowings do not include debt issued separately by other governmental agencies, such as the Tennessee Valley Authority or the Department of Housing and Urban Development.

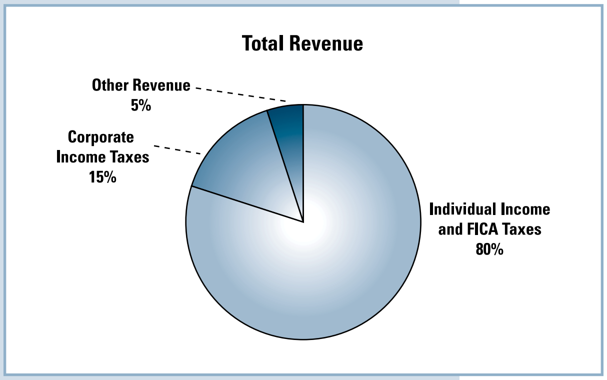
Liabilities also include federal debt held by the public, including interest, of $5.1 trillion; the majority of this debt was issued as Treasury Notes. The increase in total liabilities in fiscal year 2007 over fiscal year 2006 ($534.6 billion and 6.0 percent), is the result of increases in borrowings from various federal agencies ($293.8 billion), and federal debt held by the public, including interest, ($206.2 billion). Debt held by the public increased primarily because of the need to finance budget deficits.

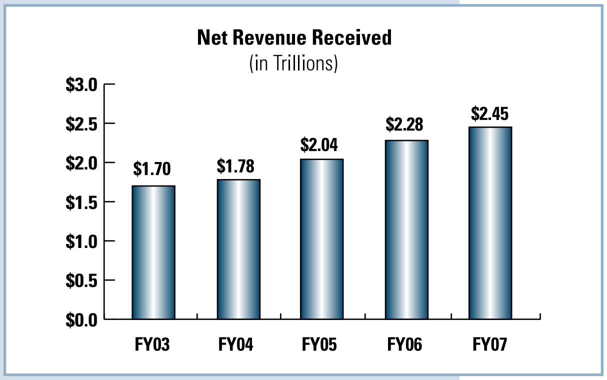


Net Cost of Treasury Operations. The Consolidated Statement of Net Cost presents the Department's gross and net cost for its four strategic missions: financial program, economic program, security program, and management program. The majority of the Net Cost of Treasury Operations is in the financial program. Treasury is the primary fiscal agent for the Federal government in managing the Nation's finances by collecting revenue, making Federal payments, managing Federal borrowing, performing central accounting functions, and producing coins and currency sufficient to meet the demand. Treasury's Strategic Plan for FY









2007 – FY 2012 includes a new Security program, which resulted in a reclassification between the four programs in fiscal year 2007.

Net Federal Debt Interest Costs. Interest costs have increased significantly ($29.5 billion in fiscal year 2007 and $48.5 billion in fiscal year 2006) over the past two years due to the increase in the federal debt and higher interest rates.

Custodial Revenue. Total net revenue collected by Treasury on behalf of the federal government includes various taxes, primarily income taxes, user fees, fines and penalties, and other revenue. Over 94.3 percent of the revenues are from income and social security taxes. Following a 12 percent ($247.4 billion) increase in fiscal year 2006, net revenue increased by 7.1 percent ($162.3 billion) in fiscal year 2007, due to a continuing high level of economic activity. The majority of increase in revenue was from the individual income and FICA taxes, which was primarily attributed to the growth in wages and overall taxable income.

Improper Payments Information Act and Recovery Act

Summary of FY 2007 Activities

Background

The Improper Payments Information Act of 2002 (IPIA) requires agencies to annually review their programs and activities to identify those that are susceptible to significant erroneous payments. According to OMB Circular A-123, Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments (A-123, Appendix C), "significant" means that an estimated error rate and a dollar amount exceed the threshold of 2.5% and $10 million of total program funding. A-123, Appendix C also requires the agency to implement a corrective action plan that includes improper payment reduction and recovery targets.

Some federal programs are so complex that developing an annual error rate is not feasible. The government-wide Chief Financial Officers Council developed an alternative for such programs to assist them in meeting the IPIA requirements. Agencies may establish an annual estimate for a high-risk component of a complex program (e.g., a specific program population) with Office of Management and Budget (OMB) approval. Agencies must also perform trend analyses to update the program's baseline error rate in the interim years between detailed program studies. When development of a statistically valid error rate is possible, the reduction targets are revised and become the basis for future trend analyses.

Treasury's Risk Assessment Methodology and Results for FY 2007

Each year, Treasury develops a comprehensive inventory of all funding sources and conducts a risk assessment for improper payments on all of its programs and activities. The risk assessment performed on all of Treasury's programs and activities resulted in low and medium risk susceptibility for improper payments except for the Internal Revenue Service's (IRS) Earned Income Tax Credit (EITC) program. The high-risk status of this program is well-documented and has been deemed a complex program for the purposes of the IPIA.

Earned Income Tax Credit

The EITC is a refundable tax credit that offsets income tax owed by low-income taxpayers and, if the credit exceeds the amount of taxes due, provides a lump-sum payment in the form of a refund to those who qualify. The FY 2007 estimate is that a maximum of 28% ($12.3 billion) and a minimum of 23% ($10.4 billion) of the EITC total program payments are overclaims.

Since June 2003, IRS has focused on reducing erroneous EITC overclaims through a five-point initiative designed to:

- Reduce the backlog of pending EITC examinations
- Minimize the burden and enhance the quality of communications with taxpayers
- Encourage eligible taxpayers to claim the EITC
- Ensure fairness by refocusing compliance efforts on income-ineligible taxpayers
- Pilot a certification effort to substantiate qualifying child residency eligibility

Recovery Auditing Act

Background

In accordance with OMB Circular A-123, Appendix C, the Recovery Auditing Act requires agencies issuing in excess of $500 million in contracts to establish and maintain recovery auditing activities and report on the results of those recovery efforts annually. Recovery auditing activities include the use of (1) contract audits, in which an examination of contracts pursuant to the audit and records clause incorporated in the contract is performed, (2) contingency contracts for recovery services in which the contractor is paid a percentage of the recoveries, and (3) internal review and analysis in which payment controls are employed to ensure that contract payments are accurate.

For Recovery Auditing Act compliance, Treasury requires each bureau and office to review their post-payment controls and report on recovery auditing activities, contracts issued, improper payments made, and recoveries achieved. Bureaus and offices may use recovery auditing firms to perform many of the steps in their recovery program and identify candidates for recovery action.

Results for FY 2007

During FY 2007, $5.1 billion in contracts (defined as issued and obligated contracts, modifications, task orders, and delivery orders) were issued. Improper payments in the amount of $843,230 were identified from recovery auditing efforts and, of this amount, $821,667 has been recovered with $21,564 outstanding as accounts receivable on September 30, 2007. Additional detail on Treasury's Recovery Auditing Act Program can be found in Appendix C.

Management Assurances

The Secretary's Letter of Assurance

The Department of the Treasury's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). The Department of the Treasury has evaluated its management controls, internal controls over financial reporting, and compliance with Federal financial systems standards. As part of the evaluation process, we considered results of extensive testing and assessment across the Department and independent audits.

Treasury provides reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act over operations have been achieved, except for the material weaknesses noted below. In accordance with OMB Circular A-123, Appendix A, we provide qualified assurance that internal control over financial reporting is effective as of June 30, 2007. Treasury is not in substantial compliance with the Federal Financial Management Improvement Act due to the material weakness involving revenue accounting systems; this weakness is a significant reason for our qualified overall assurance level for A-123, Appendix A.

Treasury has six remaining material weaknesses as of September 30, 2007, as follows:

Operations:

Internal Revenue Service

- Systems modernization management and controls
- Overclaims in the Earned Income Tax Credit Program
- Systems security controls

Financial Management Service

- Systems, controls and procedures to prepare the Government-wide financial statements

Departmental Offices

- Systems security

Financial Reporting:

Internal Revenue Service

- Revenue accounting systems

We identified no new material weaknesses in FY 2007, and made progress toward addressing our existing weaknesses. (Refer to Appendix E for detailed information.) We will continue to achieve positive results in FY 2008 by:

- Emphasizing internal control program responsibilities throughout Treasury
- Ensuring senior management attention to management controls
- Developing and implementing capital planning investment control processes
- Focusing on the need to develop and carry out responsible plans for resolving weaknesses

Sincerely,

Henry M. Paulson, Jr.

Material Weaknesses, Audit Follow-up, and Financial Systems

Summary of Management Assurance

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Qualified Assurance					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
IRS - Revenue Accounting Systems	0	0	0	0	1	1
Total Material Weaknesses	0	0	0	0	1	1

Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Qualified Assurance					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
IRS - Systems Modernization Management and Controls	1	0	0	0	0	1
IRS - Overclaims in the Earned Income Tax Credit Program	1	0	0	0	0	1
IRS - Systems Security Controls	1	0	0	0	0	1
FMS - Systems, Controls, and Procedures to Prepare the Government-wide Financial Statements	1	0	0	0	0	1
DO - Systems Security	1	0	0	0	0	1
Total Material Weaknesses	5	0	0	0	0	5

Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Systems do not conform to financial management system requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
IRS -Accounting for Revenue	1	0	0	0	(1)	0
Total Non-conformances	1	0	0	0	(1)	0

Compliance with Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
Overall Substantial Compliance	No	No
1. System Requirements	No	No
2. Accounting Standards	No	No
3. USSGL at Transaction Level	No	No

Federal Managers' Financial Integrity Act (FMFIA)

The management control objectives under FMFIA are to reasonably ensure that:

- programs achieve their intended results.
- resources are used consistent with overall mission.
- programs and resources are free from waste, fraud and mismanagement.
- laws and regulations are followed.
- controls are sufficient to minimize any improper or erroneous payments.
- performance information is reliable.
- system security is in substantial compliance with all relevant requirements.
- continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels.
- financial management systems are in compliance with Federal financial systems standards.

Deficiencies that seriously affect an agency's ability to meet these objectives are deemed "material weaknesses." Treasury can provide reasonable assurance that the objectives of FMFIA have been achieved, except for the remaining material weaknesses noted in the Secretary's Letter of Assurance. Currently, the last identified material weakness is targeted to be closed in fiscal year 2011.

Material weaknesses, both the resolution of existing ones and the prevention of new ones, received special attention during fiscal year 2007. Over the past five years, we have made great progress in reducing the number of material weaknesses Treasury-wide. During fiscal year 2007, we made material weakness resolution a performance requirement for every executive, manager, and supervisor to continue our path of resolving the current material weaknesses and preventing new ones before they occur.

Office of Management and Budget Circular A-123, Appendix A

The Department of the Treasury continues to strengthen and improve the execution of our mission through the application of sound internal controls over financial reporting. In response to Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Controls*, Appendix A, Treasury developed and implemented an extensive testing and assessment methodology that identified and documented internal controls over financial reporting at the transaction level integrated with the Government Accountability Office's Standards for Internal Control. The testing and assessment were completed across all material Treasury bureaus and offices by June 30, 2007. Treasury provides qualified reasonable assurance that internal controls over financial reporting are effective as of June 30, 2007, due in large part to the revenue accounting system weaknesses at the Internal Revenue Service.

Federal Financial Management Improvement Act (FFMIA)

FFMIA mandates that agencies "... implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level." FFMIA also requires that remediation plans be developed for any entity that is unable to report substantial compliance with these requirements.

As of September 30, 2007, the Treasury Department's financial management systems were not in substantial compliance with FFMIA due to deficiencies with the IRS's financial management systems. The IRS has a remediation plan in place to correct the deficiencies. For each FFMIA recommendation, the remediation plan identifies specific remedies, target dates, responsible officials, and resource estimates required for completion. This plan is reviewed and updated on a quarterly basis. (Refer to Appendix E for detailed information.)

Audit Follow-Up

During fiscal year 2007, Treasury continued its efforts to improve both the general administration of management control issues throughout the Department and the timeliness of the resolution of all findings and recommendations identified by the Office of the Inspector General (OIG), the Treasury Inspector General for Tax Administration (TIGTA), the Government Accountability Office, and external auditors.

Treasury management at every level will maintain the momentum on accomplishing Planned Corrective Actions (PCAs) to resolve and implement sound solutions for all audit recommendations. Although we have made great progress, we have considerably more work to do. Specifically, we must provide timely and accurate performance in addressing PCA schedules and implementation and integrate the effects of those actions more fully into our management decision-making processes. We need to identify more precisely what it costs to accomplish our varied missions and develop ways to improve overall performance. This will entail building upon the progress we have made in expanding the communication and coordination among offices variously involved in strategic planning, budget formulation, budget execution, performance management and financial management.

Financial Management Systems Framework

The Department's overall financial management systems framework consists of a Treasury-wide financial data warehouse, supported by a financial reporting tool and separate bureau financial systems. Bureaus submit their monthly financial data to the data warehouse within three business days of the month-end. The Department then produces its monthly financial statements and reports for management analysis. This framework satisfies both the bureaus' diverse financial operational and reporting needs as well as the Department's internal and external reporting requirements. The financial data warehouse is part of the overarching Treasury-wide Financial Analysis and Reporting System (FARS), which also includes applications for bureaus to report the status of their performance measures and the status of their planned audit corrective actions. Treasury has also implemented a budget application which is used by Departmental Offices (DO) in the management of DO's budget expenditures. Additional FARS applications are being planned to improve the Department's financial management and operations. This includes asset management and enhanced reporting functionality.

Treasury's FARS applications operate at a contractor operated hosting facility. In accordance with the guidance contained in the American Institute of Certified Public Accountants' Statement of Auditing Standards (SAS) No. 70, *Service Organizations*, the service provider's independent auditors examined the controls for the dedicated hosting service. In the opinion of the auditors, the description of the controls presents fairly, in all material respects, the relevant aspects of the provider's controls that had been placed in operation as of September 30, 2007. Also, the controls described are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily and customer organizations applied the controls contemplated in the design of the provider's controls.

The Department continues to enhance its financial management systems structure. As of September 30, 2007, the number of financial management systems decreased to 64, down from 69 at the end of fiscal year 2006.

The Bureau of Public Debt's Administrative Resource Center (ARC) has been designated by the Office of Management and Budget as a Financial Management Line of Business Shared Service Provider. ARC currently services 28 Federal entities for core financial systems, including twelve Treasury bureaus and reporting entities. Annually, under a contract monitored by the Office of Inspector General, an independent public accountant performs an examination of ARC's accounting processing and general computer controls related to certain services provided to its customer agencies. Treasury will continue to evaluate opportunities to consolidate financial management systems and better utilize existing resources.

ARC also provides systems and service support to eleven Department bureaus in the processing of their travel needs as part of the Department's E-Gov Travel initiative. Of the three remaining bureaus, two are exempt from the Federal Travel Regulations and do not plan to migrate at this time. The IRS, which is not currently cross-serviced by ARC, is working towards a May 2008 E-Gov Travel implementation date.

The Department's FARS applications are also used to support other Federal agencies. Treasury currently hosts two agencies for consolidated financial processing and reporting. In addition, the Department has demonstrated various FARS applications to other agencies. Several Federal agencies have already implemented FARS applications to run in their own systems environment, reducing their capital investment is systems software.

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Part II: Annual Performance Report

FINANCIAL

Performance Cost - $13.3 Billion

*For information on calculating cost – see Appendix H

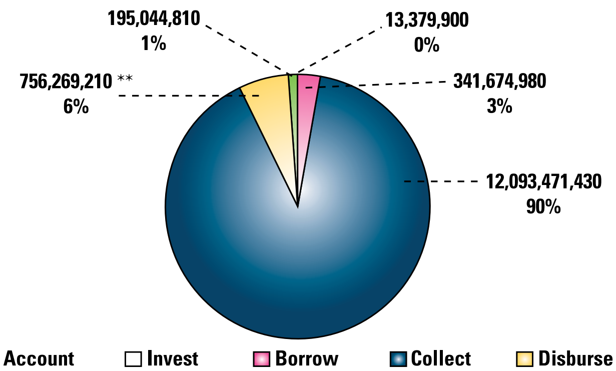
STRATEGIC GOAL: **Effectively Managed U.S. Government Finances**

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

STRATEGIC OUTCOMES AND VALUE CHAINS:

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

Cost to Outcomes



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

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

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

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

Activities Related:

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

Taxpayer Service

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Enforcement of the Tax Law

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Business Systems Modernization

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

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

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

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

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

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

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

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

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

Fiscal Year 2007 Performance Data for Business Systems Modernization

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

Schedule Variance (based on SPECIFIC estimates)

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

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

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

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

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

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

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

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

Collect the Revenue

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

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

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

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

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

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

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

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

Collection

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

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

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

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

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

Debt Collection

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

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

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

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

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

Table continued on next page ➤

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

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

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

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

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

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

Timely and accurate payments at the lowest possible cost

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

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

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

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

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

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

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

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

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

Outcome: Timely and accurate payments at the lowest possible cost

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

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

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

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

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

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

Government financing at the lowest possible cost over time

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

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

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

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

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

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

Outcome: Government financing at the lowest possible cost over time

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

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

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

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

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

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

Effective cash management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial – moving forward

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ECONOMIC

Performance Cost - $3.2 Billion

*For information on calculating cost – see Appendix H

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

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

STRATEGIC OUTCOMES AND VALUE CHAINS:

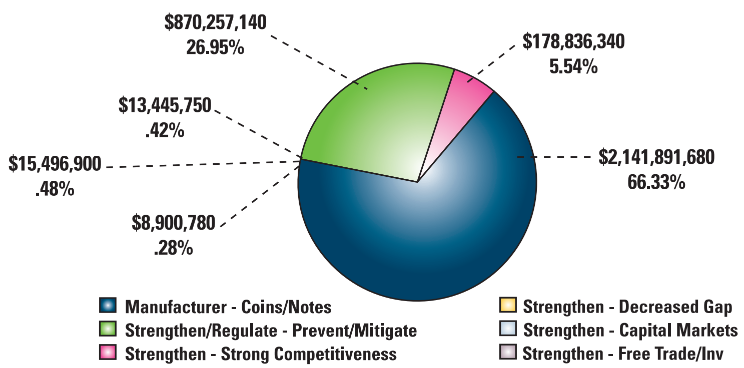
- Strong U.S. economic competitiveness (Strengthen)
- Competitive capital markets (Strengthen)
- Free trade and investment (Strengthen)
- Prevented or mitigated financial and economic crises (Strengthen/Regulate)
- Decreased gap in global standard of living (Strengthen)

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

STRATEGIC OUTCOME AND VALUE CHAIN:

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

Cost to Outcomes



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

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

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

Strong U.S. economic competitiveness

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

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

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

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

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

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

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

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

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

Outcome: Strong U.S. economic competitiveness

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

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

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

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

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

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

Competitive capital markets

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

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

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

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

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

Free trade and investment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Prevented or mitigated financial and economic crises

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Decreased gap in global standard of living

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Cost of related activities in trying to achieve this outcome: **$2,141,891,680**

Performance Measure	Fiscal Year 2006 Target	Fiscal Year 2006 Actual	Met?	Fiscal Year 2007 Target	Fiscal Year 2007 Actual	Met?
Manufacturing Costs for Currency (dollar costs per thousand notes produced)	$28.50	$27.49	Y	$32.50	$28.71	Y
Percent of Currency Notes Delivered to the Federal Reserve that meet customer quality requirements	99.9%	99.9%	Y	99.9%	100.0%	Y
Cost per 1000 Coin Equivalents	$6.62	$7.55	N	$7.27	$7.23	Y
Order Fulfillment	95.0%	95.0%	Y	96.0%	98.0%	Y
Currency Shipment Discrepancies per Million Notes	0.01%	0.01%	Y	0.01%	0.01%	Y
Security Costs per 1000 Notes Delivered	$6.25	$6.00	Y	$6.00	$5.92	Y
Total Losses	$15,000	$0.00	Y	$10,000	Est 0	Y
Protection Cost per Square Foot	$32.00	$32.49	N	$32.99	$31.75	Y
Cycle Time (Days) (E) (DISCONTINUED FISCAL YEAR 2008)	67	72	N	75	61	Y

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

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

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

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

Economic – moving forward

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

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

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

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

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

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

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

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

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

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

SECURITY

Performance Cost - $537 Million

*For information on calculating cost – see Appendix H

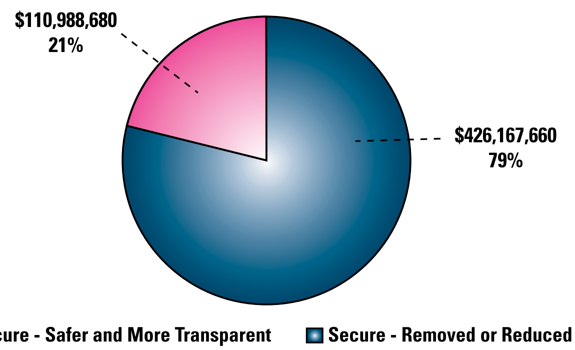
STRATEGIC GOAL: **Prevented Terrorism and Promoted the Nation's Security Through Strengthened International Financial Systems**

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

STRATEGIC OUTCOMES AND VALUE CHAIN:

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

Cost to Outcomes



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Safer and more transparent financial systems

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Outcome: Safer and more transparent U.S. and international financial systems

Cost of related activities in trying to achieve this outcome: **$110,988,680**

Performance Measure	Fiscal Year 2006 Target	Fiscal Year 2006 Actual	Met?	Fiscal Year 2007 Target	Fiscal Year 2007 Actual	Met?
Average time to Process Enforcement Matters (Years)	1	1	Y	1	1.1	N
Number of federal and state regulatory agencies with which FinCEN has concluded memoranda of understanding information sharing agreements	45	48	Y	50	50	Y
Percentage of bank examinations conducted by the Federal Banking Agencies indicating a systemic failure of the anti-money laundering program rule	N/A	N/A	N/A	Baseline	5.2%	Y
Percentage of customers finding FinCEN's analytic reports highly valuable	N/A	N/A	N/A	Baseline	82.0%	Y
Percentage of customers satisfied with the BSA Direct E-filing	Baseline	92.0%	Y	90.0%	94.0%	Y
Percentage of Regulatory Resource Center customers rating the guidance received as understandable	Baseline	94.0%	Y	90.0%	91.0%	Y

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

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

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

Security - moving forward

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

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

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

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

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

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

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

MANAGEMENT

Performance Cost - $763 Million

*For information on calculating cost – see Appendix H

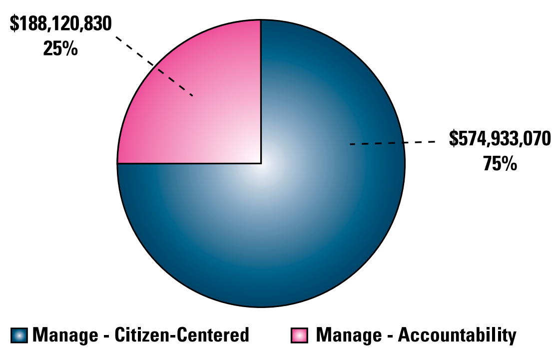
STRATEGIC GOAL: **Management and Organizational Excellence**

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

STRATEGIC OUTCOMES AND VALUE CHAIN:

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

Cost to Outcomes



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

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

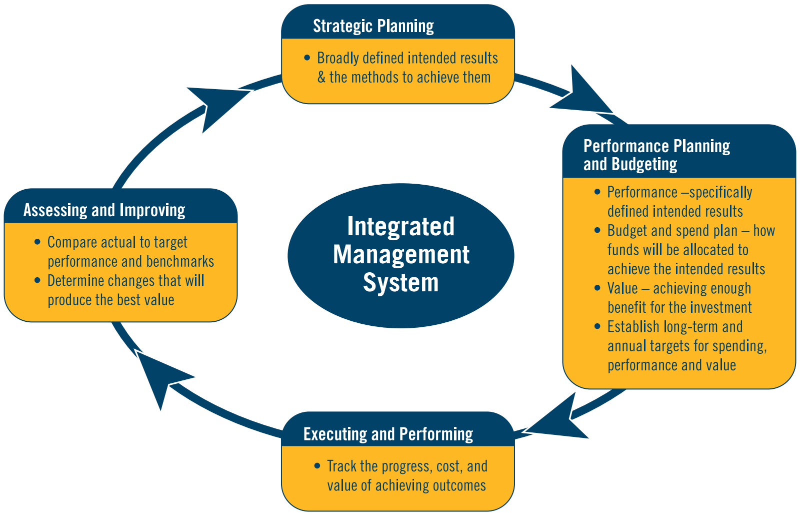
A citizen-centered, results-oriented and strategically aligned organization

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

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

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

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



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

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

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

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

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

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

President's Management Agenda

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

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

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

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

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

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

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

Fiscal year highlights include:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

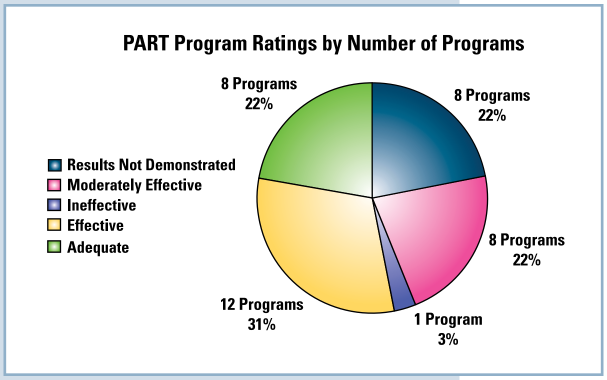


Figure 1

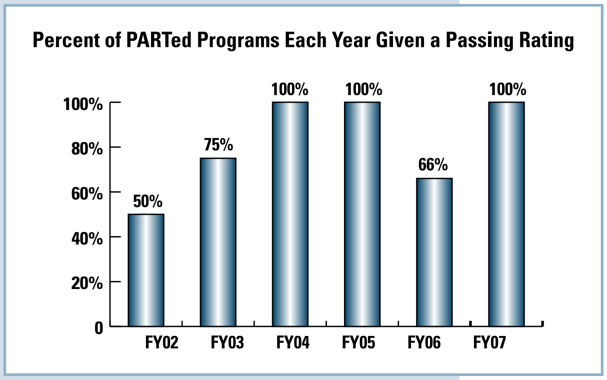


Figure 2

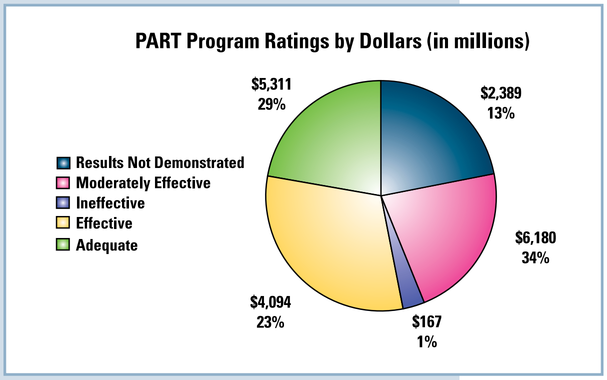


Figure 3

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

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

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

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

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

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

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

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

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

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

Exceptional accountability and transparency

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Outcome: Exceptional transparency and accountability

Cost of related activities in trying to achieve this outcome: **$188,120,830**

Performance Measure	Fiscal Year 2006 Target	Fiscal Year 2006 Actual	Met?	Fiscal Year 2007 Target	Fiscal Year 2007 Actual	Met?
Percent of statutory audits completed by the required date	100%	100%	Y	100%	100%	Y
Percentage of Audit Products Delivered When Promised to Stakeholders	N/A	N/A	N/A	Baseline	68.0%	Y
Percentage of Recommendations Made That Have Been Implemented	N/A	N/A	N/A	Baseline	90.0%	Y
Percentage of Results from Investigative Activities	70.0%	79.0%	Y	73.0%	81.0%	Y
Audit opinion received on government-wide financial statements	Met	Met	Y	1.0	Est 1.0	Y
Number of completed audit products	56	57	Y	56	64	Y
Number of investigations referred for criminal prosecution, civil litigation or corrective administrative action	85	144	Y	105	188	Y

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

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

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

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

Management – moving forward

In fiscal year 2008, the Department will update the *Human Capital Strategic Plan*, incorporating the *Diversity Strategic Plan*. The new HC Strategic Plan will align to and integrate with the revised *Treasury Strategic Plan for Fiscal Years 2007 – 2012*. The focus will continue on strategies to recruit, develop, and retain a high quality and diverse workforce, ensure continuity of leadership through effective succession management, enhance the value of HC workforce metrics, and improve HC management through feedback from agency-led HC management accountability reviews. In addition, the Treasury Department will have an HC Operating Plan with goals and initiatives that leverage current best practices, from internal and external organizations, for use by the bureaus for HC Strategic Management, and to generate new practices as a result of the collaborative activities that include transforming the role of the Human Capital professional from a processing role to a more consultative/strategic partner.

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

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

To address survey results, many Department bureaus are implementing action plans that focus on areas for improvement. The Treasury Department's goal is to attract and retain the best available talent and be

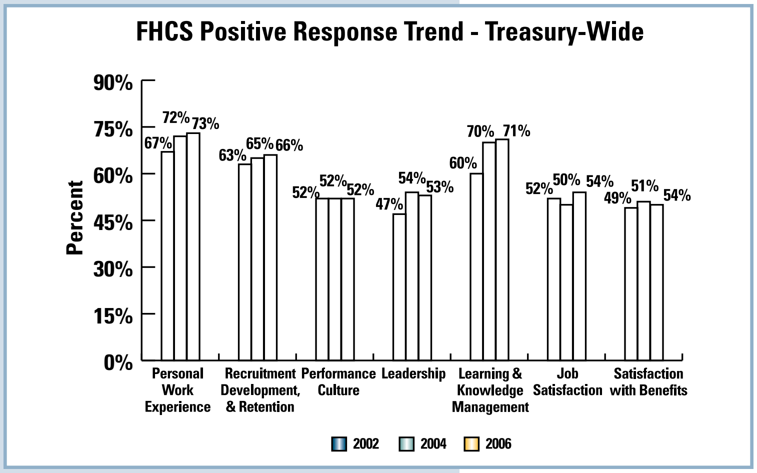


Figure 4

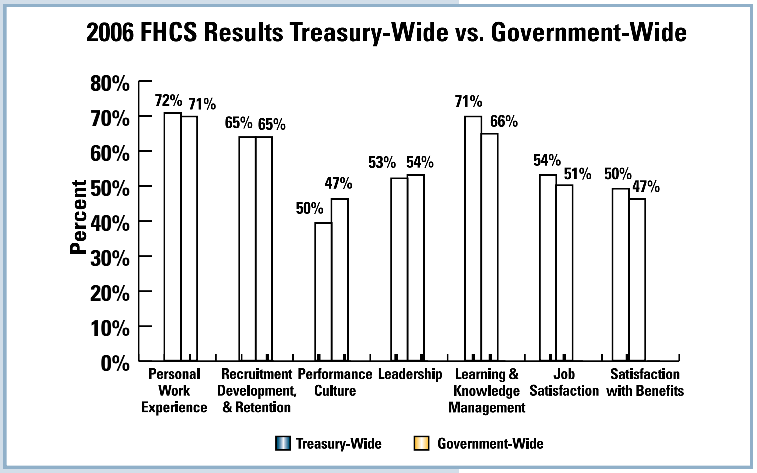


Figure 5

ranked high on list of the Partnership for Public Service's "Best Places to Work in the Federal Government," enabling the Department to be seen as an employer of choice. To achieve this goal the Department of the Treasury conducted an analysis of the FHCS results and identified areas that can positively impact Treasury's standing among other employers.

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

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

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

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

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

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

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

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

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

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

Part III:
Annual Financial Report

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 15, 2007

MEMORANDUM FOR SECRETARY PAULSON

FROM: Dennis S. Schindel
Acting Inspector General

SUBJECT: Audit of the Department of the Treasury's Financial Statements for Fiscal Years 2007 and 2006

INTRODUCTION

I am pleased to transmit KPMG LLP's report on the Department of the Treasury's (the Department) financial statements as of and for the fiscal years (FY) ending September 30, 2007 and 2006.

The Department of the Treasury Office of Inspector General is responsible for ensuring that the financial statement audit of the Department of the Treasury is conducted in accordance with the Chief Financial Officers' Act of 1990, as amended by the Government Management Reform Act of 1994.

RESULTS OF INDEPENDENT AUDIT

Under a contract monitored by my office, KPMG LLP, an independent certified public accounting firm, performed an audit of the FY 2007 and 2006 financial statements. The contract required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States; Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*; and the *GAO/PCIE Financial Audit Manual*.

In its audit of the Department of the Treasury, KPMG LLP

- found that the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles;
- reported that the four material weaknesses and the other significant deficiency in financial management practices identified by the auditor of the Internal Revenue Service (IRS) are collectively considered a material weakness for the Department as a whole;
- reported that control deficiencies related to (1) information system controls and (2) financial management practices at the departmental level represent significant deficiencies for the Department as a whole;
- reported two instances of noncompliance with laws and regulations related to the Internal Revenue Code Section 6325 and the Federal Information Security Management Act of 2002;
- reported that the Department's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996; and

- reported an instance of a potential Anti-deficiency Act violation related to transactions and activities of the Treasury Franchise Fund.

IRS's pervasive internal control weaknesses have existed since audits of its financial statement were initiated in FY 1992. The Government Accountability Office (GAO), the auditor of IRS's financial statements for the fiscal years ending September 30, 2007 and 2006, reported that the bureau continued to make significant strides in addressing its financial management challenges and substantially mitigated several material weaknesses in its internal controls. In particular, IRS made progress related to tax receipts reporting and certification, cost accounting implementation, targeting outstanding tax debt collection efforts, reducing the risk of improper refund disbursements, and improving accounting for tax administration activities. However, IRS's ability to fully address its remaining financial management issues largely depends on addressing the limitations of its automated systems used to process tax-related activities. IRS is in the midst of a major business systems modernization effort that is ultimately intended to resolve its most serious financial systems challenges. However, it is unclear when this effort will be completed or if it will be fully successful. Continued involvement by IRS officials and the Department's senior leadership is essential to effectively address these matters.

EVALUATION OF AUDITORS' PERFORMANCE

To ensure the quality of the audit work performed, we reviewed KPMG LLP's approach and planning of the audit, evaluated the qualifications and independence of the auditors, monitored the progress of the audit at key points, reviewed and accepted KPMG LLP's audit report, and performed other procedures that we deemed necessary. We also provide oversight of the audits of financial statements and certain accounts and activities conducted at 12 component entities of the Department. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the financial statements or conclusions about the effectiveness of internal control or on whether the Department's financial management systems substantially complied with the Federal Financial Management Improvement Act of 1996 or conclusions on compliance with laws and regulations. KPMG LLP is responsible for the attached auditor's report dated November 14, 2007, and the conclusions expressed in that report. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

I appreciate the courtesies and cooperation extended to KPMG LLP and my staff during the audit. Should you or your staff have questions, you may contact me at (202) 622-1090 or Marla A. Freedman, Assistant Inspector General for Audit, at (202) 927-5400.

Attachment

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

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Inspector General
Department of the Treasury:

We have audited the accompanying consolidated balance sheets of the U.S. Department of the Treasury (the Department) as of September 30, 2007 and 2006, and the related consolidated statements of net cost, changes in net position, combined statements of budgetary resources, and the statements of custodial activity (hereinafter referred to as the consolidated financial statements), for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. These consolidated financial statements are incorporated in the accompanying *Department of the Treasury Fiscal Year 2007 Performance and Accountability Report* (PAR).

We did not audit the amounts included in the consolidated financial statements related to the Internal Revenue Service (IRS), a component entity of the Department. The financial statements of the IRS were audited by another auditor whose report has been provided to us. Our opinion, insofar as it relates to the amounts included for IRS's financial statements, is based solely on the report of the other auditor.

In connection with the fiscal year 2007 audits, we, and the other auditor, also considered the Department's internal controls over financial reporting and performance measures, and tested the Department's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these consolidated financial statements.

SUMMARY

As stated in our opinion on the consolidated financial statements, based on our audits and the report of the other auditor, we concluded that the Department's consolidated financial statements as of and for the years ended September 30, 2007 and 2006, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 23 to the consolidated financial statements, the Department changed its method of reporting the reconciliation of budgetary resources to the net cost of operations in fiscal year 2007 in accordance with OMB Circular No. A-136, *Financial Reporting Requirements*.

Our, and the other auditor's, consideration of internal controls over financial reporting and performance measures resulted in the following areas being identified as significant deficiencies:

- Financial Management Practices at the IRS (Repeat Condition)
- Information System Controls (Repeat Condition)
- Financial Management Practices at the Departmental Level.

We consider the significant deficiency related to Financial Management Practices at the IRS noted above, to be a material weakness.

We, and the other auditor, noted no deficiencies involving the design of the internal control over the existence and completeness assertions related to key performance measures.

The results of our tests, and the tests performed by the other auditor, of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed instances of noncompliance with *Internal Revenue Code* (IRC) Section 6325, and the *Federal Information Security Management Act of 2002* (FISMA), that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. In addition, the Department's financial management systems did not substantially comply with the *Federal Financial Management Improvement Act of 1996* (FFMIA) requirements related to compliance with Federal financial management system requirements (FFMSR), applicable Federal accounting standards, and the U.S. Government Standard General Ledger (SGL) at the transaction level.

In other matters, the Department's management has informed us of an instance of a potential *Anti-deficiency Act* violation related to certain transactions and activities within the Treasury Franchise Fund. This potential violation is currently under review.

The following sections discuss our opinion on the Department's consolidated financial statements; our, and the other auditor's, consideration of the Department's internal control over financial reporting and performance measures; our, and the other auditor's, tests of the Department's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements; other matters; and management's and the auditors' responsibilities.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the U.S. Department of the Treasury as of September 30, 2007 and 2006, and the related consolidated statements of net cost, changes in net position, the combined statements of budgetary resources, and the statements of custodial activity, for the years then ended. We did not audit the amounts included in the consolidated financial statements related to the financial statements of the IRS, a component entity of the Department, which reflects total assets of $31.3 billion and $26.3 billion, net costs of operations of $11.7 billion and $11.5 billion, and custodial revenues of $2.7 trillion and $2.5 trillion, as of and for the years ended September 30, 2007 and 2006, respectively. The financial statements of the IRS as of and for the years ended September 30, 2007 and 2006, were audited by another auditor whose report dated November 5, 2007, has been provided to us and our opinion, insofar as it relates to the amounts included for the IRS's financial statements, is based solely on the report of the other auditor.

In our opinion, based on our audits and the report of the other auditor, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Department of the Treasury as of September 30, 2007 and 2006, and its net costs, changes in net position, budgetary resources, and custodial activity, for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 23 to the consolidated financial statements, the Department changed its method of reporting the reconciliation of budgetary resources to the net cost of operations in fiscal year 2007 in accordance with OMB Circular No. A-136 (OMB Circular No. A-136).

The information in the PAR in Part I – *Management's Discussion and Analysis,* and the Required Supplemental Information section of Part III – *Annual Financial Report*, is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles, and OMB Circular No. A-136. We, and the other auditor, have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits, and the audits of the other auditor, were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the PAR on pages v through xx, in Part II – *Annual Performance Report*; in Other Accompanying Information section of Part III – *Annual Financial Report*; and in Part IV – *Appendices*, are presented for purposes of additional analysis and are not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures, and, accordingly, we express no opinion on it.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our, and the other auditor's, consideration of internal control over financial reporting is described below in the Responsibilities section of this report. Our consideration of internal control over financial reporting was for a limited purpose and would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies or material weaknesses. The other auditor's consideration of internal control over financial reporting was for the purpose of providing an opinion on the effectiveness of IRS's internal controls.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Department's consolidated financial statements that is more than inconsequential will not be prevented or detected by the Department's internal control over financial reporting. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Department's internal control.

In our fiscal year 2007 audit, we, and the other auditor, noted certain matters, summarized below, involving internal control over financial reporting and its operations that we consider to be significant deficiencies. Because of the IRS material weaknesses in internal controls discussed below, the other auditor's opinion on internal controls stated that the IRS did not maintain effective internal controls over financial reporting (including safeguarding of assets), or compliance with laws and regulations, and thus did not provide reasonable assurance that losses, misstatements, and noncompliance with laws material in relation to the financial statements would be prevented or detected on a timely basis.

MATERIAL WEAKNESS

Financial Management Practices at the IRS (Repeat Condition)

IRS has continued to make significant strides in addressing its financial management challenges and has substantially mitigated several material weaknesses in its internal controls. However, serious internal control and financial management systems deficiencies continued to make it necessary for IRS to rely on resource-intensive compensating procedures to prepare its financial statements. IRS's ability to fully address its remaining financial management issues largely depends on addressing the limitations of its automated systems used to process tax related activities.

As a result, IRS personnel will continue to be challenged to sustain the level of effort needed to produce reliable financial statements timely until the IRS successfully addresses the underlying systems and internal control weaknesses. These challenges affect IRS's ability to fulfill its responsibilities as the nation's tax collector because the IRS continues to lack accurate, useful, and timely financial information and sound controls with which to make fully informed decisions day to day and to ensure ongoing accountability.

The material weaknesses and the other significant deficiency in internal control over financial reporting identified by the auditors of IRS's financial statements, all of which are repeat conditions, and collectively considered a material weakness for the Department as a whole, are summarized as follows:

- Weaknesses in controls over the financial reporting process, resulting in IRS not (1) being able to prepare reliable financial statements without extensive compensating procedures, and (2) having current and reliable ongoing information to support management decision making and to prepare cost-based performance measures

- Weaknesses in controls over unpaid tax assessments, resulting in IRS's inability to properly manage unpaid tax assessments and leading to increased taxpayer burden

- Weaknesses in controls over the collection of tax revenues due to the federal government and over the issuance of tax refunds, resulting in lost revenue to the federal government and potentially billions of dollars in improper payments

- Weaknesses in information security controls, resulting in increased risk of unauthorized individuals accessing, altering, or abusing proprietary IRS programs and electronic data and taxpayer information.

The material weaknesses in internal control noted above may adversely affect decisions by IRS's management that is based, in whole or in part, on information that is inaccurate because of these deficiencies.

Another significant deficiency in internal control, although not a material weakness, a repeat condition, was identified that involved weaknesses in IRS's controls over hard-copy taxpayer receipts and related information, that increase the risk that this information may be lost, stolen, or compromised.

Additional details related to the material weaknesses and the significant deficiency identified above have been provided to IRS management by the auditors of the IRS's financial statements in their report dated November 5, 2007.

Recommendations

Recommendations to address the material weaknesses and other significant deficiency discussed above have been provided to IRS management by the auditors of the IRS's financial statements. We recommend that the Assistant Secretary for Management and Chief Financial Officer (ASM/CFO) provide effective oversight to ensure that corrective actions are taken by the IRS to fully address this material weakness and the other significant deficiency.

SIGNIFICANT DEFICIENCIES

Information System Controls (Repeat Condition)

Information controls and security programs Department-wide require additional improvements. The weaknesses identified are summarized below.

Financial Management Service (FMS)

During fiscal year 2007, FMS continued to make progress in addressing information technology (IT) general controls weaknesses raised in prior years. However, control weaknesses continue to exist in this area. Current year tests conducted over IT general controls revealed the following weaknesses:

- **Entity-wide Information Security Management** – An entity-wide program for security planning and management represents the foundation for an entity's security control structure and a reflection of senior management's commitment to addressing security risks. While weaknesses were corrected in some systems and platforms, they continue to exist in other areas as evidenced by the continued existence of previously identified problems in newly reviewed IT areas indicating a lack of consistency in the application of an agency-wide strategy.

- **System Software** – Controls over access to, and modification of system software are essential to protect the overall integrity and reliability of information systems. Previously noted mainframe operating system support issues were identified again this year.

- **Access Controls** – Access controls are designed to limit or detect access to computer programs, data, equipment, and facilities to protect these resources from unauthorized modification, disclosure, loss, or impairment. A comprehensive access control program, including increased management oversight, is needed to fully address the administration of access controls in order to increase the reliability of computerized data and decrease the risk of destruction or inappropriate disclosure of data. Although prior access control findings have been substantially addressed, additional access control weaknesses were identified again this year.

The above weaknesses collectively serve to weaken the IT general control environment at FMS. The detailed findings and related recommendations will be provided to FMS management in a separate report.

Departmental IT Security Program

We identified deficiencies related to configuration management throughout the Department. Specifically, not all Treasury bureaus/offices have established configuration, vulnerability, and patch management guides or baselines for IT systems, and some bureaus/offices that have configuration baselines in place do not meet the requirements of National Institute of Standards and Technology (NIST) *Special Publication 800-70*. This deficiency impacts the Department's ability to comply with FISMA. FISMA lays out a framework for required annual information security reviews, reporting, and remediation planning by Federal agencies. It is intended to strengthen information security by requiring agencies to develop, document, and implement agency-wide information security programs.

A key reason for the Department's information security weaknesses is that it has not yet fully implemented an agency-wide information security program to ensure that controls are effectively established and maintained to meet NIST and FISMA requirements.

Recommendation

We recommend that the Department's ASM/CFO provide effective oversight and the resources necessary to ensure that required information security requirements over financial systems are implemented throughout the Department.

KPMG

Financial Management Practices at the Departmental Level

Improvements are needed in current financial management and reporting practices at the Departmental level. We reported that improvements are needed in these areas in respective Management Letters that were issued related to our fiscal year 2006 and 2005 audits. The Office of Accounting and Internal Control (AIC), within the Office of the Deputy Chief Financial Officer (ODCFO), is responsible for establishing and maintaining financial policies that guide consolidated financial reporting throughout the Department, and implementing internal controls to ensure the overall integrity of the consolidated financial statements that are prepared by AIC from trial balances and other financial data submitted by Treasury components. The Department's Office of Strategic Planning and Performance Management (OSPPM) within the Office of Performance Budgeting (OPB), is responsible for the preparation of the performance section of the PAR. Certain quality control procedures are conducted by AIC and OSPPM to ensure that Treasury bureaus' and offices' financial and other data is accurate and complete for inclusion in the Department's consolidated financial statements and PAR. However, several deficiencies were noted as described below that indicated a weak control environment, resulting in financial management and reporting weaknesses. These deficiencies in internal control over financial reporting are collectively considered a significant deficiency for the Department as a whole.

- AIC's financial management infrastructure is inadequately staffed for an office that is responsible for the consolidated financial reporting and internal control structure of a large and complex Executive Branch agency. AIC does not have a sufficient number of experienced financial managers and staff to expeditiously address routine and nonroutine accounting issues. In addition, the accuracy of financial information is highly dependent on the knowledge and experience of a limited number of key financial personnel. Both AIC and OPB have several key personnel with significant institutional knowledge of the Department's accounting and reporting processes that are at or near retirement eligibility status, and in the event of the retirement or sudden prolonged absence of one or more of the key accounting individuals, there could be a serious loss of operational and institutional knowledge. Some steps have been taken to address succession planning during the year, such as the development of a set of core competencies as well as an analysis of the strengths and weaknesses within AIC; however, continued focus is needed to resolve this long-term issue.

- Supervisory and monitoring control procedures were not consistently performed and documented over work prepared by AIC and OSPPM staff, and over financial data and other information transmitted by Treasury components. During our review of the March 31 and June 30 consolidated financial statements, we noted errors and discrepancies that were only corrected after they were identified during audit test work. Further, comments provided by the auditor on the initial draft 2007 PAR were not reviewed by responsible officials within OSPPM prior to submission of the revised draft of the 2007 PAR for audit, causing the same errors to be identified repeatedly. In other instances, we noted inadequate and/or untimely follow-up of accounting and/or reporting issues.

- Although the Department established an effective plan to assess, document, test and report on internal controls over financial reporting, in accordance with OMB Circular No. A-123 Revised, *Management's Responsibility for Internal Control* (A-123), Appendix A, certain Treasury components did not fully execute the plan. Specifically, certain smaller components did not have or provide verifiable and documented results to support their conclusion as to whether internal controls over financial reporting were properly designed and operating effectively for certain areas in accordance with the Department's guidelines. Instead, these components relied on prior year financial statement audit results to support their position that no further work was required. In addition, AIC did not conduct an adequate and timely centralized review of the work done by components to assess whether the Department's A-123 methodology and implementation requirements had been followed and supported the Departmental assurance statement on internal control over financial reporting.

KPMG

The *Federal Managers' Financial Integrity Act of 1982* (FMFIA) requires that agencies establish internal controls according to standards prescribed by the Comptroller General and specified in the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government (Standards)*. The GAO defines "internal control" as an integral component of an organization's management that provides reasonable assurance that the following objectives are achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. The GAO *Standards* identify the control environment as one of the five key elements of control, which emphasizes the importance of control conscientiousness in management's operating philosophy and commitment to internal control. These standards cover controls such as human capital practices, supervisory reviews, and segregation of duties, policies, procedures, and monitoring.

A-123 requires agencies to (1) develop and implement management controls; (2) assess the adequacy of management controls; (3) identify needed improvements; (4) take corresponding corrective actions; and (5) report annually on management controls in support of FMFIA.

The issues identified occurred mainly due to the fact that key AIC financial personnel have excessive workloads and insufficient time is available for key financial personnel to devote to supervisory reviews and other financial management activities. AIC has not hired the staff necessary, nor has it been able to train other Treasury staff sufficiently to assume their responsibilities, due in part to budget constraints. These issues have resulted in increased reliance being placed on the annual audit process to identify errors and omissions in the consolidated financial statements, as well as the Department's implementation of A-123.

Recommendations

We recommend that the ASM/CFO, and Deputy Assistant Secretary for Human Resources and Chief Human Capital Officer, with input from the Director of AIC, as appropriate:

1. Complete a human capital needs assessment, with particular focus on the management skills needed to perform the daily operations of AIC. Once the human capital needs are assessed, hire staff, or consider transferring suitable staff from other offices within Treasury to meet these immediate needs. Consider what actions can be taken now, without additional staff, to ensure that if a key staff member is unexpectedly unavailable to perform his/her duties, that the Department's financial management responsibilities will be met with minimal disruption, and document these actions, as necessary.

2. Improve supervisory and monitoring control procedures over all financial data, and other information to ensure timely identification and correction of errors and discrepancies.

3. Conduct an earlier review of the A-123 work being conducted by components to ensure that the Department's A-123 guidance is fully implemented, and if not, document the rationale or mitgating factors that were considered for not following the Department's requirements. Also, communicate the deficiencies identified during the fiscal year 2007 A-123 testing, as discussed above, to all components, and conduct timely follow-up to ensure that these deficiencies have been addressed, as necessary, during fiscal year 2008 A-123 testing. In addition, conduct training, as necessary, to ensure that there is consistency amongst all components in following Departmental A-123 requirements.

KPMG

INTERNAL CONTROL OVER PERFORMANCE MEASURES

Our, and the other auditor's, tests of internal control over performance measures, as described below in the Responsibilities section of this report, disclosed no deficiencies involving the design of the internal control over the existence and completeness assertions related to key performance measures.

COMPLIANCE AND OTHER MATTERS

Our tests, and the tests performed by the other auditor, of compliance with certain provisions of laws, regulations, contracts, and grant agreements, as described below in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed two instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 07-04, and are described below.

- ***Noncompliance with IRC Section 6325*** – The IRC grants IRS the power to file a lien against the property of any taxpayer who neglects or refuses to pay all assessed Federal taxes. Under IRC Section 6325, the IRS is required to release a Federal tax lien within 30 days after the date the tax liability is satisfied, or has become legally unenforceable, or the Secretary of the Treasury has accepted a bond for the assessed tax. The fiscal year 2007 audit continued to identify instances in which the IRS did not release the applicable Federal tax lien within 30 days of the tax liability being either paid off or abated as required by the IRC (Repeat Condition).

- ***Noncompliance with FISMA*** – FISMA requires agencies to conduct annual security reviews, reporting, and remediation planning. Information security weaknesses continue to exist throughout the Department, despite notable progress made in fiscal year 2007, as discussed further in the section above related to Internal Control Over Financial Reporting. These deficiencies collectively constitute noncompliance with FISMA (Repeat Condition).

The results of our tests, and the tests performed by the other auditor, of compliance as described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed no other instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of FFMIA, and the tests performed by the other auditor, disclosed instances where the Department's financial management systems did not substantially comply with FFMIA Section 803(a) requirements related to compliance with FFMSR, applicable Federal accounting standards, and the SGL at the transaction level, as described below.

Instances of noncompliance with FFMSR are summarized below:

- IRS's financial management systems do not provide timely and reliable information for financial reporting and preparation of financial statements. IRS had to rely extensively on resource-intensive compensating procedures to generate reliable financial statements. IRS also lacks a subsidiary ledger for its unpaid assessments and lacks an effective audit trail from its general ledger back to subsidiary detailed records and transaction source documents for material tax-related balances such as tax revenues, tax receivables, and tax refunds.

- Deficiencies were identified in information security controls at the IRS, resulting in increased risk of unauthorized individuals accessing, altering, or abusing proprietary IRS programs and electronic data and taxpayer information.

Instances of noncompliance with Federal accounting standards are summarized below:

- Material weaknesses at the IRS related to controls over unpaid tax assessments, tax revenue, and refunds.
- IRS's financial management system cannot produce managerial cost information consistent with the requirements of Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Standards*.

An instance of noncompliance with the SGL at the transaction level is summarized below:

- IRS also lacks a subsidiary ledger for its unpaid assessments and lacks an effective audit trail from its general ledger back to subsidiary detailed records and transaction source documents for material tax-related balances such as tax revenues, tax receivables, and tax refunds.

The Secretary of the Treasury also has stated in the Secretary's Letter of Assurance, included in Part I – *Management's Discussion and Analysis*, of the accompanying PAR that the Department cannot provide assurance that its financial management systems are in substantial compliance with FFMIA. The Department's remedial actions and related time frames are presented in Appendix E of the PAR.

FFMIA requires that if the head of an agency determines that its financial management systems do not substantially comply with FFMIA, a remediation plan must be developed, in consultation with OMB that describes the resources, remedies, and intermediate target dates for achieving substantial compliance. FFMIA also requires OMB concurrence with any plan not expected to bring the agency's system into substantial compliance within three years after a determination of noncompliance is made.

IRS has established a remediation plan to address the conditions affecting its systems' inability to comply substantially with the requirements of FFMIA. This plan outlines the actions to be taken to resolve these issues, but because of the long-term nature of IRS's systems modernization efforts, which IRS expects will resolve many of the most serious issues, many of the planned time frames exceed the three-year resolution period specified in FFMIA. OMB concurred with Treasury's determination that IRS could not bring its systems into substantial compliance within three years, and OMB monitors IRS's progress in remediating its systems deficiencies on an ongoing basis.

Recommendations

We recommend that the ASM/CFO ensure that (1) IRS implements appropriate controls so that Federal tax liens are released in accordance with Section 6325 of the IRC; (2) information security programs are implemented throughout the Department in accordance with FISMA; and (3) IRS defines a plan of action to solve its financial management problems so as to enable resolving the identified instances of financial management systems noncompliance with the requirements of FFMIA.

Other Matters

The Department's management informed us of an instance of a potential *Anti-deficiency Act* violation related to transactions and activities of the Treasury Franchise Fund. Specifically, budgetary control weaknesses existing within the Treasury Franchise Fund may have allowed a potential violation of the *Anti-deficiency Act*. This matter is currently under review.

KPMG

Management's Response to Internal Control and Compliance Findings

The Department's management has indicated in a separate letter immediately following this report that it concurs with the findings presented in this section of our report. Further, it has responded that it will take corrective action as necessary to ensure the matters presented are addressed by the respective component management within the Department. We did not audit the Department's response and, accordingly, we express no opinion on it.

* * * * *

We noted certain additional matters involving internal control over financial reporting and its operation that we will report to the Department's management in a separate letter.

RESPONSIBILITIES

Management's Responsibilities. The United States Code Title 31 Section 3515 and 9106 require agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To meet these reporting requirements, the Department prepares and submits financial statements in accordance with OMB Circular No. A-136.

Management is responsible for the consolidated financial statements, including:

- Preparing the consolidated financial statements in conformity with U.S. generally accepted accounting principles
- Preparing Management's Discussion and Analysis (including the performance measures), and Required Supplemental Information
- Establishing and maintaining effective internal control
- Complying with laws, regulations, contracts, and grant agreements applicable to the Department, including FFMIA.

In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2007 and 2006 consolidated financial statements of the Department based on our audits and the report of the other auditor. We, and the other auditor, conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. However, the purpose of the other auditor's audit is to express an opinion on the effectiveness of the IRS's internal control over financial reporting.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements
- Assessing the accounting principles used and significant estimates made by management
- Evaluating the overall consolidated financial statement presentation.

We believe that our audits, and the report of the other auditor, related to the amounts included for the IRS's financial statements, provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2007 audit, we considered the Department's internal control over financial reporting, exclusive of the internal control over financial reporting related to the IRS, by obtaining an understanding of the design effectiveness of the Department's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. Internal control over financial reporting related to the IRS was considered by the other auditor whose report thereon dated November 5, 2007 has been provided to us. We, and the other auditor, limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 07-04. We did not test all internal controls relevant to operating objectives as broadly defined by the FMFIA. The objective of our audit was not to express an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not provide an opinion on the effectiveness of the Department's internal control over financial reporting. The objective of the other auditor's audit was to express an opinion on the effectiveness of the IRS's internal control over financial reporting. Accordingly, the other auditor provided an opinion on IRS's internal control over financial reporting.

As required by OMB Bulletin No. 07-04, in our fiscal year 2007 audit, with respect to internal control related to performance measures determined by management to be key and reported in Part I – *Management's Discussion and Analysis*, and Part II – *Annual Performance Report* sections of the PAR, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, and determined whether these internal controls had been placed in operation, exclusive of those related to performance measures presented for the IRS. An understanding of the design of significant internal controls relating to the existence and completeness assertions and determination as to whether these internal controls had been placed in operation related to the IRS's performance measures was obtained by the other auditor whose report thereon dated November 5, 2007 was provided to us. We, and the other auditor, limited our testing to those controls necessary to report deficiencies in the design of internal control over key performance measures in accordance with OMB Bulletin No. 07-04. However, our, and the other auditor's, procedures were not designed to provide an opinion on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the Department's fiscal year 2007 consolidated financial statements are free of material misstatement, we, and the other auditor, performed tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including certain provisions referred to in FFMIA. We, and the other auditor, limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Department.

KPMG

However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit, or the other auditor's audit, and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 07-04 and FFMIA, we are required to report whether the Department's financial management systems substantially comply with (1) FFMSR, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we, and the other auditor, performed tests of compliance with FFMIA Section 803(a) requirements.

RESTRICTED USE

This report is intended solely for the information and use of the Department's management, the Department's Office of Inspector General, OMB, the GAO, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 14, 2007

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

November 13, 2007

KPMG LLP
2001 M Street, N.W.
Washington, D.C. 20036

Ladies and Gentlemen:

On behalf of Secretary Paulson, I am responding to your draft audit report on the Department of the Treasury's FY 2007 financial statements. All of our bureaus and program offices can be proud of the Department's success in issuing its Performance and Accountability Report by November 15th, for the sixth consecutive year. Further, I congratulate them for overcoming many obstacles to achieve another unqualified opinion on the Department's financial statements. Without their collective dedicated efforts, our accelerated reporting would not be possible.

These successful results also are due in large part to the high level of professionalism, technical expertise, and partnership demonstrated by KPMG in conducting the audit. I appreciate your efforts during the audit process to provide timely, constructive advice on how to improve our financial reporting. I am equally appreciative of the equivalent expertise and commitment level demonstrated by the other organizations involved in the audit process – the Office of Inspector General, the Government Accountability Office, and the firms that conducted the audits at several of our bureaus.

The Treasury Department continued to make progress during FY 2007 to address financial and information management deficiencies. The Internal Revenue Service (IRS) made significant progress in improving its tax administration financial systems by expanding the capabilities of the Custodial Detail Database (CDDB). In FY 2008, the IRS plans to complete the development and implementation of additional CDDB releases that add other revenue receipt transactions and create a refund transactions subsidiary ledger. The Office of the Chief Information Officer (OCIO) made substantial improvements in its Information Security Program with the audit outcome of "significant progress in compliance" with the Federal Information Security Management Act (FISMA), for both Treasury unclassified and National Intelligence systems. The OCIO recognizes the need for continued attention to FISMA in FY 2008 and will continue to focus and improve the IT Security program to address increasing cyber security threats.

We concur with the Departmental level material weakness, the significant deficiencies, and the instances of noncompliance with laws and regulations described in your report. Corrective actions are in place or underway to address each of these items.

We appreciate the continuing professional, cooperative relationship that exists with both KPMG and the Office of Inspector General.

Sincerely,

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

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Consolidated Balance Sheets

As of September 30, 2007 and 2006

(In Millions)

ASSETS	2007	2006
Intra-governmental Assets		
Fund Balance (Note 2)	$ 74,767	$ 71,153
Loans and Interest Receivable (Note 3)	236,932	245,206
Advances to the Black Lung Trust Fund (Note 4)	10,058	9,632
Due From the General Fund (Note 4)	9,052,624	8,540,195
Accounts Receivable and Related Interest (Note 10)	466	483
Other Intra-governmental Assets	32	78
Total Intra-governmental Assets	**9,374,879**	**8,866,747**
Cash, Foreign Currency, and Other Monetary Assets (Note 5)	92,330	63,892
Gold and Silver Reserves (Note 6)	11,062	11,062
Loans and Interest Receivable (Note 3)	175	288
Investments and Related Interest (Note 7)	10,074	9,325
Reserve Position in the International Monetary Fund (Note 8)	4,464	6,621
Investments in International Financial Institutions (Note 9)	5,521	5,488
Tax, Other and Related Interest Receivables, Net (Note 10)	27,559	21,962
Inventory and Related Property, Net (Note 11)	638	389
Property, Plant, and Equipment, Net (Note 12)	2,086	2,182
Other Assets	19	22
Total Assets (Note 13)	**$ 9,528,807**	**$ 8,987,978**
Heritage Asset (Note 12)		
LIABILITIES		
Intra-governmental Liabilities		
Federal Debt and Interest Payable (Notes 4 & 14)	$ 3,974,788	$ 3,673,117
Other Debt and Interest Payable (Note 14)	14,164	14,164
Due to the General Fund (Note 4)	328,973	306,352
Other Intra-governmental Liabilities (Note 17)	329	301
Total Intra-governmental Liabilities	**4,318,254**	**3,993,934**
Federal Debt and Interest Payable (Notes 4 & 14)	5,054,250	4,844,074
Certificates Issued to Federal Reserve Banks (Note 5)	2,200	2,200
Allocation of Special Drawing Rights (Note 5)	7,627	7,234
Gold Certificates Issued to Federal Reserve Banks (Note 6)	11,037	11,037
Refunds Payable (Notes 4 & 21)	1,684	1,701
D.C. Pensions Actuarial Liability (Note 15)	8,992	9,068
Other Liabilities (Note 17)	3,664	3,816
Total Liabilities (Note 17)	**9,407,708**	**8,873,064**
Commitments & Contingencies (Notes 3, 5, 12, & 16)		
NET POSITION		
Unexpended Appropriations:		
Earmarked funds (Note 22)	200	202
Other funds	72,117	68,068
Subtotal	72,317	68,270
Cumulative Results of Operations:		
Earmarked funds (Note 22)	35,385	31,614
Other funds	13,397	15,030
Subtotal	48,782	46,644
Total Net Position (Note 18)	**$ 121,099**	**$ 114,914**
Total Liabilities and Net Position	**$ 9,528,807**	**$ 8,987,978**

The accompanying notes are an integral part of these financial statements

Consolidated Statements of Net Cost

For the Years Ended September 30, 2007 and 2006

(In Millions)

		2007		2006
Cost of Treasury Operations (Note 19):				
Financial Program:				
Gross Cost	$	13,980	$	17,496
Less Earned Revenue		(2,245)		(5,083)
Net Program Cost	**$**	**11,735**	**$**	**12,413**
Economic Program:				
Gross Cost	$	5,660	$	2,339
Less Earned Revenue		(6,116)		(1,151)
Net Program Cost	**$**	**(456)**	**$**	**1,188**
Security Program				
Gross Cost	$	302	$	0
Less Earned Revenue		(2)		0
Net Program Cost	**$**	**300**	**$**	**0**
Management Program				
Gross Cost	$	883	$	987
Less Earned Revenue		(443)		(559)
Net Program Cost	**$**	**440**	**$**	**428**
Total Program Gross Costs	$	20,825	$	20,822
Total Program Gross Earned Revenues		(8,806)		(6,793)
Total Net Cost of Treasury Operations	**$**	**12,019**	**$**	**14,029**
Federal Costs (Note 19):				
Federal Debt Interest	$	432,153	$	403,459
Less Interest Revenue from Loans		(11,714)		(12,593)
Net Federal Debt Interest Costs	**$**	**420,439**	**$**	**390,866**
Other Federal Costs	$	8,863	$	8,940
Net Federal Costs	**$**	**429,302**	**$**	**399,806**
Net Cost of Treasury Operations, Federal Debt Interest, and Other Federal Costs	**$**	**441,321**	**$**	**413,835**

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Changes in Net Position

For the Year Ended September 30, 2007

(In Millions)

	Combined Earmarked Funds	Combined All Other Funds	Eliminations	Consolidated Total
UNEXPENDED APPROPRIATIONS				
Beginning Balances	$ 202	$ 68,068		$ 68,270
Budgetary Financing Sources:				
Appropriations Received (Note 18)	390	450,832		451,222
Appropriations Transferred In/Out	0	27		27
Other Adjustments	(2)	(143)		(145)
Appropriations Used	(390)	(446,667)		(447,057)
Total Budgetary Financing Sources	(2)	4,049		4,047
Total Unexpended Appropriations	$ 200	$ 72,117		$ 72,317
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	$ 31,614	$ 15,030	$ 0	$ 46,644
Budgetary Financing Sources:				
Appropriations Used	390	446,667	0	447,057
Non-exchange Revenue	109	7	(43)	73
Donations and Forfeitures of Cash/Equivalent	210	0	0	210
Transfers In/out Without Reimbursement	0	(8)	0	(8)
Other	(1)	0	0	(1)
Other Financing Sources (non exchange)				
Donation/Forfeiture of Property	73	0	0	73
Accrued Interest & Discount on Debt	0	7,632	0	7,632
Transfers In/out Without Reimbursement	(39)	15	0	(24)
Imputed Financing Sources	60	1,172	(492)	740
Transfers to the General Fund and Other (Note 18)	205	(12,498)	0	(12,293)
Total Financing Sources	1,007	442,987	(535)	443,459
Net Cost of Operations	2,764	(444,620)	535	(441,321)
Net Change	3,771	(1,633)	0	2,138
Cumulative Results of Operations	$ 35,385	$ 13,397	$ 0	$ 48,782
Net Position	**$ 35,585**	**$ 85,514**	**$ 0**	**$ 121,099**

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Changes in Net Position

For the Year Ended September 30, 2006

(In Millions)

	Combined Earmarked Funds	Combined All Other Funds	Eliminations	Consolidated Total
UNEXPENDED APPROPRIATIONS				
Beginning Balance	$ 202	$ 62,980		$ 63,182
Budgetary Financing Sources:				
Appropriation Received (Note 18)	298	417,468		417,766
Appropriations Transferred In/Out	0	14		14
Appropriations Used	(298)	(412,116)		(412,414)
Other Adjustments	0	(278)		(278)
Total Budgetary Financing Sources	0	5,088		5,088
Total Unexpended Appropriations	$ 202	$ 68,068		$ 68,270
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	$ 30,817	$ 21,309	$ 0	$ 52,126
Budgetary Financing Sources:				
Appropriations Used	298	412,116	0	412,414
Non-exchange Revenue	76	10	(30)	56
Donations and Forfeitures of Cash/Equivalent	79	0	0	79
Transfers In/Out without Reimbursement	0	(28)	0	(28)
Other	(12)	(37)	0	(49)
Other Financing Sources				
Donation/Forfeiture of Property	61	0	0	61
Accrued Interest & Discount on Debt	0	8,991	0	8,991
Transfers In/Out Without Reimbursement	(45)	21	0	(24)
Imputed Financing Sources	57	1,145	(470)	732
Transfers to the General Fund and Other (Note 18)	(69)	(13,810)	0	(13,879)
Total Financing Sources	445	408,408	(500)	408,353
Net Cost of Operations	352	(414,687)	500	(413,835)
Net Change	797	(6,279)	0	(5,482)
Cumulative Results of Operations	$ 31,614	$ 15,030	$ 0	$ 46,644
Net Position	**$ 31,816**	**$ 83,098**	**$ 0**	**$ 114,914**

The accompanying notes are an integral part of these financial statements.

Combined Statements of Budgetary Resources

For the Years Ended September 30, 2007 and 2006
(In Millions)

	2007	2006
Budgetary Resources		
Unobligated balance, brought forward	$ 57,540	$ 64,670
Recoveries of prior year unpaid obligations	474	380
Budget authority:		
Appropriations (Note 18)	465,200	437,427
Borrowing authority	11	12
Spending authority from offsetting collections:		
Earned:		
Collected	9,937	9,310
Change in receivables from Federal sources	(66)	19
Change in unfilled customer orders:		
Advance received	17	25
Without advance from Federal sources	(125)	(51)
Subtotal	474,974	446,742
Non-expenditure transfers, net	25	134
Temporarily not available pursuant to Public Law	90	(3,671)
Permanently not available	(10,123)	(5,164)
Total Budgetary Resources	**$ 522,980**	**$ 503,091**
Status of Budgetary Resources		
Obligations incurred:		
Direct	$ 460,999	$ 440,798
Reimbursable	4,531	4,753
Subtotal	465,530	445,551
Unobligated Balance:		
Apportioned	13,525	14,309
Exempt from apportionment	32,930	32,784
Subtotal	46,455	47,093
Unobligated balance not available	10,995	10,447
Total Status of Budgetary Resources	**$ 522,980**	**$ 503,091**

The accompanying notes are an integral part of these financial statements.

(continued)

Combined Statements of Budgetary Resources

For the Years Ended September 30, 2007 and 2006

(In Millions)

(Continued)

	2007	2006
Change in Obligated Balance		
Obligated balance, net:		
Unpaid obligations brought forward, Oct. 1	$ 53,057	$ 46,381
Uncollected customer payments from Federal sources brought forward	(609)	(643)
Total unpaid obligated balance, net	52,448	45,738
Obligations incurred, net	465,530	445,551
Gross outlays	(460,302)	(438,494)
Recoveries of prior year unpaid obligations, actual	(474)	(380)
Change in uncollected customer payments from Federal sources	191	33
Obligated balance, net, end of period:		
Unpaid obligations	57,811	53,057
Uncollected customer payments from Federal sources	(418)	(609)
Total, unpaid obligated balance, net, end of period	**57,393**	**52,448**
Net Outlays		
Gross outlays	460,302	438,494
Offsetting collections	(8,192)	(8,899)
Distributed offsetting receipts	(16,040)	(16,568)
Net Outlays	**$ 436,070**	**$ 413,027**

The accompanying notes are an integral part of these financial statements.

Statements of Custodial Activity

For the Years Ended September 30, 2007 and 2006
(In Millions)

	2007	2006
Sources of Custodial Revenue (Note 21):		
Revenue Received		
Individual Income and FICA Taxes	$ 2,201,464	$ 2,034,209
Corporate Income Taxes	395,320	380,426
Estate and Gift Taxes	26,978	28,688
Excise Taxes	67,766	72,774
Railroad Retirement Taxes	4,718	4,673
Unemployment Taxes	7,416	7,533
Deposit of Earnings, Federal Reserve System	32,043	29,945
Fines, Penalties, Interest & Other Revenue	3,084	3,324
Total Revenue Received	**2,738,789**	**2,561,572**
Less Refunds	(292,684)	(277,778)
Net Revenue Received	**2,446,105**	**2,283,794**
Accrual Adjustment	5,588	554
Total Custodial Revenue	**2,451,693**	**2,284,348**
Disposition of Custodial Revenue:		
Amounts Provided to Fund Non-Federal Entities	486	374
Amounts Provided to Fund the Federal Government (Note 21)	2,445,619	2,283,420
Accrual Adjustment	5,588	554
Total Disposition of Custodial Revenue	**2,451,693**	**2,284,348**
Net Custodial Revenue	**$ 0**	**$ 0**

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

1. Summary of Significant Accounting Policies

A. Reporting Entity

The accompanying financial statements include the operations of the U.S. Department of the Treasury (Treasury Department), one of 25 Cabinet level agencies of the Executive Branch of the United States Government, and certain custodial activities managed on behalf of the entire U.S. government. The following paragraphs describe the activities of the reporting entity.

The Treasury Department was created by Act (1 Stat.65) on September 2, 1789. Many subsequent acts have affected the development of Treasury, delegating new duties to its charge and establishing the numerous bureaus and divisions that now comprise the Treasury Department. As a major policy advisor to the President, the Secretary has primary responsibility for formulating and managing the domestic and international tax and financial policies of the U.S. Government.

Further, the Secretary is responsible for recommending and implementing United States domestic and international economic and fiscal policy; governing the fiscal operations of the government; maintaining foreign assets control; managing the federal debt; collection of income and excise taxes; representing the United States on international monetary, trade and investment issues; overseeing Departmental overseas operations; and directing the activities of the Treasury Department in manufacturing coins, currency, and other products for customer agencies and the public.

The Treasury Department includes Departmental Offices (DO) and nine operating bureaus. For financial reporting purposes, DO is comprised of: International Assistance Programs (IAP), Office of Inspector General (OIG), Treasury Forfeiture Fund, Treasury Franchise Fund, Exchange Stabilization Fund (ESF), Community Development Financial Institutions Fund (CDFI), Office of D.C. Pensions (DCP), Treasury Inspector General for Tax Administration (TIGTA), the Federal Financing Bank (FFB) and the Air Transportation Stabilization Board (ATSB).

The Treasury Department's nine operating bureaus are: Office of the Comptroller of the Currency (OCC); Bureau of Engraving and Printing (BEP); Financial Crimes Enforcement Network (FinCEN); Financial Management Service (FMS); Internal Revenue Service (IRS); U.S. Mint (Mint); Bureau of the Public Debt (BPD); Office of Thrift Supervision (OTS), and the Alcohol and Tobacco Tax & Trade Bureau (TTB).

The Treasury Department's financial statements reflect the reporting of its own entity activities, which include appropriations it receives to conduct its operations and revenue generated from those operations. They also reflect the reporting of certain non-entity (custodial) functions it performs on behalf of the U.S. government and others. Non-entity activities include the collection of federal revenue, servicing the federal debt, disbursing certain federal funds, and maintaining certain assets and liabilities for the U.S. government as well as for others. The Treasury Department's reporting entity does not include the "General Fund" of the U.S. government, which maintains receipt, disbursement and appropriation accounts for all federal agencies.

Transactions and balances among the Treasury Department's entities have been eliminated from the Consolidated Balance Sheets, the Consolidated Statements of Net Cost, and the Consolidated Statements of Changes in Net Position.

B. Basis of Accounting & Presentation

The financial statements have been prepared from the accounting records of the Treasury Department in conformity with accounting principles generally accepted in the United States, and the Office of Management and Budget (OMB) Circular A-136, *"Financial Reporting Requirements,"* as amended. Accounting principles generally accepted for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB). FASAB is recognized by the American Institute of Certified Public Accountants as the official accounting standards-setting body of the U.S. government.

These financial statements are provided to meet the requirements of the Government Management Reform Act of 1994. They consist of the Consolidated Balance Sheets, the Consolidated Statements of Net Cost, the Consolidated Statements of Changes in Net Position, the Combined Statements of Budgetary Resources, and the Statements of Custodial Activity. The statements and the related notes are prepared in a comparative form to present both FY 2007 and FY 2006 information.

While these financial statements have been prepared from the books and records of the Treasury Department in accordance with the formats prescribed by OMB, these financial statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

Throughout these financial statements, intra-governmental assets, liabilities, earned revenues, and costs have been classified according to the entity for these transactions. Intra-governmental assets and liabilities are those from or to other federal entities. Intra-governmental earned revenues are collections or accruals of revenue from other federal entities, and intra-governmental costs are payments or accruals of expenditure to other federal entities.

The financial statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

C. Tax and Other Non-Entity Receivables

Tax receivables are not accrued until related tax returns are filed or assessments are made. Prepayments of taxes are netted against liabilities. Accruals are made to reflect penalties and interest on tax receivables through the balance sheet date. Tax receivables consist of unpaid assessments (taxes and associated penalties and interest) due from taxpayers for which the Treasury Department can support the existence of a receivable through taxpayer agreement, such as filing a tax return without sufficient payment, or a court ruling in favor of Treasury. Tax receivables are shown on the balance sheet net of an allowance for doubtful accounts and abatements. The allowance for doubtful accounts reflects an estimate of the portion deemed to be uncollectible based on historical experience of similar taxes receivable.

D. Inventory and Related Property

Inventories and related property include inventory, operating materials and supplies, and forfeited property. The Treasury Department values inventories at either standard cost or lower of cost or market, except for finished goods inventories, which are valued at weighted average unit cost. All operating materials and supplies are recorded as an expense when consumed in operations.

Forfeited property is recorded at estimated fair market value at the time of seizure as deferred revenue, and may be adjusted to reflect the current fair market value at the end of the fiscal year. Property forfeited in satisfaction of a taxpayers liability is recorded when title to the property passes to the U.S. government and a corresponding credit is made to the related taxes receivable. Direct and indirect holding costs are not capitalized for individual forfeited assets.

Mortgages and claims on forfeited assets are recognized as a valuation allowance and a reduction of deferred revenue from forfeited assets when the asset is forfeited. The allowance includes mortgages and claims on forfeited property held for sale and a minimal amount of claims on forfeited property previously sold.

Revenue from the forfeiture of property is deferred until the property is sold or transferred to a state, local or federal agency. Revenue is not recorded if the forfeited property is ultimately destroyed or cannot be legally sold.

E. Loans and Interest Receivable - from Other Federal Agencies

Intra-governmental entity Loans and Interest Receivable from other federal agencies represent loans and interest receivable held by the Treasury Department. No subsidy costs were recorded for loans purchased from federal agencies or for guaranteed loans made to non-federal borrowers, because these are guaranteed (interest and principal) by those agencies.

Intra-governmental non-entity Loans and Interest Receivable from other federal agencies represent loans issued by Treasury to federal agencies on behalf of the U.S. government. The Treasury Department acts as an intermediary issuing these loans, because the agencies receiving these loans will lend these funds to others to carry out various programs of the Federal Government. Because of the Treasury Department's intermediary role in issuing these loans, the Treasury Department does not record an allowance or subsidy costs related to these loans. Instead, loan loss allowances and subsidy costs are recognized by the ultimate lender, the federal agency that issued the loans.

F. Advances to the Black Lung Trust Fund

Advances have been provided to the Department of Labor's Black Lung Trust Fund from the General Fund of the U.S. government. The Bureau of Public Debt accounts for the advances on behalf of the General Fund of the U.S. government. Advances to the Black Lung Trust Fund are being accounted for pursuant to the Benefits Revenue Act which states: "In the event that fund resources are not adequate to meet fund obligations, then, Advances interest and principal are paid to the General Fund of the U.S. government when the Secretary of the Treasury determines that funds are available in the trust fund for such purposes." The Black Lung Trust Funds are repayable with interest at a rate determined by the Secretary of the Treasury to be equal to the current average market yield on outstanding marketable obligations of the United States with remaining periods to maturity comparable to the anticipated period during which the advance will be outstanding. Advances made prior to 1982 carried rates of interest equal to the average rate borne by all marketable interest-bearing obligations of the United States then forming a part of the public debt.

G. Property, Plant, and Equipment

The Treasury's Department's property, plant, and equipment (PP&E) is recorded at cost and depreciated using the straight line method over the estimated useful lives of the assets. Major alterations and renovations are capitalized, while maintenance and repair costs are charged to expense as incurred. The Treasury Department owns the Treasury building - a multi-use heritage asset. Multi-use heritage assets are assets of historical significance for which the predominant use is general government operations. All acquisition, reconstruction, and betterment costs for the Treasury Department building are capitalized as general PP&E and depreciated over their service life.

The Treasury Department's bureaus are diverse both in size and in operating environment. Accordingly, Treasury's internal use software capitalization policy thresholds range from $25,000 to $50,000. For internally developed software, capitalized costs will include the full cost (direct and indirect cost) incurred during the software development stage. Treasury also uses a capitalization threshold range for bulk purchases: $250,000 to $500,000 for non manufacturing bureaus and $25,000 to $50,000 for manufacturing bureaus. Bureaus determine the individual items that comprised bulk purchases. In addition, the Treasury Department's bureaus may expense bulk purchases if they conclude that total period costs would not be materially distorted and the cost of capitalization is not economically feasible.

H. Federal Debt

Debt and associated interest are reported on the accrual basis of accounting. Certain debt securities are issued at a discount or premium. Discounts and premiums are amortized over the term of the security using the effective interest rate method.

I. Pension Costs, Other Retirement Benefits, and Other Post Employment Benefits

The Treasury Department recognizes the full costs of its employees' pension benefits. However, the liabilities associated with these costs are recognized by the Office of Personnel Management (OPM) rather than Treasury.

Most employees of the Treasury Department hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS), to which the Treasury Department contributes 8.51% of salaries for regular CSRS employees.

On January 1, 1987, the Federal Employees' Retirement System (FERS) went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983, are automatically covered by FERS and Social Security. A primary feature of FERS is that it offers a savings plan to which the Treasury Department automatically contributes 1% of base pay and matches any employee contributions up to an additional 4% of base pay. For most employees hired after December 31, 1983, the Treasury Department also contributes the employer's matching share for Social Security. For the FERS basic benefit the Treasury Department contributes 10.7% for regular FERS employees.

Similar to federal retirement plans, OPM, rather than the Treasury Department, reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) Program. The Treasury Department reports the full cost of providing other retirement benefits (ORB). The Treasury Department also recognizes an expense and liability for other post employment benefits (OPEB), which includes all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents. Additionally, the Treasury Department's OCC and OTS separately sponsor certain benefit plans for their employees. OCC sponsors a defined life insurance benefit plan for current and retired employees. Additionally, OTS provides certain health and life benefits for all retired employees that meet eligibility requirements.

J. Special Drawing Rights (SDRs) Certificates Issued to Federal Reserve Banks

The Special Drawing Rights Act of 1968 authorized the Secretary of the Treasury to issue certificates, not to exceed the value of SDRs holdings, to the Federal Reserve Banks in return for interest free dollar amounts equal to the face value of certificates issued. The certificates may be issued to finance the acquisition of SDRs from other countries or to provide resources for financing other ESF operations. Certificates issued are to be redeemed by the Treasury Department at such times and in such amounts as the Secretary of the Treasury may determine. Certificates issued to Federal Reserve Banks are stated at their face value. It is not practical to estimate the fair value of Certificates Issued to Federal Reserve Banks since these certificates contain no specific terms of repayment.

K. Federal Employee Benefits Payable - FECA Actuarial Liability

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, and employees who have incurred a work-related injury or occupational disease. These future workers' compensation estimates were generated from an application of actuarial procedures developed to estimate the liability for FECA benefits. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases.

L. Revenue and Financing Sources

The Treasury Department activities are financed either through exchange revenue it receives from others or through non-exchange revenue and financing sources (such as appropriations provided by the Congress and penalties, fines, and certain user fees collected). User fees primarily include Internal Revenue Service reimbursable costs to process installment agreements and accompanying photocopy and reproduction charges. Exchange revenues are recognized when earned; i.e. goods have been delivered or services have been rendered. Non-exchange revenues are recognized when received by the respective Treasury Department collecting bureau. Appropriations used are recognized as financing sources when related expenses are incurred or assets are purchased. Revenue from reimbursable agreements is recognized when the services are provided. The Treasury Department also incurs certain costs that are paid in total or in part by other federal entities, such as pension costs. These subsidized costs are recognized on the Consolidated Statement of Net Cost, and the imputed financing for these costs is recognized on the Consolidated Statement of Changes in Net Position. As a result, there is no effect on net position. Other non-exchange financing sources such as donations and transfers of assets without reimbursements also are recognized for the period in which they occurred on the Consolidated Statement of Changes in Net Position.

The Treasury Department recognizes revenue it receives from disposition of forfeited property as non-exchange revenue on the Consolidated Statement of Changes in Net Position. The costs related to the forfeiture fund program are reported on the Consolidated Statement of Net Cost.

M. Custodial Revenues and Collections

Non-entity revenue reported on the Treasury Department's Statement of Custodial Activity includes cash collected and received by the Treasury Department, primarily taxes. It does not include revenue collected by other Federal agencies, such as user fees and other receipts, which are remitted for general operating purposes of the U.S. government or are earmarked for certain trust funds. The Statement of Custodial Activity is presented on the "modified accrual basis." Revenues are recognized as cash is collected. The Balance Sheets include an estimated amount for taxes receivable and payable to the General Fund of the U.S. government at September 30, 2007 and 2006.

N. Tax Assessments and Abatements

Under Internal Revenue Code Section 6201, the Treasury Department is authorized and required to make inquiries, determinations, and assessments of all taxes which have not been duly paid (including interest, additions to the tax, and assessable penalties) under the law. Unpaid assessments result from taxpayers filing returns without sufficient payment, as well as from tax compliance programs, such as examination, under-reporter, substitute for return, and combined annual wage reporting. The Treasury Department also has authority to abate the paid or unpaid portion of an assessed tax, interest, and penalty. Abatements occur for a number of reasons and are a normal part of the tax administration process. Abatements may result in claims for refunds or a reduction of the unpaid assessed amount.

O. Permanent and Indefinite Appropriations

Permanent and indefinite appropriations are used to disburse tax refunds, income tax credits, and child tax credits. These appropriations are not subject to budgetary ceilings established by Congress. Therefore, refunds payable at year end are not subject to funding restrictions. Refund payment funding is recognized as appropriations are used. Permanent indefinite authority for refund activity is not stated as a specific amount and is available for an indefinite period of time. Although funded through appropriations, refund activity, in most instances, is reported as a custodial activity of the Treasury Department, since refunds are, in substance, a custodial revenue-related activity resulting from taxpayer overpayments of their tax liabilities.

The Treasury Department also receives two permanent and indefinite appropriations related to debt activity. One is used to pay interest on the public debt securities; the other is used to redeem securities that have matured, been called, or are eligible for early redemption. These accounts are not annual appropriations; and do not have refunds. Debt activity appropriations are related to the Treasury Department's liability and would be reported on the Treasury Department's Balance Sheet. Permanent indefinite authority for debt activity is available for an indefinite period of time.

Additionally, the Treasury Department receives other permanent and indefinite appropriations to make certain payments on behalf of the U.S. government. These appropriations are provided to make payments to the Federal Reserve for services provided. They also include appropriations provided to make other disbursements on behalf of the U.S. government, including payments made to various individuals as the result of certain claims and judgments rendered against the United States.

P. Imputed Costs/Financing Sources

U.S. government entities often receive goods and services from other U.S. government entities without reimbursing the providing entity for all the related costs. These constitute subsidized costs which are recognized by the receiving entity. An offsetting imputed financing source is also recognized by the receiving entity. The Treasury Department recognized imputed costs and financing sources in fiscal years 2007 and 2006 to the extent directed by the OMB, such as: employees' pension, post-retirement health and life insurance benefits; other post-employment benefits for retired, terminated, and inactive employees, which includes unemployment and workers compensation under the FECA; and losses in litigation proceedings.

Q. Income Taxes

As an agency of the Federal government, the Treasury Department is exempt from all income taxes imposed by any governing body, whether it is a federal, state, commonwealth, local, or foreign government.

R. Use of Estimates

The Treasury Department has made certain estimates and assumptions relating to the reporting of assets, liabilities, revenues, expenses, and the disclosure of contingent liabilities to prepare these financial statements. Actual results could differ from these estimates. Financial statement line items subject to estimates include tax receivables; depreciation; imputed costs; cost and earned revenue allocations; and, credit reform subsidy costs.

S. Credit Risk

Credit risk is the potential, no matter how remote, for financial loss from a failure of a borrower or a counter party to perform in accordance with underlying contractual obligations. The Treasury Department takes on possible credit risk when it makes direct loans or credits to foreign entities or becomes exposed to institutions which engage in financial transactions with foreign countries. Given the history of the Treasury Department with respect to such exposure and the financial policies in place in the U. S. government and other institutions in which the United States participates, the Treasury Department has no expectation that credit losses will be incurred in the foreseeable future. The Treasury Department also takes on credit risk related to loan guarantees, committed but undisbursed direct loans and its Terrorism Risk Insurance Program. The extent of the risk assumed by the Treasury Department is described in more detail in the notes to the financial statements.

T. Earmarked Funds

Treasury has accounted for revenues and other financing sources for earmarked funds separately from other funds. This method was adopted in accordance with the provisions of the Federal Accounting Standards

Advisory Board's Statement of Federal Financial Accounting Standards (SFFAS) No. 27, *Identifying and Reporting Earmarked Funds*, which became effective October 1, 2006. This standard amended SFFAS No. 7, *Revenue and Other Financing Sources*, by:

- elaborating the special accountability needs associated with dedicated collections;
- separating dedicated collections into two categories – earmarked funds and fiduciary activity; and
- defining, and providing accounting and reporting guidance for earmarked funds.

U. Allocation Transfers

The Treasury Department adopted the allocation transfer provisions of OMB Circular No. A-136 Revised, *Financial Reporting Requirements*, effective October 1, 2006. The Treasury Department is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and/or a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent. Beginning in fiscal year 2007, parent federal agencies report both the proprietary and budgetary activity and the child agency does not report any financial activity related to budget authority allocated from the parent federal agency to the child federal agency. The Treasury Department had no significant allocation transfers to report in fiscal year 2007.

The Treasury Department allocates funds, as the parent, to the Department of Energy. OMB allows certain exceptions to allocation reporting for certain funds. Accordingly, the Treasury Department has reported certain funds for which the Treasury Department is the child in the allocation transfer, but per OMB guidance, will report all activities relative to these allocation transfers in the Treasury Department's financial statements. The Treasury Department receives allocation transfers, as the child, from the Agency for International Development.

2. Fund Balance

Fund Balance with Treasury is the aggregate amount of the Treasury Department's accounts with the U.S. government's central accounts from which the Treasury Department is authorized to make expenditures and pay liabilities. It is an asset because it represents the Treasury Department's claim to the U.S. government's resources. Fund balance with Treasury is not equivalent to unexpended appropriations, because it also includes non-appropriated revolving and enterprise funds, suspense accounts, and custodial funds such as deposit funds, special funds, and trust funds.

Fund Balances:

As of September 30, 2007 and September 30, 2006, fund balances consisted of the following (in millions):

	2007	2006
Appropriated Funds	$ 72,897	$ 68,748
Revolving Funds	912	1,539
Trust Funds	8	10
Clearing Funds	10	13
Deposit Funds	542	511
Special Funds	395	332
Other Funds	3	0
Total Fund Balances	**$ 74,767**	**$ 71,153**

As of September 30, 2007 and September 30, 2006, the status of fund balances consisted of the following (in millions):

Status of Fund Balance with Treasury	2007	2006
Unobligated Balance – Available	$ 17,843	$ 21,606
Unobligated Balance – Unavailable	10,995	10,447
Obligated Balance not yet Disbursed	57,310	52,369
Subtotal	**86,148**	**84,422**
Adjustment for Non-Budgetary Funds	556	525
Adjustment for Borrowing Authority	(5,716)	(5,716)
Adjustment for Intra-Treasury Investments	(5,280)	(4,963)
Adjustment for Imprest Funds	(4)	(4)
Adjustment for Other Budgetary Resources Not in Fund Balance - Cash & Other Assets	(4,616)	(6,756)
Authority Unavailable for Obligation	3,679	3,645
Total Status of Fund Balance	**$ 74,767**	**$ 71,153**

The above balances do not include unobligated balances related to the ESF. Accordingly, while ESF balances are included on the Statement of Budgetary Resources (SBR), they are not a component of the Fund Balance with the Treasury. The ESF balances displayed on the SBR includes components of cash, foreign currency, and other monetary assets (see Note 5).

As of September 30, 2007 and September 30, 2006, the Treasury Department did not have any budgetary authority in fund balance that was specifically withheld from apportionment by OMB. The balances in non-entity funds, such as deposit funds, are being held in a fiduciary capacity by the Treasury Department for the public or for another federal entity, such as the General Fund of the U.S. government. Such funds have an offsetting liability equal to fund balance. See Note 8 regarding restrictions related to the line of credit held on the U.S. Quota in the International Monetary Fund.

3. Loans and Interest Receivable

As of September 30, 2007 and September 30, 2006, intra-governmental loans (issued by the FFB) and interest receivable consisted of the following (in millions):

Entity Intra-governmental:

	Loans Receivable	Interest Receivable	2007 Total	Loans Receivable	Interest Receivable	2006 Total
Executive Office of the President	$ 836	$ 9	$ 845	$ 1,024	$ $13	$ 1,037
Department of Agriculture	25,604	300	25,904	25,283	281	25,564
United States Postal Service	4,200	3	4,203	2,100	0	2,100
General Services Administration	2,151	38	2,189	2,192	39	2,231
Department of Housing & Urban Development	791	96	887	884	107	991
Department of Education	315	4	319	155	2	157
Department of Defense	70	1	71	171	3	174
Other agencies	25	1	26	34	1	35
Subtotal – Entity	**$ 33,992**	**$ 452**	**$ 34,444**	**$ 31,843**	**$ 446**	**$ 32,289**

The FFB issues the above loans to federal agencies for their own use or to private sector borrowers, whose loans are guaranteed by the federal agencies. When a federal agency has to honor its guarantee because a private sector borrower defaults, the federal agency that guaranteed the loan must obtain an appropriation or use other resources to repay the FFB. Loan principal and interest are backed by the full faith and credit of the U.S. government, except for loans to the U.S. Postal Service. The FFB has not incurred and does not expect to incur any credit-related losses on its loans and accordingly, has not recorded an allowance for uncollectible intra-governmental loans.

Non-Entity Intra-governmental

	Loans Receivable	Interest Receivable	2007 Total	Loans Receivable	Interest Receivable	2006 Total
Department of Agriculture	$ 49,133	$ 64	$ 49,197	$ 57,760	$ 427	$ 58,187
Department of Interior	345	513	858	391	663	1,054
Federal Communications Commission	106	0	106	449	0	449
Department of Veterans Affairs	1,047	27	1,074	980	0	980
Railroad Retirement Board	2,945	73	3,018	2,958	72	3,030
Small Business Administration	11,366	0	11,366	9,303	0	9,303
Department of Housing & Urban Development	4,573	0	4,573	6,258	0	6,258
Department of Energy	2,241	(8)	2,233	2,482	3	2,485
Department of Education	103,973	0	103,973	105,522	0	105,522
Export Import Bank of the U. S.	4,364	0	4,364	4,911	0	4,911
Department of Homeland Security	17,787	367	18,154	17,092	353	17,445
Other agencies	3,545	27	3,572	3,287	6	3,293
Subtotal – Non-Entity	**$ 201,425**	**$ 1,063**	**$ 202,488**	**$ 211,393**	**$ 1,524**	**$ 212,917**
Total Intra-governmental Loans and Interest Receivable – Entity and Non-Entity			**$ 236,932**			**$ 245,206**

Entity and Non-Entity Non-Federal:

As of September 30, 2007 and September 30, 2006, loans and interest receivable from non-federal entities consisted of the following (in millions):

	Entity	Non-entity	2007 Total	Entity	Non-entity	2006 Total
Direct Loans	$ 63	$ 131	$ 194	$ 142	$ 133	$ 275
Interest Receivable	1	2	3	0	87	87
Less: Allowance and Subsidy Cost	(22)	0	(22)	(74)	0	(74)
Total Non-Federal Loans and Related Interest Receivable	**$ 42**	**$ 133**	**$ 175**	**$ 68**	**$ 220**	**$ 288**

These amounts include certain loans and credits issued by the United States to various foreign governments. The agreements with each debtor government vary as to dates, interest rates, method of payment, and billing procedures. All such loans and credits represent legally valid and outstanding obligations of foreign governments, and the U.S. government has not waived or renounced its rights with respect to any of them. The loans are due and payable in U.S. denominations.

4. Due from the General Fund and Due to the General Fund

The Treasury Department is responsible for managing various assets and liabilities on behalf of the U.S. government as a whole. Due from the General Fund represents amounts required to fund liabilities managed by Treasury on behalf of the U.S. government. Liabilities managed by the Treasury Department are comprised primarily of the federal debt. Due to the General Fund represents assets held for the General Fund of the U.S. government.

As of September 30, 2007 and September 30, 2006, Due from and Due to the General Fund, included the following non-entity assets and liabilities (in millions):

	2007	2006
Liabilities Requiring Funding from the General Fund:		
Federal Debt and Interest Payable	$ 5,054,250	$ 4,844,074
Federal Debt and Interest Payable - Intra-governmental	3,974,788	3,673,117
Refunds Payable	1,684	1,701
Adjustment for Eliminated Liabilities	21,902	21,303
Total Due from the General Fund	**$ 9,052,624**	**$ 8,540,195**
Assets to be Distributed to the General Fund:		
Fund Balance	$ 222	$ 224
Advance to the Black Lung Trust Fund	10,058	9,632
Cash Held by the Treasury	70,347	44,090
Foreign Currency	91	68
Custodial Silver and Gold held by the U.S. Mint without certificates	25	25
Loans and Interest Receivable - Intra-governmental	202,488	212,917
Loans and Interest Receivable	133	220
Accounts Receivable – Intra-governmental	368	373
Tax and Other Non-Entity Receivables	27,395	21,819
Miscellaneous Assets	9	24
Adjustment for Eliminated Assets	17,837	16,960
Total Due to the General Fund	**$ 328,973**	**$ 306,352**

The Adjustment for Eliminated Intra-Treasury liabilities mainly represents investments in U.S. government securities held by Treasury reporting entities that were eliminated against Federal Debt and Interest Payable. The Adjustment for Eliminated Intra-Treasury assets mainly represents loans and interest payable owed by reporting entities that are consolidated with Treasury, which were eliminated against Loans and Interest Receivable held by the Bureau of the Public Debt.

On the Balance Sheet, Treasury reported $27,559 million in Tax, Other, and Related Interest Receivables as of September 30, 2007 ($21,962 million as of September 30, 2006). However, only $27,395 million is reported as Due to the General Fund of the U.S. government ($21,819 million as of September 30, 2006).

The difference is attributable to the exclusion of amounts which will be paid to others outside the U.S. government, and miscellaneous entity receivables (see Note 10).

5. Cash, Foreign Currency, and Other Monetary Assets

Cash, foreign currency, and other monetary assets held as of September 30, 2007 and September 30, 2006 were as follows (in millions):

	2007	2006
Entity:		
Cash	$ 32	$ 24
Foreign Currency	12,081	10,664
Other Monetary Assets:		
Special Drawing Rights	9,363	8,710
Other	153	135
Subtotal – Entity	**21,629**	**19,533**
Non-Entity:		
Operating Cash of the U.S. Government	69,701	43,587
Foreign Currency	91	68
Miscellaneous Cash held by all Treasury sub-components	909	704
Subtotal - Non-Entity	**$ 70,701**	**$ 44,359**
Total Cash, Foreign Currency, and Other Monetary Assets	**$ 92,330**	**$ 63,892**

Non-entity Operating Cash & Other Cash of the U.S. government held by Treasury disclosed above consisted of the following (in millions):

	2007	2006
Operating Cash of the U.S. Government	$ 69,797	$ 46,676
Operating Cash - Federal Reserve Account	5,539	5,569
Subtotal	**75,336**	**52,245**
Outstanding Checks	(5,635)	(8,658)
Total Operating Cash of the U.S. Government	**69,701**	**43,587**
Other Cash	700	588
Subtotal	**70,401**	**44,175**
Amounts Due to the Public	(54)	(85)
Total Cash Due to the General Fund (See Note 4)	**$ 70,347**	**$ 44,090**

Entity

Entity cash, foreign currency, and other monetary assets primarily include Foreign Currency Denominated Assets (FCDA), SDRs, and forfeited cash. SDRs and FCDAs are valued as of September 30, 2007 and September 30, 2006, using current exchange rates plus accrued interest, at September 30, 2007 and 2006. “Other” includes U.S. dollars restricted for use by the International Monetary Fund (IMF), which are maintained in two accounts at the Federal Reserve Bank of New York. FCDAs represent Foreign Currency

Agreements (swap agreements) between the Treasury Department and various countries that provide for drawing of dollars by those countries and/or drawing of foreign currency by the Treasury Department. The Treasury Department enters into these agreements through the ESF.

The foreign currency holdings are normally invested in interest bearing securities issued by or held through foreign governments or monetary authorities. FCDAs with original maturities of three months or less, (except for foreign currencies under swap agreements with developing countries) were valued at $7.6 billion as of September 30, 2007 ($6.8 billion as of September 30, 2006). Other FCDAs with maturities greater than three months are also held and may at times include foreign currencies acquired under swap agreements with developing countries. As of September 30, 2007, FCDAs with maturities greater than three months were valued at $4.5 billion ($3.8 billion as of September 30, 2006).

The SDRs are international reserve assets created by the IMF. It was created as a supplement to existing reserve assets and on several occasions SDRs have been allocated by the IMF to members participating in the IMF's SDRs department. The SDRs' value as reserve assets derive, essentially, from the commitments of participants to hold and accept SDRs and to honor various obligations connected with its proper functioning as a reserve asset.

The Special Drawing Rights Act of 1968 authorizes the Secretary of the Treasury to issue certificates, not to exceed the value of SDR holdings, to the Federal Reserve Bank in return for interest free dollar amounts equal to the face value of certificates issued. The certificates may be issued for the purpose of financing the acquisition of SDRs from other countries or to provide resources for the financing of the Treasury Department's ESF activities. Certificates issued are to be redeemed by the Treasury Department at such times and in such amounts as the Secretary of the Treasury may determine. As of September 30, 2007, the value of the certificates issued to Federal Reserve Banks amounted to $2.2 billion ($2.2 billion as of September 30, 2006).

On a daily basis, the IMF calculates the value of the SDR using the market value, in terms of the U.S. dollar, from the amounts of each of four freely usable weighted currencies, as defined by the IMF. These currencies are the U.S. dollar, the European euro, the Japanese yen, and the British pound sterling. Treasury's SDR holdings (assets resulting from various SDR related activities including remuneration received on interest earned on the U.S. reserve position – see note 8) and allocations from the IMF (liabilities of the U.S. coming due only in the event of a liquidation of, or U.S. withdrawal from the SDR department of the IMF, or cancellation of SDRs) are revalued monthly based on the SDR valuation rate calculated by the IMF.

Pursuant to the IMF Articles of Agreement, SDRs allocated to or otherwise acquired by the United States are permanent resources unless:

a. canceled by the Board of Governors based on an 85% majority decision of the total voting power of the Executive Board of the IMF;

b. the SDR Department of the IMF is liquidated;

c. the IMF is liquidated; or

d. the United States chooses to withdraw from the IMF or terminate its participation in the SDR Department.

Except for the payment of interest and charges on SDRs allocations to the United States, the payment of the Treasury Department's commitment related to SDRs allocations is conditional on events listed above, in which the United States has a substantial or controlling voice. Allocations of SDRs were made on January 1, 1970, 1971, 1972, 1979, 1980 and 1981. Since 1981, the IMF has made no further allocations of SDRs. As of September 30, 2007, the amount of SDR holdings of the United States was the equivalent of $9.3 billion and the amount of SDR allocations to the United States was the equivalent of $7.6 billion. As of September 30, 2006, the amount of SDR holdings of the United States was the equivalent of $8.7 billion and the amount of SDR allocations to the United States was the equivalent of $7.2 billion.

During FY 2007, the Treasury Department received remuneration on the U.S. reserve position in the IMF, at the prevailing rates, in the amount of $107 million equivalent of SDRs ($210 billion equivalent of SDRs during FY 2007), and paid the General Fund of the Federal Government $.5 million ($.5 million in FY 2006) in interest on these funds until they were transferred to the General Fund.

Non-Entity

Non-entity cash, foreign currency, and other monetary assets include the Operating Cash of the U.S. government, managed by the Treasury Department. Also included is foreign currency maintained by various U.S. and military disbursing offices. It also includes seized monetary instruments, undistributed cash, and offers in compromises which are maintained as the result of the Treasury Department's tax collecting responsibilities.

The Operating Cash of the U.S. government represents balances from tax collections, other revenues, federal debt receipts, and other various receipts net of checks outstanding, which are held in the Federal Reserve Banks, foreign and domestic financial institutions, and in U.S. Treasury tax and loan accounts at commercial banks.

Operating Cash of the U.S. government is either insured (for balances up to $100,000) by the Federal Deposit Insurance Corporation (FDIC) or collateralized by securities pledged by the depository institutions and held by the Federal Reserve Banks, or through securities held under reverse repurchase agreements.

6. Gold & Silver Reserves, and Gold Certificates Issued to Federal Reserve Banks

The Treasury Department is responsible for safeguarding most of the U.S. government's gold and silver reserves in accordance with 31 USC 5117. The consolidated Balance Sheets also reflects the value of the gold being held in the Federal Reserve Bank of New York.

Gold reserves being held by the Treasury Department are offset by a liability for gold certificates issued by the Secretary of the Treasury to the Federal Reserve as provided in 31 USC 5117. Since 1934, Gold certificates have been issued in non-definitive or book-entry form to the Federal Reserve. The Treasury Department's liability incurred by issuing the Gold Certificates is limited to the gold being held by the Treasury Department at the legal standard value established by law. Upon issuance of gold certificates to the Federal Reserve, the proceeds from the certificates are deposited into the operating cash of the U.S. government. All of the Treasury Department's certificates issued are payable to the Federal Reserve.

Gold and silver reserves are reported at the statutory rates of $42.2222 per fine troy ounce (FTO) for gold and $1.292929292 per FTO for silver for the entire custodial reserves, which are in the custody of the U.S. Mint and the Federal Reserve Bank of New York (FRBNY). The U. S. Mint also holds gold and silver reserves without certificates (See Note 4). As of September 30, 2007 and September 30, 2006, the gold and silver reserves consisted of the following (in millions):

	FTOs	Statutory Rate	9/30/07 Statutory Value	Market Rate	9/30/07 Market Value
Gold	248,046,116	42.2222	$ 10,473	$ 743.00	$ 184,298
Gold Held by Federal Reserve	13,452,784	42.2222	568	$ 743.00	9,996
Subtotal - Gold	**261,498,900**		**$ 11,041**		**$ 194,294**
Silver	16,000,000	1.292929292	21	$ 13.65	$ $218
Total Gold and Silver Reserves			**$ 11,062**		**$ 194,512**

	FTOs	Statutory Rate	9/30/06 Statutory Value	Market Rate	9/30/06 Market Value
Gold	248,046,116	$ 42.2222	$ 10,473	$ 599.25	$ 148,642
Gold Held by Federal Reserve	13,452,784	42.2222	568	$ 599.25	8,062
Subtotal - Gold	**261,498,900**		**$ $11,041**		**$ 156,704**
Silver	16,000,000	$ 1.292929292	21	$ 11.55	185
Total Gold and Silver Reserves			**$11,062**		**$ 156,889**

7. Investments and Related Interest

Investments in U.S. government securities held by the Treasury Department entities have been eliminated against the federal debt liability for financial reporting purposes (See Note 4). The ESF holds most of the Treasury Department's other investments. Securities that the Treasury Department has both the positive intent and ability to hold to maturity are classified as investment securities held to maturity and are carried at historical cost, adjusted for amortization of premiums and accretion of discounts. Foreign investment holdings are normally invested in interest bearing securities issued or held through foreign governments or monetary authorities (see Note 5). As of September 30, 2007 and September 30, 2006, entity investments consisted of the following (in millions):

Type of Investment	Cost/ Acquisition Value	Unamortized (Premium)/ Discount	Net Investment	Interest Receivable	9/30/07 Investment Balance	9/30/07 Market Value
Euro Bonds	$ 4,338	$ 52	$ 4,390	$ 113	$ 4,503	$ 4,462
Japanese Government Bond	5,520	9	5,529	8	5,537	5,538
Other Investments	40	(6)	34	0	34	34
Total Non-Federal	$ 9,898	$ 55	$ 9,953	$ 121	$ 10,074	$ 10,034

Type of Investment	Cost/ Acquisition Value	Unamortized (Premium)/ Discount	Net Investment	Interest Receivable	9/30/06 Investment Balance	9/30/06 Market Value
Euro Bonds	$ 3,713	$ 68	$ 3,781	$ 102	$ 3,883	$ 3,873
Japanese Government Bond	5,386	4	5,390	4	5,394	5,386
Other Investments	53	(5)	48	0	48	48
Total Non-Federal	$ 9,152	$ 67	$ 9,219	$ 106	$ 9,325	$ 9,307

8. Reserve Position in the International Monetary Fund

The United States participates in the IMF through a quota subscription. Quota subscriptions are paid partly through the transfer of reserve assets, such as foreign currencies or SDRs, which are international reserve currency assets created by the IMF, and partly by making domestic currency available as needed through a non-interest-bearing letter of credit. This letter of credit, issued by the Treasury Department and maintained by the FRBNY, represents the bulk of the IMF's holdings of dollars. Approximately one quarter of 1% of the U.S. quota is maintained in cash balances in an IMF account at FRBNY.

While resources for transactions between the IMF and the United States are appropriated, they do not result in net budgetary outlays. This is because U.S./IMF quota transactions constitute an exchange of monetary assets in which the United States receives an equal offsetting claim on the IMF in the form of an increase in the U.S. reserve position in the IMF, which is interest-bearing and can be drawn at any time for balance of payments needs. When the IMF draws dollars from the letter of credit to finance its operations and expenses, the drawing does not represent a net budget outlay on the part of the United States because there is a commensurate increase in the U.S. reserve position. When the IMF repays dollars to the United States, no net budget receipt results because the U.S. reserve position declines concurrently in an equal amount.

As of September 30, 2007, the U.S. quota in the IMF was 37.1 billion SDRs, valued at approximately $57.8 billion. (The quota as of September 30, 2006 was 37.1 billion SDRs, valued at approximately $54.8 billion.) The quota consisted of the following (in millions):

	2007	2006
Letter of Credit /1	$ 53,212	$ 48,090
U.S. Dollars Held in Cash by the IMF /1	152	135
Reserve Position /2	4,464	6,621
U.S Quota in the IMF	**$ 57,828**	**$ 54,846**

1/ This amount is included in entity appropriated funds under Note 2, Fund Balance with Treasury, and unexpended appropriations – Obligations/Undelivered orders.

2/ This amount is included in the Cumulative Results of Operations.

The U.S. reserve position is denominated in SDRs, as is the U.S. quota. Consequently fluctuations in the value of the dollar with respect to the SDR results in valuation changes in dollar terms for the U.S. reserve position in the IMF as well as the IMF letter of credit. The Treasury Department periodically adjusts these balances to maintain the SDR value of the U.S. quota and records the change as a deferred gain or loss in its cumulative results of operations. These adjustments, known as maintenance of value adjustments, are settled annually after the close of the IMF financial year on April 30. Such adjustments do not involve a flow of funds. At April 30, 2007, the annual settlement with the IMF resulting from the depreciation of the dollar against the SDR since April 30, 2006, called for a upward adjustment of the U.S. quota by $1.793 billion (at April 30, 2006, the appreciation of the dollar against the SDR since April 30, 2005, called for an downward adjustment of the U.S. quota by $1.057 billion) and a corresponding decrease to Unexpended Appropriations on the Statement of Changes in Net Position. The dollar balances shown above for the U.S. quota include accrued valuation adjustments. At September 30, 2007, the Treasury Department recorded a net deferred valuation gain in the amount of $258.2 million ($76.9 million valuation gain as of September 30, 2006) for deferred maintenance of value adjustments needed at year end.

The United States earns “remuneration” (interest) on its reserve position in the IMF except for the portion of the reserve position originally paid in gold. Remuneration is paid quarterly and is calculated on the basis of the SDR interest rate. (The SDR interest rate is a market-based interest rate determined on the basis of a weighted average of interest rates on short-term instruments in the markets of the currencies included in the SDR valuation basket.) Payment of a portion of this remuneration is deferred as part of a mechanism for creditors and debtors to share the financial consequences of overdue obligations to the IMF, such as unpaid overdue interest, and to similarly share the burden of establishing any contingency accounts deemed necessary to reflect the possibility of non-repayment of relevant principal amounts. As overdue interest is paid, previously deferred remuneration corresponding to the creditors’ share of the burden of earlier nonpayment is included in the next payment of remuneration. The deferred remuneration corresponding to the creditors’ share of establishing the contingency accounts is usually paid when there are no longer any relevant overdue obligations or when the IMF Executive Board determines to pay the remuneration. There was no deduction in the remuneration paid by the IMF as a result of burden-sharing during FY 2007. There was $3 million deducted in the remuneration paid by the IMF as a result of burden-sharing during FY 2006. For FY 2007 and 2006, the Treasury Department received $107 million and $210 million as remuneration (see note 5).

In addition to quota subscriptions, the IMF maintains borrowing arrangements to supplement its resources in times of crisis when IMF liquidity is low. The United States currently participates in two such arrangements – the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB). There were no U.S. loans outstanding under these arrangements in FY 2007 and FY 2006. The dollar equivalent of SDR 6.7 billion has been appropriated to finance U.S. participation in the GAB and NAB; as of September 30, 2007, and September 30, 2006, this amounted to $10.4 billion and $9.9 billion, respectively, in standing appropriations available for lending through the GAB or NAB as needed. As is the case for the U.S. quota in the IMF, budgetary treatment of U.S. participation in the GAB and NAB does not result in net budgetary outlays, since transactions under the GAB or NAB result in concurrent adjustments to the U.S. reserve position in the IMF.

9. Investments in International Financial Institutions

The Treasury Department participates in Multilateral Development Banks (MDBs) to support poverty reduction, private sector development, transition to market economies and sustainable economic growth and development, thereby advancing United States' economic, political, and commercial interests abroad. The MDBs consist of the World Bank Group (International Bank for Reconciliation & Development, International Finance Corporation, and Multilateral Investment Guarantee Agency), and five regional development banks (the African, Asian, European, Inter-American, and North American institutions), as enumerated in the table below. These investments are non-marketable equity investments valued at cost.

As of September 30, 2007 and September 30, 2006, investments in international financial institutions consisted of the following (in millions):

	2007	2006
African Development Bank	$ 172	$ 168
Asian Development Bank	458	458
European Bank for Reconstruction & Development	624	611
Inter-American Development Bank	1,480	1,477
International Bank for Reconstruction & Development	1,985	1,985
International Finance Corporation	569	569
Multilateral Investment Guarantee Agency	45	45
North American Development Bank	188	175
Total	**$ 5,521**	**$ 5,488**

Refer to Note 16 for a description of the contingent liability related to these institutions.

10. Accounts Receivable and Related Interest

A. Tax, Other, and Related Interest Receivables, Net

Tax, other, and related interest receivables include receivables from tax assessments, excise taxes, fees, penalties, and interest assessed and accrued that were not paid or abated, reduced by an estimate for uncollectible amounts. Also included is interest income due on monies deposited in Federal Reserve Banks.

As of September 30, 2007 and September 30, 2006, Tax, Other, and Related Interest Receivables, Net, consisted of the following (in millions):

		2007		2006
Non-Entity:				
IRS Federal Tax Receivable, Gross	$	98,016	$	$91,018
Less Allowance on Taxes Receivable		(72,007)		(70,008)
Receivable, Deposit of Earnings, Federal Reserve		1,291		774
Other Receivable & Interest		105		47
Less: Allowance on Other & Related Interest Receivable		(6)		(6)
Total Tax, and Other Non-Entity Receivables, Net	**$**	**27,399**	**$**	**21,825**
Entity:				
Miscellaneous Entity Receivables & Related Interest		160		137
Total Tax, Other & Related Interest Receivables, Net	**$**	**27,559**	**$**	**21,962**

IRS federal taxes receivable constitute the largest portion of the receivables. IRS federal taxes receivable consists of tax assessments, penalties, and interest which were not paid or abated, and which were agreed to by either the taxpayer and IRS, or the courts. An allowance for doubtful accounts is established for the difference between the gross receivables and the portion deemed collectible. The portion of tax receivables estimated to be collectible and the allowance for doubtful accounts are based on projections of collectability from a statistical sample of taxes receivable. The Treasury Department does not establish an allowance for the receivable on deposits of Federal Reserve earnings.

B. Intra-governmental Accounts and Related Interest Receivable

Intra-governmental accounts receivable and interest mainly represents non-entity payments made by the Treasury Department under the Contract Disputes Act ($364 million of the $466 million and $366 million of the $483 million displayed for 2007 and 2006, respectively). Unlike Judgment Fund payments, other federal agencies are required to reimburse the Treasury Department for payments made to contractors or federal employees, on their behalf, under the Act. These amounts remain a receivable on the Treasury Department's books of the Financial Management Service and a payable on the other federal agencies' books until reimbursement is made. The remaining amount displayed as intra-governmental accounts receivable and interest is related to miscellaneous intra-governmental transactions by the Federal Reserve Banks, or through securities held under reverse repurchase agreements.

11. Inventory and Related Property, Net

Inventory and related property includes inventory, operating materials and supplies, and forfeited property held by Treasury. The Treasury Department's operating materials and supplies are maintained for the production of bureau products. The Treasury Department maintains inventory accounts or balances (e.g., metals, paper, etc.) for use in manufacturing currency and coins. The cost of these items is included in inventory costs, and is recorded as cost of goods sold upon delivery to customers. Inventory for check processing activities is also maintained.

As of September 30, 2007 and September 30, 2006, inventory and related property consisted of the following (in millions):

	2007	2006
Operating materials and supplies held for use	$ 15	$ $15
Operating materials and supplies held in reserve for future use	23	23
Forfeited property	85	59
Inventory – raw materials	288	81
Inventory – work in process	117	142
Inventory – finished goods	121	81
Total allowance for inventories and related property	(11)	(12)
Total Inventories and Related Property, Net	**$ 638**	**$ 389**

12. Property, Plant, and Equipment, Net

General Property, Plant and Equipment

As of September 30, 2007 and September 30, 2006, property, plant, and equipment consisted of the following (in millions):

	Depreciation Method	Service Life	Cost	Accumulated Depreciation	2007 Net Book Value
Buildings, structures and facilities	S/L	3 - 50 years	$ 658	$ (276)	$ 382
Furniture, fixtures, and equipment	S/L	2 - 20 years	3,271	(2,503)	768
Construction in progress	N/A	N/A	27	0	27
Land and land improvements	N/A	N/A	12	0	12
Internal use software	S/L	2 - 10 years	1,116	(564)	552
Internal use software in development	S/L	2 - 30 years	148	0	148
Assets under capital lease	S/L	2 - 25 years	25	(12)	13
Leasehold improvements	S/L	2 - 25 years	526	(342)	184
Total			**$ 5,783**	**$ (3,697)**	**$ 2,086**

	Depreciation Method	Service Life	Cost	Accumulated Depreciation	2006 Net Book Value
Buildings, structures and facilities	S/L	3 - 50 years	$ 642	$ (249)	$ 393
Furniture, fixtures, and equipment	S/L	2 - 20 years	3,182	(2,317)	865
Construction in progress	N/A	N/A	14	0	14
Land and land improvements	N/A	N/A	12	0	12
Internal use software	S/L	2 - 10 years	1,027	(431)	596
Internal use software in development	S/L	2 - 30 years	92	0	92
Assets under capital lease	S/L	2 - 25 years	22	(7)	15
Leasehold improvements	S/L	2 - 25 years	487	(292)	195
Total			**$ 5,478**	**$ (3,296)**	**$ 2,182**

The Treasury Department leases land and buildings from the General Services Administration (GSA) to conduct most of its operations. GSA charges a standard level users fee which approximates commercial rental rates for similar properties. The service life ranges are large due to the Treasury Department's diversity of held plant, property, and equipment.

Heritage Assets

The Treasury Department Complex (Main Treasury Building and Annex) was declared a national historical landmark in 1972. The Treasury Department Complex is treated as a multi-use heritage asset and is expected to be preserved indefinitely.

13. Non-Entity Assets

As of September 30, 2007 and September 30, 2006, non-entity assets consisted of the following (in millions):

	2007	2006
Intra-governmental Assets:		
Fund Balance (Note 2)	$ 874	$ 753
Loans and Interest Receivable (Note 3)	202,488	212,917
Accounts Receivable and Related Interest (Note 10)	367	372
Advances to the Black Lung Trust Fund (Note 4)	10,058	9,632
Due from the General Fund (Note 4)	9,052,624	8,540,195
Total Non-Entity Intra-governmental Assets	**9,266,411**	**8,763,869**
Cash, Foreign Currency, and Other Monetary Assets (Note 5)	70,701	44,359
Gold & Silver Reserves (Note 6)	11,062	11,062
Loans and Interest Receivable (Note 3)	133	220
Tax, Other, and Related Interest Receivable, Net (Note 10)	27,399	21,825
Miscellaneous Assets	9	11
Total Non-Entity Assets	**$ 9,375,715**	**$ 8,841,346**

Non-entity assets are those that are held by the Treasury Department but are not available for use by the Treasury Department. Non-entity fund balance with Treasury represents unused balances of appropriations received by various Treasury Department entities to conduct custodial operations such as the payment of interest on the Federal debt and refunds of taxes and fees. Non-entity loans and interest receivable represents loans managed by the Treasury Department on behalf of the U.S. government. These loans are provided to federal agencies, and the Treasury Department is responsible for collecting these loans and transferring the proceeds to the General Fund of the U.S. government. Non-entity cash, foreign currency, and other monetary assets include the operating cash of the U.S. government, managed by the Treasury Department. It also includes foreign currency maintained by various U.S. and military disbursing offices, as well as seized monetary instruments.

14. Federal Debt & Interest Payable

The Treasury Department is responsible for administering the federal debt on behalf of the U.S. government. The federal debt includes borrowings from the public as well as borrowings from federal agencies. The federal debt managed by the Treasury Department does not include debt issued by other governmental agencies such as the Tennessee Valley Authority, or the Department of Housing and Urban Development.

The federal debt as of September 30, 2007 and September 30, 2006 was as follows (in millions):

	FY 2007	FY 2006
Intra-governmental		
Beginning Balance	$ 3,628,701	$ 3,297,110
New Borrowings/Repayments	293,847	331,591
Subtotal at Par Value	**3,922,548**	**3,628,701**
Premium/(Discount)	3,672	(1,262)
Interest Payable Covered by Budgetary Resources	48,568	45,678
Total	**$ 3,974,788**	**$ 3,673,117**

Owed to the Public	**FY 2007**	**FY 2006**
Beginning Balance	$ 4,843,121	$ 4,601,239
New Borrowings/Repayments	206,184	241,882
Subtotal at Par Value	**5,049,305**	**4,843,121**
Premium/Discount	(39,441)	(40,165)
Interest Payable Covered by Budgetary Resources	44,386	41,118
Total	**$ 5,054,250**	**$ 4,844,074**

Debt held by the public approximates the U.S. government's competition with other sectors in the credit markets. In contrast, debt held by federal entities, primarily trust funds, represents the cumulative annual surpluses of these funds (i.e. excess of receipts over disbursements plus accrued interest) that have been used to finance general government operations.

Federal Debt held by Other Federal Agencies

Certain federal agencies are allowed to invest excess funds in debt securities issued by the Treasury Department on behalf of the U.S. government. The terms and the conditions of debt securities issued are designed to meet the cash needs of the U.S. government. The vast majority is non-marketable securities issued at par value, but some are issued at market prices whose prices and interest rates reflect market terms. The average interest rate for debt held by the federal entities in FY 2007 was 5.1% (5.2% in FY 2006).

The federal debt also includes intra-governmental marketable debt securities that certain agencies are permitted to buy and sell on the open market. The debt, at par value (not including interest receivable), owed to federal agencies as of September 30, 2007 and September 30, 2006 was as follows (in millions):

	2007	2006
Social Security Administration	$ 2,182,091	$ 1,995,307
Office of Personnel Management	762,013	722,042
Department of Defense Agencies	288,456	259,961
Department of Health and Human Services	361,294	337,659
All Other Federal Entities - Consolidated	328,694	313,732
Total Federal Debt Held by Federal Entities	**$ 3,922,548**	**$ 3,628,701**

The above balances do not include premium/discount and interest payable.

Federal Debt Held by the Public

As of September 30, 2007 and September 30, 2006, Federal Debt held by the Public consisted of the following:

(at par value, in millions)	Term	Average Interest Rates	2007
Marketable:			
Treasury Bills	1 Year or Less	4.6%	$ 954,607
Treasury Notes	Over 1 Year - 10 Years	4.4%	2,456,100
Treasury Bonds	Over 10 Years	7.4%	560,922
Treasury Inflation Protected Security (TIPS)	5 Years or More	2.3%	456,776
Total Marketable			**4,428,405**
Non-Marketable	On Demand to Over 10 Years	4.9%	620,900
Total Federal Debt (Public)			**$ 5,049,305**

(at par value, in millions)	Term	Average Interest Rates	2006
Marketable:			
Treasury Bills	1 Year or Less	5.0%	$ 908,474
Treasury Notes	Over 1 Year - 10 Years	4.2%	2,445,307
Treasury Bonds	Over 10 Years	7.6%	534,473
Treasury Inflation Protected Security (TIPS)	5 Years or More	2.3%	395,550
Total Marketable			**4,283,804**
Non-Marketable	On Demand to Over 10 Years	5.0%	559,317
Total Federal Debt (Public)			**$ 4,843,121**

The above balances do not include premium/discount and interest payable.

The Treasury Department issues marketable bills at a discount and pays the par amount of the security upon maturity. The average interest rate on Treasury bills represents the original issue effective yield on securities outstanding as of September 30, 2007 and 2006, respectively. Treasury bills are issued with a term of one year or less.

The Treasury Department issues marketable notes and bonds as long-term securities that pay semi-annual interest based on the securities' stated interest rates. These securities are issued at either par value or at an amount that reflects a discount or a premium. The average interest rate on marketable notes and bonds represents the stated interest rate adjusted by any discount or premium on securities outstanding as of September 30, 2007 and 2006. Treasury notes are issued with a term of over one year to 10 years and Treasury bonds are issued with a term of more than 10 years. The Treasury Department also issues inflation–indexed securities (TIPS) that have interest and redemption payments, which are tied to the Consumer Price Index, a widely used measurement of inflation. TIPS are issued with a term of five years or more. At maturity, TIPS are redeemed at the inflation-adjusted principal amount, or the original par value, whichever is greater. TIPS pay a semi-annual fixed rate of interest applied to the inflation-adjusted principal.

Other Debt and Interest Payable

Borrowings outstanding are with the Civil Service Trust Fund, which is administered by the Office of Personnel Management. The interest rates on these borrowings range from 4.62% to 5.62%, and the maturity dates range from June 30, 2009 to June 30, 2019. Borrowings began in 2005.

15. District of Columbia (D.C.) Pensions Actuarial Liability

Pursuant to the Title XI of the Balanced Budget Act of 1997, as amended (the Act), on October 1, 1997, the Treasury Department became responsible for certain District of Columbia retirement plans. The Act was intended to relieve the District of Columbia Government of the burden of unfunded pension liabilities transferred to the District by the U.S. government in 1979. To fulfill its responsibility, the Treasury Department manages two funds -- the D.C. Teachers, Police Officers and Firefighters Federal Pension Fund (the D.C. Federal Pension Fund), and the District of Columbia Judicial Retirement and Survivors Annuity Fund (the Judicial Retirement Fund). The Treasury Department is required to make annual amortized payments from the General Fund of the U.S. government to the D.C. Federal Pension Fund and the Judicial Retirement Fund. The actuarial cost method used to determine costs for the retirement plans is the Aggregate Entry Age Normal Actuarial Cost Method. The actuarial liability is based upon long term assumptions selected by the Treasury Department. The pension benefit costs incurred by the plans are included on the Consolidated Statements of Net Cost.

D.C. Federal Pension Fund

The purpose of the D.C. Federal Pension Fund is to make federal benefit payments and pay necessary administrative expenses for the District of Columbia Police Officers', Firefighters', and Teachers' Retirement Plans for benefits earned based upon service on or before June 30, 1997. The amount paid into the D.C. Federal Pension Fund from the General Fund of the U.S. government was $345.4 million for FY 2007 ($285.4 million during FY 2006). As of September 30, 2007, the unobligated budgetary resources of the

D.C. Federal Pension Fund was approximately $3.6 billion, and the pension actuarial liability was $8.9 billion, resulting in an unfunded liability of $5.3 billion. (As of September 30, 2006, the unobligated budgetary resources of the D.C. Federal Pension Fund was approximately $3.5 billion, and the pension actuarial liability was $8.9 billion, resulting in an unfunded liability of $5.4 billion.) In FY 2007, the assumption for the annual rate of investment return in FY 2008 is 4.7% for the D.C. Federal Pension Fund with a gradual increase to 6% by FY 2013; and, the assumption for the future annual rate of inflation and future cost-of-living adjustments were 3.5%. In FY 2006, the assumption for the annual rate of investment return was 4.8% for the D.C. Federal Pension Fund with a gradual increase to 6% by FY 2012; and, the assumption for the future annual rate of inflation and the future cost-of-living adjustments was 3.5%. In FY 2007, the assumption for the future annual rate of salary increases is 6.5% for the police officers and firefighters (also 6.5% during FY 2006), and 5.5% for teachers (also 5.5% during FY 2006).

Judicial Retirement Fund

The purpose of the Judicial Retirement Fund was to make federal benefit payments and pay necessary administrative expenses of the Judges' Retirement Plan for all benefits earned. The amount paid into the Judicial Retirement Fund from the General Fund of the U.S. government was $7.4 million for FY 2007 ($7.4 million during FY 2006). As of September 30, 2007, the unobligated budgetary resources of the Judicial Retirement Fund was approximately $114.3 million, and the pension actuarial liability was $150.1 million, resulting in an unfunded liability of $35.8 million. (As of September 30, 2006, the unobligated budgetary resources of the Judicial Retirement Fund was approximately $107.9 million, and the pension actuarial liability was $145.7 million, resulting in an unfunded liability of $37.8 million.) In FY 2007, the assumption for the future annual rate of investment return was 6% for the Judicial Retirement Fund; and, the annual rate of inflation and cost-of-living adjustments were 3.5%. In FY 2007, the assumption for the annual rate of salary increases was 3.5% for judges. These economic assumptions are unchanged from FY 2006.

16. Commitments and Contingencies

Legal Contingencies

The Department is a party in various administrative proceedings, legal actions, and claims including equal opportunity matters which may ultimately result in settlements or decisions adverse to the Federal government. These contingent liabilities arise in the normal course of operations and their ultimate disposition is unknown. Treasury does not have any FY 2007 contingent liabilities where losses are determined to be probable and amounts can be estimated. However, other significant contingencies exist where a loss is reasonably possible or where a loss is probable and an estimate cannot be determined. The Department has disclosed contingent liabilities where the conditions for liability recognition have not been met and the likelihood of unfavorable outcome is more than remote. The Department does not accrue for possible losses related to cases where the potential loss cannot be estimated or the likelihood of an unfavorable outcome is less than probable.

In some cases, a portion of any loss that may occur may be paid by the Treasury's Judgment Fund which is separate from the operating resources of the Department. For those cases related to the Contract Disputes

Act of 1978 and awards under Federal anti-discrimination and whistleblower protection act, Treasury must reimburse the Judgment Fund from future appropriations.

In the opinion of the Department's management and legal counsel, based on information currently available, the expected outcome of legal actions, individually or in the aggregate, will not have a materially adverse effect on the Department's financial statements, except for the legal actions described below which are possible significant contingencies.

Pending Legal Actions

- ***The American Council of the Blind and Others:*** Plaintiffs have filed suit against the Department under Section 504 of the Rehabilitation Act seeking the redesign of U.S. currency. A judge has ruled that the current U.S. currency design violates this Act and this ruling has been appealed. Should the appellate court find for the plaintiffs in this case, the Department may be required to make changes to U.S. currency that would result in capital investment costs of up to $320 million, as well as increased annual expenditures of up to $174 million. Any such costs would be charged to the Federal Reserve as part of the billing rate for the production of U.S. currency.
- ***Cobell v. Kempthorne (formerly Cobell v. Norton):*** Native Americans allege that the Department of Interior and the Department have breached trust obligations with respect to the management of the plaintiffs' individual Indian monies. The plaintiffs have not made claims for specific dollar amounts in the Federal district court proceedings, but in public statements the tribes have asserted that the potential loss could reach $27.5 billion.
- ***Tribal Trust Fund Cases:*** Numerous cases have been filed in which Native American Tribes seek a declaration that the U.S. has not provided the tribes with a full and complete accounting of their trust funds, and seek an order requiring the government to provide such an accounting. In addition, there are a number of other related cases for damages which do not name the Department as a defendant. It is probable that additional tribes may file claims. It is not possible at this time to determine the number of suits that may be filed or the amount of damages that may be claimed.
- ***Other Legal Actions:*** The Department is also involved in employment related legal actions (e.g., Discrimination, Equal Employment Opportunity Commission, Merit System Protection Board, etc.) which were reported to be reasonably possible, but for which an estimate of potential loss cannot be determined at this time.

There are also other legal actions pending where the ultimate resolution of the legal actions, for which the possibility of loss could not be determined, may materially affect Treasury's financial position or results. As of September 30, 2007, 28 legal claims amounting to approximately $126 million existed for which the possibility of loss could not be determined.

Other Contingencies

Multilateral Development Banks (MDBs): The Treasury Department has subscribed to capital for certain MDBs, portions of which are callable under certain limited circumstances to meet the obligations of the respective MDBs. There has never been, nor is there anticipated, a call on the Treasury Department subscriptions. As of September 30, 2007 and September 30, 2006, U.S. callable capital in MDBs was as follows (in millions):

	2007	2006
African Development Bank	$ 1,602	$ 1,513
Asian Development Bank	5,911	5,911
European Bank for Reconstruction and Development	1,805	1,803
Inter-American Development Bank	28,687	28,687
International Bank for Reconstruction and Development	22,641	22,642
Multilateral Investment Guarantee Agency	301	293
North American Development Bank	1,275	1,275
Total	**$ 62,222**	**$ 62,124**

Terrorism Risk Insurance Program: The Terrorism Risk Insurance Act (TRIA) was signed into law on November 26, 2002. This law was enacted to address market disruptions resulting from terrorist attacks on September 11, 2001. The act helps to ensure available and affordable commercial property and casualty insurance for terrorism risk, and simultaneously allows private markets to stabilize. If a certified act of terrorism occurs, insurers may be eligible to receive reimbursement from the Federal government for insured losses above a designated deductible amount. Insured losses above this amount will be shared between insurance companies and the Federal government. The Terrorism Risk Insurance Program is activated upon the certification of an "act of terrorism" by the Secretary of the Treasury in concurrence with the Secretary of State and the Attorney General.

The original TRIA program expired on December 31, 2005. However, this program was subsequently extended through December 31, 2007 when President Bush signed the Terrorism Risk Insurance Extension Act of 2005. This law includes the following changes: a reduced Federal role in terrorism risk insurance markets by increasing insurer deductibles and the exclusion of certain types of previously covered insurance. The act also reduces the Federal governments' share of insured losses. Another noteworthy change is a "Program Trigger" provision which precludes Federal payments unless insured losses from a certified terrorism event exceed $100 million in FY 2007 and $100 million in FY 2008. Legislation has been introduced to extend the program beyond 2007.

17. Liabilities

Liabilities Not Covered by Budgetary and Other Resources

As of September 30, 2007 and September 30, 2006, liabilities not covered by budgetary and other resources consisted of the following (in millions):

	2007	2006
Intra-governmental Liabilities Not Covered by Budgetary & Other Resources:		
Federal Debt Principal, Premium/Discount (Note 14)	$ 3,926,220	$ 3,627,439
Other Intra-governmental Liabilities	105	103
Total Intra-governmental Liabilities Not Covered by Budgetary & Other Resources	**3,926,325**	**3,627,542**
Federal Debt Principal, Premium/Discount (Note 14)	5,009,864	4,802,956
D.C. Pensions Liability (Note 15)	5,313	5,422
Other Liabilities	1,037	1,055
Total Liabilities Not Covered by Budgetary & Other Resources	**$ 8,942,539**	**$ 8,436,975**

Other Liabilities

Total "Other Liabilities" displayed on the Balance Sheets consists of both liabilities that are covered and not covered by budgetary resources. The amounts displayed of $3,664 million and $3,816 million, respectively, at September 30, 2007 and September 30, 2006 consisted of the following (in millions):

	2007		
	Current	Non-Current	Total
Intra-governmental			
Unfunded Federal Workers Compensation Program Liability (FECA)	$ 44	$ 58	$ 102
Accounts Payable	46	21	67
Other Accrued Liabilities	158	2	160
Total Intra-governmental	**248**	**81**	**329**
With the Public			
Actuarial Federal Workers Compensation Program Liability (FECA)	0	573	573
Liability for Deposit Funds (Held by the Federal Government for Others) & Suspense Accounts	573	0	573
Accrued Funded Payroll and Benefits	402	0	402
Capital Lease Liabilities	2	5	7
Accounts Payable & Other Accrued Liabilities	2,045	64	2,109
Total with the Public	**$ 3,022**	**$ 642**	**$ 3,664**

	2006		
	Current	Non-Current	Total
Intra-governmental			
Unfunded Federal Workers Compensation Program Liability (FECA)	$ 51	$ 66	$ 117
Accounts Payable	60	0	60
Other Accrued Liabilities	121	3	124
Total Intra-governmental	**232**	**69**	**301**
With the Public			
Actuarial Federal Workers Compensation Program Liability (FECA)	0	601	601
Liability for Deposit Funds (Held by the Federal Government for Others) & Suspense Accounts	498	0	498
Accrued Funded Payroll and Benefits	343	0	343
Capital Lease Liabilities	1	3	4
Accounts Payable & Other Accrued Liabilities	2,336	34	2,370
Total with the Public	**$ 3,178**	**$ 638**	**$ 3,816**

18. Net Position

Unexpended Appropriations represents the amount of spending authorized as of year-end that is unliquidated or unobligated and has not lapsed, been rescinded, or withdrawn. No-year appropriations remain available for obligation until expended. Annual appropriations remain available for upward or downward adjustment of obligations until expired.

Cumulative Results of Operations represents the net results of operations since inception, and includes cumulative amounts related to investments in capitalized assets and donations and transfers of assets in and out without reimbursement. Also included as a reduction in Cumulative Results of Operations are accruals for which the related expenses require funding from future appropriations and assessments. These future funding requirements include, among others (a) accumulated annual leave earned but not taken, (b) accrued workers compensation, and (c) expenses for contingent liabilities.

The amount reported as "appropriations received" are appropriated from Treasury General Fund of the U.S. government receipts, such as income taxes, that are not earmarked by law for a specific purpose. This amount will not necessarily agree with the "appropriation received" amount reported on the Statement of Budgetary Resources (SBR) because of differences between proprietary and budgetary accounting concepts and reporting requirements. For example, certain dedicated and earmarked receipts are recorded as "appropriations received" on the SBR, but are recognized as exchange or non-exchange revenue (i.e. typically in special and non-revolving trust funds) and reported on the Statement of Changes in Net Position in accordance with Statement of Federal Financial Accounting Standards (SFFAS No.7.)

Transfers to the General Fund and Other

The amount reported as "Transfers to the General Fund and Other" on the Consolidated Statements of Changes in Net Position under "Other Financing Sources" mainly represents the distribution of interest revenue to the General Fund of the U.S. government of $12,393 million and $13,192 million, for the year ended September 30, 2007 and year ended September 30, 2006, respectively. The interest revenue is accrued on inter-agency loans held by the Treasury Department on behalf of the U.S. Government. A corresponding balance is reported on the Consolidated Statement of Net Cost under "Federal Costs: Less Interest Revenue from Loans." The amount reported on the Consolidated Statement of Net Cost is reduced by eliminations with Treasury bureaus.

The Treasury Department also includes seigniorage in "Transfers to the General Fund and Other." Seigniorage is the face value of newly minted circulating coins less the cost of production. The United States Mint is required to distribute the seigniorage that it recognizes to the General Fund of the U.S. government. The distribution is also included in "Transfers to the General Fund and Other." In any given year, the amount recognized as seigniorage may differ for the amount distributed to the General Fund by an insignificant amount due to timing differences.

Seigniorage in the amounts of $1.032 billion and $682 million was recognized, respectively, for the year ended September 30, 2007 and year ended September 30, 2006. Distributions to the General Fund, including seigniorage, amounted to $825 million and $750 million, respectively, for the years ended September 30, 2007, and September 30, 2006.

19. Consolidated Statement of Net Cost & Net Costs of Treasury Sub-organizations

The Treasury Department's Consolidated Statement of Net Cost displays information on a consolidated basis. The complexity of the Treasury Department's organizational structure and operations requires that supporting schedules for Net Cost be included in the notes to the financial statements. These supporting schedules provide consolidating information, which fully displays the costs of each sub-organization (Departmental Offices and each operating bureau).

The classification of sub-organizations has been determined in accordance with SFFAS No. 4, *"Managerial Cost Accounting Concepts and Standards for the Federal Government"* which states that the predominant factor is the reporting entity's organization structure and existing responsibility components, such as bureaus, administrations, offices, and divisions within a department.

Each sub-organization is responsible for accumulating costs. The assignment of the costs to Treasury-wide programs is the result of using the following cost assignment methods: (1) direct costs; (2) cause and effect; and (3) cost allocation.

Intra-Departmental costs/revenues resulting from the provision of goods and/or services on a reimbursable basis among Departmental sub-organizations are reported as costs by providing sub-organizations. Accordingly, such costs/revenues are eliminated in the consolidation process.

To the extent practical or reasonable to do so, earned revenue is deducted from the gross costs of the programs to determine their net cost. There are no precise guidelines to determine the degree to which earned revenue can reasonably be attributed to programs. The attribution of earned revenues requires the exercise of managerial judgment.

The Treasury Department's Consolidated Statement of Net Cost also presents interest expense on the Federal Debt and other Federal costs incurred as a result of assets and liabilities managed on behalf of the U.S. government. These costs are not reflected as program costs related to the Treasury Department's strategic plan missions. Such costs are eliminated in the consolidation process to the extent that they involve transactions with Treasury Department sub-organizations.

Other federal costs for the years ended September 30, 2007 and September 30, 2006 consisted of the following (in millions):

	2007	2006
Credit Reform Interest on Uninvested Funds (Intra-governmental)	$ 4,632	$ 5,200
Resolution Funding Corporation	1,987	1,979
Judgment Claims and Contract Disputes	1,222	677
Corporation for Public Broadcasting	464	460
Legal Services Corporation	350	328
All Other Payments	208	296
Total	**$ 8,863**	**$ $8,940**

FY 2007 Presentation Changes

The Government Performance Results Act (GPRA) requires that Federal agencies formulate Strategic Plans, identify major strategic goals, and report performance and costs related to the goals. Under GPRA, strategic plans are to be revised and updated every three years. Accordingly, Treasury updated the Departmentwide Strategic Plan in FY 2007 by adding an additional goal applicable to FY 2007 and thereafter. The Security Program Mission goal was added. It is defined as "Prevent Terrorism and Promote the Nation's Security Through Strengthened International Financial Systems."

OMB Circular No. A-136 *"Financial Reporting Requirements"* requires that the presentation of the Statements of Net Cost align directly with the goals and outcomes identified in the Strategic Plan. Accordingly, Treasury has presented the gross costs and earned revenues in FY 2007 by the applicable mission goals in Treasury's FY 2007 Strategic Plan and the gross costs and earned revenues for FY 2006 by the applicable mission goals in Treasury's FY 2006 Strategic Plan. As a result, the FY 2007 Consolidated Statement of Net Cost is not comparable to the FY 2006 Consolidated Statement of Net Cost.

19. Consolidated Statement of Net Cost & Net Costs of Treasury Sub-organizations (In Millions):

FYE September 30, 2007 Program Costs:	Bureau of Engraving & Printing	Bureau of the Public Debt	Departmental Offices	Financial Crimes Enforcement Network	Financial Management Service	Internal Revenue Service	U.S. Mint
Financial Program:							
Intra-governmental Gross Costs	$ 0	$ 76	$ 1,395	$ 0	$ 171	$ 3,967	$ 0
Less: Earned Revenue	0	(14)	(2,097)	0	(144)	(45)	0
Intra-governmental Net Costs	0	62	(702)	0	27	3,922	0
Gross Costs with the public	0	259	474	0	981	8,049	0
Less: Earned Revenue	0	(3)	0	0	0	(231)	0
Net Costs with the public	0	256	474	0	981	7,818	0
Net Cost: Financial Program	**0**	**318**	**(228)**	**0**	**1,008**	**11,740**	**0**
Economic Program:							
Intra-governmental Gross Costs	81	0	69	0	0	0	69
Less: Earned Revenue	(5)	0	(850)	0	0	0	(9)
Intra-governmental Net Costs	76	0	(781)	0	0	0	60
Gross Costs with the public	466	0	2,593	0	0	0	1,520
Less: Earned Revenue	(573)	0	(3,033)	0	0	0	(1,595)
Net Costs with the public	(107)	0	(440)	0	0	0	(75)
Net Cost: Economic Program	**(31)**	**0**	**(1,221)**	**0**	**0**	**0**	**(15)**
Security Program:							
Intra-governmental Gross Costs	0	0	135	51	0	0	0
Less: Earned Revenue	0	0	(13)	(1)	0	0	0
Intra-governmental Net Costs	0	0	122	50	0	0	0
Gross Costs with the public	0	0	126	57	0	0	0
Less: Earned Revenue	0	0	0	0	0	0	0
Net Costs with the public	0	0	126	57	0	0	0
Net Cost: Security Program	**0**	**0**	**248**	**107**	**0**	**0**	**0**
Management Program:							
Intra-governmental Gross Costs	0	0	167	0	0	0	0
Less: Earned Revenue	0	0	(720)	0	0	0	0
Intra-governmental Net Costs	0	0	(553)	0	0	0	0
Gross Costs with the public	0	0	770	0	0	0	0
Less: Earned Revenue	0	0	0	0	0	0	0
Net Costs with the public	0	0	770	0	0	0	0
Net Cost: Management Program	**0**	**0**	**217**	**0**	**0**	**0**	**0**
Net Cost of Treasury Operations	**$ (31)**	**$ 318**	**$ (984)**	**$ 107**	**$ 1,008**	**$ 11,740**	**$ (15)**

(continued)

19. Consolidated Statement of Net Cost & Net Costs of Treasury Sub-organizations (In Millions):

FYE September 30, 2007 Program Costs:	Office of the Comptroller of the Currency	Office of the Thrift Supervision	Alcohol, Tobacco Tax and Trade Bureau	Combined Total	Eliminations and Adjustments	9/30/2007 Consolidated
Financial Program:						
Intra-governmental Gross Costs	$ 0	$ 0	$ 14	$ 5,623	$ (1,441)	$ 4,182
Less: Earned Revenue	0	0	0	(2,300)	291	(2,009)
Intra-governmental Net Costs	0	0	14	3,323	(1,150)	2,173
Gross Costs with the public	0	0	35	9,798	0	9,798
Less: Earned Revenue	0	0	(2)	(236)	0	(236)
Net Costs with the public	0	0	33	9,562	0	9,562
Net Cost: Financial Program	**0**	**0**	**47**	**12,885**	**(1,150)**	**11,735**
Economic Program:						
Intra-governmental Gross Costs	89	30	13	351	(48)	303
Less: Earned Revenue	(27)	(16)	0	(907)	889	(18)
Intra-governmental Net Costs	62	14	13	(556)	841	285
Gross Costs with the public	548	195	35	5,357	0	5,357
Less: Earned Revenue	(669)	(227)	(1)	(6,098)	0	(6,098)
Net Costs with the public	(121)	(32)	34	(741)	0	(741)
Net Cost: Economic Program	**(59)**	**(18)**	**47**	**(1,297)**	**841**	**(456)**
Security Program:						
Intra-governmental Gross Costs	0	0	0	186	(67)	119
Less: Earned Revenue	0	0	0	(14)	12	(2)
Intra-governmental Net Costs	0	0	0	172	(55)	117
Gross Costs with the public	0	0	0	183	0	183
Less: Earned Revenue	0	0	0	0	0	0
Net Costs with the public	0	0	0	183	0	183
Net Cost: Security Program	**0**	**0**	**0**	**355**	**(55)**	**300**
Management Program:						
Intra-governmental Gross Costs	0	0	0	167	(54)	113
Less: Earned Revenue	0	0	0	(720)	277	(443)
Intra-governmental Net Costs	0	0	0	(553)	223	(330)
Gross Costs with the public	0	0	0	770	0	770
Less: Earned Revenue	0	0	0	0	0	0
Net Costs with the public	0	0	0	770	0	770
Net Cost: Management Program	**0**	**0**	**0**	**217**	**223**	**440**
Net Cost of Treasury Operations	**($59)**	**($18)**	**$94**	**$12,160**	**($141)**	**$12,019**

continued

19. Consolidated Statement of Net Cost & Net Costs of Treasury Sub-organizations (In Millions):

FYE September 30, 2006 Program Costs:	Bureau of Engraving & Printing	Bureau of the Public Debt	Departmental Offices	Financial Crimes Enforcement Network	Financial Management Service	Internal Revenue Service	U.S. Mint
Economic Program:							
Intra-governmental Gross Costs	$ 0	$ 0	$ 198	$ 0	$ 0	$ 0	$ 0
Less: Earned Revenue	0	0	(706)	0	0	0	0
Intra-governmental Net Costs	0	0	(508)	0	0	0	0
Gross Costs with the public	0	0	2,003	0	0	0	0
Less: Earned Revenue	0	0	(1,026)	0	0	0	0
Net Costs with the public	0	0	977	0	0	0	0
Net Cost: Economic Program	**0**	**0**	**469**	**0**	**0**	**0**	**0**
Financial Program:							
Intra-governmental Gross Costs	83	73	1,617	51	165	3,829	72
Less: Earned Revenue	(6)	(17)	(2,127)	(1)	(136)	(47)	(8)
Intra-governmental Net Costs	77	56	(510)	50	29	3,782	64
Gross Costs with the public	418	236	1,206	49	943	7,869	1,526
Less: Earned Revenue	(471)	(3)	0	0	0	(166)	(1,633)
Net Costs with the public	(53)	233	1,206	49	943	7,703	(107)
Net Cost: Financial Program	**24**	**289**	**696**	**99**	**972**	**11,485**	**(43)**
Management Program:							
Intra-governmental Gross Costs	0	0	158	0	0	0	0
Less: Earned Revenue	0	0	(818)	0	0	0	0
Intra-governmental Net Costs	0	0	(660)	0	0	0	0
Gross Costs with the public	0	0	881	0	0	0	0
Less: Earned Revenue	0	0	0	0	0	0	0
Net Costs with the public	0	0	881	0	0	0	0
Net Cost: Management Program	**0**	**0**	**221**	**0**	**0**	**0**	**0**
Net Cost of Treasury Operations	**$ 24**	**$ 289**	**$ 1,386**	**$ 99**	**$ 972**	**$ 11,485**	**$ (43)**

(continued)

19. Consolidated Statement of Net Cost & Net Costs of Treasury Sub-organizations (In Millions):

FYE September 30, 2006 Program Costs:	Office of the Comptroller of the Currency	Office of the Thrift Supervision	Alcohol, Tobacco Tax and Trade Bureau	Combined Total	Eliminations and Adjustments	9/30/2006 Consolidated
Economic Program:						
Intra-governmental Gross Costs	$ 12	$ 3	$ 13	$ 226	$ (21)	$ 205
Less: Earned Revenue	(3)	(2)	0	(711)	705	(6)
Intra-governmental Net Costs	9	1	13	(485)	684	199
Gross Costs with the public	78	18	35	2,134	0	2,134
Less: Earned Revenue	(96)	(22)	(1)	(1,145)	0	(1,145)
Net Costs with the public	(18)	(4)	34	989	0	989
Net Cost: Economic Program	**(9)**	**(3)**	**47**	**504**	**684**	**1,188**
Financial Program:						
Intra-governmental Gross Costs	62	25	13	5,990	(1,359)	4,631
Less: Earned Revenue	(17)	(12)	0	(2,371)	280	(2,091)
Intra-governmental Net Costs	45	13	13	3,619	(1,079)	2,540
Gross Costs with the public	422	160	36	12,865	0	12,865
Less: Earned Revenue	(517)	(201)	(1)	(2,992)	0	(2,992)
Net Costs with the public	(95)	(41)	35	9,873	0	9,873
Net Cost: Financial Program	**(50)**	**(28)**	**48**	**13,492**	**(1,079)**	**12,413**
Management Program:						
Intra-governmental Gross Costs	0	0	0	158	(52)	106
Less: Earned Revenue	0	0	0	(818)	259	(559)
Intra-governmental Net Costs	0	0	0	(660)	207	(453)
Gross Costs with the public	0	0	0	881	0	881
Less: Earned Revenue	0	0	0	0	0	0
Net Costs with the public	0	0	0	881	0	881
Net Cost: Management Program	**0**	**0**	**0**	**221**	**207**	**428**
Net Cost of Treasury Operations	**$ (59)**	**$ (31)**	**$ 95**	**$ 14,217**	**$ (188)**	**$ 14,029**

20. Additional Information Related to the Combined Statements of Budgetary Resources

Federal agencies are required to disclose additional information related to the Combined Statements of Budgetary Resources (per OMB Circular A-136, "Financial Reporting Requirements") as amended. In accordance with SFFAS No. 7, the Department must report the value of goods and services ordered and obligated which have not been received. This amount includes any orders for which advance payment has been made but for which delivery or performance has not yet occurred. The information for the fiscal years ended September 30, 2007 and September 30, 2006 was as follows (in millions):

	2007	2006
Undelivered orders at the end of the period	$ 56,304	$ 51,382
Available borrowing and contract authority at the end of the period	$ 5,716	$ 5,720

Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations

	2007	2006
Obligations Incurred		
Direct - Category A	$ 6,525	$ 8,832
Direct - Category B	14,197	13,652
Direct - Exempt from Apportionment	440,277	418,314
Total Direct	**460,999**	**440,798**
Reimbursable - Category B	3,344	3,739
Reimbursable - Exempt from Apportionment	1,187	1,014
Total Reimbursable	**4,531**	**4,753**
Total Direct and Reimbursable	**$ 465,530**	**$ 445,551**

Reconciliation of the President's Budget

The *Budget of the United States* (also known as the President's Budget), with actual numbers for FY 2007, was not published at the time that these financial statements were issued. The President's Budget is expected to be published in January 2008. It will be available from the United States Government Printing Office. The following chart displays the differences between the Combined Statement of Budgetary Resources (SBR) in the FY 2006 Performance and Accountability Report and the actual FY 2006 balances included in the FY 2008 President's Budget (PB).

Reconciliation of FY 2006 Combined Statement of Budgetary Resources To the FY 2008 President's Budget (in millions)

	Budgetary Resources	Outlays (net of offsetting collections)	Offsetting Receipts	Net Outlays	Obligations Incurred
Statement of Budgetary Resources Amounts	$ 503,091	$ 429,595	$ (16,568)	$ 413,027	$ 445,551
Included in the Treasury Chapter of the President's Budget (PB) but not in the Statement of Budgetary Resources (SBR):					
IRS non-entity tax credit payments (1)	55,930	55,930	(25)	55,905	55,930
Tax and Trade Bureau (TTB) non-entity collections for Puerto Rico	360	360		360	360
Non-Treasury offsetting receipts included in Treasury chapter of PB			188	188	
Treasury offsetting receipts considered to be "General Fund" transaction for reporting purposes (2)			(481)	(481)	
Continued dumping subsidy – U.S. Customs	476	226		226	226
Other	(2)		(31)	(31)	(129)
Subtotal	**56,764**	**56,516**	**(349)**	**56,167**	**56,387**
Included in the SBR but not in the Treasury chapter of the PB:					
Treasury resources shown in non-Treasury chapters of the PB, included in SBR (3)	(39,698)	(3,978)		(3,978)	(10,746)
Offsetting collections net of collections shown in PB	(9,225)		(192)	(192)	
Treasury offsetting receipts shown in other chapters of PB, part of which is in SBR			204	204	
Unobligated balance carried forward, recoveries of prior year funds and expired accounts	(1,024)				(40)
Exchange Stabilization Fund resources not shown in PB (4)	(25,732)				(245)
Treasury Financing Accounts (CDFI & ATSB)	(694)	(633)	118	(515)	(670)
IRS user fees and 50% Transfer Accounts and Capital Transfers to General Fund not included in PB	(77)				
Other	(28)	1	(1)		2
Subtotal	**(76,478)**	**(4,610)**	**129**	**(4,481)**	**(11,699)**
Trust Fund – Comptroller of the Currency (OCC) (5)		**111**		**111**	
President's Budget Amounts*	**$ 483,377**	**$ 481,612**	**$ (16,788)**	**$ 464,824**	**$ 490,239**

1. These are primarily Earned Income Tax Credit and Child Tax Credit payments that are reported with refunds as custodial activities in Treasury's financial statements and thus are not reported as budgetary resources.
2. These are receipt accounts that Treasury manages on behalf of other agencies and considers to be "General Fund" receipts rather than receipts of the Treasury reporting entity.
3. The largest of these resources relate to Treasury's International Assistance Programs.
4. Exchange Stabilization Fund (ESF) is a self sustaining component that finances its operations with the buying and selling of foreign currencies to regulate the fluctuations of the dollar. Because of the nature of the activities of the component, it does not receive appropriations, and therefore is excluded from the PB.
5. Negative outlay for OCC included in both Analytical Perspectives and the Appendix.

*Per President's Budget for FY 2008 – Budgetary Resources and Outlays are from the Analytical Perspective. Offsetting Receipts and Obligations Incurred are from the Appendix.

Legal Arrangements Affecting Use of Unobligated Balances

The use of unobligated balances is restricted based on annual legislation requirements or enabling authorities. Funds are presumed to be available for only one fiscal year unless otherwise noted in the annual appropriation language. Unobligated balances in unexpired fund symbols are available in the next fiscal year for new obligations unless some restrictions had been placed on those funds by law. In those situations, the restricted funding will be temporarily unavailable until such time as the reasons for the restriction have been satisfied or legislation has been enacted to remove the restriction.

Amounts in expired fund symbols are not available for new obligations, but may be used to adjust obligations and make disbursements that were recorded before the budgetary authority expired or to meet a bona fide need that arose in the fiscal year for which the appropriation was made.

21. Collection and Disposition of Custodial Revenue

The Treasury Department collects the majority of federal revenue from income and excise taxes. Collection activity, by revenue type and tax year, was as follows for the fiscal years ended September 30, 2007 and September 30, 2006 (in millions):

	Tax Year				
	2007	**2006**	**2005**	**Pre-2005**	**2007 Collections**
Individual Income and FICA Taxes	$ 1,408,591	$ 750,587	$ 23,861	$ 18,425	$ 2,201,464
Corporate Income Taxes	253,376	116,342	2,938	22,664	395,320
Estate and Gift Taxes	45	16,162	1,571	9,200	26,978
Excise Taxes	49,660	17,807	90	209	67,766
Railroad Retirement Taxes	3,576	1,127	1	14	4,718
Unemployment Taxes	5,198	2,041	51	126	7,416
Federal Reserve Earnings	26,255	5,788	0	0	32,043
Fines, Penalties, Interest & Other Revenue	2,661	423	0	0	3,084
Subtotal	**1,749,362**	**910,277**	**28,512**	**50,638**	**2,738,789**
Less Amounts Collected for Non-Federal Entities					(486)
Total					**$ 2,738,303**

	Tax Year				
	2006	2005	2004	Pre-2004	2006 Collections
Individual Income and FICA Taxes	$ 1,309,338	$ 690,831	$ 17,307	$ 16,733	$ 2,034,209
Corporate Income Taxes	259,140	103,803	1,669	15,814	380,426
Estate and Gift Taxes	50	18,806	1,240	8,592	28,688
Excise Taxes	53,488	18,999	91	196	72,774
Railroad Retirement Taxes	3,577	1,094	0	2	4,673
Unemployment Taxes	5,080	2,276	52	125	7,533
Federal Reserve Earnings	24,141	5,804	0	0	29,945
Fines, Penalties, Interest & Other Revenue	2,888	436	0	0	3,324
Subtotal	**$ 1,657,702**	**$ 842,049**	**$ 20,359**	**$ 41,462**	**$ 2,561,572**
Less Amounts Collected for Non-Federal Entities					(374)
Total					**$ 2,561,198**

Amounts reported for Corporate Income Taxes collected in FY 2007 include corporate taxes of $10 billion for tax year 2008. (Similarly, amounts reported for Corporate Income Taxes collected in fiscal year 2006 include corporate taxes of $10 billion for tax year 2007.) Individual Income and FICA Taxes, includes $72 billion in payroll taxes collected from other federal agencies. Of this amount, $12 billion represents the portion paid by the employers. (The comparable amounts for FY 2006 are $71 billion in payroll taxes collected from other federal agencies and $12 billion paid by the employers.)

Amounts Provided to Fund the Federal Government

For the fiscal years ended September 30, 2007 and September 30, 2006, collections of custodial revenue transferred to other entities were as follows (in millions):

	2007	2006
Department of Interior	$ 288	$ 250
General Fund	2,445,331	2,283,170
Total	**$ 2,445,619**	**$ 2,283,420**

Federal Tax Refunds Paid

Refund activity, broken out by revenue type and by tax year, was as follows for the fiscal years ended September 30, 2007 and September 30, 2006 (in millions):

	Tax Year				
	2007	**2006**	**2005**	**Pre-2005**	**2007 Refunds**
Individual Income and FICA Taxes	$ 1,823	$ 235,151	$ 17,839	$ 6,242	$ 261,055
Corporate Income Taxes	1,241	8,122	4,278	14,509	28,150
Estate and Gift Taxes	0	256	490	223	969
Excise Taxes	416	570	253	1,131	2,370
Railroad Retirement Taxes	0	5	1	7	13
Unemployment Taxes	0	75	16	36	127
Total	**$ 3,480**	**$ 244,179**	**$ 22,877**	**$ 22,148**	**$ 292,684**

	Tax Year				
	2006	**2005**	**2004**	**Pre-2004**	**2006 Refunds**
Individual Income and FICA Taxes	$ 612	$ 225,503	$ 13,465	$ 5,606	$ 245,186
Corporate Income Taxes	1,238	8,805	3,906	16,514	30,463
Estate and Gift Taxes	429	240	332	279	1,280
Excise Taxes	0	479	46	178	703
Railroad Retirement Taxes	0	(31)	15	19	3
Unemployment Taxes	0	86	19	38	143
Total	**$ 2,279**	**$ 235,082**	**$ 17,783**	**$ 22,634**	**$ 277,778**

Federal Tax Refunds Payable

As of September 30, 2007 and September 30, 2006, refunds payable to taxpayers consisted of the following (in millions):

	2007	**2006**
Alcohol, Tobacco Tax and Trade Bureau	$ 9	$ 6
Internal Revenue Service	1,675	1,695
Total	**$ 1,684**	**$ 1,701**

22. Earmarked Funds

Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities or purposes. SFFAS No. 27 "Identifying and Reporting Earmarked Funds" issued by the FASAB defines the following three criteria for determining an earmarked fund: 1) A statute committing the Federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits or purposes; 2) Explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and 3) A requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked fund from the Government's general revenues.

The majority of Treasury's earmarked fund activities are attributed to the ESF and the pension and retirement funds managed by the Office of DCP. In addition, several Treasury bureaus operate with "public enterprise revolving funds" and receive no appropriations from the Congress. These bureaus are the BEP, the U.S. Mint, the OCC, and the OTS. Other miscellaneous earmarked funds are managed by the BPD, the DO, the FMS/FMD, and the TFF.

The following is a list of earmarked funds and a brief description of the purpose, accounting, and uses of these funds.

Exchange Stabilization Fund (ESF)

ESF	20X4444	Exchange Stabilization Fund

D.C. Pensions

DCP	201099	Fines, penalties & forfeitures
DCP	20X1713	Federal payment – D.C. Judicial Retirement
DCP	20X1714	Federal payment – D.C. Federal Pension Fund
DCP	20X5511	D.C. Federal Pension Fund
DCP	20X8212	D.C. Judicial Retirement and Survivor's Annuity Fund

Public Enterprise Revolving Fund

BEP	20X4502	Bureau of Engraving & Printing Public Enterprise Fund
MNT	20X4159	Public Enterprise Revolving Fund
OCC	20X8413	Assessment Funds
OTS	20X4108	Public Enterprise Revolving Fund

Other Earmarked Funds

BPD	2061738	Payments to the Terrestrial Wildlife Habitat Restoration
BPD	20X5080	Gifts To Reduce Public Debt
BPD	20X5080.001	Gift To Reduce Public Debt

BPD	20X8207	Lower Brule Sioux Tribe Terrestrial Wildlife Habitat Restoration Trust Fund
BPD	20X8209	Cheyenne River Sioux Terrestrial Wildlife Habitat Restoration Trust Fund
DO	20X5407	Sallie Mae Assessments
DO	20X5816	Confiscated and Vested Iraqi Property and Assets
DO	20X8790	Gifts and Bequests Trust Fund
FMD	205445	Debt Collection
FMD	20X5081	Presidential Election Campaign
FMD	20X8902	Esther Cattell Schmitt Gift Fund
FMS	200/15445	Debt Collection Special Fund
FMS	201/25445	Debt Collection Special Fund
FMS	202/35445	Debt Collection Special Fund
FMS	203/45445	Debt Collection Special Fund
FMS	204/55445	Debt Collection Special Fund
FMS	205/65445	Debt Collection Special Fund
FMS	206/75445	Debt Collection Special Fund
FMS	207/85445	Debt Collection Special Fund
IRS	20X5510	Private Collection Agent Program
TFF	20X5697	Treasury Forfeiture Fund

The ESF uses funds to purchase or sell foreign currencies, to hold U.S. foreign exchange and SDR assets, and to provide financing to foreign governments. ESF accounts and reports its holdings to FMS on the SF224, "Statement of Transactions," as well as to the Congress and Treasury's policy office. The Gold Reserve Act of 1934, Bretton Woods Agreement Act of 1945, P.L. 95-147 and P.L. 94-564 established and authorized the use of the Fund. SDR in the IMF, Investments in U.S. Securities (BPD), and Investments in Foreign Currency Denominated assets are the sources of revenues or other financing sources. ESF's earnings and realized gains on foreign currency denominated assets represent inflows of resources to the Government, and the revenues earned are the result of intra-governmental inflows.

D.C. Pension Funds provide annuity payments for retired D.C. teachers, police officers, judges, and firefighters. The sources of revenues are through annual appropriations, employees' contributions, and interest earnings from investments. All proceeds are earmarked. Note 15 provides detailed information on various funds managed by the Office of DCP.

These Treasury's four non-appropriated bureaus, BEP, Mint, OCC, and OTS, operate "public enterprise funds" account for the revenue and expenses related to the production and sale of numismatic products and circulating bureaus coinage (Mint), the currency printing activities (BEP), and support of oversight functions of banking (OCC) and thrift operations (OTS). 31 USC 142 established the revolving fund for the BEP to account for revenue and expenses related to the currency printing activities. Public Law 104-52 (31 USC §5136) established the Public Enterprise Fund for the U.S. Mint to account for all revenue and expenses related to the production and sale of numismatic products and circulating coinage. Revenues and other financing sources at the Mint are mainly from the sale of numismatic and bullion coins, and the sale of circulating coins to the Federal Reserve Banks system. 12 USC 481 established the Assessment Funds for the OCC, and 103 Stat. 278 established the Public Enterprise Revolving Fund for the OTS. Revenue and financing sources are from the bank examination and assessments for the oversight of the national banks, savings associations, and savings and loan holding companies. These earmarked funds do not directly contribute to the inflows of resources to the government; however, revenues in excess of costs are returned to the General Fund of the U.S. government. There are minimal transactions with other government agencies.

There are other earmarked funds at several Treasury bureaus, such as donations to the Presidential Election Campaign Fund, funds related to the debt collection program, gifts to reduce public debt, and other enforcement related activities. Public laws, statutory laws, U.S. Code, and the Debt Collection Improvement Act, established and authorized the use of these funds. Sources of revenues and other financing sources include contributions, cash and property seized in enforcement activities, public donations, the sale of forfeited properties, and debt collection.

Intra-governmental Investments in Treasury Securities

The Federal government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. Treasury bureaus and other Federal agencies invest some of the earmarked funds that they collect from the public. The funds are invested in securities issued by the Treasury Bureau of Public Debt (BPD), which are shown a Treasury's balance sheet as "Federal Debt and Interest Payable" (under Intra-Governmental Liabilities). The cash collected by BPD is deposited in the General Fund of the U.S. Government, which uses the cash for general government purposes.

The investments provide the Treasury bureaus and other Federal agencies with authority to draw upon the General Fund of the U.S. Government to make future benefit payments or other expenditures. When Treasury bureaus or other Federal agencies require redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

The securities are an asset to the Treasury bureaus and other Federal agencies and a liability of the BPD. The General Fund of the United States Government is liable to BPD. Because Treasury bureaus and other Federal agencies are parts of the U.S. Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. government-wide financial statements. In addition, because BPD is a subcomponent of the Treasury Department reporting entity, balances related to the investments made by Treasury bureaus are eliminated from these consolidated financial statements. However, the General Fund of the U.S. Government remains liable to BPD for the eliminated balances (see Note 4).

Summary Information for Earmarked Funds as of and for the Year ended September 30, 2007

	Exchange Stabilization Fund	D.C. Pensions	Public Enterprise Revolving Funds	Other Earmarked Funds	Combined Earmarked Funds	Eliminations*	FY 2007 Totals
Balance Sheet							
ASSETS:							
Fund Balance	$ 0	$ 0	$ 439	$ 265	$ 704		$ 704
Investments & Related Interest – Intra-governmental	16,439	3,856	1,124	482	21,901	$ 21,901	0
Cash, Foreign Currency & Other Monetary Assets	21,445	0	0	28	21,473		21,473
Investments & Related Interest	10,040	0	0	0	10,040		10,040
Other Assets	0	45	1,259	90	1,394	10	1,384
Total Assets	**$ 47,924**	**$ 3,901**	**$ 2,822**	**$ 865**	**$ 55,512**	**$ 21,911**	**$ 33,601**
LIABILITIES:							
Intra-governmental Liabilities	$ 0	$ 0	$ 24	$ 198	$ 222	$ 13	$ 209
Certificates Issued to Federal Reserve Banks	2,200	0	0	0	2,200		2,200
Allocation of Special Drawing Rights	7,627	0	0	0	7,627		7,627
Other Liabilities	51	9,042	592	193	9,878		9,878
Total Liabilities	9,878	9,042	616	391	19,927	13	19,914
NET POSITION:							
Unexpended Appropriations	200	0	0	0	200		200
Cumulative Results of Operations	37,846	(5,141)	2,206	474	35,385		35,385
Total Liabilities and Net Position	**$ 47,924**	**$ 3,901**	**$ 2,822**	**$ 865**	**$ 55,512**	**$ 13**	**$ 55,499**
Statement of Net Cost							
Gross Cost	$ 703	$ 446	$ 2,997	$ 234	$ 4,380	$ 56	$ 4,324
Less Earned Revenue	(3,864)	(160)	(3,120)	0	(7,144)	(1,036)	(6,108)
Total Net Cost of Operations	**$ (3,161)**	**$ 286**	**$ (123)**	**$ 234**	**$ (2,764)**	**$ (980)**	**$ (1,784)**
Cumulative Results of Operations							
Beginning Balance	$34,685	($5,209)	$1,816	$322	$31,614	$0	$31,614
Budgetary Financing Sources	0	354	0	354	708	40	668
Other Financing Sources	0	0	267	32	299	(16)	315
Total Financing Sources	0	354	267	386	1,007	24	983
Net Cost of Operations	3,161	(286)	123	(234)	2,764	980	1,784
Net Change	3,161	68	390	152	3,771	1,004	2,767
Total Cumulative Results of Operations	**$37,846**	**($5,141)**	**$2,206**	**$474**	**$35,385**	**$1,004**	**$34,381**

*The eliminations reported above include both inter and intra eliminations for the Earmarked Funds. The total eliminations amount will not agree with the eliminations reported in the Statement of Changes in Net Position, which include eliminations for Other Funds.

Summary Information for Earmarked Funds as of and for the Year ended September 30, 2006

	Exchange Stabilization Fund	D.C. Pensions	Public Enterprise Revolving Funds	Other Earmarked Funds	Combined Earmarked Funds	Eliminations*	FY 2006 Totals
Balance Sheet							
ASSETS:							
Fund Balance	$ 0	$ 0	$ 400	$ 234	$ 634		$ 634
Investments & Related Interest – Intra-governmental	15,736	3,862	993	322	20,913	$ 20,913	0
Cash, Foreign Currency & Other Monetary Assets	19,351	0	0	19	19,370		19,370
Investments & Related Interest	9,278	0	0	0	9,278		9,278
Other Assets	0	48	1,132	61	1,241	7	1,234
Total Assets	**$ 44,365**	**$ 3,910**	**$ 2,525**	**$ 636**	**$ 51,436**	**$ 20,920**	**$ 30,516**
LIABILITIES:							
Intra-governmental Liabilities	$ 0	$ 0	$ 151	$ 178	$ 329	$ 15	$ 314
Certificates Issued to Federal Reserve Banks	2,200	0	0	0	2,200		2,200
Allocation of Special Drawing Rights	7,234	0	0	0	7,234		7,234
Other Liabilities	46	9,119	558	134	9,857		9,857
Total Liabilities	**9,480**	**9,119**	**709**	**312**	**19,620**	**15**	**$19,605**
NET POSITION:							
Unexpended Appropriations	200	0	0	2	202		202
Cumulative Results of Operations	34,685	(5,209)	1,816	322	31,614		31,614
Total Liabilities and Net Position	$ 44,365	$ 3,910	$ 2,525	$ 636	$ 51,436	$ 15	$ 51,421
Statement of Net Cost							
Gross Cost	$ 377	$ 1,069	$ 2,879	$ 184	$ 4,509	$ 46	$ 4,463
Less Earned Revenue	(1,710)	(163)	(2,988)	0	(4,861)	(882)	(3,979)
Total Net Cost of Operations	**$ (1,333)**	**$ 906**	**$ (109)**	**$ 184**	**$ (352)**	**$ (836)**	**$ 484**
Cumulative Results of Operations							
Beginning Balance	$ 33,352	$ (4,596)	$ 1,729	$ 332	$ 30,817	$ 0	$ 30,817
Budgetary Financing Sources	0	293	(11)	159	441	28	413
Other Financing Sources	0	0	(11)	15	4	(21)	25
Total Financing Sources	0	293	(22)	174	445	7	438
Net Cost of Operations	1,333	(906)	109	(184)	352	835	(483)
Net Change	1,333	(613)	87	(10)	797	842	(45)
Total Cumulative Results of Operations	**$ 34,685**	**$ (5,209)**	**$ 1,816**	**$ 322**	**$ 31,614**	**$ 842**	**$ 30,772**

*The eliminations reported above include both inter and intra eliminations for the Earmarked Funds. The total eliminations amount will not agree with the eliminations reported in the Statement of Changes in Net Position, which include eliminations for Other Funds.

23. Reconciliation of Net Cost of Operations to Budget

The Reconciliation of Net Cost of Operations to Budget explains the difference between the budgetary net obligations and the proprietary net cost of operations. In previous years this reconciliation was accomplished by presenting the Statement of Financing as a basic financial statement. Effective for fiscal year 2007, the Office of Management and Budget (OMB) and the Chief Financial Officers Council, decided that this reconciliation would be better placed and understood as a footnote rather than a basic statement. For FY 2007, OMB did not prescribe a format for this reconciliation in OMB Circular A-136, *"Financial Reporting Requirements,"* as amended, so that preparers might develop a more robust presentation tailored to their agency. As of September 30, 2007 and September 30, 2006, the Reconciliation of Net Cost of Operations to Budget consisted of the following (in millions):

	2007	2006
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated:		
Obligations Incurred	$ 465,530	$ 445,551
Less: Spending Authority from Offsetting Collections and Recoveries	(10,237)	(9,683)
Obligations Net of Offsetting Collections and Recoveries	455,293	435,868
Less: Offsetting Receipts	(16,040)	(16,568)
Net Obligations	**439,253**	**419,300**
Other Resources:		
Donations and Forfeiture of Property	73	61
Financing Sources for Accrued & Discount on the Debt	7,632	8,991
Transfers In/Out Without Reimbursement	(24)	(24)
Imputed Financing from Cost Absorbed by Others	740	732
Transfers to the General Fund and Other (Note 18)	(12,293)	(13,879)
Net Other Resources Used to Finance Activities	(3,872)	(4,119)
Total Resources Used to Finance Activities	**435,381**	**415,181**
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not yet Provided	4,788	6,690
Credit Program Collections that Increase Liabilities for Loans Guarantees or Allowances for Subsidy	(94)	(37)
Adjustment to Accrued Interest & Discount on the Debt	4,385	10,496
Other (primarily non-exchange portion of offsetting receipts)	(14,089)	(14,711)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(5,010)	2,438
Total Resources Used to Finance the Net Cost of Operations	**440,391**	**412,743**
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	(18)	564
Total Components of Net Cost of Operations that will not Require or Generate Resources	948	528
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	**930**	**1,092**
Net Cost of Operations	**$ 441,321**	**$ 413,835**

Required Supplemental Information (Unaudited)

Introduction

This section provides the Required Supplemental Information as prescribed by Office of Management and Budget (OMB) Circular A-136, *"Financial Reporting Requirements."*

Other Claims for Refunds

The Department has estimated that $21.4 billion may be payable as other claims for tax refunds. This estimate represents amounts (principal and interest) that may be paid for claims pending judicial review by the Federal courts or internally. The total estimated payout (including principal and interest) for claims pending judicial review by the federal courts is $8.8 billion and by appeals is $5.9 billion. Although these refund claims have been deemed to be probable, they do not meet the criteria in SFFAS No. 5 for reporting the amounts in the Balance Sheet or for disclosure in the notes to the financial statements. However, they meet the criteria in SFFAS No. 7 for inclusion as supplemental information.

Federal Tax Receivable, Net

In accordance with SFFAS No. 7, some unpaid tax assessments do not meet the criteria for financial statement recognition as discussed in the Note 1 to the financial statements. Although compliance assessments and write-offs are not considered receivables under federal accounting standards, they represent legally enforceable claims of the federal government. There is, however, a significant difference in the collection potential between compliance assessments and receivables.

The components of the total unpaid assessments at September 30, 2007 were as follows (in millions):

Total Unpaid Assessments	$	263,000
Less: Compliance Assessments		(65,000)
Write Offs		(100,000)
Gross Federal Taxes Receivable	**$**	**98,000**
Less: Allowance for Doubtful Accounts		(72,000)
Federal Taxes Receivables, Net	**$**	**26,000**

To eliminate double counting, the compliance assessments reported above exclude trust fund recovery penalties, totaling $6 billion, assessed against officers and directors of businesses who were involved in the non-remittance of federal taxes withheld from their employees. The related unpaid assessments of those businesses are reported as taxes receivable or write-offs, but the Department may also recover portions of those businesses' unpaid assessments from any and all individual officers and directors against whom a trust fund recovery penalty is assessed.

Internal Revenue Service (IRS)

The unpaid assessments balance represents assessments resulting from taxpayers filing returns without sufficient payment; as well as from the IRS's enforcement programs such as examination, under-reporter, substitute for return, and combined annual wage reporting. A significant portion of this balance is not considered a receivable. Also, a substantial portion of the amounts considered receivables is largely uncollectible.

Under federal accounting standards, unpaid assessments require taxpayer or court agreement to be considered federal taxes receivable. Assessments not agreed to by taxpayers or the courts are considered compliance assessments and are not considered federal taxes receivable. Due to the lack of agreement, these compliance assessments are less likely to have future collection potential than those unpaid assessments that are considered federal taxes receivable.

Assessments with little or no future collection potential are called write-offs. Write-offs principally consist of amounts owed by deceased, bankrupt or defunct taxpayers, including many failed financial institutions liquidated by the FDIC and the former Resolution Trust Corporation (RTC). As noted above, write-offs have little or no future collection potential, but statutory provisions require that these assessments be maintained until the statute for collection expires.

FY 2007 Statement of Budgetary Resources Disaggregated by Sub-organization Accounts (in Millions):

	Bureau of Engraving & Printing	Bureau of the Public Debt	Departmental Offices	Financial Crimes Enforcement Network	Financial Management Service	Internal Revenue Service	U.S. Mint*	Office of the Comptroller of the Currency	Office of Thrift Supervision	Alcohol and Tobacco Tax and Trade Bureau	9/30/2007 Combined Total
Budgetary Resources											
Unobligated balance brought forward	$ 96	$ 12	$ 55,802	$ 13	$ 249	$ 551	$ (21)	$ 598	$ 238	$ 2	$ 57,540
Recoveries of prior year unpaid obligations		9	124	1	9	182	144		2	3	474
Budget Authority:											
Appropriations		437,706	5,499	73	11,056	10,775				91	465,200
Borrowing authority			11								11
Spending authority from offsetting collections:											
Earned:											
Collected	572	16	6,222	1	198	111	1,863	708	243	3	9,937
Change in receivable from federal sources	6		(18)			1	(55)				(66)
Change in unfilled customer order:											
Advance received	1		13	1			2				17
Without advance from federal sources			(133)		2	6					(125)
Anticipated for rest of year, without advances											
Subtotal	579	437,722	11,594	75	11,256	10,893	1,810	708	243	94	474,974
Non-expenditure transfers, net		(2)	22			5					25
Temporarily not available pursuant to Public Law		(5)	(34)				129				90
Permanently not available		(7,412)	(1,270)		(1,197)	(72)	(172)				(10,123)
Total Budgetary Resources	**$ 675**	**$ 430,324**	**$ 66,238**	**$ 89**	**$ 10,317**	**$ 11,559**	**$ 1,890**	**$ 1,306**	**$ 483**	**$ 99**	**$ 522,980**
Status of Budgetary Resources											
Obligations incurred											
Direct		$ 430,291	$ 9,875	$ 76	$ 9,857	$ 10,807				$ 93	$ 460,999
Reimbursable	$ 563	17	960	2	202	90	$ 1,837	$ 638	$ 219	3	4,531
Subtotal	563	430,308	10,835	78	10,059	10,897	1,837	638	219	96	465,530
Unobligated Balance											
Apportioned	112	4	12,971	8	206	171	53				13,525
Exempt from apportionment		4	31,964		30			668	264		32,930
Subtotal	112	8	44,935	8	236	171	53	668	264		46,455
Unobligated balance not available		8	10,468	3	22	491				3	10,995
Total Status of Budgetary Resources	**$ 675**	**$ 430,324**	**$ 66,238**	**$ 89**	**$ 10,317**	**$ 11,559**	**$ 1,890**	**$ 1,306**	**$ 483**	**$ 99**	**$ 522,980**
Relationship of Obligations to Outlays											
Obligated balance, net											
Unpaid obligations brought forward	$ 101	$ 62	$ 50,598	$ 20	$ 257	$ 1,532	$ 309	$ 118	$ 40	$ 20	$ 53,057
Uncollected customer payments from Federal sources brought forward	(33)	(1)	(456)		(37)	(15)	(62)	(4)		(1)	(609)
Total unpaid obligated balance, net	68	61	50,142	20	220	1,517	247	114	40	19	52,448
Obligations incurred, net	563	430,308	10,835	78	10,059	10,897	1,837	638	219	96	465,530
Gross Outlays	(561)	(430,303)	(5,872)	(80)	(9,974)	(10,806)	(1,792)	(605)	(216)	(93)	(460,302)
Recoveries of prior year unpaid obligations, actual		(9)	(124)	(1)	(9)	(182)	(144)		(2)	(3)	(474)
Change in uncollected customer payments from federal sources	(6)	(1)	152	(1)	(2)	(7)	56				191
Obligated balance net, end of period											
Unpaid obligations	102	57	55,442	16	332	1,440	209	152	42	19	57,811
Uncollected customer payments from federal sources	(39)	(1)	(307)		(39)	(22)	(6)	(4)			(418)
Total unpaid obligated balance, net, end of period	63	56	55,135	16	293	1,418	203	148	42	19	57,393
Net Outlays											
Gross outlays	561	430,303	5,872	80	9,974	10,806	1,792	605	216	93	460,302
Offsetting collections	(572)	(16)	(4,475)	(1)	(198)	(111)	(1,865)	(708)	(243)	(3)	(8,192)
Distributed offsetting receipts		(13,773)	(565)		(1,545)	(157)					(16,040)
Net Outlays	**$ (11)**	**$ 416,514**	**$ 832**	**$ 79**	**$ 8,231**	**$ 10,538**	**$ (73)**	**$ (103)**	**$ (27)**	**$ 90**	**$ 436,070**

* The difference between U.S. Mint's balances reported above and U.S. Mint's Statement of Budgetary Resources is due to immaterial year-end adjustments by the U.S. Mint.

Deferred Maintenance

In FY 2007, the Department had no material amounts of deferred maintenance to report on vehicles, buildings, and structures owned by the Department.

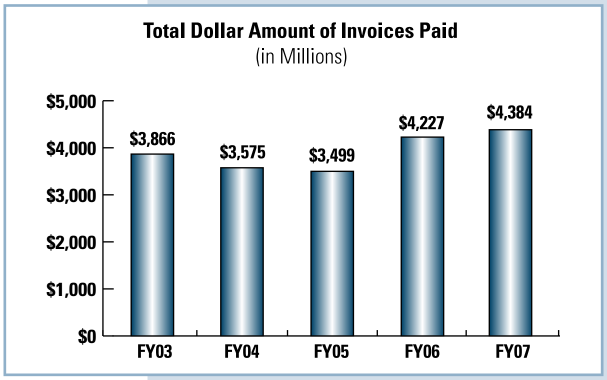
Treasury bureaus use a specific methodology in determining deferred maintenance. Logistic personnel use condition assessment surveys and/or the total life-cycle cost methods to determine deferred maintenance and acceptable operating condition of an asset. Periodic condition assessments, physical inspections, and review of manufacturing and engineering specifications, work orders, building, and other structure logistics reports can be used under these methodologies.

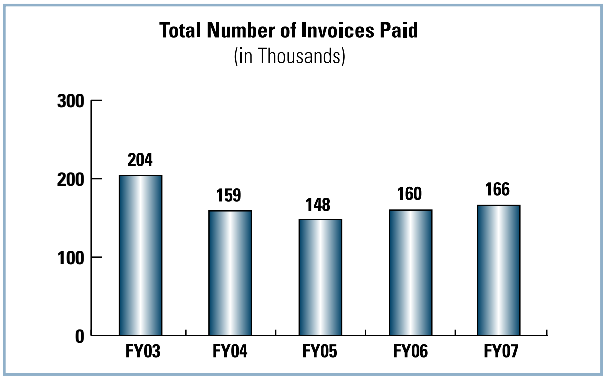
Other Accompanying Information (Unaudited)

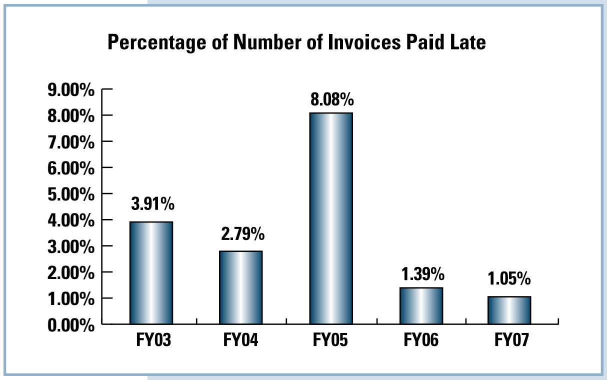
This section provides Other Accompanying Information as prescribed by OMB Circular A-136, *"Financial Reporting. Requirements"*

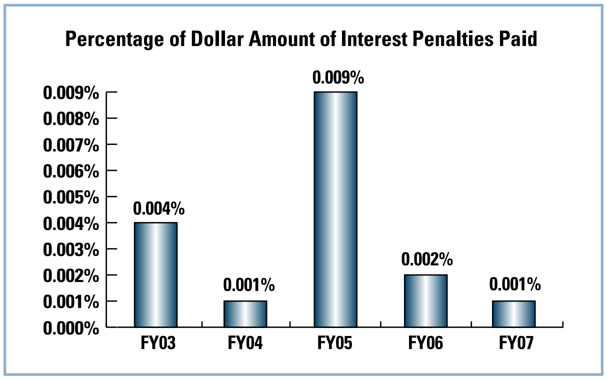
Prompt Payment

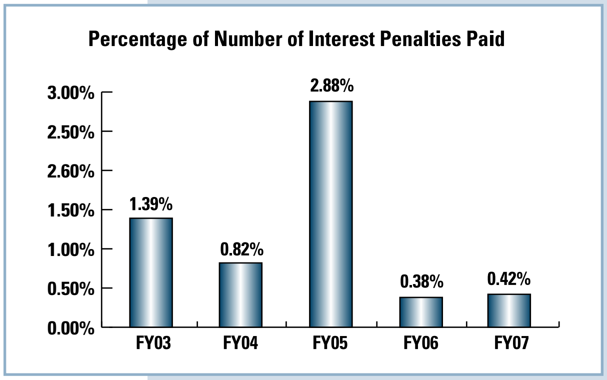
The Prompt Payment Act requires Federal agencies to make timely payments to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts only when they are economically justified. Treasury bureaus report Prompt Payment data on a monthly basis to the Department, and periodic quality control reviews are conducted by the bureaus to identify potential problems. The amount of interest penalties decreased in FY 2007.











Tax Gap

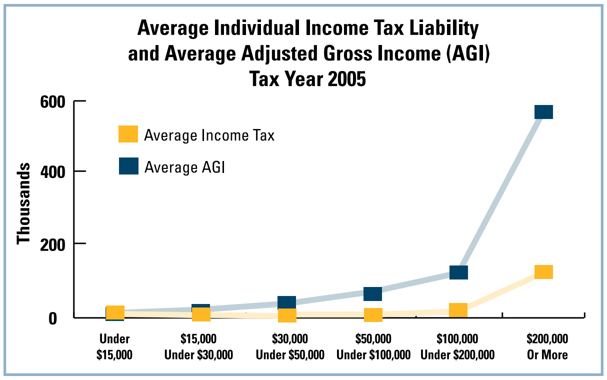
Reducing the tax gap is at the heart of IRS' enforcement programs. The tax gap is the difference between what taxpayers should pay and what they actually pay due to not filing tax returns, not paying their reported tax liability on time, or failing to report their correct tax liability. The tax gap, about $345 billion based on updated FY 2007 estimates, represents the amount of noncompliance with the tax laws. Underreporting tax liability accounts for 82% of the gap, with the remainder almost evenly divided between non-filing (8%) and underpaying (10%). The IRS remains committed to finding ways to increase compliance and reduce the tax gap, while minimizing the burden on the vast majority of taxpayers who pay their taxes accurately and on time.

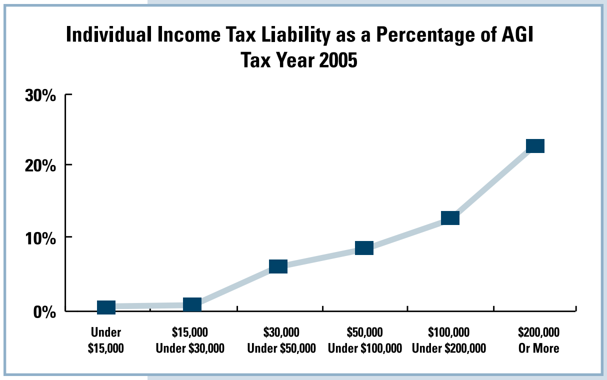
The tax gap is the aggregate amount of tax (i.e., excluding interest and penalties) that is imposed by the tax laws for any given tax year but is not paid voluntarily and timely. The tax gap arises from the three types of noncompliance: not filing required tax returns on time or at all (the non-filing gap), underreporting the correct amount of tax on timely filed returns (the underreporting gap), and not paying on time the full amount reported on timely filed returns (the underpayment gap). Of these three components, only the underpayment gap is observed; the non-filing gap and the underreporting gap must be estimated. Each instance of noncompliance by a taxpayer contributes to the tax gap, whether or not the IRS detects it, and whether or not the taxpayer is even aware of the noncompliance. Obviously, some of the tax gap arises from intentional (willful) noncompliance, and some of it arises from unintentional mistakes.

The collection gap is the cumulative amount of tax, penalties, and interest that has been assessed over many years, but has not been paid by a certain point in time, and which the IRS expects to remain uncollectible. In essence, it represents the difference between the total balance of unpaid assessments and the net taxes receivable reported on the IRS' balance sheet. The tax gap and the collection gap are related and overlapping concepts, but they have significant differences. The collection gap is a cumulative balance sheet concept for a particular point in time, while the tax gap is like an income statement item for a single year. Moreover, the tax gap estimates include all noncompliance, while the collection gap includes only amounts that have been assessed (a small portion of all noncompliance).

Tax Burden

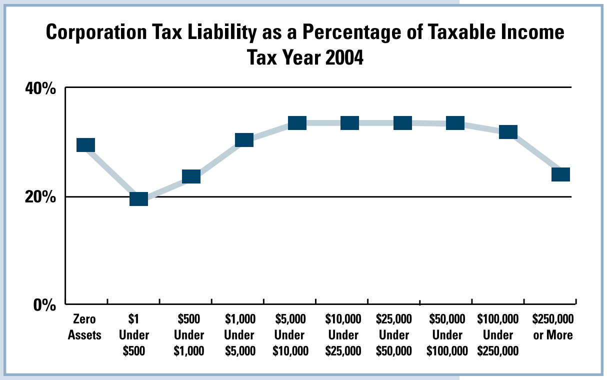
The Internal Revenue Code provides for progressive rates of tax, whereby higher incomes are generally subject to higher rates of tax. The graphs below present the latest available information on income tax and adjusted gross income (AGI) for individuals by AGI level and for corporations by size of assets. For individuals, the information illustrates, in percentage terms, the tax burden borne by varying AGI levels. For corporations, the information illustrates, in percentage terms, the tax burden borne by these entities by various sizes of their total assets. The graphs are only representative of more detailed data and analysis available from the Statistics of Income (SOI) office.





Individual Income Tax Liability
Tax Year 2005

Adjusted Gross Income (AGI)	Number of taxable returns (in thousands)	AGI (in millions)	Total income tax (in millions)	Average AGI per return (in whole dollars)	Average income tax per return (in whole dollars)	Income tax as a percentage of AGI
Under $15,000	36,889	$ 197,723	$ 3,239	$ 5,360	$ 88	1.6%
$15,000 under $30,000	29,739	655,562	23,308	22,044	784	3.6%
$30,000 under $50,000	24,596	961,071	60,187	39,075	2,447	6.3%
$50,000 under $100,000	28,867	2,033,408	179,382	70,441	6,214	8.8%
$100,000 under $200,000	10,831	1,434,585	190,599	132,452	17,598	13.3%
$200,000 or more	3,541	2,081,299	471,549	587,772	133,168	22.7%
Total	**134,463**	**$ 7,363,648**	**$ 928,264**			



Corporation Tax Liability
Tax Year 2004

Total Assets (in thousands)	Income subject to tax (in millions)	Total income tax after credits (in millions)	Percentage of income tax after credits to taxable income
Zero Assets	$ 15,385	$ 4,076	26.5%
$1 under $500	8,436	1,536	18.2%
$500 under $1,000	4,081	960	23.5%
$1,000 under $5,000	12,215	3,519	28.8%
$5,000 under $10,000	7,562	2,446	32.3%
$10,000 under $25,000	10,694	3,511	32.8%
$25,000 under $50,000	10,076	3,282	32.6%
$50,000 under $100,000	12,037	3,918	32.5%
$100,000 under $250,000	23,779	7,529	31.7%
$250,000 or more	753,124	193,658	25.7%
Total	**$ 857,389**	**$ 224,435**	**26.2%**

Part IV: Appendices

- Appendix A: Full Report of the Treasury Department's Fiscal Year 2007 Performance Measures
- Appendix B: Completeness and Reliability of Performance Data
- Appendix C: Improper Payments Information Act and Recovery Act
- Appendix D: Management Challenges and Responses
- Appendix E: Material Weaknesses, Audit Follow-up, and Financial Systems
- Appendix F: Organizational Structure
- Appendix G: Program Assessment Rating Tool (PART) Evaluations
- Appendix H: Cost by Outcome Determination
- Appendix I: Glossary of Acronyms

Appendix A:
Full Report of the Treasury Department's Fiscal Year 2007 Performance Measures by Focus and Strategic Goal

FY 2007 Performance Summary

This section reports the results of Department of the Treasury's official performance measures by focus and strategic goal, and further by bureau/organization, for which targets were set in the fiscal year 2007 Performance Plan, as presented in the Fiscal Year 2008 Congressional Justification for Appropriations and Performance Plans. For each performance measure, there is a definition of the measure, performance levels and targets for three previous fiscal years (where available), the performance target and actual for the reporting year, and proposed performance targets for the next fiscal year (where available). The report examines unrealized performance targets and presents actions for improvement.

The purpose of the Treasury Department's strategic management effort is to develop effective performance measures to achieve the Department's goals and objectives, and the activities that will improve *results* delivered to the American public. In the final performance plan, for fiscal year 2007 and transmitted to Congress as part of the fiscal year 2008 budget, the Department detailed its performance targets.

Overall, the Department of the Treasury established 130 performance targets in fiscal year 2007. Of these, 5 are baseline and 8 were discontinued. Of the remaining 117 measures, Treasury met or exceeded 95 targets and did not meet 22 of its performance targets.

Fiscal Year 2007 Treasury-wide Performance Summary					
Total Measures	Target Met	Target Unmet	Baseline	Discontinued	N/A
130	94 (72%)	23 (18%)	5 (4%)	8 (6%)	0

Definitions and Other Important Information

Determination of Official Measures: A rigorous process is followed to maintain internal controls when establishing or modifying performance measures. To be included in the PAR report, a performance measure must be in the performance budget for the year in question, and must be approved by the Performance Reporting System administrator.

Actuals: For most of the measures included in this report, the fiscal year 2007 actual data is final. Some of the actual data for fiscal year 2007 are estimates at the time of publication, which are indicated by an asterisk (*). Actual data for these estimated measures will be presented in the Fiscal Year 2009 Congressional Justification for Appropriations and the Fiscal Year 2008 Performance and Accountability Report. The actual data for previous years throughout this report is the most current data available and may not reflect previous editions of the Performance and Accountability Report and the Congressional Justification.

Targets: The targets shown for fiscal year 2008 are proposed targets and are subject to change. The final targets will be presented in the Fiscal Year 2009 Congressional Justification for Appropriations. Also included in this report are the previous year's final targets for each performance measure.

Target Met?: For each fiscal year that there is a target and an actual number, the report tells the reader whether the target was met or not. If the target is met, "Y" will be shown. If the target was not met, "N" will be shown.

Definition: All performance measures in this report have a detailed definition describing the measure and summarizing the calculation.

Source: The basis for the data is included in this report.

Future Plans/Explanation for Shortfall: If a performance target is not met, the report includes an explanation as to why Treasury did not meet its target, and what it plans to do to improve performance in the future. If a performance target is met, the report includes what future plans Treasury has to either match fiscal year 2007 performance, or improve on that performance in future years. Explanations may also include justification for any expected degradation in performance.

Not Available: Some measures indicated as "Not Available" did not have actual data available at the time the Fiscal Year 2007 Performance and Accountability Report was published. Some data will be available after publication and will be reported in the Fiscal Year 2008 Performance and Accountability Report and the Fiscal Year 2009 Congressional Justification for Appropriations.

Discontinued: Some measures will be discontinued in the Fiscal Year 2009 Congressional Justification for Appropriations and the Fiscal Year 2007 Performance and Accountability Report. New measures are sometimes developed in order to better measure performance; when this happens, the measure being replaced is discontinued, and an explanation is provided.

Baseline Measures: There are 5 new fiscal year 2007 measures included in this report. These measures undergo a process where new baseline values (data actual and targets determined for the very first time) are established during the current fiscal year. Baseline values facilitate target-setting in the future.

Additional Information: Additional Information relating to Treasury's performance management can be found at http://www.treas.gov/offices/management/budget/planningdocs/index.html

Legend:	
*	Indicates actual data is estimated and subject to change
Oe	Outcome Measure
E	Efficiency Measure
Ot	Output Measure

STRATEGIC GOAL: EFFECTIVELY MANAGED U.S. GOVERNMENT FINANCES

Strategic Outcome:

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

Measure: Timeliness of Critical Filing Season Tax Products to the Public (%) (E)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	75	80	92	85.2	86
Actual	76	91.4	83	83.5	
Target met?	Y	Y	N	N	

Definition: The percentage of Critical Tax Products, paper and electronic, made available to the public timely. Critical Tax Products are business tax products, Tax Exempt and Government Entities and miscellaneous tax products. This measure contains two components: (1) percentage of paper tax products that meet the scheduled start to ship date within five business days of the actual start to ship date and (2) percentage of scheduled electronic tax products that is available on the Internet within five business days of the ok-to-print date. The intent is to have the tax products available to the public 30 days before the form is required to be filed.

Indicator Type: Measure

Data Capture and Source: Publishing Services Data (PSD) System

Data Verification and Validation: Nightly processes provide analysts and management with reports concerning production status, missing data problems, and past due situations.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: For fiscal year 2007, the Timeliness of Critical Filing Season Tax Products to the Public was 83.5 percent, 1.7 percentage points below the fiscal year 2007 target of 85.2 percent and 0.6 percent above the prior year's performance of 83.0. The late passage of Extender Legislation affecting state and local sales taxes and education expenses was the primary cause for the IRS not meeting this target. More than 1,000 tax product revisions affecting 137 of the 164 filing season products used by taxpayers were changed with no impact to the start of the filing season. A total of 27 tax products were delayed. Eleven tax products were directly impacted by the Extender legislation and the remaining sixteen were indirectly impacted by the Extender legislation as a result of workload modifications to accommodate priority forms and publications. These products were originally scheduled for processing between October and December 2006.

Measure: Timeliness of Critical Other Tax Products to the Public (%) (E)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	Baseline	80	85	79.6	86
Actual	76	80	61.2	84	
Target met?	Y	Y	N	Y	

Definition: The percentage of Critical Other Tax Products, paper and electronic, made available to the public timely. Critical Other Tax Products are business tax products, Tax Exempt and Government Entities and miscellaneous tax products. This measure contains two components: (1) percentage of paper tax products that meet the scheduled start to ship date within five business days of the actual start to ship date and (2) percentage of scheduled electronic tax products that is available on the Internet within five business days of the ok-to-print date. The intent is to have the tax products available to the public 30 days before the form is required to be filed.

Indicator Type: Measure

Data Capture and Source: Publishing Services Data System (PSD)

Data Verification and Validation: Nightly processes provide analysts and management with reports concerning production status, missing data problems, and past due situations.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: The IRS expects performance to increase for fiscal year 2008. Standardized and measurable processes will be used to manage the quality and timeliness of tax product revision resulting from new and late legislation.

Measure: Taxpayer Self Assistance Rate	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		42.5	45.7	48.6	51.5
Actual		42.5	46.8	49.5	
Target met?	N/A	Y	Y	Y	

Definition: The percent of contacts that are resolved by automated self-assistance applications.

Indicator Type: Measure

Data Capture and Source: Enterprise Telephone Data (ETD) Snapshot Report, Accounts Management Information Report (AMIR), Internet Refund/Fact of Filing Project Site, MIS Reporting Tool, Electronic Tax Administration (ETA) Website, Microsoft Excel Spreadsheet tracking (Kiosk Visits)

Data Verification and Validation: Automated Calls Answered + Web Services Completed Divided by: Assistor Calls Answered + Automated Calls Answered + Web Services Completed + Electronic Interactions + Customer Accounts Resolved (Paper), Taxpayer Assistance Centers Contact. This measure summarizes the following self-service activities: telephone automated calls answered, and web services compared to the volume of all interactions, including correspondence and amended returns, electronic interactions such as from electronic interactions such as ETLA, & I-EAR and assistor calls answered.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: The IRS expects performance to continue to increase as more taxpayers choose to use automated applications to resolve issues and questions instead of more traditional methods such as contact with the IRS by telephone and correspondence.

Measure: Percent of Individual Returns Filed Electronically (%) (Oe)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	45	51	55	57	61.8
Actual	47	51	54.1	57.1	
Target met?	Y	Y	N	Y	

Definition: Number of electronically filed individual tax returns divided by the total individual returns filed.

Indicator Type: Measure

Data Capture and Source: Work Planning and Control reports from W&I Submission Processing campuses.

Data Verification and Validation: 1. At each Submission Processing Center, managerial oversight is used to ensure that the balancing instructions for the Balance Forward Listing are followed and that necessary adjustments are made. 2. Management Officials review "II" Report prior to its release to Headquarters personnel. 3. Headquarters Personnel release preliminary data for peer and managerial review prior to releasing data for the measure.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: The e-File participation rate is projected to increase to 61.8 percent in 2008 based on current experience, historical growth, increased advertising, marketing, and expanded e-File programs and do not reflect gains from any mandates.

Measure: Percent of Business Returns Processed Electronically (%) (Oe)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	Baseline	17	18.6	19.5	20.8
Actual	17.4	17.8	16.6	19.1	
Target met?	Y	Y	N	N	

Definition: The number of electronically filed business returns divided by the total business returns filed.

Indicator Type: Measure

Data Capture and Source: Work Planning and Control reports from W&I Submission Processing campuses.

Data Verification and Validation: 1. At each Submission Processing Center, managerial oversight is used to ensure that the balancing instructions for the Balance Forward Listing are followed and that necessary adjustments are made. 2. Management Officials review Program Analysis Report prior to its release to Headquarters personnel. 3. Headquarters Personnel release preliminary data for peer and managerial review prior to releasing data for the measure.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: For fiscal year 2007, 19.1 percent of the business returns processed were filed electronically. This is two percent below the plan of 19.5 percent and 15 percent above the prior year's performance of 16.6 percent. For the fiscal year, business returns processed are running more than 500,000 above total projections. Of this overall increase over total projections, those from paper submissions are almost 800,000 above projections, while those from electronic submissions are almost 475,000 below projections. The majority of the electronic submission under run continues to be employment returns (primarily Forms 941, Employer's Quarterly Federal Tax Return) and corporation returns (primarily Forms 1120, U.S. Corporation Income Tax Return). The combination of e-File being under schedule and the total business returns (paper and e-File combined) being over schedule exacerbates the percentage of business returns e-Filed.

Measure: Customer Accuracy Tax Law Phones (%) (Oe)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	85	82	90	91	91
Actual	80	89	90.9	91.2	
Target met?	N	Y	Y	Y	

Definition: The percentage of correct tax law answers provided by a telephone assistor. The measure indicates how often customers receive the correct answer to their tax law inquiry based upon all available information and Internal Revenue Manual required actions.

Indicator Type: Measure

Data Capture and Source: Quality reviewers on the Centralized Quality staff complete a data collection instrument as calls are reviewed. Data is input to the Quality Review Database for product review and reporting.

Data Verification and Validation: Field 715 on the DCI is coded by the CQRS monitor as calls are reviewed. Data is input to the NQRS. The NQRS contains several levels of validation that occur as part of the review process. The input records are validated requiring entries and combinations of entries based upon the relationships inherent in different product lines or based upon an entry in a quality attribute. The national reviews conducted by CQRS site staff on telephone product lines are sampled by local management and management officials at the CQRS site. In addition, every review is available on-line to the site for verification purposes. Sites monitor their review records daily and have a small rebuttal period to contest any review.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: The IRS will maintain Tax law Accuracy at 91 percent in fiscal year 2008. The type and complexity of tax law questions changes each year as new and often complex tax laws are enacted.

Measure: Customer Accuracy Customer Accounts (Phones) (%) (Oe)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	89	89.8	92	93.3	93.5
Actual	89	91.5	93.2	93.4	
Target met?	Y	Y	Y	Y	

Definition: The percentage of correct answers provided by a telephone assistor. The measure indicates how often customers receive the correct answer to their account inquiry and/or had their case resolved correctly based upon all available information and Internal Revenue Manual required actions.

Indicator Type: Measure

Data Capture and Source: Quality reviewers on the Centralized Quality staff complete a data collection instrument as calls are reviewed. Data is input to the Quality Review Database for product review and reporting.

Data Verification and Validation: Field 715 on the DCI is coded by the CQRS monitor as calls are reviewed. Data is input to the NQRS. The NQRS contains several levels of validation that occur as part of the review process. The input records are validated requiring entries and combinations of entries based upon the relationships inherent in different product lines or based upon an entry in a quality attribute. The national reviews conducted by CQRS site staff on telephone product lines are sampled by local management and management officials at the CQRS site. In addition, every review is available on-line to the site for verification purposes. Sites monitor their review records daily and have a small rebuttal period to contest any review.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: Incremental improvement in performance is expected in fiscal year 2008 and beyond with the development of new online tools for assistors to research taxpayer questions.

Measure: Customer Service Representative (CSR) Level of Service (%) (Oe)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	83	82	82	82	82
Actual	87	82.6	82	82.1	
Target met?	Y	Y	Y	Y	

Definition: The relative success rate of taxpayers that call for toll-free services seeking assistance from a Customer Service Representative.

Indicator Type: Measure

Data Capture and Source: Enterprise Telephone Database (ETD)

Data Verification and Validation: 1. Validation of monthly report data by W&I P&A staff. 2. The JOC validates CSR LOS data prior to publication of the weekly official Snapshot report. Independent weekly CSR LOS source data is also gathered and validated by comparing data with the data used to produce the official Snapshot report.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: The IRS will continue to properly staff toll-free sites in order to maintain the CSR Level of Service target of 82 percent.

Measure: Customer Contacts Resolved per Staff Year (E)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		7261	7477	7702	8000
Actual		7585	7414	7648	
Target met?	N/A	Y	N	N	

Definition: The number of Customer Contacts resolved in relation to time expended based on staff usage. Customer Contacts Resolved are derived from all telephone and paper inquiries received by Accounts Management, in which all required actions have been taken, and the taxpayer has been notified as appropriate. The measure includes all self-service, Internet-based applications, such as the “Where’s My Refund?” service available on www.irs.gov.

Indicator Type: Measure

Data Capture and Source: Contacts resolved volumes are derived from internal telephone management systems and modernization project websites. Staff year data is extracted from the weekly Work Planning & Control report and consolidated and included in the weekly resource usage report.

Data Verification and Validation: 1. Data is compiled from several sources (see individual components below). Each area is responsible for component accuracy: Enterprise Telephone Data (ETD) Snapshot Report, Accounts Management Information Report (AMIR), Internet Refund/Fact of Filing, MIS Reporting Tool, Electronic Tax Administration (ETA) Website, Work Planning & Control (WP&C) Report, Resource Allocation Report (RAR).

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: The Customer Contacts Resolved per Staff Year target was set using preliminary FTE levels. For fiscal year 2007, the actual was 7,648, within one percent of the target of 7,702. The IRS completed almost 4 million additional web services than projected. During the latter part of the fiscal year, an emphasis was placed on reducing inventory levels in the Accounts Management paper programs, resulting in more FTE spent than were used in calculating the target. Completing a web service is defined as providing a service requested by a taxpayer or tax practitioner through self-assist internet-based applications such as Internet Refund Fact of Filing (“Where’s My Refund”), Transcript Delivery System, Preparer Tax Identification Number, Internet-EIN, Prior Year Earned Income Option, and Disclosure Authorizations.

Measure: Refund Timeliness - Individual (paper) (%) (E)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		98.4	99.2	99.2	99.2
Actual		98.3	99.3	99.1	
Target met?	N/A	N	Y	N	

Definition: The percentage of refunds resulting from processing Individual Master File paper returns issued within 40 days or less.

Indicator Type: Measure

Data Capture and Source: Submission Processing Measures Analysis and Reporting Tool (SMART). Data is extracted from a Generalize Mainframe Framework computer run that processes data input by the processing centers.

Data Verification and Validation: The calculation for Refund Timeliness is a ratio of untimely IMF paper refunds in a sample compared against the total number of IMF paper refunds reviewed in a sample. The result of the ratio is weighted against the entire volume of refund returns a center has processed on a monthly basis. The monthly results are tabulated to determine the performance rating at the corporate and site level.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: The IRS was within one percent of target. For fiscal year 2007, Refund Timeliness was 99.1 percent, 0.1 percentage point below the fiscal year 2007 target of 99.2 percent. Delays associated with taxpayer identification number processing, including: increases in the number of Individual Taxpayer Identification Number (ITIN) applications; verification of required documentation (which is often submitted in a foreign language); and ITIN System stability issues that caused work stoppages during the peak processing season were the sources for delay. Assignment of an ITIN must be completed before the associated tax return can be processed and any refund claim released for processing.

Measure: Criminal Investigations Completed (Ot)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	3400	3895	3945	4000	4025
Actual	4387	4104	4157	4269	
Target met?	Y	Y	Y	Y	

Definition: The total number of subject criminal investigations completed during the fiscal year, including those that resulted in prosecution recommendations to the Department of Justice as well as those discontinued due to a lack of prosecution potential.

Indicator Type: Measure

Data Capture and Source: Criminal Investigations Management Information System (CIMIS)

Data Verification and Validation: The guidance and direction given by upper management to first line managers is that the first line managers should review their individual work group CIMIS data tables at the beginning of each month. The use of this procedure will assure that system input errors are corrected no later than 30 days after the error is initially reported in the monthly CIMIS data tables. Additionally, national standard monthly reports and statistical information are circulated among the senior staff and headquarter analysts for their review and use. If the published information on the official critical measure appears to be out of line with what is normal or expected, headquarters analysts or senior staff request that the CI research staff verify that the published and circulated information and/or report is accurate. If the published and circulated information is not accurate, then the CI research staff corrects the error and issues revised data for the month.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: The IRS will continue to monitor performance and adjust program focus as necessary to ensure efforts garner the greatest deterrent effect possible.

Measure: Conviction Rate (%) (Oe)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	Baseline	92	92	92	92
Actual	92.2	91.2	92	90.2	
Target met?	Y	N	Y	N	

Definition: The percent of adjudicated criminal cases that result in convictions. The conviction rate is defined as the total number of cases with CIMIS status codes of guilty plea, nolo-contendere, judge guilty, or jury guilty divided by these status codes and nolle prosequi, judge dismissed and jury acquitted.

Indicator Type:

Data Capture and Source: Cases are tracked in CIMIS with frequent updates to the status code.

Data Verification and Validation: Criminal Investigation management dictates that the lead agent assigned to the investigation and/or the agent's manager(s) input investigation data directly into CIMIS. Agents and management directs first line managers to review individual work group CIMIS reports for accuracy each month to ensure any system input errors or omissions are corrected within 30 days of the initial issuance of the monthly data tables. (Rev. 1-07) Standardized reports extract data related to the status codes sited above on a monthly basis. This calculation is performed monthly.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: The fiscal year 2007 conviction rate was 90.2 percent, 1.8 percentage points below the 92 percent target rate. The drop in fiscal year 2007 appears to be largely attributable to an increase in dismissals, many involving complex legal issues and multiple defendants. Some of these dismissals were appealed by the government. It is possible to materially reduce the number of dismissals by selecting less sophisticated cases, however, over the past five years, Criminal Investigation demonstrated that investigating sophisticated high dollar, high impact legal source income cases fosters effective deterrence, although these cases entail risk.

Measure: Number of Convictions (Oe)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		Baseline	2260	2069	2135
Actual		2151	2019	2155	
Target met?	N/A	Y	N	Y	

Definition: Convictions are the total number of cases with Criminal Investigation Management Information System (CIMIS) status codes of guilty plea, nolo-contendere, judge guilty, or jury guilty.

Indicator Type:

Data Capture and Source: Standardized reports extract data related to the status codes sited above on a monthly basis.

Data Verification and Validation: Cases are tracked in CIMIS with frequent updates to the status code.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: The IRS will continue to monitor Criminal Investigation's performance and adjust program focus as necessary to ensure efforts garner the greatest deterrent effect possible.

Measure: Conviction Efficiency Rate (Cost per Conviction) ($) (E)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target			339565	314008	325895
Actual			328750	301788	
Target met?	N/A	N/A	Y	Y	

Definition: The cost of CI's program divided by the number of convictions. The number of convictions is the total number of cases with the following CIMIS statuses: guilty plea, nolo contendere, judge guilty or jury guilty. The Criminal Investigation financial plan includes all appropriations and reimbursements for the entire year. It is the fully loaded cost, including employees' salaries, benefits, and vacation time, as well as facility costs (office space, heating, cleaning, computers, security, etc.), and other overhead costs.

Indicator Type:

Data Capture and Source: The final fiscal year-end expenses as documented in IFS plus corporate costs as determined by the Chief Financial Officer divided by the number of convictions reported for the year. The source: CI Management Information System (CIMIS) and the Integrated Financial System (IFS)

Data Verification and Validation: Criminal Investigation management dictates that the lead agent assigned to the investigation and/or the agent's manager(s) input investigation data directly into CIMIS. Agents and management are to enter status updates into CIMIS within five calendar days of the triggering event. Further, upper management directs first line managers to review individual work group CIMIS reports for accuracy each month to ensure any system input errors or omissions are corrected within 30 days of the initial issuance of the monthly data tables. The CFO, Associate CFO for Internal Financial Management, and Associate CFO Corporate Performance Budgeting ensure the functionality and accuracy of the Integrated Financial System-the Service's core accounting system of records. (Rev. 1-07)

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: The IRS will continue to monitor Criminal Investigation's performance and adjust program focus as necessary to ensure efforts garner the greatest deterrent effect possible.

Measure: Field Exam Embedded Quality (Oe)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target			Baseline	87	87
Actual			85.9	85.9	
Target met?	N/A	N/A	Y	N	

Definition: The score awarded to a reviewed Field Examination case by a Quality Reviewer using the Examination Quality Measurement System (EQMS) quality standards.

Indicator Type: Measure

Data Capture and Source: Monthly reports supplied from the EQMS database.

Data Verification and Validation: new measure - verification and validations will be supplied

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: For fiscal year 2007, Field Examination Embedded Quality was 85.9 percent, 1.1 percentage points (a statistically insignificant amount) short of the fiscal year 2007 target of 87 percent. The fiscal year 2007 target assumed a 10 percent improvement factor in the previously weakest quality attributes. Although the 10 percent increase did not occur, there were significant improvements in several other attributes that brought IRS close to the target. Actions taken to improve the quality score included studying the consistency between front-line manager Embedded Quality Review System and the National Quality Review System processes that produced the measurements. In addition, an Exam Process Challenge Team was established to improve the audit process, with focus on the quality attributes in most need of enhancement.

Measure: Office Exam Embedded Quality (%) (Oe)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target			Baseline	89	89
Actual			88.2	89.4	
Target met?	N/A	N/A	Y	Y	

Definition: The score awarded to a reviewed Office Examination case by a Quality Reviewer using the Examination Quality Measurement System (EQMS) quality standards.

Indicator Type: Measure

Data Capture and Source: Examination Quality Measurement System

Data Verification and Validation: new measure - verification and validations will be supplied

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: For fiscal year 2008 and beyond the IRS will use results to drive improvements in work products and help improve the taxpayer's experience.

Measure: Examination Quality Industry (%) (Oe)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	80	78	80	88	90
Actual	74	77	85	87	
Target met?	N	N	Y	N	

Definition: The average of the percentage of critical quality attributes passed on Industry cases (corporations, S-corps (pass through corporations) and partnerships with assets over $10 million) reviewed.

Indicator Type: Measure

Data Capture and Source: The Large & Mid-Size Business (LMSB) Quality Measurement System (LQMS) database.

Data Verification and Validation: There are controls and validity checks built into the ERCS database that ensure that is captures all closed cases. The LQMS Industry Review Team Managers regularly review the work being performed by the Reviewers. Each Review Group has two senior Review Team Leaders (GS-14 employees) and they are actively involved in overseeing the reviews being conducted by their team members. The groups have regularly scheduled meetings at which consistent determinations on issues is reviewed by the entire group of Reviewers. The team of Managers and Analysts that prepare the quarterly reports are involved in reviewing the conclusions for mistakes and inconsistencies. The Industry LQMS Program Managers also performs reviews of the work processes in the Industry LQMS Groups.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: The Exam Quality - Industry score of 87 percent was one percentage point (a statistically insignificant amount) below the fiscal year 2007 target of 88 percent because of scores slightly below expectations in three of the four quality measurement technical standards as well as in the administrative procedures standard. The three technical standards were: Planning the Examination, Inspection/Fact Finding, and Workpapers & Reports. The Quality Assurance Staff continued to focus on the importance of meeting the Technical Standards through direct feedback to field teams, partnering with the industries in Quality Improvement Efforts, Quality Quotes, Quarterly Reports and outreach to field teams. In addition, while the field completed the Administrative Procedures Checksheet at a higher percentage than in prior fiscal years, there were still some instances where all administrative procedures were not properly documented. The Quality Assurance Staff continued to stress the importance of properly completed Administrative Procedures Checksheets and ensured all administrative and statutory requirements were properly executed and documented.

Measure: Examination Quality Coordinated Industry (%) (Oe)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	70	90	92	97	97
Actual	87	89	96	96	
Target met?	Y	N	Y	N	

Definition: The average of the percentage of critical elements passed on Coordinated Industry cases reviewed.

Indicator Type: Measure

Data Capture and Source: The Large & Mid-Size Business (LMSB) Quality Measurement System (LQMS) database.

Data Verification and Validation: The Examination Teams make a reasonable effort to keep the CEMIS database accurate and timely with milestone completion information. The LQMS Industry Review Team Managers regularly review the work being performed by the Reviewers. Each Review Group has two senior Review Team Leaders (GS-14 employees) and they are actively involved in overseeing the reviews being conducted by their team members. The groups have regularly scheduled meetings at which consistent determinations on issues is reviewed by the entire group of Reviewers. The team of Managers and Analysts that prepare the quarterly reports are involved in reviewing the conclusions for mistakes and inconsistencies. The Coordinated Industry LQMS Program Managers also performs reviews of the work processes in the Coordinated Industry LQMS Groups. The review of Specialty issues (such as International, Engineering, Economist, etc.) is done by Specialists in those areas.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: The Exam Quality – Coordinated Industry score was 96 percent, one percentage point (a statistically insignificant amount) below the fiscal year 2007 target of 97 percent. The IRS did not meet its target due to several factors related to the examination planning process, specifically identification of material issues and mandatory referrals to specialists. Another contributing factor was missing or unsigned Administrative Procedures Documents. The IRS continues to focus on the importance of meeting the Auditing Standards through direct feedback to field teams, partnering with the industries in Quality Improvement Efforts, Quality Quotes, Quarterly Reports and outreaches to IRS field teams.

Measure: Percentage of Voluntary Compliance in Filing Tax Payments Timely and Accurately (in terms of revenue) (Revenue %) (Oe)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	82	84	86	86	87
Actual	81.2	86.3	87.2	86.37	
Target met?	N	Y	Y	Y	

Definition: The portion of total taxpayers that file payments on or before the scheduled due date, without notification of any delinquency.

Indicator Type: Measure

Data Capture and Source: Late filed tax payments are maintained in the Federal Excise Tax system (FET).

Data Verification and Validation: The Unit Supervisor has the capability to run canned reports to identify late filed returns and payments in FET.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: TTB will continue to perform outreach programs and audits which provide training for industry members as well as providing a TTB presence.

Measure: Percentage of Voluntary Compliance in Filing Tax Payments Timely and Accurately (in terms of number of compliant industry members) (%) (Oe)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		70	74	74	75
Actual		70	75.95	75	
Target met?	N/A	Y	Y	Y	

Definition: The portion of total taxpayers that file payments on or before the scheduled due date, without notification of any delinquency.

Indicator Type: Measure

Data Capture and Source: TTB maintains late-filed tax payments in FETS.

Data Verification and Validation: TTB runs reports to identify late-filed returns and payments in FET.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: TTB will continue to perform outreach programs and audits which provide training for industry members as well as providing a TTB presence.

Measure: Percentage of Total Tax Receipts Collected Electronically (%) (E)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	98	98	98	98	98
Actual	97.3	98	98	98	
Target met?	N	Y	Y	Y	

Definition: The portion of total tax collected from taxpayers via electronic funds transfer (EFT).

Indicator Type: Measure

Data Capture and Source: Data on tax payments made electronically are recorded in Cashlink (Deposit reporting and cash concentration system). The Revenue Accounting Unit retrieves the wire transfer information from Cashlink. The detail records are input into the Electronic Wire Transfer table using the Federal Excise Tax System.

Data Verification and Validation: When the tax return is processed the system displays all unmatched EFT messages for the taxpayer. The NRC selects the payment that matches the tax return. The system then records the control number of the tax return in the Electronic Wire Transfer table, updates the Returns table to show the return closed and posts tax liability and payment transactions to the Audit table.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: TTB will continue to educate industry members on electronic filings in fiscal year 2008.

Measure: Percentage Collected Electronically of Total Dollar Amount of Federal Government Receipts (%) (Oe)

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	81	82	83	80	80
Actual	81	79	79	79	
Target met?	Y	N	N	Y	

Definition: Electronic collections data are retrieved from the CA$H-LINK system, which encompasses eight collection systems.

Indicator Type: Measure

Data Capture and Source: This measure considers the percentage of government collections that are collected by electronic mechanisms (Electronic Federal Tax Payment System, Plastic Card, FEDWIRE Deposit System, and Automated Clearinghouse (ACH)) compared to total government collections. The system receives deposit and accounting information from local depositories and provides detailed accounting information to STAR, FMS' central accounting and reporting system.

Data Verification and Validation: The agencies that report collections are responsible for ensuring the deposit reports are correct. Financial institutions and Federal agencies report deposits into the CA$H-LINK deposit reporting system using an Account Key which identifies the collection mechanism (lockbox, which is non-electronic or ACH, electronic) through which the collection was made. FMS analysts gather deposit information from CA$H-LINK reports and then report totals and percentages on a monthly Collections Summary Report and on the Total Government Collections Report. The Total Government Collections Report totals all deposits divided into electronic/non-electronic mechanisms and tax and non-tax totals within the mechanisms.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: FMS fell short of its goal by 1 percent due to the large number of paper 1040 tax remitters. IRS charges a fee for most filers who file 1040 electronically, which discourages filers from using it. Excluding those months when IRS lockbox processing is at its peak, electronic collections totaled 85–88 percent. FMS will continue to work closely with IRS to reduce the mandate threshold for paying electronically to encourage a greater percentage of 1040 electronic filers. Pre-enrollment of newly issued taxpayer IDs, greater taxpayer acceptance of other electronic transactions mechanisms (direct deposit, online banking), continued IRS promotion of the website and batch filer services will all contribute to increase electronic tax collections. FMS is also working with agencies to promote the use of web and electronic technologies for revenue collection.

Measure: Unit Cost to Process a Federal Revenue Collection Transaction ($) (E)

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	Baseline	1.4	1.37	1.33	1.3
Actual	1.4	1.2	1.1	Est 1.19	
Target met?	N	Y	Y	Y	

Definition: The unit cost to process a revenue collection transaction.

Indicator Type: Measure

Data Capture and Source: The cost data is captured through an activity based costing process. The unit cost is the calculated ratio of total direct and indirect costs over total government-wide collection transactions.

Data Verification and Validation: At the end of each year actual costs for collections are accumulated and calculated for electronic and non-electronic collections. In addition, the number of transactions is calculated for each collection system. This information is calculated in conjunction with and verified by the program office, and is reviewed by senior level executives.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: FMS has met its fiscal year 2007 performance goal. FMS will continue to expand electronic collection tools to other agencies in an effort to improve efficiency and keep costs low.

Measure: Amount of Delinquent Debt Collected per $1 Spent ($) (E)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		41.09	36.4	36.5	36.75
Actual		36.23	39.97	Est 42.09	
Target met?	N/A	N	Y	Y	

Definition: This measure shows the efficiency of the Debt Collection program. The costs include all debt collection activities and all funding sources.

Indicator Type: Measure

Data Capture and Source: Collection of data and reporting on the cost of the debt collection program are performed on an annual basis.

Data Verification and Validation: Data from FMS'collection program systems is validated against data contained in FMS' Debt Management Accounting System by program staff and verified by senior management. Program costs are derived from FMS' accounting system and budget reports. The methodology and the origin of the data are consistent from year to year.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: FMS will continue to look for efficiencies to lower program costs by streamlining debt management systems while increasing delinquent debt collected.

Measure: Amount of Delinquent Debt Collected Through all Available Tools ($ billions) (Ot)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	2.9	3	3.1	3.2	3.3
Actual	3	3.25	3.34	3.76	
Target met?	Y	Y	Y	Y	

Definition: This measure provides information on the total amount collected, in billions, through debt collection tools operated by Debt Management Services.

Indicator Type: Measure

Data Capture and Source: The process of collecting and reporting the debt collection data is performed on a monthly basis. The methodology and the origin of the data are consistent from month to month. The collection data is generated by the program systems (TOP and DMSC) and is reported on a monthly basis. The tools include: tax refund offset, administrative offset, private collection agencies, demand letters, and credit bureau reporting. FMS also collects debt through the State debt program and tax levy.

Data Verification and Validation: The data from the program systems is validated against the data contained in the Debt Management Account System (DMAS).

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: FMS had record collections in fiscal year 2007 as a result of program efficiencies, streamlining systems and increased volumes in the Federal Payment Levy program. For the future, FMS will continue these efforts as well as work to incorporate additional payment types into the payment offset and levy programs.

Measure: Percentage of Delinquent Debt Referred to FMS for Collection Compared to Amount Eligible for Referral (%) (Ot)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	90	92	93	94	95
Actual	99	97	95	100	
Target met?	Y	Y	Y	Y	

Definition: The measure tracks the percentage of the dollar volume of debt referred to the total dollar volume that is eligible for referral.

Indicator Type: Measure

Data Capture and Source: The process of collecting and reporting the debt collection data is performed on a monthly basis. The methodology and the origin of the data are consistent from month to month. The referral data is contained in the program systems (TOP and DMSC). The referral data is loaded from the files received from Federal Program Agencies (AFPAs).

Data Verification and Validation: The agencies are responsible for certifying the debt referrals to Treasury.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: FMS has met the target performance measure for fiscal year 2007. FMS will continue to keep up its efforts in educating and encouraging agencies to refer all eligible delinquent debt in a timely manner.

Measure: BSM Project Cost Variance by Release/Subrelease (E)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target			0	10	10
Actual			0	10	
Target met?	N/A	N/A	Y	Y	

Definition: Percent variance by release/sub-release of a BSM funded project's initial, approved cost estimate versus current, approved cost estimate. Cost variances less than or equal to +/- 10 percent are categorized as being within acceptable thresholds. Cost variances greater than +/- 10 percent are considered outside acceptable thresholds.

Indicator Type: Measure

Data Capture and Source: The data is collected from the approved and enacted Expenditure Plan and subsequent modifications resulting from changes to project cost plans as approved via the BSM Governance Procedures and documented by the Resource Management Office.

Data Verification and Validation: The baseline data will be reviewed/validated by the Program Performance Management (PPM) Team and Manager. To indicate the baseline is valid and approved, the manager will send a notification that the data (Excel spreadsheets) may be placed in the PPM shared library. Before the measure is reported, the PPM Team and Manager will review/validate the report. The PPM Manager will provide the monthly report to the Deputy Associate CIO for Business Integration for approval. Concurrence will be obtained from the Associate CIO for BSM. To indicate the report is validated and approved, the manager will send a notification to store the report in the PPM shared library and report on Improvement Measure externally.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: The IRS will continue reporting on the cost variance measure in accordance with the agreed upon performance methodology. Variance exceeding the +/- 10 percent threshold is subject to IRS change notification process review, Executive Steering Committee approval and, if applicable, Modernization and Information Technology Services Enterprise Governance Committee approval. Cost variances exceeding +/- 10 percent or $1 million require Congressional notification. At each review juncture, management ensures that proposed project changes as reported in the BSM expenditure plan are valid and that mitigation plans are in place when applicable.

Measure: BSM Project Schedule Variance by Release/Subrelease (E)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target			0	10	10
Actual			0	10	
Target met?	N/A	N/A	Y	Y	

Definition: Percent variance by release/sub-release of a BSM funded project's initial, approved schedule estimate versus current, approved schedule estimate. Schedule variances less than or equal to +/- 10 percent are categorized as being within acceptable thresholds. Schedule variances greater than +/- 10 percent are considered outside acceptable thresholds.

Indicator Type: Measure

Data Capture and Source: The data is collected at the time of Expenditure Plan creation and subsequent modifications resulting from changes to project schedule plans as approved via the BSM Governance Procedures and documented by the Resource Management Office.

Data Verification and Validation: The baseline data will be reviewed/ validated by the Program Performance Management (PPM) Team and Manager. To indicate the baseline is valid and approved, the manager will send a notification that the data (Excel spreadsheets) may be placed in the PPM shared library. Before the measure is reported, the PPM Team and Manager will review/ validate the report. The PPM Manager will provide the monthly report to the Deputy Associate CIO for Business Integration for approval. Concurrence will be obtained from the Associate CIO for BSM. To indicate the report is validated and approved, the manager will send a notification to store the report in the PPM shared library and report on Improvement Measure externally.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: The IRS will continue reporting on the schedule variance measure in accordance with the agreed upon performance methodology. Variance exceeding the +/- 10 percent threshold is subject to IRS change notification process review, Executive Steering Committee approval and, if applicable, Modernization and Information Technology Services Enterprise Governance Committee approval. Schedule variances exceeding +/- 10 percent or $1 million require Congressional notification. At each review juncture, management ensures that proposed project changes as reported in the BSM expenditure plan are valid and that mitigation plans are in place when applicable.

For additional information, refer to detailed table in Part II.

Measure: Health Care Tax Credit Cost ($) per Taxpayer Served (E)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target				14.25	13.97
Actual				14.93	
Target met?	N/A	N/A	N/A	N	

Definition: Costs associated with serving the taxpayers including program kit correspondence, registration and program participation. [IFS Monthly Disbursement – (83 percent IT Cost + 60 percent Program Management Costs + Special Projects and Costs + (IRS Non-Labor Costs – Printing))] divided by Taxpayers Served * 1.6 Where Taxpayers Served is the unique count of SSNs for primary candidates that are enrolled, and/or interact with the customer contact center including correspondence and program kits, 1.6 is a factor attributed to the average number of taxpayers served per primary enrollee, to reflect affected Qualified Family Members.

Indicator Type: Measure

Data Capture and Source: IRS costs and exclusions: IFS disbursement report Accenture costs and exclusions: Monthly Work Request report. Taxpayers served: Health Care Tax Credit Siebel system provides data extracts to the HCTC reporting database, and further queries and reports are created from there.

Data Verification and Validation: 1. Health Care Tax Credit Program office reviews IFS disbursement. 2. Health Care Tax Care PMO team reviews and checks Contractor costs and exclusions. 3. PMO reporting team verifies the source data against previous months of IFS data and Work Request data.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: For fiscal year 2007, the Cost Per Taxpayer Served was $14.93, sixty eight cents above the fiscal year 2007 target of $14.25. The shortfall was a result of having to absorb a one-time expense to purchase Health Care Tax Credit Program Kits for taxpayers at a cost of $300,000 to replace outdated supplies. The $300,000 cost was not factored in when the target was set.

Measure: Health Care Tax Credit Sign-up Time (Days) (Ot)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target			Baseline	97	97
Actual			98.7	93.3	
Target met?	N/A	N/A	N/A	Y	

Definition: The calculation of this measure is the median number of calendar days that elapse per registration from the date the Program Kit is mailed to the date the first payment is received from the participant. This is calculated based on queries and reports from system data.

Indicator Type:

Data Capture and Source: 1. Dates captured in system during operations. 2. Data queried by Health Care Tax Credit Program Evaluation and Reporting team. 3. Measure calculated by Health Care Tax Credit Program Evaluation and Reporting team. Source: Siebel via Microsoft Systems Reporting

Data Verification and Validation: 1. Data is reviewed by Health Care Tax Credit Program Evaluation and Reporting function and compared with previous months. 2. Diagnostic reports will be available for further review

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: In fiscal year 2008, the Health Care Tax Credit will continue to explore program enhancements and efficiences to minimize the time it takes taxpayers to enroll for the Health Care Tax Credit. As the population of the Health Care Tax Credit participants grows due to newly proposed legislation, the Health Care Tax Credit Program will implement process improvements to handle the increased demand.

Measure: TEGE Determination Case Closures (Ot)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	141000	131700	112400	118200	102650
Actual	143877	126481	108462	109408	
Target met?	Y	N	N	N	

Definition: Cases established and closed on the Employee Plans-Exempt Organizations Determination System (EDS) includes all types of tax exempt and employee plan application cases.

Indicator Type: Measure

Data Capture and Source: Tax Exempt and Government Entities (TE/GE) Determination System (EDS) Table 2A

Data Verification and Validation: 1. Group managers review data entered on closing documents by determination specialists prior to approving the case for closing. 2. Error registers/reports are generated for data not meeting system consistency checks.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: The IRS fell short of the combined target of 118,200 determination case closures by seven percent. This was caused by several factors. First, workload in this area is driven by external demand; for various reasons, the IRS received 12,000 fewer applications than expected. Responding to customer requests, the IRS extended certain filing deadlines. In addition, following a major revision to the user fee schedule for determination, a large number of submissions were returned to applicants due to incorrect user fees. Finally, legislative changes in the Pension Protection Act shifted workload priorities toward a number of time-consuming cases, resulting in fewer closures overall.

Measure: Automated Collection System (ACS) Accuracy (%) (Oe)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	Baseline	88	88	91	92
Actual	89	88.5	91	92.9	
Target met?	Y	Y	Y	Y	

Definition: Percent of taxpayers who receive the correct answer to their ACS question.

Indicator Type: Measure

Data Capture and Source: The Centralized Quality Review System (CQRS) monitors the calls as they are reviewed. Data is input to the Quality Review Database for product review and reporting.

Data Verification and Validation: 1. CQRS management samples QRDbv2 records and validates that sample plans have been followed. 2. CQRS management reviews QRDbv2 employee input DCIs for consistency and coding. 3. CQRS tracks and reviews rebuttals quarterly, and an annual sample of each product line's rebuttals are performed. 4. A rebuttal web site is used to share technical and coding issues in CQRS.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: The IRS' focus on process and performance reviews coupled with the feedback loop and identification of training needs will continue in 2008 to drive accuracy up.

Measure: Examination Coverage - Individual (%) (Oe)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		.9	.9	1	1
Actual		.9	1	1	
Target met?	N/A	Y	Y	Y	

Definition: The sum of all individual returns closed by SB/SE, W&I, and LMSB (Field Examination and Correspondence Examination) divided by the total individual return filings for the prior calendar year. In fiscal year 2005, Automated Underreported (AUR) cases were included as part of this measure. In fiscal year 2006, AUR is covered as a separate measure. The new methodology was applied to prior year actual and fiscal year 2006 plan number.

Indicator Type: Measure

Data Capture and Source: The data comes from the Audit Information Management System (AIMS) closed case data base, the automated underreporter Management Information System for Top Level Executives (MISTLE) reports and Research projections for individual return filings.

Data Verification and Validation: new measure - verification and validations will be supplied

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Maintenance of balanced coverage, identification of tax avoidance transactions and reduction of the tax gap will continue to be priorities in fiscal year 2008.

Measure: Examination Coverage Business Corporations >$10 million (%) (Oe)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		7	7.5	8.2	6.8
Actual		7.8	7.4	7.2	
Target met?	N/A	Y	N	N	

Definition: The number of Large and Mid-Size Business customer returns with assets greater than $10 million examined and closed during the current fiscal year, divided by filing of the same type returns from the preceding calendar year.

Indicator Type: Measure

Data Capture and Source: The number of returns examined and closed during the Fiscal Year is from the Audit Information Management System (AIMS) closed case database, accessed via A-CIS (an MS Access application). Filings are from Document 6186, which is issued by the Office of Research, Analysis and Statistics.

Data Verification and Validation: 1. Examination Support & Processing (ESP) group (SBSE) validates data on AIMS (Detroit server) and makes necessary correction. 2. LMSB picks closing codes and downloads data down to (A-CIS) Access database (Atlanta server). Charles Johnson (Plantation, FL) validates data, uploads to A-CIS. 3. LMSB - Chicago downloads LMSB version of data and performs data validation before providing data to CPP. 4. The information is Document 6186 is validated by the Office of Research, Analysis and Statistics before it is released.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: The Exam Coverage – Business score was 7.2 percent, one percentage point below the fiscal year 2007 target of 8.2 percent. Key factors contributing to the shortfall, included the implementation of currency and cycle time initiative, which resulted in substantially more current coordinated industry cases (CIC) that contain fewer cycles and fewer returns; increased time spent on the Compliance Assurance Program (cases addressing issues in a pre-filing environment), which resulted in less numbers of closed returns from a comparable CIC examination; and the rollout of the Issue Management System, (a case management tool used during the examination process) which consumed more agent time than planned.

Measure: Examination Efficiency Individual (E)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		121	121	136	136
Actual		121	128	137	
Target met?	N/A	Y	Y	Y	

Definition: The sum of all individual returns closed by SB/SE, W&I, and LMSB (Field Examination and Correspondence Examination) divided by the Total Full Time Equivalents (FTE) expended in examining those individual returns. In fiscal year 2005, Automated Underreporter (AUR) cases were included as part of this measure. In fiscal year 2006, AUR Efficiency is covered as a separate measure. The new methodology was applied to prior year actual and fiscal year 2006 plan number.

Indicator Type: Measure

Data Capture and Source: The data comes from the Audit Information Management System (AIMS) closed case data base, the automated underreporter Management Information System for Top Level Executives (MISTLE) reports and Exams time reporting system and the Integrated Financial System.

Data Verification and Validation: Closures and AIMS Closures – 1. Case closing documents are reviewed for accuracy during sample reviews by managers and quality reviewers. 2. AIMS data is validated prior to distribution. 3. Queries used to retrieve data are reviewed for thoroughness and accuracy. Frivolous Filers (Non-AIMS Closures) – 1. Cases are reviewed by managers for accuracy, timeliness and completeness at any point in the process. 2. Headquarters Analyst reconciles WP&C data to Summary Report in order to validate data. SB/SE AUR: Closures – 1. Managerial review samples (phone calls, open and closed cases). 2. Checks and balances exist in the AUR Control System to validate the input. 3. Sample physical review of cases closed on the AUR Control System by Program Analysis System ("PAS") for accuracy and appropriateness of actions.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Future plans include leveraging National Research Program data to improve return selection criteria, steamline automation, emphasis on multi-year non-compliance, and utilization of risk analysis/assessment in all business processes.

Measure: AUR Efficiency (E)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		1701	1759	1932	1808
Actual		1701	1832	1956	
Target met?	N/A	Y	Y	Y	

Definition: The sum of all individual returns closed by AUR in SB/SE and W&I divided by the Total staff years expended in relation to those individual returns. Effective: 10/2006

Indicator Type: Measure

Data Capture and Source: Each case initiated in AUR results in a closure either in the pre-notice or notice phases. All closing actions are posted on the system through the use of process codes that describe the reason& type of closure. Pre-notice closures (no taxpayer contact) include screen outs (discrepancy accounted for on the return), transfers and referrals. Pre-notice closures are included in the Efficiency Measure numerator. Notice phase closures can be posted at the CP2501, CP2000 or Statutory phases. Tax examiners evaluate taxpayer/practitioner responses to the notice and close cases using process codes that denote the respondent's full or partial agreement or disagreement, no change to the original tax liability, transfer or referral. Time: Examiners complete Form 3081 to record time charged to each program code. The Form 3081 is input onto the WP&C system and a Resource Allocation Report generated. Source: Management Information System for Top Level Executives (MISTLE).

Data Verification and Validation: : Closures – 1. AUR run controls are reviewed to see if the weekend processing has been completed and are accurate. 2. MISTLE Reports are reviewed with other AUR reports to see if processing has been completed and are accurate. 3. MISTLE reports are reviewed to see if information is complete and accurate. Time – 1. Managers review Form 3081 prior to input to verify that time is appropriately charged. 2. WP&C monitored to ensure appropriate time usage.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: The IRS will leverage the process improvements implemented in fiscal year 2007 to improve workload selection and productivity, and reduce the number of cases closed without taxpayer contact.

Measure: AUR Coverage (%) (E)

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		Baseline	2.3	2.5	2.7
Actual		2.2	2.4	2.5	
Target met?	N/A	Y	Y	Y	

Definition: The sum of all individual returns closed, by SB/SE and W&I AUR divided by the total individual return filings for the prior calendar year. Effective: 10/2006

Indicator Type: Measure

Data Capture and Source: NUMERATOR: The sum of all individual returns closed will be extracted as follows: SB/SE AUR: AUR MISTLE Report W&I AUR: AUR MISTLE Report DENOMINATOR: The source for the total individual return filings for the prior calendar year is the Office of Research Projections of return filings as shown in IRS Document 6187 (Table 1A). AUR MISTLE AUR Management Information System for Top Level Executives (MISTLE).

Data Verification and Validation: 1. AUR run controls are reviewed to see if the weekend processing has been completed and are accurate. 2. MISTLE reports are reviewed with other AUR reports to see if processing has been completed and are accurate. 3. MISTLE reports are reviewed to see if information is complete and accurate.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: The IRS will leverage the process improvements implemented in fiscal year 2007 to improve workload selection and productivity, and reduce the number of cases closed without taxpayer contact.

Measure: Collection Coverage Units (%) (Oe)

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target			52	54	54
Actual			54	54	
Target met?	N/A	N/A	Y	Y	

Definition: The volume of collection work disposed (closed) compared to the volume of collection work available. The new methodology for fiscal year 2006 includes balance due and delinquent return cases still in notice status whereas, the fiscal year 2005 methodology only considered those accounts or investigations in delinquent status (Taxpayer Delinquent Account (TDA) and Taxpayer Delinquent Investigation (TDI) statuses). The new methodology was applied to recalculate the prior actual and the fiscal year 2006 plan number.

Indicator Type: Measure

Data Capture and Source: The data comes from the Collection Activity Report (CAR.)

Data Verification and Validation: 1. Changes to programming of Collection Activity Reports are generally made once a year. Those changes are tested and verified by program analysts at headquarters before the first new report is released. Monthly spot checks are also done to verify they match the data sent to the DataMart. 2. Accuracy of Automated Offer in Compromise database is validated by management checks in the operating units.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: The Collection Coverage score was 52 percent, two percentage points below the fiscal year 2007 target of 54 percent. The number of collection cases closed in fiscal year 2007 increased over fiscal year 2006; however, the increase in closures did not keep pace with the growth in new receipts. The available inventory grew by 1.8 million over the projected level for fiscal year 2007 primarily because Individual Master File (IMF) balance due first notices increased 1.08 million and IMF delinquent return first notices increased 500,000 over projected levels. Approximately one third of the new receipts appear to be related to compliance assessments and the remaining two thirds appears to be related to taxpayer behavior.

Measure: Collection Efficiency (E)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		Baseline	1650	1723	1751
Actual		1514	1677	1828	
Target met?	N/A	Y	Y	Y	

Definition: Total work (delinquent accounts, investigations, offer-in-compromise, automated substitution for return) divided by the total Full Time Equivalent (FTE) realized in field collection and in campus collection. The new methodology for fiscal year 2006 includes balance due and delinquent return cases still in notice status whereas, the fiscal year 2005 methodology only considered accounts or investigations in delinquent status (Taxpayer Delinquent Account (TDA) and Taxpayer Delinquent Investigation (TDI) statuses). The new methodology was applied to recalculate the prior actual and the fiscal year 2006 plan number.

Indicator Type: Measure

Data Capture and Source: The data comes from the Collection Activity Report (CAR) and the Integrated Financial System (IFS).

Data Verification and Validation: 1. Changes to programming of Collection Activity Reports are generally made once a year. Those changes are tested and verified by program analysts at headquarters before the first new report is released. Monthly spot checks are also done to verify they match the data sent to the DataMart. 2. Accuracy of Automated Offer in Compromise database is validated by management checks in the operating units.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: The IRS was within one percent of target. The fiscal year 2007 Collection Efficiency rate of 1,720 is 2.5 percent above fiscal year 2006 performance and 0.2 percent below the fiscal year 2007 target of 1,723. Automated Collection System Taxpayer Delinquency Investigation (TDI) inventory available was below projections, resulting in more time applied to Taxpayer Delinquent Accounts (TDA). This resulted in the lower efficiency rate because TDA cases take more hours to complete than TDI cases.

Measure: Field Collection Embedded Quality	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target			84.2	86	86
Actual			84.2	84	
Target met?	N/A	N/A	Y	N	

Definition: The number of EQ quality attributes that are scored as “met” by an independent centralized review staff divided by the total attributes measured (mets + not mets) in a sample of closed cases. All measured attributes have the same weight when calculating the score.

Indicator Type: Measure

Data Capture and Source: Monthly reports supplied from the EQMS database.

Data Verification and Validation: Cases are sent to the review sites to be reviewed. The cases are then reviewed and results are recorded into the CQMS EQ database. A validity check is conducted by EQ review site management. Once the data has been validated the information is transmitted to the EQ website.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: The Field Collection Embedded Quality score was 84 percent, two percentage points below the fiscal year 2007 target of 86 percent. Although the Field Collection quality score improved over last fiscal year, the fiscal year 2007 target was established assuming Embedded Quality would be fully implemented at the start of fiscal year 2007. However, implementation was delayed until March 2007, and the first quarterly report was not available until June 2007. These reports provide managers with data that allows them to focus improvements on specific attributes. Quality remains a core goal of the Collection organization and is emphasized in both the Collection Program letter and the business plans for fiscal year 2008. The IRS took the following actions to improve quality results: 1) conducted quarterly reviews in each area to ensure consistent application of the quality attributes and evaluated trends in order to identify areas that require additional rating guidance and clarity. The IRS will continue these reviews in fiscal year 2008; 2) developed quality improvement action plans for each Collection area, which focused on specific elements that dropped 5 percent or more in each attribute.

Measure: Unit Cost to Process an Excise Tax Return ($) (E)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target			Baseline	76	0
Actual			76	61	
Target met?	N/A	N/A	Y	Y	

Definition: The cost of resources that it takes to process one excise tax return.

Indicator Type: Measure

Data Capture and Source: Capturing excise tax returns: Tax returns are submitted via mail and the Pay.gov system. Mail submissions are assigned a unique control number and dates of receipt are logged into the Integrated Revenue Information System (IRIS). Pay.gov assigns a unique number and date of submission automatically. This information is then transmitted and consolidated in IRIS. TTB generates a report from IRIS indicating the number of tax returns processed. Capturing resource cost data: NRC captures resource expenses in the Status of Funds Report in Discoverer (Oracle Financial Reporting System).

Data Verification and Validation: Capturing excise tax returns: TTB reconciles the returns received vs. logged returns daily. Capturing resource cost data: Resource data is captured and available four times a day in Discoverer.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: This measure will undergo a new baseline year as the methodology for calculating the measure and legislative actions require changes.

Measure: Cumulative Percentage of Excise Tax Revenue Audited Over 3 Years (%) (Ot)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		65	90	12	74
Actual		82	93	16	
Target met?	N/A	Y	Y	Y	

Definition: The portion of total excise tax revenue that is audited in the fiscal years covered in the 5-year period.

Indicator Type: Measure

Data Capture and Source: TTB tracks completion of all scheduled audits.

Data Verification and Validation: Audit results – we designed the audit to verify and validate the accuracy of the revenue collected for the entity(ies) audited in the given fiscal year.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: TTB plans to resume its audits of large taxpayers in fiscal year 2008 which will significantly increase it percentage of excise tax revenue audited.

Measure: Resources as a Percentage of Revenue (%) (E)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		.4	.34	.34	.34
Actual		.37	.31	.31	
Target met?	N/A	Y	Y	Y	

Definition: Represents the amount of resources expended to collect taxes, divided by the amount of taxes collected.

Indicator Type: Measure

Data Capture and Source: Taxes collected is captured by the Federal Excise Tax database; expense data is maintained in Oracle Financials.

Data Verification and Validation: Both of these components represent information that is subject to annual audits and routine reconciliation.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: TTB continues to find reengineering/electronic methods and means that allows the organization to make the best use of its Collect the Revenue resources.

Measure: Average Tax Compliance Cost for Individuals and Small Businesses ($) (Oe) [DISCONTINUED FY 2007]					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	0	0	0	Discontinued	Discontinued
Actual	0	0	0		
Target met?	Y	Y	Y	N/A	

Definition: This measures the cost for individuals and small business to satisfy their tax obligations, including the amount of time spent filling out tax forms

Indicator Type: Measure

Data Capture and Source: IRS tax data

Data Verification and Validation: The Treasury Department and the IRS are in the process of developing a model for measuring the compliance burden on individual taxpayers. This model will be used to develop and evaluate proposals to reduce the compliance burden on individuals, including proposals to simplify the tax laws.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: This measure is Discontinued for fiscal year 2007.

Strategic Outcome:

Government financing at the lowest possible cost over time

Measure: Cost per Debt Financing Operation ($) (E)

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		Baseline	133683	228409	249679
Actual		126828	148926	216801*	
Target met?	N/A	Y	N	Y	

Definition: This performance measure divides debt financing operations costs, determined by an established cost allocation methodology, by the number of auctions and buybacks.

Indicator Type: Measure

Data Capture and Source: The number of debt financing operations is captured in the Auction Information Calendar (AIC) and on-line at TreasuryDirect.gov. Costs are captured in BPD's administrative accounting system.

Data Verification and Validation: Analysts manually count the number of auctions in the AIC and cross-reference this number to the historical information query on-line at www.TreasuryDirect.gov to determine the number of debt financing operations. Senior management regularly reviews the cost allocation methodology and the allocations are updated at least annually.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Based upon the third quarter year-to-date figures, the cost per debt financing operation is below the fiscal year 2007 target of $228,409. The projected cost for fiscal year 2008 of $249,679 includes increases for inflation and the estimated cost of replacing the legacy auction system, which will provide Treasury debt managers the ability to bring new types of securities to market. *Cost per item estimated until year-end costs are finalized.

* Final data for this measure was not available at the time of publication. This data is an estimate.

Measure: Percent of Auction Results Released in 2 Minutes +/- 30 Seconds (%) (Oe)

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	95	95	95	95	95
Actual	99.53	95	100	99.1	
Target met?	Y	Y	Y	Y	

Definition: This measures the elapsed time from the auction close to the public release of the auction results. The annual percentage of auctions meeting the release time target of 2 minutes plus or minus 30 seconds is calculated for the fiscal year.

Indicator Type: Measure

Data Capture and Source: BPD's automated auction processing systems

Data Verification and Validation: For each auction, analysts verify and validate the system time stamps that record the auction close and auction posting times.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: In fiscal year 2007, Public Debt surpassed its performance target of releasing auction results within two minutes, plus or minus 30 seconds, 95 percent of the time. In light of the fact that BPD is introducing a new auction system, the Bureau is considering changing its performance goals for fiscal year 2008.

Measure: Cost per TreasuryDirect Assisted Transaction ($) (E)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		Baseline	7.75	6.16	7.05
Actual		8.51	4.97	6.03*	
Target met?	N/A	Y	Y	Y	

Definition: This performance measure divides TreasuryDirect customer service transaction costs, determined by an established cost allocation methodology, by the number of customer requests completed with assistance by a customer service representative.

Indicator Type: Measure

Data Capture and Source: For customer service transactions received by mail and for some requests received by phone or internet, Public Debt (BPD) obtains volumes from an automated tracking system. Simple phone and internet requests are manually counted. Costs are captured in BPD's administrative accounting system.

Data Verification and Validation: The accuracy of the system-generated volumes is verified twice a year by customer service staff performing manual counts. Senior management regularly reviews the cost allocation methodology and the allocations are updated at least annually.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Based upon the third quarter year-to-date figures, the cost per TreasuryDirect assisted transaction is below the fiscal year 2007 target of $6.16, and fiscal year 2008 costs will be $7.05. Public Debt will reallocate resources to handle a changing mixture of customer transactions that result from a growing number of accounts and an expansion of services available in TreasuryDirect. *Cost per item estimated until year-end costs are finalized.

* Final data for this measure was not available at the time of publication. This data is an estimate.

Measure: Cost per TreasuryDirect Online Transaction ($) (E)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		Baseline	2.99	2.96	2.44
Actual		3.43	3.06	2.79*	
Target met?	N/A	Y	N	Y	

Definition: This performance measure divides TreasuryDirect online transaction costs, determined by an established cost allocation methodology, by the number of TreasuryDirect online transactions.

Indicator Type: Measure

Data Capture and Source: Workload figures are captured from information stored in TreasuryDirect. Costs are captured in Public Debt's administrative accounting system.

Data Verification and Validation: Workload figures are electronically verified by the Treasury Direct system. Senior management regularly reviews the cost allocation methodology and the allocations are updated at least annually.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Based upon the third quarter year-to-date figures, the cost per TreasuryDirect online transaction is below the fiscal year 2007 target of $2.96. As more customers purchase book-entry securities through TreasuryDirect, Public Debt forecasts the cost of an online transaction will be $2.44 for fiscal year 2008. *Cost per item estimated until year-end costs are finalized.

* Final data for this measure was not available at the time of publication. This data is an estimate.

Measure: Percentage of Retail Customer Service Transactions Completed Within 12 Business Days (%) (Oe)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	90	90	90	90	90
Actual	92.5	88.7	98	99.43	
Target met?	Y	N	Y	Y	

Definition: The length of time to complete a customer service transaction is measured from the date each transaction is received to the date it is completed.

Indicator Type: Measure

Data Capture and Source: For customer service transactions received by mail and for some requests received by phone or e-mail, Public Debt uses an automated tracking system that measures the length of time it takes to complete the transactions. Simple phone and internet requests are manually tracked.

Data Verification and Validation: The accuracy of system-generated data is crosschecked at least twice a year by customer service staff performing manual counts.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: BPD's retail securities service surpassed its target of 90 percent in fiscal year 2007. Future goals are to complete 90 percent of transactions within 12 business days in fiscal year 2008, 11 business days in fiscal year 2009 and 10 business days in fiscal year 2010. Sufficient funding, efficiencies gained from improved work processes and an increase in electronic transactions will allow Public Debt to meet these goals.

Measure: Cost per Federal Funds Investment Transaction ($) (E)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		Baseline	90.15	72.33	73.12
Actual		88.74	62.64	59.93*	
Target met?	N/A	Y	Y	Y	

Definition: This performance measure divides the federal funds investment costs, determined by an established cost allocation methodology, by the number of issues, redemptions, and interest payments for more than 200 trust funds, as well as the Treasury managed funds.

Indicator Type: Measure

Data Capture and Source: The automated investment accounting system captures and reports transaction counts. Costs are captured in Public Debt's administrative accounting system.

Data Verification and Validation: Accountants review transaction reports for reasonableness and any unusual trends are investigated. Senior management regularly reviews the cost allocation methodology and the allocations are updated at least annually.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Based upon third quarter year-to-date figures, the cost per federal funds investment transaction is forecasted to be below the target of $72.33. Due to inflationary cost increases and constant transaction volumes, Public Debt establishes a target for fiscal year 2008 of $73.12. *Cost per item estimated until year-end costs are finalized.

* Final data for this measure was not available at the time of publication. This data is an estimate.

Measure: Percentage of Government Agency Customer Initiated Transactions Conducted Online (%) (Oe)					
	FY 2004	**FY 2005**	**FY 2006**	**FY 2007**	**FY 2008**
Target		Baseline	65	75	80
Actual		72.7	97.03	97.31	
Target met?	N/A	**Y**	**Y**	**Y**	

Definition: Public Debt (BPD) administers three programs in which government agencies conduct transactions: 1. Government Account Series Securities (Federal Investments) 2. Treasury Loans Receivable (Borrowings) 3. State and Local Government Series securities. Prior to an initiative to make BPD systems available on the internet, customers faxed all requests to Public Debt, and BPD manually entered the transactions into the various systems. BPD's long-term goal is to have 80 percent of customer-initiated transactions completed online by the end of fiscal year 2008.

Indicator Type: Measure

Data Capture and Source: Total transaction counts are captured from the investment accounting systems in automated reports that differentiate online transactions from other transactions entered into the systems.

Data Verification and Validation: Accountants review the total online transaction counts for reasonableness and unusual volumes are investigated.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: In an effort to expand on-line investment services to its federal, state and local customers, the Bureau of the Public Debt surpassed its fiscal year 2007 performance target of 75 percent. In August 2005, State and Local Government Series (SLGS) regulations required that SLGS securities customers submit investment transactions on-line via the SLGSafe internet application. Public Debt expects that the investment on-line percentages will remain at the current level in future years.

Strategic Outcome:
Timely and accurate payments at the lowest possible cost

Measure: Percentage of Treasury Payments and Associated Information Made Electronically (%) (Oe)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	75	76	78	78	79
Actual	75	76	77	78	
Target met?	Y	Y	N	Y	

Definition: The portion of the total volume of payments that is made electronically by FMS. Electronic payments include transfers through the automated clearinghouse and wire transfer payments through the FEDWIRE system.

Indicator Type: Measure

Data Capture and Source: The volume of payments is tracked through FMS' Production Reporting System. The amount and number of payments are also maintained under accounting control.

Data Verification and Validation: Accounting controls provide verification that the number of payments, both checks and EFT, is accurately tracked and reported. The number of inquires made against Federal check payments, whether disbursed by FMS or by other agencies, is separately tracked and reported. Additionally, payment files are balanced with payment authorizations that are electronically certified and submitted to FMS by Federal program agencies. The Federal Reserve Banks also validate the payment files.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: FMS has met its fiscal year 2007 performance goal. FMS will continue to implement the successful Go-Direct Campaign to expand and market the use of electronic media to deliver federal payments, improve service to payment recipients, and reduce government program costs. FMS is also working with the Social Security Administration to develop a Universal Direct Deposit plan which will require newly enrolled beneficiaries to receive payments electronically unless they do not have a bank account. In addition, FMS will roll out a nationwide debit card program called Direct Express to target the un-banked customers of benefit payments.

Measure: Percentage of Paper Check and Electronic Funds Transfer (EFT) Payments Made Accurately and on Time (%) (Oe)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	100	100	100	100	100
Actual	100	100	100	100	
Target met?	Y	Y	Y	Y	

Definition: Accurately refers to the percentage of check and EFT payments that FMS makes which are not duplicate or double payments. On time means that FMS releases checks to the U.S. Postal Service and EFT payments to the Federal Reserve Bank such that normal delivery by them results in timely receipt by payees.

Indicator Type: Measure

Data Capture and Source: Accuracy data is captured through FMS' Regional Financial Centers which submit statistics on duplicate payments and data for the performance measure. The payments are balanced with payment certifications submitted to FMS by Federal Program Agencies. On time data on check and EFT volumes are captured monthly in a report from FMS' Production Reporting System.

Data Verification and Validation: Accuracy is ensured through payment processes and accounting systems that are subject to numerous internal controls and audit reviews. RFC managers validate payment controls. Systems and accounting reports are used to independently validate payment accuracy and identify the number of duplicate payments. RFCs balance the input to the PRS with a payment control file. The volume of checks released to the USPS is verified against the volume of checks listed on Postal Form 3600. USPS timeliness is ensured through Form 3600, which contains the time and date of release of checks from RFCs to the USPS. For EFT timeliness verification, the volume of payments released is verified against the volume of payments listed on the transmission report which also states the time and date of transmission from an RFC to the Federal Reserve Bank.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: FMS has met its fiscal year 2007 performance goal. FMS plans to continue to issue 100 percent of payments accurately and on-time. The Secure Payment System (SPS) used by program agencies to certify checks, ACH, or wire payments to recipients in a secure environment is a critical component in achieving the performance goal.

Measure: Unit Cost for Federal Government Payments ($) (E)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	0	.35	.35	.39	.38
Actual	.35	.355	.37	.38	
Target met?	N	N	N	Y	

Definition: Unit cost combines both paper and electronic payment mechanisms and includes the aftermath processes (reconciliation and claims) for both types of payment mechanisms.

Indicator Type: Measure

Data Capture and Source: The cost data is captured through an activity based costing process. The unit cost is the calculated ratio of cost per payment.

Data Verification and Validation: At the end of each fiscal year, actual costs for issuing payments are accumulated and calculated for checks and EFT payments. This information is calculated in conjunction with and verified by the program office and is reviewed by senior executives. Additional accounting controls provide verification that the number of payments is accurately tracked and reported.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: FMS plans to continue its efforts in improving efficiencies in payment delivery by concentrating on expanding electronic payments through a variety of programs. *Unit measure is estimated until costs are finalized.

Strategic Outcome:

Accurate, timely, useful, transparent and accessible financial information

Measure: Percentage of Government-wide Accounting Reports Issued Accurately (%) (Oe)

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	100	100	100	100	100
Actual	100	100	100	100	
Target met?	Y	Y	Y	Y	

Definition: All Government-wide financial data that FMS publishes relating to U.S. Treasury cash-based accounting reports (i.e., the Daily Treasury Statement, the Monthly Treasury Statement, and the Annual Combined Report) will be 100 percent accurate.

Indicator Type: Measure

Data Capture and Source: A monthly tracking system reports on the various published statements and monitors errata as it pertains to this data.

Data Verification and Validation: There are no errors in any of the published government-wide financial information.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: FMS has met its fiscal year 2007 performance goal. In the future, FMS will continue to revamp government-wide accounting processes to provide more useful and reliable financial information on a regular basis. FMS is building and implementing a system to improve the exchange of financial information among FMS, Federal Program Agencies (FPA), Office of Management and Budget and the banking community. Once completed, this Government-wide Accounting Modernization Project will comprehensively replace current government-wide accounting functions and processes that are both internal and external to FMS. It will improve the reliability, usefulness, and timeliness of the government's financial information, provide FPAs and other users with better access to that information, and will eliminate duplicate reporting and reconciliation burdens by agencies. FMS is also moving forward on a project called Financial Information Reporting Standardization which will integrate budgetary and proprietary accounting data as well as several accounting data collection systems to improve the integrity and accuracy of government-wide financial information and reports.

Measure: Percentage of Government-wide Accounting Reports Issued Timely (%) (E)

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	100	100	100	100	100
Actual	100	100	100	100	
Target met?	Y	Y	Y	Y	

Definition: All Government-wide financial data that FMS publishes relating to U.S. Treasury cash-based accounting reports (i.e., the Daily Treasury Statement, the Monthly Treasury Statement, and the Annual Combined Report) will be on time 100 percent of the time.

Indicator Type: Measure

Data Capture and Source: A monthly reporting system is used to track the release dates to the public of all of the various government-wide statements.

Data Verification and Validation: Procedures are in place to validate that the statements are released on time to the public 100 percent of the time.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: FMS has met its fiscal year 2007 performance goal. FMS is building and implementing a system to improve the exchange of financial information among FMS, Federal Program Agencies (FPA), Office of Management and Budget (OMB) and the banking community. Once completed, this Government-wide Accounting (GWA) Modernization Project will comprehensively replace current government-wide accounting functions and processes that are both internal and external to FMS. It will improve the reliability, usefulness, and timeliness of the government's financial information.

Measure: Cost Per Summary Debt Accounting Transaction ($) (E)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		Baseline	11.59	10.98	10.88
Actual		12.62	10.96	8.93*	
Target met?	N/A	Y	Y	Y	

Definition: This performance measure divides summary debt accounting transaction costs, determined by an established cost allocation methodology, by the number of summary debt accounting transactions.

Indicator Type: Measure

Data Capture and Source: Public debt accounting systems capture and report transaction counts. Costs are captured in Public Debt's administrative accounting system.

Data Verification and Validation: Accountants review transactional activity reports for reasonableness and any unusual trends are investigated. Senior management regularly reviews the cost allocation methodology and the allocations are updated at least annually.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Based upon third quarter year-to-date figures, the cost per summary debt accounting transaction is forecasted to be below the fiscal year 2007 target of $10.98. Due to inflationary cost increases and constant transaction volumes, Public Debt establishes a target for fiscal year 2008 target of $10.88. Public Debt will continue to maintain and support strong accounting controls to ensure integrity of the operations and accuracy of the information provided to the public. *Cost per item estimated until year-end costs are finalized.

* Final data for this measure was not available at the time of publication. This data is an estimate.

Measure: Release Federal Government wide Financial Statements on Time (Oe)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	1	1	1	1	1
Actual	Met	Met	Met	Met*	
Target met?	Y	Y	Y	Y	

Definition: This report is the audited consolidated financial report of the federal government required by the Government Management Reform Act.

Indicator Type: Measure

Data Capture and Source: Data are collected from the audited financial results of all federal agencies and is audited by GAO.

Data Verification and Validation: Report is released to the public with a release date that can be independently verified. Due date is established by Treasury/OMB policy decision since it exceeds the statutory requirement of March 31.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: In fiscal year 2007, the Treasury Department's Office of Domestic Finance plans to released the federal government-wide financial statements on time. The Treasury Department has met this performance target since fiscal year 2004, and expects to continue to meet its targets in fiscal year 2008 and fiscal year 2009. The prompt release of this statement is important because it represents the culmination of the recent government-wide campaign to accelerate the issuance of financial reporting. Treasury also manages the government's cash position to ensure that funds are available on a daily basis to cover federal payments and to maximize investment earnings and minimize borrowing costs. The Department has also met its goal of receiving audit opinions on government-wide financial statements, and has plans to meet it fiscal year 2009 targets.

* Final data for this measure was not available at the time of publication. This data is an estimate.

Measure: Unit Cost to Manage $1 Million Dollars of Cash Flow					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target			Baseline	10.69	11.6
Actual			8.50	9.70*	
Target met?	N/A	N/A	Y	Y	

Definition: This Unit Cost Measure assesses Government Wide Accounting's (GWA's) Cost to Manage Government Operations. The Government Operations consists of total GWA costs which consist of all Directorates, Systems, Administrative Overhead, and major initiatives performed within GWA. On a monthly basis the Cost-per-Million of Cash Flow managed by GWA is calculated.

Indicator Type: Measure

Data Capture and Source: The Total GWA Cost data is retrieved from the year ending Cost Accounting Report. The Operating Cash, which is rounded in millions, is determined from the final DTS of each month for the fiscal year. The ratio of total costs to GWA per month over Deposits and Withdrawals (Excluding Transfers) gives us the cost to manage $1 Million dollars of cash flow. This ratio is calculated for GWA alone to determine controllable costs, and using Information Resources / TWAI and Management Overhead to determine the uncontrollable costs attributed to GWA.

Data Verification and Validation: At the beginning of each month, the actual operating cash of the United States in the form of Deposits and Withdrawals is obtained from the Last Daily Treasury Statement (DTS) of the previous month. GWA total costs are broken down and retrieved from the Cost Accounting Report that is prepared at the end of the fiscal year. This information is verified and excludes Financial Services. Additional data is retrieved from this source and included in the report and is reviewed by senior executives.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: FMS has met its fiscal year 2007 performance goal. Cash flow was higher in fiscal year 2007 than initially estimated. When cash flow increases, it drives the cost per million down. Though cash flow is beyond the control of FMS, FMS plans to continue its efforts in improving efficiencies and lowering its costs in managing the nation's money.

* Final data for this measure was not available at the time of publication. This data is an estimate.

Strategic Outcome:

Effective cash management

Measure: Variance Between Estimated and Actual Receipts (annual forecast) (%) (Oe)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	5	5	5	5	5
Actual	3.8	5	3.9	2.1	
Target met?	Y	Y	Y	Y	

Definition: Percentage error measures the accuracy of the Mark receipts forecasts produced monthly by the Office of Fiscal Projections. It measures the relative amount of error or bias in Office of Fiscal Projections receipts forecasts.

Indicator Type: Measure

Data Capture and Source: The Office of Fiscal Projections within the Office of the Fiscal Assistant Secretary compiles receipts data by major categories (i.e., withheld income taxes, individual taxes, FICA, corporate, customs deposits, estate and excise) as well as by types of collection mechanisms (electronic and paper coupons). The Office of Fiscal Projections is also responsible for forecasting the daily tax receipts in order to manage the federal government's cash flow. Data on monthly and daily federal tax receipts of actual and forecasts are compiled by the office and are used to report on the United States' monthly, weekly, and daily cash position in addition to determining the optimal financing for cash management.

Data Verification and Validation: The percentage error is computed by subtracting the forecast value of tax receipts from the actual (At -Ft), and dividing this error of forecast by the actual value, and then multiplying it by 100. PEt = ((At - Ft)/At) *100 At is actual value of receipts at time t, and Ft is forecasted value of receipts at time t. The average percentage error is more general measure that will be used to compare the relative error in the forecasts. This measure adds up all the percentage errors at each point and divides them by the number of time point APE = |(?t=1TPEt)|/T where PEt is the percentage error of forecasts in (1) and T is the total number of time point. The absolute value of the average percentage error will be used to measure the magnitude of error or bias in the receipts forecasts.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: In fiscal year 2008, the tolerance will continue to be 5 percent. To exceed this performance measure in fiscal year 2007, the Office of Fiscal Projections continued to meet monthly with senior staff in the Office of Macroeconomic Analysis (Office of the Assistant Secretary for Economic Policy) and the Office of Tax Analysis (Office of the Assistant Secretary for Tax Policy). The meetings focused on identifying revisions to key macro-economic variables and indicators and the identifying impact that revisions in these variables would have on short-term receipt forecasts. Additionally, the Office of Fiscal Projections analysts speak almost daily with Tax Policy analysts, providing information and insight on actual daily cash flows and receiving guidance on the short-term implications of current flows on future tax collections. The value of these meetings is evident in the annual performance in fiscal year 2007 (a cumulative error of 2.1 percent). This process will be continued in fiscal year 2008 and revised, if necessary, to ensure that this year's target is met.

STRATEGIC GOAL: U.S. AND WORLD ECONOMIES PERFORM AT FULL ECONOMIC POTENTIAL

Strategic Outcome:

Strong U.S. economic competitiveness

Measure: FTE - 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 (Oe)

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	5852	26995	29158	34009	28676
Actual	9212	23656	22329	35022	
Target met?	Y	N	N	Y	

Definition: An employee that works at least a 35-hour workweek is considered a full-time equivalent (FTE). In calculating the number of FTEs, part-time employees are combined into FTEs. For example, two part-time employees that each work 17.5 hours per week are combined to count as one FTE. Jobs maintained are jobs at the business at the time the loan or investment is made. Jobs created are new jobs created after the loan or investment is made. Jobs created and maintained serve as an important indicator of the economic vitality of underserved areas. Underserved communities are those that qualify as CDFI Program Target Markets (which include a specific geography called an Investment Area or a specific community of people with demonstrated lack of access to credit, equity, or financial services called a Low-Income Targeted Population or an Other Targeted Population). Underserved communities are also those that qualify as New Markets Tax Credit (NMTC) Low Income Communities.

Indicator Type: Measure

Data Capture and Source: Each awardee and allocatee collects and tracks job data in its own management information system(s). The information is self-reported by awardees and allocatees. Many organizations track the number of jobs projected to be created. A smaller number collect annual information on actual number of jobs created. Some do not collect the data and respond "don't know." Each CDFI Financial Assistance awardee and NMTC Allocatee is required to complete a Transaction Level Report. CDFI awardees report FTE data in the Institution Level Report or Transaction Level Report, while NMTC Allocatees report FTE data in the Transaction Level Report only.

Data Verification and Validation: The Fund will collect FTE through the annual Institution Level and Transaction Level Reports. Data provided is compared to the awardees' and allocatees' actual financial statements for accuracy and "reasonableness" as defined by the Fund. Awardees and allocatees are contacted regarding any discrepancies.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: The Fund will continue to capture and monitor the number of jobs CDFIs create from the Community Investment Impact System (CIIS). The proposed target has been recalibrated to take a two year average of the actual performance, which should be more in-line with future performance.

Measure: Private Dollars - Dollars of Private and Non-CDFI Fund Investments That CDFIs are Able to Leverage Because of Their CDFI Fund Financial Assistance. ($ millions) (Oe)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	669	500	1100	861	643
Actual	1300	1800	1400	778	
Target met?	Y	Y	Y	Y	

Definition: This measure represents the dollars of private and non-CDFI Fund investments that CDFIs are able to leverage because of their CDFI Fund Financial Assistance (FA) award. For CDFIs, leverage is defined as the one-to-one non-federal match (as required by the FA program), plus funds the CDFI is able to leverage with CDFI Fund FA grant and equity dollars, plus dollars that the awardees' borrowers leverage for projects. (Project leverage example - Of the total financing needed for a housing development is $5 million and the awardee lends $1 million, while other investors lend the remaining $4 million, then the $4 million is the project leverage).

Indicator Type: Measure

Data Capture and Source: FA award disbursements are made once CDFIs provide documentation showing that they have received or been committed matching funds. Disbursements of FA are tracked by the Financial Manager and are used as the proxy for matching funds raised. The CDFI Program annual Institution Level Report captures the leverage ratio for FA grants and equity dollars, as well as project level leverage.

Data Verification and Validation: CDFI awardees' one-to-one match is equal to the amount disbursed to awardees. The FA grant and equity dollar leverage ratio is taken from the awardees' financial statements. (In most cases, the financial statements have been audited.) Project level leverage is reported by the awardee and is not verifiable by the Fund.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: The shortfall was due to a drop of FA disbursements from $51M to $40M and FA Equity & Grant Disbursements from $44M to $36M. Previous fiscal year projections and actual performance were higher than the Fund's estimates. Moving forward, the Fund has recalibrated the projection leverage which should be more in-line with the actual performance.

Measure: Administrative Costs per Financial Assistance (FA) Application Processed (E)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		Baseline	5130	6920	6920
Actual		5130	8710	7180*	
Target met?	N/A	Y	N	N	

Definition: The cost per application for Financial Assistance (FA) applications.

Indicator Type: Measure

Data Capture and Source: The Fund will analyze the cost of materials as well as staff time and contractor's time to determine the total fixed and variable cost per application.

Data Verification and Validation: The Fund will conduct an analysis of the total cost of processing a single FA application. The analysis will include both fixed and variable costs for the project.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Estimate. Function of allocated costs and number of applications received. Percent increase in applications higher than percent increase in allocated costs (compared to prior year). The future targets were based on the fiscal year 2007 (draft) actual costs. We assume that any increase in future costs will be offset by a corresponding increase in the number of applications received. However, we have virtually no ability to control the number of applications received, and so we have little ability to control the actual future administrative cost to process an application.

* Final data for this measure was not available at the time of publication. This data is an estimate.

Measure: Percent of Electronically Filed Certificate of Label Approval Applications (%) (E)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	7	16	27	47	48
Actual	10	25	38	51	
Target met?	Y	Y	Y	Y	

Definition: Calculated by dividing the number of e-Filed applications by the total Certificate of Label Approval applications (COLA) submissions (paper and electronic).

Indicator Type: Measure

Data Capture and Source: Data is captured through the COLAs Online database system. There are periodic statistical reports, searches, and queries that are generated.

Data Verification and Validation: Checks will be developed as the COLAs Online database is developed.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: TTB will continue to perform outreach programs which provide training for industry members as well as providing a TTB presence.

Measure: Unit Cost to Process a Wine Certificate of Label Approval	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target				Baseline	34
Actual				34	
Target met?	N/A	N/A	N/A	Y	

Definition: This is the allocated cost of the resources used in processing the COLA divided by the number of COLAs.

Indicator Type: Measure

Data Capture and Source: The COLA online database.

Data Verification and Validation: Capturing excise tax returns: TTB reconciles the returns received vs. logged returns daily. Capturing resource cost data: Resource data is captured and available four times a day in Discoverer.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: This is a baseline measure and the final number will be entered into the system at the end of the fiscal year.

Measure: Total Assets - Annual Percentage Increase in the Total Assets of Native CDFIs (%) (Oe)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	Baseline	35	33	33	15
Actual	39	103	182	19	
Target met?	Y	Y	Y	N	

Definition: Measure the percent change in total assets that Native CDFIs report from one year to the next. The Fund will calculate: [Total Assets in Current Year - Total Assets in Previous Year] / [Total Assets in Previous Year]

Indicator Type: Indicator

Data Capture and Source: The Native CDFIs financial data is captured through the annual Institution Level Report.

Data Verification and Validation: Native CDFIs report their total assets to the Fund in their Institution Level Report. The Fund verifies the total assets reported against the organization's submitted balance sheet. Organizations are contacted regarding any discrepancies in the data reported. The Fund compares the total assets of CDFIs from year-to-year.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: The Fund has designated 39 certified CDFIs that serve Native Communities. The Fund captures financial information for all CDFIs through a web-based system called CIIS (Community Impact Investment System). However, CDFIs are not required to provide this information. For fiscal year 2007 Native Assets, 11 of 39 certified CDFIs reported in CIIS over a two or three year period. This was the sample size that the Fund used to determine a 19 percent increase for Native Assets. Previous actual performance the past two fiscal years were much higher than the proposed target. In moving forward for the Fund to provide a more consistent, repeatable, and accurate actual performance reporting, the Fund will only use data reported in CIIS. Additionally, the arbitrary proposed target of 33 percent for each new fiscal year will be changed to take a two year average of the actual performance. In this case, the 33 percent proposed target for fiscal year 2008 will be changed to 15 percent based on the data available in CIIS.

Measure: Administrative Costs per Number of Bank Enterprise Award (BEA) Applications Processed ($) (E)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		Baseline	1280	1455	1455
Actual		1280	1630	1950*	
Target met?	N/A	Y	N	N	

Definition: The fixed and variable cost per application for Bank Enterprise Award (BEA) applications.

Indicator Type: Measure

Data Capture and Source: The Fund will analyze the cost of materials as well as staff time and contractor's time to determine the total cost per application.

Data Verification and Validation: The Fund will conduct an analysis of the total cost of processing a single BEA application. The analysis will include both fixed and variable costs for the project.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Estimate. Function of allocated costs and number of applications received. Percent increase in allocated costs higher than percent increase in number of applications received (compared to prior year). The future targets were based on the fiscal year 2007 (draft) actual costs. We assume that any increase in future costs will be offset by a corresponding increase in the number of applications received. However, we have virtually no ability to control the number of applications received, and so we have little ability to control the actual future administrative cost to process an application.

* Final data for this measure was not available at the time of publication. This data is an estimate.

Measure: Increase Activity - Increase in Community Development Activities Over Prior Year for All BEA Program Applicants ($ millions) (Oe)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	307	134	81	100	180
Actual	307	103	318	227	
Target met?	Y	N	Y	Y	

Definition: This measures the Bank Enterprise Award (BEA) applicants' increase in qualified community development activites over prior year.

Indicator Type: Measure

Data Capture and Source: Each BEA Program applicant is required to submit an application containing a Report of Transactions. The BEA Program Unit administers the BEA application. All reports are submitted electronically and the data is stored in the Fund's databases.

Data Verification and Validation: The data is self-reported by applicants during the application process.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Actual Increased Activity of BEA Program Applicants totaled $227 million in fiscal year 2007, surpassing the Fund's Final Target of $100 million by nearly 127 percent. Annual Increased Activity targets are based on a five-year historical projection model. Based on the number of applications and volume of increased activity demonstrated over the past five funding rounds, the Fund expects to meet or exceed its fiscal year 2008 Final Target of $180 million.

Measure: Administrative Costs per Number of Native American CDFI Assistance (NACA) Applications Processed ($) (E)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		Baseline	10050	9090	9090
Actual		10050	8130	13510*	
Target met?	N/A	Y	Y	N	

Definition: The Fund will determine the total cost associated with Native American CDFI Assistance (NACA) applications based on fixed and variable costs.

Indicator Type: Measure

Data Capture and Source: The Fund will capture this information through budget documentation.

Data Verification and Validation: The Fund will determine the total cost of a single NACA application based on material costs as well as the amount staff and contractor time per application.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Estimate. Function of allocated costs and number of applications received. Percent increase in allocated costs higher than percent increase in number of applications received (compared to prior year). Due to very small number of applications, small change in number of applications or allocated costs can have a significant effect on this measure. The future targets were based on the fiscal year 2007 (draft) actual costs. We assume that any increase in future costs will bee offset by a corresponding increase in the number of applications received. However, we have virtually no ability to control the number of applications received, and so we have little ability to control the actual future administrative cost to process an application.

* Final data for this measure was not available at the time of publication. This data is an estimate.

Measure: Private Equity - Amount of Investments in Low-Income Communities that Community Development Entitites (CDEs) Have Made with Capital Raised Through Their New Markets Tax Credit (NMTC) Tax Credit Allocations ($ billions) (Oe)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	Baseline	1.4	1.6	2.1	2.5
Actual	.1	1.1	2	2.5	
Target met?	Y	N	Y	Y	

Definition: Amount of investments in Low Income Communities that Community Development Entitites have made with capital raised through their New Markets Tax Credits (NMTC) allocations. The Fund will report NMTC Qualified Low-Income Community Investments (QLICIs) that are supported by NMTC Qualified Equity Investments (QEIs).

Indicator Type: Measure

Data Capture and Source: The Fund will capture the data in the CDEs' annual Institution Level and Transaction Level Reports.

Data Verification and Validation: CDEs will attract private sector equity in the form of QEIs. CDEs will have 12 months to invest these QEIs in QLICIs. The CDEs will self-report QLICIs in their annual Transaction Level Report. The Fund uses these reports for research, reporting, and compliance. The Fund is confident that CDEs will accurately report, as the consequence of misinformation may be recapture of the New Markets Tax Credits.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: "From 2005 thru 2007, the number of loans as a result of the NMTC program for qualified low income community investments in real estate/business support increased from 249 to 545 with an associated loan amount increasing from $855M to $2.5B. An additional 37 CDEs participated during this reporting period with a cumulative total of 128 for the entire program. For the new fiscal year, an additional 63 allocatees (press release 6/1/07) were designated so next year's performance should meet if not exceed the proposed target.

Measure: Administrative Costs per Number of New Markets Tax Credit (NMTC) Applications Processed ($) (E)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		Baseline	5390	4875	4875
Actual		5390	4360	5320*	
Target met?	N/A	Y	Y	N	

Definition: The cost per application for New Markets Tax Credit (NMTC) applications.

Indicator Type: Measure

Data Capture and Source: The Fund will analyze the cost of materials as well as staff time and contractor's time to determine the total fixed and variable cost per application.

Data Verification and Validation: The Fund will conduct an analysis of the total cost of processing a single NMTC application. The analysis will include both fixed and variable costs for the project.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Estimate. Function of allocated costs and number of applications received. Percent increase in allocated costs higher than percent increase in number of applications received (compared to prior year). The future targets were based on the fiscal year 2007 (draft) actual costs. We assume that any increase in future costs will bee offset by a corresponding increase in the number of applications received. However, we have virtually no ability to control the number of applications received, and so we have little ability to control the actual future administrative cost to process an application.

* Final data for this measure was not available at the time of publication. This data is an estimate.

Measure: U.S. Unemployment Rate (%) (Oe)

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	5.6	5.3	5.2	5.1	Discontinued
Actual	5.4	5.1	4.6	4.5	
Target met?	Y	Y	Y	Y	

Definition: The percentage of the U.S. labor force reported as unemployed in the last quarter of the reference fiscal year.

Indicator Type: Measure

Data Capture and Source: Data are collected from the U.S. Department of Labor, Bureau of Labor Statistics

Data Verification and Validation: Data are drawn from the U.S. Department of Labor, Bureau of Labor Statistics and checked twice to make sure the data are accurate.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: The Treasury Department recognizes that this measure is actually an indicator. The Department does not have control over the success of this measure. A more meaningful measure will be developed in fiscal year 2008

Measure: U.S. Real Gross Domestic Product (GDP) Growth Rate (%) (Oe)

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	3.5	3.6	3.4	3.3	Discontinued
Actual	4.5	3.6	3	2.4	
Target met?	Y	Y	N	N	

Definition: Real GDP is the most comprehensive measure of economic activity and is compiled throughout the year to reflect developments in each calendar quarter.

Indicator Type: Measure

Data Capture and Source: Data are provided by the Department of Commerce, Bureau of Economic Analysis (BEA).

Data Verification and Validation: Data is drawn from the Department of Commerce,Bureau of Economic Analysis, and checked twice to make sure the data is accurate.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: Real GDP grew more slowly than expected largely due to weakness in the homebuilding sector, which is slumping after several years of above-average growth. The decline in homebuilding activity has been deeper than expected. The Treasury Department recognizes that this measure is actually an indicator. The Department does not have control over the success of this measure. A more meaningful measure will be developed in fiscal year 2008

Measure: Percentage of Licensing Applications and Notices Completed within Established Timeframes (%) (Oe)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	95	95	95	95	95
Actual	96	96	94	96	
Target met?	Y	Y	N	Y	

Definition: This measure reflects the extent to which OCC meets its established timeframes for reaching decisions on licensing applications and notices. The OCC's timely and effective approval of corporate applications and notices contributes to the nation's economy by enabling national banks to engage in corporate transactions and introduce new financial products and services.

Indicator Type: Measure

Data Capture and Source: The Chief Counsel's office uses the Corporate Activity Information System (CAIS) to identify applications completed during the fiscal year. For each filing, the actual decision date is compared to the target action date to determine whether the application was completed within established standards. The percentage is determined by comparing the number of licensing applications processed within the required timeframes to the total number of licensing applications processed during the fiscal year. The processing time is the number of calendar days from the date of OCC receipt to the date of OCC's decision. The established processing timeframe depends on the application type and if the application qualifies for expedited processing.

Data Verification and Validation: The Licensing Department tracks processing of all applications and notices through the Corporate Activity Information System (CAIS). The analyst who is assigned the application will verify the accuracy of the CAIS data as the application is processed. The senior analyst or manager who approves the final decision also verifies the accuracy of the CAIS data.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: OCC plans to maintain its high level of timeliness in completing licensing applications and notices by hiring qualified staff as vacancies arise; providing staff training through annual conferences and rotational assignments, revising licensing manuals to address new circumstances and changed policies; and maintaining frequent communications between Headquarters office management and licensing analysts and District Office staff.

Measure: Percentage of Permit Application (original and amended) Processed by the National Revenue Center within 60 days (%) (E)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		67	80	80	80
Actual		81	86	85.09	
Target met?	N/A	Y	Y	Y	

Definition: The portion of permit applications (original and amended) that are processed with sixty days of receipt at the NRC.

Indicator Type: Measure

Data Capture and Source: NRC generates statistical reports, searches and queries. In-place data integrity controls exist within the application to validate the data.

Data Verification and Validation: NRC maintains data in the IRIS database that reflects receipt date and issued or closed date.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: TTB reengineered its function in this area in fiscal year 2005. The immediate returns on that reengineering work became immediately evident as TTB continues to find ways to maintain increased permit levels with similar FTE levels.

Measure: Percentage of COLA Approval Applications Processed within 9 Calendar Days of Receipt (%) (E) (This measure will become inactive beginning in FY 2008.)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	60	30	55	45	Discontinued
Actual	23	50	44	42	
Target met?	N	Y	N	N	

Definition: The percentage of Certificate of Label Applications (COLA) processed electronically and by paper within 9 days of receipt.

Indicator Type: Measure

Data Capture and Source: Data is captured thru the COLAs Online data base system. There are periodic statistical reports, searches, and queries that are generated.

Data Verification and Validation: There are statistical reports, searches and queries that are generated. In addition, there are data integrity controls in place within the application to validate the data.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: This measure will be discontinued in fiscal year 2008 as TTB incorporates new COLA measures. Also, this measure has lost its apples-to-apples comparisons as complexity in industry marketing has changed significantly since the measure was developed in the early 1990s.

Strategic Outcome:

Competitive capital markets

There are currently NO measures for this outcome.

Strategic Outcome:

Free trade and investment

Measure: Number of New Free Trade Agreement (FTA) Negotiations and Bilateral Investment Treaty (BIT) Negotiations Underway or Completed (Oe)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		5	9	7	Discontinued
Actual		7	12	10	
Target met?	N/A	Y	Y	Y	

Definition: The number of international trade or investment agreements underway or completed during the period and the number of those that reflect commitments to high standards such as that includes new commitments by a foreign government to open its financial services markets to U.S. providers. It includes bilateral agreements and multilateral undertakings (e.g., WTO) from which the U.S. benefits.

Indicator Type: Measure

Data Capture and Source: International Affairs staff and U.S. Trade Representative's office reporting.

Data Verification and Validation: : Based upon a count by International Affairs staff responsible for such negotiations and verifiable by reference to U.S. Trade Representative's office of financial services and investment.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: Treasury is committed to working with foreign governments to open financial services markets to U.S. providers. This goal is accomplished by increasing the number of new Free Trade Agreement (FTA) negotiations and Bilateral Investment Treaty (BIT) negotiations. Treasury continues to seek strong commitments from U.S. trading partners in these negotiations 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 U.S. trading partner's economic infrastructure and help enhance international economic and financial stability. Treasury is on track to surpass its target to negotiate seven such agreements in fiscal year 2007. The Trade Promotion Authority, the authority for negotiating trade agreements, expired in 2007. Given this uncertainty, it is difficult to predict the future trade agenda. This measure will be discontinued for fiscal year 2008, and will be replaced with a trade metric that expands the scope of treaties and agreements.

Strategic Outcome:
Prevented or mitigated financial and economic crises

Measure: Percentage of National Banks with Composite CAMELS Rating 1 or 2 (%) (Oe)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	90	90	90	90	90
Actual	94	94	95	96	
Target met?	Y	Y	Y	Y	

Definition: This measure reflects the overall condition of the national banking system at fiscal year-end. Bank regulatory agencies use the Uniform Financial Institutions Rating System, CAMELS, to provide a general framework for assimilating and evaluating all significant financial, operational and compliance factors inherent in a bank. Evaluations are mde on: Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk. The rating scale is 1 through 5 where 1 is the highest rating granted.

Indicator Type: Indicator

Data Capture and Source: The Supervisory Information office identifies the current composite ratings from Examiner View (EV) and Supervisory Information System (SIS) at fiscal year-end. The number of national banks at fiscal year-end is obtained from the Federal Reserve Board's National Information Center database. The percentage is determined by comparing the number of national banks with current composite CAMELS ratings of 1 or 2 to the total number of national banks at fiscal year-end.

Data Verification and Validation: Either quarterly or semi-annually, an independent reviewer compares a sample of Reports of Examination to the Examiner View (EV) and Supervisory Information System (SIS) data to ensure the accuracy of the recorded composite ratings. Any discrepancies between the supporting documentation and the systems data are reported to the respective Assistant Deputy Comptroller or Deputy Comptroller for corrective action.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: To sustain this level of achievement, the OCC will execute its Bank Supervision Operating Plan that focuses on credit quality, allowance of loan and lease losses (ALLL) adequacy, off-balance-sheet activities, liquidity and interest rate risk management, consumer protection, and Bank Secrecy Act/Anti-money Laundering compliance. The OCC also will continue recruiting entry-level examiners, aligning supervision resources to the areas of greatest risk, training the examiner staff, and enhancing examination guidance.

Measure: Rehabilitated Problem National Banks as a Percentage of the Problem National Banks One Year Ago (CAMELS 3, 4 or 5) (%) (Oe)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	40	40	40	40	40
Actual	40	44	46	52	
Target met?	Y	Y	Y	Y	

Definition: This measure reflects the successful rehabilitation of problem national banks during the past twelve months. Problem banks can ultimately reach a point where rehabilitation is no longer feasible. The OCC's early identification of and intervention with problem banks can lead to successful remediation of problem banks.

Indicator Type: Indicator

Data Capture and Source: The Supervisory Information office in OCC's headquarters office uses Examiner View (EV) and the Supervisory Information System (SIS) to identify and compare the composite CAMELS ratings for problem banks from twelve months prior to the current period composite CAMELS ratings for the same banks. The percentage is determined by comparing the number of national banks that have upgraded composite CAMELS ratings of 1 or 2 from composite CAMELS ratings of 3, 4 or 5 to the total number of national banks that had composite CAMELS ratings of 3, 4 or 5 twelve months ago.

Data Verification and Validation: Either quarterly or semi-annually, an independent reviewer compares a sample of Reports of Examination to the Examiner View (EV) and Supervisory Information System (SIS) data to ensure the accuracy of the recorded composite ratings. Any discrepancies between the supporting documentation and the systems data are reported to the respective Assistant Deputy Comptroller or Deputy Comptroller for corrective action.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: To sustain this level of achievement, the OCC will execute its Bank Supervision Operating Plan that focuses on banks with the highest degree of problems and to work with those banks to resolve their problems in order to ensure the national banking system remains stable and strong. The OCC also will continue its recruiting of entry-level examiners, aligning supervision resources to the areas of greatest risk, training the examiner staff, and enhancing examination guidance.

Measure: Percentage of National Banks that are Categorized as Well Capitalized (%) (Oe)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	95	95	95	95	95
Actual	99	99	99	99	
Target met?	Y	Y	Y	Y	

Definition: This measure reflects whether the national banking system is well capitalized at fiscal year-end. The Federal Deposit Insurance Act established a system of prompt corrective action (PCA) that classifies insured depository institutions into five categories (well capitalized; adequately capitalized; undercapitalized, significantly undercapitalized; and critically undercapitalized) based on their relative capital levels. The purpose of PCA is to resolve the problems of insured depository institutions at the least possible long-term cost to the deposit insurance fund.

Indicator Type: Indicator

Data Capture and Source: National banks file quarterly Reports of Condition and Income with the Federal Finance Institution Examination Council through the Federal Deposit Insurance Corporation's data processing center. The Supervisory Information office reviews the Reports of Condition and Income (i.e., call reports) for each quarter to identify national banks that meet all of the criteria for a well capitalized institution. The number of national banks at fiscal year-end is obtained from the Federal Reserve Board's National Information Center database. The percentage is determined by comparing the number of national banks that meet all of the established criteria for being well capitalized to the total number of national banks at fiscal year-end.

Data Verification and Validation: The banks' boards of directors attest to the accuracy of the reported data. The reliability of these quarterly reports is evaluated by OCC examiners during bank examinations.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: To sustain this level of achievement, the OCC will execute its Bank Supervision Operating Plan that focuses on the capitalization levels of all national banks to ensure that our examination process focuses on banks that have or may develop problems related to capitalization levels. The OCC also will continue its recruiting of entry-level examiners, aligning supervision resources to the areas of greatest risk, training the examiner staff, and enhancing examination guidance.

Measure: Percentage of National Banks with Consumer Compliance Rating of 1 or 2 (%) (Oe)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	94	94	94	94	94
Actual	96	94	94	97	
Target met?	Y	Y	Y	Y	

Definition: This measure reflects the national banking system's compliance with consumer laws and regulations. Bank regulatory agencies use the Uniform Financial Institutions Rating System, Interagency Consumer Compliance Rating, to provide a general framework for assimilating and evaluating significant consumer compliance factors inherent in a bank. Each bank is assigned a consumer compliance rating based on an evaluation of its present compliance with consumer protection and civil rights statutes and regulations, and the adequacy of its operating systems designed to ensure continuing compliance. Ratings are on a scale of 1 through 5 in increasing order of supervisory concern.

Indicator Type: Indicator

Data Capture and Source: The Supervisory Information office identifies the number of banks with current consumer compliance ratings of 1 or 2 and the total number of national banks from Examiner View (EV) and Supervisory Information System (SIS) subject to consumer compliance examinations at fiscal year-end. The percentage is determined by comparing the number of national banks with current consumer compliance ratings of 1 or 2 to the total number of national banks subject to consumer compliance examinations at fiscal year-end.

Data Verification and Validation: Consumer compliance ratings are assigned at the completion of each consumer compliance examination. These ratings are entered into OCC's management information systems, Examiner View (EV) and Supervisory Information System (SIS), by the banks' Examiner-in-Charge and reviewed and approved by the Supervisory Offices' Assistant Deputy Comptroller (Mid-Size/Community banks) or Deputy Comptroller (Large banks).

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: To sustain this level of achievement, the OCC will execute its Bank Supervision Operating Plan that encourages and ensures that national banks have strong compliance management functions in place. The OCC also will continue its recruiting of entry-level examiners, aligning supervision resources to the areas of greatest risk, training the examiner staff, and enhancing examination guidance.

Measure: Total OCC Costs Relative to Every $100,000 in Bank Assets Regulated ($) (E)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target			Baseline	9.55	9.55
Actual			8.84	8.89	
Target met?	N/A	N/A	Y	Y	

Definition: This measure reflects the efficiency of OCC operations while meeting the increasing supervisory demands of a growing and more complex national banking system.

Indicator Type: Measure

Data Capture and Source: OCC costs are those reported as total program costs on the annual audited Statement of Net Cost. Banks assets are those reported quarterly by national banks on their Reports of Condition and Income.

Data Verification and Validation: OCC's financial statements and controls over the data are audited by an independent accountant each year. National banks file quarterly Reports on Condition and Income with the FFIEC through the FDIC's data processing center. The banks' boards of directors attest to the accuracy of the reported data. The reliability of these quarterly reports is evaluated by OCC examiners during bank examinations.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: OCC will continue to evaluate our examination and management processes to ensure efficient operations.

Measure: Percent of Thrifts with Composite CAMELS Ratings of 1 or 2 (%) (Oe)

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	90	90	90	90	90
Actual	93	94	93	93	
Target met?	Y	Y	Y	Y	

Definition: On December 9, 1996, the FFIEC adopted the CAMELS rating system as the internal rating system to be used by the Federal and State regulators for assessing the safety and soundness of financial institutions on a uniform basis. The CAMELS rating system puts increased emphasis on the quality of risk management practices. "CAMELS" stands for Capital adequacy, Asset quality, Management, Earnings, Liquidity and Sensitivity to market risk. OTS assigns a composite CAMELS rating to savings associations at each examination and may adjust the rating between examinations if the association's overall condition has changed. New savings associations are typically not assigned a composite CAMELS rating until the first examination. OTS adjusts the level of supervisory resources devoted to an association based on the composite rating. The CAMELS rating is based upon a scale of 1 through 5 in increasing order of supervisory concern.

Indicator Type: Measure

Data Capture and Source: Composite CAMELS ratings are stored in and retrieved from the online Examination Data System. OTS calculates this measure by dividing the number of savings associations having a composite CAMELS rating of 1 or 2 by the total number of OTS-regulated savings associations that have been assigned a composite CAMELS rating.

Data Verification and Validation: Summary and detail reporting of CAMELS ratings are available online through the Examination Data System and are provided to each association at the conclusion of an exam. The composite rating is used semi-annually in the assessment process. The Assistant Managing Director, Examinations and Supervision – Operations continuously monitors the status of exam ratings. Quarterly press releases provide a summary of the thrift industry's CAMELS ratings to the public.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: OTS plans to maintain its current high level of achievement for this measure. The fiscal year 2008 Budget/Performance Plan describes the goals, strategies, and priorities that will guide OTS's operations. OTS will continue tailoring supervisory examinations to the risk profile of the institutions, while effectively allocating resources to oversee and assess the safety and soundness and consumer compliance record of the thrift industry.

Measure: Percent of Thrifts that are Well Capitalized (%) (Oe)

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	95	95	95	95	95
Actual	99.4	99.5	99.9	99	
Target met?	Y	Y	Y	Y	

Definition: Capital absorbs losses, promotes public confidence and provides protection to depositors and the FDIC insurance funds. It provides a financial cushion that can allow a savings association to continue operating during periods of loss or other adverse conditions. The Federal Deposit Insurance Act established a system of prompt corrective action (PCA) that classifies insured depository institutions into five categories (well-capitalized; adequately capitalized; undercapitalized, significantly undercapitalized; and critically undercapitalized) based on their relative capital levels. The purpose of PCA is to resolve the problems of insured depository institutions at the least possible long-term cost to the deposit insurance fund.

Indicator Type: Measure

Data Capture and Source: PCA ratings are stored in the Examination Data System and can also be found in the Thrift Overview Report and off-site financial monitoring reports. OTS calculates this measure by dividing the number of savings associations that are well capitalized by the total number of OTS-regulated institutions.

Data Verification and Validation: The Assistant Managing Director, Examinations and Supervision – Operations monitors and validates the capital measures. Quarterly press releases provide capital measures to the public.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: OTS plans to maintain its current high level of achievement for this measure. The fiscal year 2008 Budget/Performance Plan describes the goals, strategies, and priorities that will guide OTS's operations. OTS will continue tailoring supervisory examinations to the risk profile of the institutions, while effectively allocating resources to oversee and assess the safety and soundness and consumer compliance record of the thrift industry.

Measure: Percent of Safety and Soundness Exams Started as Scheduled (%) (Ot)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	90	90	90	90	90
Actual	94	93	94	95	
Target met?	Y	Y	Y	Y	

Definition: OTS examines savings associations every 12-18 months for safety and soundness, compliance and consumer protection laws. OTS performs safety and soundness examinations of its regulated savings associations consistent with the requirements in the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) as amended by the Riegle Community Development and Regulatory Improvement Act of 1994. When safety and soundness or compliance issues are identified during its risk-focused examinations, OTS acts promptly to ensure association management and directors institute corrective actions to address supervisory concerns. OTS staff often meets with the savings association's board of directors after delivery of the Report of Examination to discuss findings and recommendations.

Indicator Type: Measure

Data Capture and Source: When a savings association is examined, OTS staff enters into the Examination Data System the examination type, examination beginning and completion dates, report of examination mail date, and CAMELS or equivalent ratings. The percentage success rate for this measure is calculated by dividing the number of examinations that were started by the number of examinations that were scheduled to be started during the review period.

Data Verification and Validation: Data regarding safety and soundness examinations started as scheduled are available from the Examination Data System. The System reports assist in scheduling examinations and monitoring past performance. When necessary, management determines why standards are not being met and will initiate steps to improve performance.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: OTS plans to maintain its current high level of achievement for this measure. The Fiscal Year 2008 Budget/Performance Plan describes the goals, strategies, and priorities that will guide OTS's operations. OTS will continue tailoring supervisory examinations to the risk profile of the institutions, while effectively allocating resources to oversee and assess the safety and soundness and consumer compliance record of the thrift industry.

Measure: Total OTS Costs Relative to Every $100,000 in Savings Association Assets Regulated ($) (E)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target			Baseline	14.33	14.33
Actual			13.46	13.9*	
Target met?	N/A	N/A	Y	Y	

Definition: Beginning in fiscal year 2006, OTS included a performance measure that reflects the efficiency of its operations while meeting the increasing supervisory demands of a growing and more complex thrift industry. This measure supports OTS's ongoing efforts to efficiently use agency resources. The efficiency measure is impacted by the relative size of the savings associations regulated. As of June 30, 2006, 63 percent of all savings associations have total assets of less than $250 million and are generally community-based organizations that provide retail financial services in their local markets. In addition, the measure does not include over $7 trillion in assets of holding company enterprises regulated by OTS.

Indicator Type: Measure

Data Capture and Source: The OTS expenses published in OTS's annual audited financial statement are used in this calculation. If the performance measure calculation is provided before the audited financial statement is available, the estimated expenses are derived from OTS's Budget Variance System. The OTS regulated assets are published in the OTS quarterly press release of thrift industry financial highlights and are derived from the institutions' quarterly Thrift Financial Reports. The measure is calculated by dividing total fiscal year expenses by total thrift assets.

Data Verification and Validation: OTS expenses are verified during the annual CFO audit and reflect those published in the OTS annual audited financial statements. The industry's assets are reported by OTS's regulated institutions in the quarterly Thrift Financial Report, edited and verified by OTS staff, and then published in the OTS quarterly press release and available to the public on the OTS Internet site. OTS allows amendments from the industry for six months after the filing date.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: This estimate uses thrift asset data as of June 30, 2007 and estimated year-end 2007 OTS expenses (OTS's auditors have not yet completed our 2007 financial statement audit). This is just an estimate and may change. OTS plans to maintain its current high level of achievement for this measure. The Fiscal Year 2008 Budget/Performance Plan describes the goals, strategies, and priorities that will guide OTS's operations. OTS will continue tailoring supervisory examinations to the risk profile of the institutions, while effectively allocating resources to oversee and assess the safety and soundness and consumer compliance record of the thrift industry.

* Final data for this measure was not available at the time of publication. This data is an estimate.

Measure: Percentage of Grant and Loan Proposals Containing Satisfactory Frameworks for Results Measurement (%) (Oe)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		Baseline	90	90	90
Actual		78	88	92	
Target met?	N/A	Y	N	Y	

Definition: The percentage of grant and loan project proposals that contain a satisfactory framework for measuring project results (such as outcome indicators, quantifiable and time-bound targets, etc.) This information is measured on an annual basis.

Indicator Type: Measure

Data Capture and Source: MDB monthly operational report, special requests to MDBs for loan and grant approvals, MDB annual reports and U.S. voting positions

Data Verification and Validation: Data provided by the MDB is compared with Treasury MDB Office vote history database and internal supporting memoranda.

Data Accuracy: Reasonable

Data Frequency: Semi-Annually

Future Plans/Explanation for Shortfall: To help ensure that the multilateral development banks (MDBs) demonstrate results of their development assistance, the MDB office will continue to closely monitor the percentage of grants and loan proposals containing satisfactory frameworks for results measurements. Over the past few years, most of the MDBs have made substantial progress towards developing frameworks that measure the results of their development assistance. For fiscal year 2007, the annual target of 90 percent of grants and projects with results measurement frameworks was met, with 92 percent of project results frameworks meeting our test.

Measure: Level of MDB Grant Financing and Satisfactory Results Measurements (African Development Bank/AFDF Grants) ($ millions) (Oe) [DISCONTINUED FY 2007]	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	294	216	870	Discontinued	Discontinued
Actual	65	46	700	0	
Target met?	N	N	N	N/A	

Definition: Captures the portion of resources provided to borrowers from each Multilateral Development Banks (MDB) in the form of grants and whether such grant financing contains a satisfactory results measurement framework. MDA provide financial support and professional advice for economic and social development activities in developing countries.

Indicator Type: Measure

Data Capture and Source: MDB monthly operational report, special requests to MDBs for loan and grant approvals, MDB annual reports and U.S. voting positions. This information is measured on an annual basis.

Data Verification and Validation: Data provided by the MDB is compared with Treasury MDB Office vote history database and internal supporting memoranda.

Data Accuracy: Reasonable

Data Frequency: Semi-Annually

Future Plans/Explanation for Shortfall: This measure is Discontinued for fiscal year 2007.

Measure: Level of MDB Grant Financing and Satisfactory Results Measurements (Grants as a % of IDA FY Commitment) (Oe) [DISCONTINUED FY 2007]					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	22	19.6	30.4	Discontinued	Discontinued
Actual	18.8	21.4	25		
Target met?	N	Y	N	N/A	

Definition: The portion of resources provided to borrowers from each Multilateral Development Banks (MDB) in the form of grants and whether such grant financing contains a satisfactory results measurement framework. MDB provide financial support and professional advice for economic and social development activities in developing countries.

Indicator Type: Measure

Data Capture and Source: MDB monthly operational report, special requests to MDBs for loan and grant approvals, MDB annual reports and U.S. voting positions. This information is measured on an annual basis.

Data Verification and Validation: Data provided by the MDB is compared with Treasury MDB Office vote history database and internal supporting memoranda.

Data Accuracy: Reasonable

Data Frequency: Semi-Annually

Future Plans/Explanation for Shortfall: This measure is Discontinued for fiscal year 2007.

Measure: Level of MDB Grant Financing and Satisfactory Results Measurements (Grants as a % of AFDF FY Commitment) (Oe) [DISCONTINUED FY 2007]					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	21	19.5	35	Discontinued	Discontinued
Actual	39.2	21.8	30.5	0	
Target met?	Y	Y	N	N/A	

Definition: The portion of resources provided to borrowers from each Multilateral Development Banks (MDB) in the form of grants and whether such grant financing contains a satisfactory results measurement framework. MDBs provide financial support and professional advice for economic and social development activities in developing countries.

Indicator Type: Measure

Data Capture and Source: MDB monthly operational report, special requests to MDBs for loan and grant approvals, MDB annual reports and U.S. voting positions. This information is measured on an annual basis.

Data Verification and Validation: Data provided by the MDB is compared with Treasury MDB Office vote history database and internal supporting memoranda.

Data Accuracy: Reasonable

Data Frequency: Semi-Annually

Future Plans/Explanation for Shortfall: This measure is Discontinued for fiscal year 2007.

Measure: Encourage Movement Towards Flexible Exchange Rate Regimes (Oe) [DISCONTINUED FY 2007]					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		0	4	Discontinued	Discontinued
Actual		3	2	0	
Target met?	N/A	Y	N	N/A	

Definition: Encouraging large economies with fixed or rigid exchange rate regimes to adopt flexible exchange rate regimes is a key to addressing global imbalances and assuring sustained global growth. International Affairs staff engages in and support economic dialogue with these countries, such as China, and provide technical assistance and support so those countries will be able to transition from fixed to flexible regimes. This measure captures the work Treasury is doing to support the transition, and shows the number of actions Treasury has taken to encourage flexible exchange rate regimes. Source: International Affairs staff tracks and accounts for actions undertaken during the reporting period.

Indicator Type: Measure

Data Capture and Source: International Affairs staff tracks and accounts for actions undertaken during the reporting period.

Data Verification and Validation: Publicly available accounts of meetings (press, etc.), communiques issued flowwing multilateral or bilateral meetings.

Data Accuracy: Reasonable

Data Frequency: Semi-Annually

Future Plans/Explanation for Shortfall: This measure is Discontinued for fiscal year 2007.

Measure: Percent of Thrifts with Compliance Examination Ratings of 1 or 2 (%) (Oe)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	90	90	90	90	90
Actual	94	94	93	97	
Target met?	Y	Y	Y	Y	

Definition: A uniform, interagency compliance rating system was first approved by the Federal Financial Institutions Examination Council (FFIEC) in 1980. The FFIEC rating system was designed to reflect, in a comprehensive and uniform fashion, the nature and extent of an association's compliance with consumer protection statutes, regulations and requirements. The Compliance Rating System is based upon a scale of 1 through 5 in increasing order of supervisory concern. OTS began to combine safety and soundness and compliance examinations in 2002 to attain exam efficiencies and to improve risk assessment. Using comprehensive exam procedures, compliance with consumer protection laws is reviewed at more frequent intervals, which has improved the quality of the examination process.

Indicator Type: Measure

Data Capture and Source: Compliance examination ratings are stored in the Examination Data System. OTS calculates this measure by dividing the number of OTS-regulated savings associations that received a compliance examination rating of 1 or 2 on their most recent examination by the total number of OTS-regulated savings associations that have been assigned a compliance examination rating.

Data Verification and Validation: Summary and detail reporting of compliance ratings are available online through the Examination Data System. The Assistant Managing Director, Examinations and Supervision – Operations monitors the status of compliance exam ratings.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: OTS plans to maintain its current high level of achievement for this measure. The Fiscal Year 2008 Budget/Performance Plan describes the goals, strategies, and priorities that will guide OTS's operations. OTS will continue tailoring supervisory examinations to the risk profile of the institutions, while effectively allocating resources to oversee and assess the safety and soundness and consumer compliance record of the thrift industry.

Strategic Outcome:

Decreased gap in the global standard of living

Measure: Improve International Monetary Fund (IMF) Effectiveness and Quality Through Periodic Review of IMF Programs (%) (Oe)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		90	90	90	90
Actual		78	100	100	
Target met?	N/A	N	Y	Y	

Definition: This measure tracks efforts by International Affairs (IA) staff to monitor quality of IMF country programs and ensure the application of appropriately high standards. IA staff endeavors to review each country program and provide a synopsis and recommendation for action at least one week before each program is voted on by the IMB Board. The measure tracks the percentage of times the staff review is completed in a timely manner (at least one week before Board action) to allow for alterations in language if deemed necessary.

Indicator Type: Measure

Data Capture and Source: International Affairs staff tracks and accounts for actions undertaken during the reporting period.

Data Verification and Validation: Publicly available accounts of meetings (press, etc.), communiqués issued following multilateral or bilateral meetings.

Data Accuracy: Reasonable

Data Frequency: Semi-Annually

Future Plans/Explanation for Shortfall: In cases when documents do not come out at least two weeks ahead of the Board date, the performance measure is adjusted accordingly.

Strategic Outcome:

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

Measure: Manufacturing Costs for Currency (dollar costs per thousand notes produced) ($) (E)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	35	31	28.5	32.5	33
Actual	28.06	28.83	27.49	28.71	
Target met?	Y	Y	Y	Y	

Definition: An indicator of currency manufacturing efficiency and effectiveness of program management. This standard is developed annually based on the past year's performance, contracted price factors, and anticipated productivity improvements. Actual performance comparison against the standard depends on BEP's ability to meet annual spoilage, efficiency, and capacity utilization goals established for this product line.

Indicator Type: Measure

Data Capture and Source: Cost data is collected through BEP's accrual-based cost accounting system.

Data Verification and Validation: BEP's accrual-based cost accounting system is audited annually as part of the financial statement audit.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: Final Manufacturing costs for currency for the fiscal year were $28.71 per thousand notes produced. BEP is in the process of switching from a 32 notes per sheet printing press to a 50 notes per sheet printing process. This change will provide cost savings and economies of scale and will enhance the Bureau's ability to meet or exceed this measure.

Measure: Percent of Currency Notes Delivered to the Federal Reserve that Meet Customer Quality Requirements (%) (Oe)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	99.9	99.9	99.9	99.9	99.9
Actual	100	99.9	99.9	100	
Target met?	Y	Y	Y	Y	

Definition: A qualitative indicator reflecting the Bureau's ability to provide a quality product. All notes delivered to the Federal Reserve go through rigorous quality inspections. These inspections ensure that all counterfeit deterrent features, both overt and covert are functioning as designed.

Indicator Type: Measure

Data Capture and Source: Quality inspections are performed at each Federal Reserve Bank. Any discrepancies found are reported to BEP on a per shipment basis.

Data Verification and Validation: Quality review audits are performed by internal BEP auditors on all Federal Reserve inspection systems as well as the procedures followed in reporting data to BEP. These audits are conducted on an annual basis with additional audits performed upon request by Federal Reserve Banks.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: For fiscal year 2007 100 percent of Currency notes delivered to the Federal Reserve met customer quality requirements. BEP is bringing new manufacturing equipment online that will enhance the Bureau's ability to meet or exceed this measure.

Measure: Cost per 1000 Coin Equivalents ($) (E)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	9.78	7.03	6.62	7.27	7.15
Actual	7.93	7.42	7.55	7.23	
Target met?	Y	N	N	Y	

Definition: Cost per 1000 coin equivalents is the cost of production (conversion cost) divided by the number of products made. Conversion costs are controllable costs within manufacturing. Those costs include manufacturing payroll, non-payroll, and depreciation costs. To determine the coin equivalents, an equivalency factor is assigned to each circulating denomination and numismatic product based on the resources it takes to make the product (indexed against the resources it takes to make one product – the quarter). The production quantity for each product is multiplied by the equivalency factor, resulting in a coin equivalent quantity. Thus, all denominations and products are equivalized to a quarter.

Indicator Type: Measure

Data Capture and Source: Conversion costs are pulled from financial reports from the accounting system. Production data is pulled from the enterprise resource planning system via queries and converted to coin equivalents.

Data Verification and Validation: United States Mint analysts review the data pulled from the accounting system for reasonableness and accuracy on a monthly basis.

Data Accuracy: Reasonable

Data Frequency: Monthly

Future Plans/Explanation for Shortfall: Fiscal Year 2007 Conversion costs were $7.47 per 1000 CEs, or 3 percent above the target of $7.27. This is an improvement of one percent from the fiscal year 2006 result of $7.55. The fiscal year 2007 target was based on a production forecast of 26,669 million coin equivalents (CEs). However, during fiscal year 2007, production was 23,174 million CEs (a 15 percent reduction from the forecasted CEs). The Mint did not meet the target due to the lower CE production levels (which would warrant a higher target) and some additional costs incurred during fiscal year 2007. Coin equivalent production volumes are lower than expected due to reduced demand for bullion products, this causes fixed costs to be spread over fewer products. Conversion costs have not reduced as much as the coin equivalents because of additional labor, materials, and process costs associated with the new Presidential $1 coins. In order to improve results, several projects are in progress or in the planning stages. These projects would expand the use of digital design and engraving to reduce some process costs, and automate material movement in the production of dollar coins. Coin equivalent production increased to 21.1 billion in fiscal year 2006 compared with 19.9 billion in fiscal year 2005, an increase of six percent. The associated conversion cost increased to $159 million from $147 million in fiscal year 2005, an increase of eight percent. The increase in conversion cost between fiscal year 2006 and fiscal year 2005 is the result of rising energy costs, replenishment of shipping and packaging supplies, overtime to support new numismatic products, and a 21 percent increase in depreciation expense. In fiscal year 2006, the United States Mint completed training for many manufacturing managers on lean manufacturing processes and for sales and marketing staff on project management techniques. This training will serve to eliminate unnecessary or redundant practices and should lead to improvements in plant productivity and reductions in controllable operating costs.

Measure: Order Fulfillment (%) (Oe)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	0	0	95	96	96
Actual	0	94	95	98	
Target met?	Y	Y	Y	Y	

Definition: This measure will track order fulfillment in both the circulating and numismatic products. Each component will be scaled by its percentage of the total revenue to create an index. The formula for this measure is [(circulating shipments/ circulating orders) (circulating revenue/total revenue) + (numismatic orders shipped within 7 days/numismatic orders requiring shipping) (numismatic revenue/total revenue)] The numismatic revenue and total revenue components exclude bullion revenue.

Indicator Type: Measure

Data Capture and Source: United States Mint analysts maintain circulating orders and shipment data in a database. Numismatic orders data are pulled via a query from the United States Mint's order management system. Revenue data are from the accounting system.

Data Verification and Validation: Order Fulfillment is a new measure that tracks the overall order fulfillment for the circulating coins shipped to the Federal Reserve and the numismatic coins sold to the public. The measure captures the percentage of orders that are shipped in a timely manner. Each component will be scaled by its percentage of the total revenue to create an index. The formula for this measure is [(circulating shipments/circulating orders) (circulating revenue/total revenue) + (numismatic orders shipped within 7 days/numismatic orders requiring shipping) (numismatic revenue/total revenue)]. United States Mint analysts review the data for reasonableness and accuracy regularly.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: The United States Mint order fulfillment performance at 98 percent for fiscal year 2007 surpassed the target of 96 percent. This improves upon the fiscal year 2006 result of 95 percent by three percentage points. This measure indexes the order fulfillment rates of two business lines, circulating and numismatic, by their respective revenues. This performance means that 98 percent of revenues are from products delivered on-time. The Mint will continue to foster a close relationship with the Federal Reserve to ensure that the order fulfillment rate for circulating coins remains high. Customer service to numismatic customers remains a priority, and Mint personnel will continue to closely monitor numismatic order fulfillment.

Measure: Currency Shipment Discrepancies per Million Notes (%) (Oe)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	.01	.01	.01	.01	.01
Actual	.01	0	.01	.01	
Target met?	Y	Y	Y	Y	

Definition: A qualitative indicator reflecting BEP's ability to provide effective product security and accountability. This measure refers to product overages or underages of as little as a single currency note in shipments of finished notes to the Federal Reserve Banks.

Indicator Type: Measure

Data Capture and Source: The customer captures this data and report to BEP on a monthly basis.

Data Verification and Validation: BEP reports product discrepancy data based on monthly information provided by the customer.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: Currency shipment discrepancies percent per million notes for fiscal year 2007 was .01 percent. BEP is bringing new inspection equipment online that will enhance the Bureau's ability to meet or exceed this measure.

Measure: Security Costs per 1000 Notes Delivered ($) (E)

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	Baseline	5.95	6.25	6.00	5.65
Actual	5.95	5.75	6	5.92	
Target met?	Y	Y	Y	Y	

Definition: An indicator reflecting the cost of providing effective and efficient product security and accountability. This standard is developed annually based on the past year's cost performance and anticipated cost increases. The formula used to calculate this measure is the total cost pf security divided by the number of notes produced divided by 1000.

Indicator Type: Measure

Data Capture and Source: Cost data is collected through BEP's accrual-based cost accounting system. This standard is developed annually based on the past year's cost performance and anticipated cost increases.

Data Verification and Validation: BEP's accrual-based cost accounting system is audited annually as part of the financial statement audit.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: Security costs per 1000 notes delivered for fiscal year 2007 was $5.92. This represents a decline in cost with respect to fiscal year 2006 numbers. We expect this trend to continue as we deploy new technologies that enhance security and enable more effectives use of police force resources.

Measure: Total Losses ($) (Oe)

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	0	250000	15000	10000	5000
Actual	3109	1135	0	0*	
Target met?	N	Y	Y	Y	

Definition: The United States Mint performs its protection function by minimizing the vulnerability to theft or unauthorized access to critical assets. The measure is comprised of the sum of three elements 1. Financial Losses: Losses that have been reported, investigated and verified as unrecoverable; from a. Strategic reserves (Theft of Treasury Reserves) b. Coining products (Theft from the production facilities) c. Sales of products to the public (Theft by fraud) d. Other losses (Other theft). 2. Productivity losses: The cost of intentional damage or destruction of United States Mint production capability and the cost to utilize alternative productivity as needed as a result of the intentional damage or destruction. 3. Intrusion losses: The cost to repair and/or recover from intentional intrusions into United States Mint facilities and systems, either physically or electronically.

Indicator Type: Measure

Data Capture and Source: The United States Mint Police maintains a secure database of monthly reports on incidents included in the categories above. Any theft or fraud amount determined as unrecoverable is assessed on a case-by-case basis. In the event that cost information is needed, data on the value of United States Mint assets and costs are in the ERP system.

Data Verification and Validation: Analysts in the Protection organization compile and analyze the incident data on a monthly basis. Protection senior management reviews the total losses report for reasonableness and accuracy and reports to United States Mint management on a quarterly basis.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: The United States Mint is initiating a review the Total Losses measure and as a result, the fiscal year 2007 result is not yet available. The fiscal year 2007 results will be reported in subsequent budget reports and in the fiscal year 2008 annual report. The Mint Police is strengthening procedures and relationships with law enforcement partners with the goal of minimizing risks to persons, assets, and property.

* Final data for this measure was not available at the time of publication. This data is an estimate.

Measure: Protection Cost per Square Foot ($) (E)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	0	31.86	32	32.99	32.5
Actual	32.51	32.43	32.49	31.75	
Target met?	N	N	N	Y	

Definition: Protection cost per square foot is the Protection operating costs divided by the area of usable space in square feet that the United States Mint Police protects. Usable space is defined as 90 percent of total square footage. The year-to-date result is then annualized on a straight-line basis.

Indicator Type: Measure

Data Capture and Source: The Protection costs are automatically pulled from the United States Mint's accounting system on a monthly basis. The square footage is relatively stable and is monitored by the Protection office and United States Mint management.

Data Verification and Validation: United States Mint analysts review the data for reasonableness and accuracy on a monthly basis.

Data Accuracy: Reasonable

Data Frequency: Monthly

Future Plans/Explanation for Shortfall: Protection cost per square foot is $31.75 for fiscal year 2007, lower than the target of $32.99 by 4 percent. This result is an improvement of 2 percent from the fiscal year 2006 result of $32.49. The Mint police made efforts to curtail some travel expenses, and actual expenses related to a planned buyout authority ended up lower than expected. The Mint Police will continue efforts to contain costs, while maintaining proper operations to fulfill protection responsibilities. Projects to automate entry and exit at facilities are expected to reduce the need for staffing costs associated with these functions.

Measure: Cycle Time (E)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	53	53	67	75	Discontinued
Actual	85	69	72	61	
Target met?	N	N	N	Y	

Definition: Cycle time is the length of time from when material enters a production facility until it is delivered to the customer.

Indicator Type:

Data Capture and Source: Data for each element is pulled from the United States Mint's Enterprise Resource Planning system.

Data Verification and Validation: United States Mint analysts review the data pulled from the accounting system for reasonableness and accuracy on a monthly basis.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: This measure is being discontinued in fiscal year 2008.

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

Strategic Outcome:

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

Measure: Number of Countries that are Assessed for Compliance with the Financial Action Task Force (FATF) 40+9 Recommendations (Ot)

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		Baseline	45	6	12
Actual		49	5	6	
Target met?	N/A	Y	N	Y	

Definition: TFFC is the lead Treasury component and representative to the Financial Action Task Force (FATF). As such, TFFC is responsible for leading international efforts to identify and close money laundering and terrorist financing vulnerabilities in the international financial system, and to ensure that countries throughout the world comply with international anti-money laundering/counter-terrorist financing standards. In concert with the international community, Treasury is deploying a three-prong strategy that 1) objectively assesses all countries against the FATF 40+9, 2) provides capacity-building assistance for key countries in need and 3) isolates and punishes those countries and institutions that facilitate terrorist financing. TFI is working with international bodies like FATF, IMF (International Monetary Fund) and World Bank to ensure compliance. The IMF and World Bank have adopted the FATF 40+9 and they use those standards to assess countries for compliance.

Indicator Type: Measure

Data Capture and Source: Data collected by the Department of Treasury's Office of Terrorism and Financial Intelligence (TFI); Terrorist Financing and Financial Crimes (TFFC).

Data Verification and Validation: TFFC data undergoes multiple quality checks to ensure accuracy.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Assessing compliance for the FATF 40+9 recommendations is crucial to identifying money laundering and terrorist financing vulnerabilities, and is one of the most effective levers to encourage reforms. Through participation by international bodies such as FATF, IMF, and World Bank, assessments for compliance with FATF's standards should become more widespread. Treasury will continue efforts to increase assessments and international cooperation, which will allow TFFC to pursue vital international initiatives relating to trade-based money laundering, cross border funds reporting, and the abuse of charities for terrorist financing, for example. Growth in the number of countries assessed reflects increased acceptance of key international standards and should focus attention on key money laundering and terrorist financing issues and remaining implementation challenges.

Measure: Increase the Number of Outreach Engagements with the Charitable and International Financial Communities (Ot)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		Baseline	105	70	70
Actual		95	45	85	
Target met?	N/A	Y	N	Y	

Definition: The effectiveness of the USG's efforts to combat terrorist financing and other forms of illicit finance depends upon the understanding and cooperation of the domestic and international private sector, particularly the financial services industries and other vulnerable sectors such as charities. The Office of Terrorist Finance and Financial Crimes (TFFC) outreach engagements allows the USG to assess first-hand domestic and international Anti-money Laundering and Combating the Financing of Terrorism (AML/CFT) practices by governments and private institutions alike and engage with these entities to ensure that they safeguard themselves and the financial system against illicit activity. When followed-up consistently, this outreach has proven to be one of our most efficacious tools for changing behavior, raising awareness, and improving capacity among foreign governments as well as domestic and foreign institutions with gaps in their AML/CFT programs.

Indicator Type: Measure

Data Capture and Source: Data collected by the Department of Treasury's Office of Terrorism and Financial Intelligence (TFI); Terrorist Financing and Financial Crimes (TFFC).

Data Verification and Validation: Department of the Treasury's TFI data based on outreach events.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Engagement with the international and charitable sectors has always played a key role in TFFC's work. Bilateral and multilateral engagements with the public and private sectors have enabled TFFC to promote and promulgate greater transparency and accountability in financial systems worldwide. Looking ahead to fiscal year 2008, TFFC aims to broaden and deepen these engagements yet further by improving USG understanding of private sector challenges, private sector understanding of illicit financing threats, and implementation of effective AML/CFT safeguards across the private and charitable sectors. *These figures do not include classified initiatives.

Measure: Percent of Forfeited Cash Proceeds Resulting from High-impact Cases (%) (Oe)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	75	75	75	75	75
Actual	83.95	81	72.93	84.18	
Target met?	Y	Y	N	Y	

Definition: A "high impact case" is a case, based on designation or executive order, resulting in a cash forfeiture equal to or greater than $100,000. This measure is calculated by dividing the amount of cash forfeited in amounts equal to or greater than $100,000 (as measured by individual deposits that are equal to or greater than $100,000) divided by the total amount of cash forfeitures to the Fund (as of the end of the year, or other reporting period.)

Indicator Type: Measure

Data Capture and Source: The Treasury Forfeiture Fund is able to capture this data on a monthly basis and the source of the data is the Detailed Collection Report (DCR).

Data Verification and Validation: The source of the data that supports our performance calculation comes from the general ledger of the Treasury Forfeiture Fund which data is audited annually pursuant to our financial statement audit. Therefore, the annual financial statement audit process serves to "verify and validate" the data used to support our performance measure on an annual basis.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: Our final performance against the 2007 target is 84.18 percent. "The Treasury Forfeiture Fund exceeded its annual target of 75 percent for high-impact forfeitures, reflecting a banner year for forfeiture revenue in fiscal year 2007. Management will continue to emphasize high-impact forfeitures to our participating bureaus and to fund those categories of expense that enhance the bureaus' ability to pursue this type of case. Our target performance of 75 percent continues to be appropriate for this performance measure."

Measure: Number of Open Civil Penalty Cases that are Resolved within the Statute of Limitations Period (Ot)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		Baseline	85	85	120
Actual		85	85	296	
Target met?	N/A	Y	Y	Y	

Definition: Timely imposition of civil penalties plays a major role in deterring and appropriately punishing violations of sanctions by U.S. persons. OFAC receives a very high volume of law enforcement referrals regarding potential violations. It is devising strategies to reduce the backlog of civil penalty and enforcement actions and increase efficiency in drafting warning and cautionary letters, assessing penalties, negotiating penalty resolutions and processing monetary penalties.

Indicator Type: Measure

Data Capture and Source: OFAC database.

Data Verification and Validation: TBD

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: Timely imposition of civil penalties plays a major role in deterring and appropriately punishing violations of sanctions by U.S. person. OFAC receives a very high volume of law enforcement referral regarding potential violations. In fiscal year 2008, OFAC will continue to devise strategies to reduce the backlog of civil penalty and enforcement actions and increase efficiency in drafting warnings and cautionary letters, assessing penalties, negotiating penalty resolutions and processing monetary penalties. In fiscal year 2007, 296 civil penalty cases were resolved within the statute of limitations. This satisfied the target of 85 cases, which had been established in fiscal year 2006. OFAC has assessed this target and decided to raise it to 120 cases for fiscal year 2008 and fiscal year 2009.

Strategic Outcome:

Safer and more transparent U.S. and international financial systems

Measure: Average Time to Process Enforcement Matters (in years) (E)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	1.2	1.1	1	1	1
Actual	1	1.3	1	1.1	
Target met?	Y	N	Y	N	

Definition: The average time to process an enforcement matter is determined from the date a case is referred from the Office of Compliance to the date the charging (or action) letter is issued.

Indicator Type: Measure

Data Capture and Source: The data for this measure is captured through an internal database that stores enforcement matters. The database records the date cases are received, the analyst assigned, the statute of limitations date, and the date each case was closed.

Data Verification and Validation: The enforcement matters are entered into the automated log and evaluated to determine whether there is enforcement potential through a civil monetary penalty or otherwise. FinCEN has established time management guidelines to reduce the average processing time for civil penalty cases.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: FinCEN works closely with its regulatory partners to take enforcement action against institutions that systemically and egregiously violate the provisions of the BSA, including through imposition of civil money penalties in appropriate matters. Timely enforcement action communicates urgency to financial institutions, and is paramount to deterring non-compliance. In fiscal year 2007, FinCEN experienced a slight increase in the average processing time, exceeding the 1.0 year average by 21 days, resulting in an average of 1.1 years. This was the result of two enforcement cases that closed in the fourth quarter of fiscal year 2007 after abnormally long periods of time. Each of those enforcement actions was taken on a joint/concurrent basis with both the Department of Justice and the respective financial supervisor(s), which also had to complete their respective investigations. Moreover, the process of coordination with other interested government authorities, which itself is a Departmental priority, will often require longer time periods than unilateral actions. As such, the time periods of these two cases were outliers, and FinCEN will reconsider in the future whether the processing time target is appropriate for joint enforcement actions, as the timing of the announcement of these will not necessarily reflect when FinCEN has completed its enforcement review.

Measure: Number of Federal and State Regulatory Agencies with which FinCEN has Concluded Memoranda of Understanding/ Information Sharing Agreements

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		Baseline	45	50	52
Actual		41	48	50	
Target met?	N/A	Y	Y	Y	

Definition: This measure tracks the number of Memoranda of Understanding agreements the Office of Compliance concludes with other regulators of targeted jurisdictions. This measure is meaningful because it tracks our progress in sharing information on Bank Secrecy Act compliance with the regulatory agencies that either have delegated authority to examine for Bank Secrecy Act compliance or are expending resources to review for Bank Secrecy Act compliance under other authorities (for example, many states have Bank Secrecy Act-style laws/regulations or have laws that require compliance with all applicable laws and regulations). Some states must pass legislation to permit information sharing with the Financial Crimes Enforcement Network. Ultimately, information derived from these agreements will allow us to meet the intermediate outcome measure of improving our ability to monitor industry compliance.

Indicator Type: Measure

Data Capture and Source: Office of Compliance-maintained list of Memorandum of Understanding agreements with targeted regulators.

Data Verification and Validation: List can be checked against signed Memorandum of Understanding agreements in files. A monthly list is prepared for the regulators.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: FinCEN continues to increase compliance activities to monitor financial institutions examined for BSA compliance by state and federal regulators through entering into memoranda of understanding (MOU) to exchange information. In 2007, FinCEN executed two additional such agreements and has met its fiscal year 2007 target of 50. MOUs help ensure effective application of the BSA regulations across all regulated financial service industries by providing a solid foundation for FinCEN to improve upon its ability to monitor industry compliance by providing vital data on various industry sectors.

Measure: Percentage of Customers Finding FinCEN's Analytic Reports Highly Valuable					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target				Baseline	79
Actual				82	
Target met?	N/A	N/A	N/A	Y	

Definition: The percentage of customers (domestic law enforcement and foreign financial intelligence units finding FinCEN's analytical reports highly valuable. This is composite measure compiled from survey results. The survey looks at the impact of FinCEN's analysis products, such as whether the product was used to open a new investigation, whether it generated new leads, or whether it provided information previously unknown.

Indicator Type: Measure

Data Capture and Source: Annual Surveys

Data Verification and Validation: The vendor survey team developed questionnaires for customers, with FinCEN input. They conducted e-mail and/or telephone surveys of FinCEN's customers in the investigative/intelligence community, financial community and inhouse customers. A comprehensive report and presentation was provided at the conclusion of the survey.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: FinCEN supports law enforcement and its regulatory industry partners by facilitating information sharing and providing analyses of BSA information and measures the percentage of customers finding FinCEN's analytic reports highly valuable. FinCEN has revised this measure as a result of the fiscal year 2006 PART process to more accurately target its disparate audiences as well as its different products. The reformulated measure more closely ties to how BSA information is used by law enforcement, regulators and international partners to identify, investigate, and prevent abuse of the financial system. In fiscal year 2007 FinCEN surpassed its target of 78 percent with 82 percent of its customers finding the analytic products highly valuable.

Measure: Percentage of Customers Satisfied with the BSA E Filing (Oe)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target			Baseline	90	90
Actual			92	94	
Target met?	N/A	N/A	Y	Y	

Definition: The measure will assess the components of BSA Direct. This will begin with the E-Filing component of BSA Direct in fiscal year 2006. Feedback will be used to improve the system and customize it for user populations. This measure is linked to the performance goal "Accelerate the secure flow of financial information from the industries subject to the Bank Secrecy Act requirements to the law enforcement agencies that use it." The measure is meaningful because it tracks our progress toward serving the number of law enforcement and regulatory agency users accessing the BSA information through BSA Direct to support their own cases and investigations.

Indicator Type: Measure

Data Capture and Source: Active status user survey

Data Verification and Validation: Survey information is captured in a database.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: FinCEN conducted a survey of the users of the BSA E-Filing system to determine the overall satisfaction level and to identify where improvements are needed. FinCEN meet its target with 94 percent of respondents satisfied. The fiscal year 2007 target was to maintain at a least 90 percent satisfaction level. The information and the technology used to facilitate analysis are at the core of FinCEN's mission to deter and detect criminal activity, and safeguard financial systems from abuse by promoting transparency in the U.S. and international financial systems.

Measure: Percentage of Bank Examinations Conducted by the Federal Banking Agencies Indicating a Systemic Failure of the Anti-money Laundering Program Rule

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target				Baseline	5.2
Actual				5.2	
Target met?	N/A	N/A	N/A	Y	

Definition: The percentage of bank examinations that reveal the existence of systemic compliance failure (i.e., demonstrated by cited violations of the anti-money laundering program rule) is a meaningful measure because it provides an intermediate assessment of the effectiveness of the efforts of the Regulatory Policy and Programs Division's three offices in providing policy guidance and taking formal and informal compliance and enforcement actions to increase financial industry compliance with the Bank Secrecy Act. At the present time, the only financial sector from which we are receiving useful data to quantify this measure is the banking sector supervised and examined for Bank Secrecy Act compliance by the Federal Banking Agencies.

Indicator Type:

Data Capture and Source: The Federal Banking Agencies aggregated information provided pursuant to the Memorandum of Understanding executed in 2004 with FinCEN.

Data Verification and Validation: This information can be validated from the quarterly aggregate reports provided to FinCEN by each agency pursuant to the Memorandum of Understanding of 2004.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: As part of the 2006 Program Assessment Rating Tool (PART) process, FinCEN established a measure for the percentage of bank examinations conducted by the Federal Banking Agencies indicating a systemic failure of the anti-money laundering program rule and established an fiscal year 2007 baseline of 5.2 percent. Due to a three month time lag in data availability, this result is based on three quarters of fiscal year 2007 data. This measure provides an assessment of the effectiveness of FinCEN's efforts in providing policy guidance and taking formal and informal compliance and enforcement actions to increase depository institution compliance with the BSA.

Measure: Percentage of Regulatory Resource Center Customers Rating the Guidance Received as Understandable

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		0		90	90
Actual			94	91	
Target met?	N/A	N/A	Y	Y	

Definition: The percentage of financial institution customers who contact the Resource Center and respond to a survey, who find the information/response/guidance received was understandable. Providing guidance that is understandable is a desired result and is critical for for financial institutions to establish programs that comply with the BSA.

Indicator Type: Measure

Data Capture and Source: Resource Center customer records and survey data.

Data Verification and Validation: Results and data will be captured and verified by a professional survey consultant.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: FinCEN met its target. FinCEN conducted a survey of the Regulatory Resource Center customers rating regulatory guidance received as understandable and met its target with 91 percent satisfied. The target was to maintain at least a 90 percent level. Providing understandable guidance to financial institutions is critical to their establishing anti-money laundering programs that comply appropriately with the BSA.

Measure: Percentage of Customers Finding FinCEN's Analytic Support Valuable (%) (Oe) [DISCONTINUED FY 2007]					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		0	75	Discontinued	Discontinued
Actual		73	69	0	
Target met?	N/A	Y	N	N/A	

Definition: This performance measure, starting in fiscal year 2005, combines data from surveys on strategic analytical products, investigative case reports, and investigative targets.

Indicator Type: Measure

Data Capture and Source: Bi-annual surveys

Data Verification and Validation: The results had a margin of error of + or - 6.1 percentage points at a 95 percent confidence level. The results were validated using standard statistical models. An average score tracking the value of the three analytical products will be used to establish an overall indicator of the value of analytic support.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Measure being revised through the fiscal year 2006 PART Process.

STRATEGIC GOAL: MANAGEMENT AND ORGANIZATIONAL EXCELLENCE

Strategic Outcome:

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

Measure: Number of Open Material Weakness (significant management problems identified by GAO, the IGs and/or the bureaus) (President s Management Agenda) Targeted for Closure in FY 2007 (Oe)

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	6	4	2	1	3
Actual	8	7	1	0	
Target met?	N	N	N	N	

Definition: Treasury seeks to reduce and eventually eliminate the material weaknesses that currently exist within Treasury, while simultaneously taking actions which will serve to avoid new material weaknesses. Material weaknesses are significant problems with an organization's internal controls, systems' reliability, controls on waste, fraud or abuse, mission performance, and compliance with laws and regulations.

Indicator Type: Measure

Data Capture and Source: Identified by the General Accounting Office, Treasury's Inspectors General, and/or Treasury bureaus.

Data Verification and Validation: Certification statement issued by head of bureau. Independent review to validate material weakness has been corrected.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: More time is needed to observe the effects of completed actions to improve IRS's controls over systems modernization, so this material weakness could not be closed in fiscal year 2007.

Measure: Complete Investigations of EEO Complaints Within 180 Days (%) (Oe)

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	40	50	50	50	50
Actual	31	36	20	51.6	
Target met?	N	N	N	Y	

Definition: The average time it takes to complete investigations of Equal Employment Opportunity (EEO) complaints.

Indicator Type: Measure

Data Capture and Source: The Annual Federal EEO Statistical Report of Discrimination Complaints and the Department's Complaint Tracking System are the primary sources of data.

Data Verification and Validation:

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: Treasury is on target to meet its goal of completing investigations of EEO complaints within 180 days. In fiscal year 2007, Treasury instituted service level standards to assess the performance of the Treasury Complaint Mega Center, which processes all EEO complaints for all Treasury bureaus. This is part of our initiative to improve our oversight of the Center, and to ensure we are working to continuously improve operations. The establishment of a Chief, Complaint Operations position is needed to assist in efforts to hold the Center accountable for the improvement in quality and reduction in timeframes to process complaints.

Measure: Operating Expenses as a Percentage of Revenue – Consolidated/Integrated Administrative Management (%) (E)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	0	4	12	12	12
Actual	4	4	4	4.3	
Target met?	N	Y	Y	Y	

Definition: The Franchise Fund will either maintain or decrease their operating (administrative) expenses as a percentage of revenue year to year.

Indicator Type: Measure

Data Capture and Source: The data is captured in Oracle Financials system and reported through Oracle's Discoverer Reporting system. Measure is calculated as Operating Expenses divided by Total Revenue.

Data Verification and Validation: External auditors perform routine audits of financial statements. Operating Expenses are part of the financial statements.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall:

Measure: Operating Expenses as a Percentage of Revenue – Financial Management Administrative Support (%) (E)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	0	11	12	12	12
Actual	9	9	17	15.1	
Target met?	N	Y	N	N	

Definition: The Franchise Fund will either maintain or decrease their operating (administrative) expenses as a percentage of revenue year to year.

Indicator Type: Measure

Data Capture and Source: The data is captured in Oracle Financials system and reported through Oracle's Discoverer Reporting system. Measure is calculated as Operating Expenses divided by Total Revenue.

Data Verification and Validation: External auditors perform routine audits of financial statements. Operating Expenses are part of the financial statements.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall:

Measure: Operating Expenses as a Percentage of Revenue – Financial Systems, Consulting and Training (%) (E)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	0	12	12	12	12
Actual	14	11	10	6.7	
Target met?	N	Y	Y	Y	

Definition: The Franchise Fund will either maintain or decrease their operating (administrative) expenses as a percentage of revenue year to year.

Indicator Type: Measure

Data Capture and Source: The data is captured in Oracle Financials system and reported through Oracle's Discoverer Reporting system. Measure is calculated as Operating Expenses divided by Total Revenue.

Data Verification and Validation: External auditors perform routine audits of financial statements. Operating Expenses are part of the financial statements.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall:

Measure: Injury and Illness Rate Treasury wide, including DO (Oe)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	3.12	3	2.8	2.6	1.4
Actual	3.94	2.8	1	1.4*	
Target met?	N	Y	Y	Y	

Definition: The number of reported work-related injuries and illnesses Treasury-wide.

Indicator Type: Measure

Data Capture and Source: Safety and Health Information Management System

Data Verification and Validation: Data are collected from the Safety and Health Information Management system

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: In fiscal year 2004, the Department of Labor recognized Treasury for reducing the total injury and lost time injury rates by more than 10 percent each, well below the recommended three percent for all federal agencies. In 2007, Treasury continued its aggressive occupational safety and health program and had a 1.4 percent reduction. In February 2007, Treasury received an award from the Department of Labor for reducing injuries and illnesses, including those that resulted in time away from work, more than any other Federal Agency.

* Final data for this measure was not available at the time of publication. This data is an estimate.

Measure: Percent of Complainants Informally Contacting EEO (for the purposes of seeking counseling or filing a complaint) Who Participate in the ADR Process (%) (Oe)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		25	25	30	30
Actual		25	25	29	
Target met?	N/A	Y	Y	N	

Definition: Equal Employment Opportunity (EEO) contact means an instance where an EEO Counselor or an ADR Intake Officer performs the counseling duties described in Chapter 2 of MD 110 (Government-wide managing directive on EEO). This is the same information which is reported in Part One; Section one of 462 reports (Government-wide EEO report). Participation means both parties agree to enter an ADR process.

Indicator Type: Measure

Data Capture and Source: Treasury's automated Complaint Tracking System.

Data Verification and Validation: Data is periodically reviewed to ensure accuracy.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: Treasury has set a goal of 30 percent participation in Alternative Dispute Resolution (ADR) for individuals who contact an EEO counselor and request EEO counseling. There is no requirement established by the Equal Opportunity Commission to establish a goal for ADR, but the EEO community in Treasury believes the establishment of a goal would be a way to measure our success in improving ADR processes. For fiscal year 2007, Treasury was at 29 percent, slightly less than our goal for the year. In fiscal year 2008, we have the same goal, and will concentrate on improving ADR marketing and developing a survey to assess why individuals choose not to participate.

Measure: Management Cost per Treasury Employee ($) (E)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target		0	40.27	38.21	Discontinued
Actual		39.33	40.59	29.64	
Target met?	N/A	N	N	Y	

Definition: Total amount obligated for Treasury's strategic objective, M5B, divided by total amount of Treasury FTEs (excluding IRS employees).

Indicator Type: Measure

Data Capture and Source: Total amount obligated for M5B is taken from year end execution reports. The total amount of Treasury FTEs is taken by each bureau (except IRS) from the Department of Agriculture's National Finance Center database.

Data Verification and Validation: Treasury's Office of Performance Budgeting staff carefully checks and verifies data.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: This measure is being discontinued in fiscal year 2008.

Measure: Bureau Performance Plans for Supervisors, Managers, and SES Members Contain Elements that Link to the Bureau Mission (%) (Oe) [DISCONTINUED FY 2007]					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	75	100	100	Discontinued	Discontinued
Actual	77	100	100	0	
Target met?	Y	Y	Y	N/A	

Definition: The overall percentage of bureaus whose performance plans for supervisors, managers, and SES members contain elements that specifically link to the bureau mission.

Indicator Type: Measure

Data Capture and Source: Data will include bureau feedback in response to questions posed by the Office of Human Resources Strategy and Solutions, bureau results from using the Office of Personnel Management's Performance Appraisal and Assessment Tool to assess their performance management systems, and submission of sample bureau performance plans.

Data Verification and Validation: The DASWM office will identify gaps in bureau plans and, as needed, discussions related to mitigation strategies will be held when appropriate.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: This measure is being discontinued in fiscal year 2007.

Strategic Outcome:

Exceptional accountability and transparency

Measure: Percent of Statutory Audits Completed by the Required Date (%) (E)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	100	100	100	100	100
Actual	100	100	100	100	
Target met?	Y	Y	Y	Y	

Definition: Legislation mandating certain audit work generally prescribes, or authorizes OMB to prescribe, the required completion date for recurring audits and evaluations, such as those for annual audited financial statements. For other types of mandated audit work, such as a Material Loss Review (MLR) of a failed financial institution, the legislation generally prescribes a timeframe to issue a report (6 months for an MLR, as an example) from the date of an event that triggers the audit.

Indicator Type: Measure

Data Capture and Source: The date OIG issues an audit, attestation engagement, or evaluation report is printed on the cover. The required dates may vary each year and are specified in different legislation.

Data Verification and Validation: Official audit files and the dates on the reports themselves support the performance data.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: OIG expects to complete 100 percent of statutory audits by the required dates in fiscal year 2008.

Measure: Percentage of Audit Products Delivered When Promised to Stakeholders					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target				Baseline	60
Actual				68	
Target met?	N/A	N/A	N/A	Y	

Definition: The likelihood that our products will be used is enhanced if they are delivered when needed to support Congressional and Internal Revenue Service (IRS) decision making. To determine whether our products are timely, we track the percentage of our products that are delivered on or before the day we committed to (Contract date) because it is critical that our work be done on time for it to be used by the IRS or the Congress.

Indicator Type: Measure

Data Capture and Source: Information regarding Contract dates and actual delivery dates for audits is maintained on the TCMIS. MIS Coordinators in the Office of Audit's Operating/Business Units monitor overall data accuracy and maintain secure controls over key milestone and "Contract" data entries.

Data Verification and Validation: Summary data used for purposes of reporting on this measure are extracted, from the Office of Audit's TeamCentral Management Information System (TCMIS), analyzed and summarized by personnel in our Office of Management and Policy. A qualified staff member independent of the process validates the progress related statistics. TCMIS data are reviewed and validated monthly by MIS Coordinators, Audit Managers and Directors.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: TIGTA OA goal for Percentage of Audit Products Delivered When Promised to Stakeholders is 60 percent. This year was a baseline year. TIGTA OA met that goal by the end of September. The actual performance as of September 30th was 68 percent. TIGTA OA closed 180 audit reports during fiscal year 2007. During the month of September, 22 audit reports were finalized. For those 22 final reports, TIGTA OA individually extracted the audit reports from its management information system to determine or project if the promised date was met. TIGTA OA determined that 16 of the 22 audits met their promised delivery dates. TIGTA OA will continue to monitor and evaluate the performance for fiscal year 2008 and make any adjustments if deemed appropriate.

Measure: Percentage of Recommendations Made That Have Been Implemented					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target				Baseline	80
Actual				90	
Target met?	N/A	N/A	N/A	Y	

Definition: The TIGTA Office of Audit (OA) makes recommendations designed to improve administration of the federal tax system. The Internal Revenue Service (IRS) must implement these recommendations in order for our work to produce financial or non-financial benefits. This measure assesses our effect on improving the IRS' accountability, operations, and services. Since the IRS needs time to act on recommendations, we track the percentage of recommendations that we made four (4) years ago that have since been implemented, rather than the results of our activities, during the fiscal year in which the recommendations are made. This timeframe is used because four (4) years is the point at which TIGTA-OA believes that if a recommendation has not been implemented, it is not likely to be.

Indicator Type: Measure

Data Capture and Source: The IRS records recommendations in the Department's JAMES as they are issued. Summary data regarding the status of the IRS's corrective actions taken in response to our recommendations are provided to the Office of Audit via JAMES reports. Our Office of Management and Policy monitors implementation of recommendations as the IRS submits updated information to the JAMES.

Data Verification and Validation: Through a formal process, each audit team identifies the number of recommendations included in each report and the IRS enters the findings and corresponding recommendations into the Department of the Treasury's (the Department) Joint Audit Management Enterprise System (JAMES). The database is updated frequently. Our Office of Management and Policy receives summary data and monitors the data regularly to make sure the recommendations reported as implemented have been accurately recorded, as well as to accumulate data in regard to progress in meeting this measure. A qualified staff member independent of the process validates the progress related statistics.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: TIGTA OA goal for Percentage of Past Recommendations Implemented is 80 percent. This was a baseline year. TIGTA OA met that goal at the end of September. TIGTA OA will continue to monitor and evaluate the performance for fiscal year 2008 and make any adjustments if deemed appropriate.

Measure: Percentage of Results from Investigative Activities (%) (Oe)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	0	67	70	73	76
Actual	64	82	79	81	
Target met?	Y	Y	Y	Y	

Definition: Investigative reports resulting in Criminal, Civil or Administrative adjudication or the identification of matters of security or investigative interest.

Indicator Type: Measure

Data Capture and Source: The total number of investigative cases closed along with the total number of completed Criminal, Civil and Administrative Actions is extracted from the Performance and Results Information System (PARIS).

Data Verification and Validation: Reports of Investigation and PARIS are reviewed for consistency by Special Agents in Charge prior to closing the investigation. Additionally, independent reviews are conducted periodically of each field office where samples of closed investigations are quality reviewed by the Operations Division Inspection Team to ensure accuracy of the PARIS data. Periodic tests of PARIS data are also conducted to ensure accuracy.

Data Accuracy: Reasonable

Data Frequency: Monthly

Future Plans/Explanation for Shortfall: TIGTA OI will continue to measure performance consistent with fiscal year 2007 criteria. TIGTA OI increased its measure by 5 percent over fiscal year 2007. TIGTA OI will monitor and evaluate fiscal year 2008 performance and may make adjustments if deemed appropriate. The fiscal year 2009 target will be determined based on evaluation of the fiscal year 2008 performance results.

Measure: Audit Opinion Received on Government-wide Financial Statements (Oe)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	1	1	1	1	1
Actual	Met	Met	Met	Met*	
Target met?	Y	Y	Y	Y	

Definition: This is the independent audit opinion rendered on the financial statements by GAO. Treasury expects to receive a disclaimed audit opinion until fiscal year 2007.

Indicator Type: Measure

Data Capture and Source: GAO is the statutorily prescribed auditor.

Data Verification and Validation: Opinion is included in the published financial report and is also available directly from GAO.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Domestic Finance plans to continue receiving audit opinions from GAO as it has since fiscal year 2002.

* Final data for this measure was not available at the time of publication. This data is an estimate.

Measure: Number of Completed Audit Products (Ot)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	48	53	56	56	56
Actual	49	54	57	64	
Target met?	Y	Y	Y	Y	

Definition: Audits, attestation engagements, and evaluations: (1)promote economy, efficiency, and effectiveness of Treasury programs and operations; (2)prevent and detect fraud, waste, and abuse in those programs and operations; (3)keep the Secretary and the Congress fully informed; and (4)help the federal government to be accountable to the public.

Indicator Type: Measure

Data Capture and Source: OIG audits, attestation engagements, and evaluations result in sequentially numbered written products.

Data Verification and Validation: Official audit files support the performance data.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: OIG expects to complete 56 audit products in fiscal year 2008 and 60 in fiscal year 2009.

Measure: Number of Investigations Referred for Criminal Prosecution, Civil Litigation or Corrective Administrative Action (Oe)					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	15	72	85	105	105
Actual	23	85	144	188	
Target met?	Y	Y	Y	Y	

Definition: In order to protect the integrity and efficiency of Treasury programs it is important that findings of criminal or civil misconduct be referred to the Justice Department, state and/or local governments for prosecution and litigation in a timely manner. Criminal and civil convictions have a greater impact and carry a greater deterrent effect when they are prosecuted expeditiously. Some investigations will identify violations of the Ethical Standards of conduct, Federal Acquisition Regulations, or other administrative standards, which do not rise to the level of criminal or civil prosecution. In these cases it is important that OIG findings are reported to the bureau or office in a timely manner to allow them to take administrative action against the individuals engaging in misconduct.

Indicator Type: Measure

Data Capture and Source: This data will be retrieved from the Investigations case management systems.

Data Verification and Validation: All case files from fiscal year 2003 and fiscal year 2009 will be reviewed to ensure that the case data is correct and supported by documentation.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: Exceeded target significantly due to 64 one-time referrals for a GAO investigation into Metro Check fraud, and 10 one-time referrals for a cyber initiative. Actual without the one-time referrals would have been 114, which still exceeded target.

Measure: Number of Total Taxpayer Accounts Potentially Impacted as a Result of Audit Activities ($ millions) (Ot) [DISCONTINUED FY 2007]					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target	13.4	13	14.5	Discontinued	Discontinued
Actual	49.7	2.8	1.8	0	
Target met?	Y	N	N	N/A	

Definition: This indicator measures the number of taxpaying entities that benefit from audit recommendations. The benefits include: insuring taxpayers receive refunds when warranted and are granted due process when the IRS conducts its return filing and compliance programs; decreasing the number, time or cost of contacts with the IRS by compliant taxpayers; increasing protection of taxpayer account and financial information; and improving security over tax administration systems.

Indicator Type: Measure

Data Capture and Source: Data is entered into a centralized database and verified against draft and final report documents.

Data Verification and Validation: Data on taxpaying entities impacted by protection of rights and entitlements, taxpayer burden, and improved privacy and security results from individual audits. All factual information in audit reports is supported by audit evidence. A qualified auditor independent of the review validates this data.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: This measure is being discontinued in fiscal year 2007.

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Appendix B:
Completeness and Reliability of Performance Data

Treasury's Commitment to Quality Performance Measurement

Bureaus to rate the data for each performance measure as having:

- *Reasonable Accuracy:* Judged to be sufficiently accurate for program management and performance reporting purposes (specified in OMB Circular A-11, Section 230-4(f)).
- *Questionable or Unknown Accuracy:* Judged to be materially inadequate (specified in OMB Circular A-11, Section 230-4(f) as "materially inadequate").
- Where statistical confidence intervals are available, these are provided instead of the rating statements. More verification efforts were added in fiscal year 2001 – fiscal year 2003, when bureaus were required to address any data reliability issues regarding their performance measures in the Assurance Statements required by the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA).

Procedures for Conducting Review of the Department's Performance Measure Data

The Department of the Treasury's Office of Strategic Planning and Performance Management (OSPPM) prepares the annual report on performance measures, and monitors component-submitted performance information and data. Based on an audit finding in fiscal year 2006, it was determined that improvements to the internal control process for performance measures were needed. Improvements to the process included:

- All measures will now be categorized by audit priority as high, medium, or low, based on the relationship to achieving the Department's goals
- A representative sample of measures are selected every fiscal quarter
- Supporting documentation from that sample is reviewed for accuracy and completeness
- All measure calculations are verified and data sources validated
- Information related to the measure audit is maintained in hard-copy form and can be reviewed at any time

As a result, performing this process will uncover any potential data or calculation error and will provide additional assurances on the integrity of the information and data presented in the annual performance and accountability report.

Completeness of Data

Not Available: The following performance measures did not have any data available for this Report, but will have final numbers presented in the fiscal year 2008 Congressional Justification for Appropriations:

Bureau	Performance Measure

Discontinued: The following performance measures were discontinued in Fiscal Year 2007 and will not have data available for this Report:

Bureau	Performance Measure
DO	Level of MDB grant financing and satisfactory results measurements (AfDB/AfDF Grants)
DO	Level of MDB grant financing and satisfactory results measurements (Grants as a percent of IDA fiscal year commitment)
DO	Level of MDB grant financing and satisfactory results measurements (Grants as a percent of AfDF fiscal year commitment)
DO	Encourage movement towards flexible exchange rate regimes
DO	Bureau performance plans for supervisors, managers, and SES members contain elements that link to the bureau mission
IRS	Average tax compliance cost for individuals and small businesses
FinCEN	Percentage of customers finding FinCEN's analytic support valuable
TIGTA	Number of total taxpayer accounts potentially impacted as a result of audit activities

Baseline: The following measures established baseline values and targets in fiscal year 2007.

Bureau	Performance Measure
TTB	Unit cost to process a Wine Certificate of Label Approved
FinCEN	Percentage of bank examinations conducted by the Federal Banking Agencies indicating a systemic failure of the anti-money laundering program rule
FinCEN	Percentage of customers finding FinCEN's analytic reports highly valuable
IRS	HCTC Cost per Taxpayer Served
TIGTA	Percentage of audit products delivered when promised to stakeholders
TIGTA	Percentage of recommendations made that have been implemented

Data Reliability: Performance data presented in this report meets the standards for reliability set forth in OMB Circular A-11, Section 230-5(f). There is neither a refusal nor a marked reluctance by agency managers or Government decision makers to use the data in carrying out their responsibilities.

Appendix C:
Improper Payments Information Act

The Improper Payments Information Act of 2002 (IPIA) requires agencies to annually review their programs and activities to identify those susceptible to significant improper payments. According to OMB Circular A-123, Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments (A-123, Appendix C), "significant" means that an estimated error rate and a dollar amount exceed the threshold of 2.5% and $10 million of total program funding. A-123, Appendix C also requires the agency to implement a corrective action plan that includes improper payment reduction and recovery targets.

Some federal programs are so complex that developing an annual error rate is not feasible. The government-wide Chief Financial Officers Council developed an alternative for such programs to assist them in meeting the IPIA requirements. Agencies may establish an annual estimate for a high-risk component of a complex program (e.g., a specific program population) with Office of Management and Budget (OMB) approval. Agencies must also perform trend analyses to update the program's baseline error rate in the interim years between detailed program studies. When development of a statistically valid error rate is possible, the reduction targets are revised and become the basis for future trend analyses.

I. Description of the Department's risk assessment(s) performed subsequent to compiling its full program inventory and risk-susceptible programs.

Each year, a comprehensive inventory of the funding sources for all programs and activities is developed and distributed to the Department's bureaus and offices. If program or activity funding is at least $10 million, Risk Assessments are required at the payment type level (e.g., payroll, contracts, vendors, travel, etc.). For those payment types resulting in high risk assessments that comprise at least 2.5 percent and $10 million of a total funding source, (1) statistical sampling must be performed to determine the actual improper payment rate, and (2) a Corrective Action Plan must be developed and submitted to the Department and OMB for approval.

Responses to the Risk Assessments produce a score that falls into pre-determined categories of risk. The following table describes the actions required to be taken at each risk level:

Risk Level	Required Action(s)
High Risk > 2.5% Error Rate & > $10 Million	Corrective Action Plan
Medium Risk	Review Payment Controls for Improvement
Low Risk	No Further Action Required

The Risk Assessments performed across the Department in FY 2007 resulted in all programs and activities as low and medium risk susceptibility for improper payments except for the Internal Revenue's (IRS) Earned Income Tax Credit (EITC) program. The EITC's high-risk status is well-documented, having been previously identified in the former Section 57 of OMB Circular A-11, and has been deemed a complex program for the purposes of the IPIA.

II. Describe the statistical sampling process conducted to estimate the improper payment rate for each program identified.

Earned Income Tax Credit

The Earned Income Tax Credit (EITC) is a refundable federal tax credit that offsets income taxes owed by low income workers and, if the credit exceeds the amount of taxes owed, provides a lump-sum payment to those who qualify.

Discussions between the Department, the IRS, and OMB did not result in identification of a viable error rate measurement, however, IRS plans to conduct an annual EITC compliance study, as a component of the multi-year National Research Program (NRP). Meanwhile, progress is being made on the action items included in the Corrective Action Plan.

The rest of this section explains how the IRS currently develops its erroneous payment projections. The most recent projection is based on a Tax Year (TY) 2001 reporting compliance study that estimated the level of improper overclaims for fiscal year 2007 to range between $10.4 - $12.3 billion and 23 percent (lower bound) to 28 percent (upper bound) of approximately $44.5 billion in total program payments.

National Research Program (NRP) Analysis

The complexity of the EITC program, the nature of tax processing, and the expense of compliance studies preclude statistical sampling on an annual basis to develop error rates for comparison to reduction targets.

Under the TY 2001 NRP reporting compliance study, individual income tax returns filed during calendar year 2002 for TY 2001 were randomly selected for examination.[1] This selection method allows the measures for the entire NRP individual income tax return population to be estimated from the results of the NRP program sample returns. Because one of the objectives of the NRP is to provide data for compliance measurement, NRP procedures and data collection differed from those followed in standard examination programs. NRP classification and examination procedures were more comprehensive in scope and depth than those for standard examination programs. These expanded procedures were designed to provide a very accurate determination of what taxpayers should have reported on their returns.

Estimates of various compliance measures for individual income taxpayers can be calculated by comparing the NRP sample case results—the estimate of what taxpayers should have reported on their returns—to what these taxpayers voluntarily reported on their returns and then projecting the sample results to the population. The projection to the population is done using weights assigned to each return. These weights reflect the number of returns in the population that the sample return represents.

The TY 2001 NRP individual income tax return study covered filers of individual income tax returns. About 6,400 of the approximately 44,400 returns in the regular NRP sample were EITC claimants. About 1,600 other returns (the "calibration sample") were included in the TY 2001 NRP Individual Income Tax Study. These returns went through a somewhat different examination process and they were not used for

1 The NRP used a stratified, random sample design. Returns are grouped into predefined categories or "strata" and selected randomly within each stratum.

these calculations. The NRP study results for this EITC claimant subset of NRP returns were the primary source of data for the improper payments estimates. Other data and information sources used for the estimates included IRS Enforcement Revenue Information System (ERIS) data (which tracks assessments and collections from IRS enforcement-related activities), Treasury Department estimates of the effect of the EITC provisions in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) on erroneous EITC claims, and Treasury Department fiscal year 2006 EITC budget estimates.

The general approach for developing the fiscal year 2007 set of EITC improper payments estimates involved the following steps: (1) estimating an improper payment rate for TY 2001 using the NRP data, (2) adjusting the TY 2001 rate to reflect the estimated impact of the EITC-related EGTRRA provisions, (3) estimating EITC claims for fiscal year 2002 - fiscal year 2007 by projecting TY 2001 claims forward using the growth rates implicit in Treasury Department budget outlay estimates, and (4) multiplying the adjusted improper payment rate by the estimated claims to calculate estimated improper payments for each fiscal year.

The Department estimates that as a component of the upcoming NRP analysis, the next EITC compliance study will be completed in fiscal year 2009.

III. Describe the Corrective Action Plans for reducing the estimated rate of improper payments for the EITC program.

The IRS uses a two-pronged approach to reduce erroneous EITC payments:

1. Continually seek opportunities to increase program efficiency within existing resources – in other words, make the base program better; and
2. Test potential business process enhancements to reduce error and then request implementation funding if the tests prove successful.

Base Program

In 2007, the IRS spent approximately $161 million to prevent more than $2.6 billion from being paid in error. Three areas of activity compose the bulk of this spending:

- **Examinations** – the IRS identifies tax returns for examination and holds the EITC portion of the refund until an audit can be conducted. This is the only ongoing IRS audit program where exams are conducted before a refund is released. The examination closures and enforcement revenue protected in the charts below do not include test initiatives.
- **Math Error** – this refers to an automated process in which IRS identifies math or other statistical irregularities and automatically prepares an adjusted return for a taxpayer. Congressional approval is required for math error use.
- **Document Matching** – involves comparing income information provided by the taxpayer with matching information (e.g., W-2s, 1099s) from employers to identify discrepancies.

The chart below shows significant results from fiscal year 2002 through fiscal year 2007. In fiscal year 2007 alone, the IRS conducted 499,881 examinations, issued 400,000 math error notices, and closed 394,217 document matching reviews.

Compliance Activities (thousands)

	FY02	FY03*	FY04*	FY05*	FY06*	FY07**	FY08***	FY02-FY08 Total
Examinations	373,508	422,033	472,022	527,969	517,617	499,881	500,000	3,313,030
Math Error Notices**	993,387	699,277	624,590	515,890	460,316	400,000	400,000	4,093,460
Document Matching			300,000	324,419	364,020	394,217	390,000	1,772,656

*Restated actual
**Preliminary estimates
***Estimate based on fiscal year 07 preliminary data

These activities had a significant effect. We project that continued enforcement efforts will protect a total of $15.25 billion in revenue through fiscal year 2008.

Enforcement Revenue Protected ($ billions)

	FY02	FY03*	FY04*	FY05*	FY06*	FY07**	FY08***	FY02-FY08 Total
Examinations	0.95	1.00	1.12	1.35	1.50	1.50	1.50	8.92
Math Error Notices**	0.42	0.65	0.62	0.52	0.46	0.41	0.41	3.49
Document Matching			0.25	0.53	0.60	0.73	0.73	2.84
TOTAL	1.37	1.65	1.99	2.40	2.56	2.64	2.64	15.25

*Restated actual
**Preliminary estimates
***Estimate based on fiscal year 07 preliminary data

Business Process Enhancements

In 2003 and 2004, the IRS received a total of $75 million to fund a number of EITC business process improvement initiatives. These initiatives, referred to as the "Investment Portfolio," included the use of private sector solutions to better identify egregious cases, apply appropriate collection methods, assign and manage case inventory more efficiently, catch problems with amended returns, improve communications with taxpayers, better focus on under-reported income, and explore use of new notices to improve taxpayer response. The entire initiative process was managed using a project management governance structure known as the Enterprise Life Cycle which, among other requirements, includes a business case analysis to justify investment choices. It was conceived, designed, and implemented in three separate releases over a three year period. Here are the estimated benefits of the EITC Investment Portfolio. These estimates represent the low end of the range of estimates of revenue protected from the EITC Investment Portfolio:

Enforcement Revenue Protected ($ billions)

	FY05	FY06	FY07	FY08	FY02-FY08 Total
Investment Portfolio	0.06	0.06	0.06	0.06	0.24

Testing New Business Processes

In addition to building new solutions for existing business processes, the IRS is developing options for certain EITC taxpayers to certify they meet a key eligibility requirement before receiving the credit. This analysis is scheduled to be completed in fiscal year 2008. This process could potentially affect a significant portion of EITC taxpayers and is the subject of careful evaluation. If the IRS concludes the process should be implemented, it will request additional funding to expand the scope of its existing EITC activities.

Finally, the IRS has a number of other activities it is using to combat program error. This past year saw the second year of a study to address egregious EITC return preparers. In addition, the IRS is partnering with two states to share information to prevent erroneous payments. The IRS has developed new strategies to prevent duplicate claims of qualifying children and annual enterprise research strategy in partnership with internal and external organizations to better focus EITC compliance and outreach activities. The research strategy includes a multi-dimensional database that tracks behavioral patterns of EITC claimants and qualifying children over a period of years.

IV. EITC Improper Payment Reduction Outlook

The reduction outlook for EITC improper payments is as follows:

Improper Payment Reduction Outlook
($ in millions)

Program	PY Outlays	PY %	PY $	CY Outlays	CY IP%	CY IP$	CY+1 Est Outlays	CY+1 IP%	CY+1 IP$	CY+2 Est Outlays	CY+2 IP%	CY+2 IP$	CY+3 Est Outlays	CY+3 IP%	CY+3 IP$
EITC Upper Bound Estimate	$42.1	28%	$11.6	$44.5	28%	$12.3	$46.2	28%	$12.8	$47.1	28%	$13.0	$48.1	28%	$13.3
EITC Lower Bound Estimate	$42.1	23%	$9.8	$44.5	23%	$10.4	$46.2	23%	$10.8	$47.1	23%	$11.0	$48.1	23%	$11.2

Outlays: Following prior methodology, the amount shown is the total EITC claimed.
IP % and IP $: These estimates follow the prior approach which provided a range for improper payments.
Note: The Improper Payment percentage and Estimated Outlay columns reflect a constant error rate pending the development of an annual error rate measurement.
CY: Current year; **PY:** Prior year

Recovery Act

V. The Department's Recovery Auditing Program

Section 831 of the Defense Authorization Act for Fiscal Year 2002 added a new subchapter to the U.S. Code (31 U.S.C 3561-3567), also known as the Recovery Auditing Act, that requires agencies that enter into contracts with a total value in excess of $500,000,000 in a fiscal year carry out a cost-effective program for identifying errors made in paying contractors and for recovering amounts erroneously paid to the contractors. A required element of such a program is the use of recovery audits and recovery activities. In accordance with Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Internal Control, Appendix C, reporting on recovery auditing is required annually.

In fiscal year 2007, the Department issued contracts totaling $5.1 billion. The annual Improper Payments Information Act Risk Assessment process includes a review of pre-payment controls that minimize the likelihood and occurrence of improper payments. For Recovery Act compliance, Treasury requires each bureau and office to review their post-payment controls and report on recovery auditing activities, contracts issued, improper payments made, and recoveries achieved. Bureaus and offices may use recovery auditing firms to perform many of the steps in their recovery program and identify candidates for recovery action.

The Department considers both pre-payment and post-payment reviews to identify payment errors a good management practice that should be included among basic payment controls. All of the Department's bureaus use some form of recovery auditing techniques to identify improper payments during post-payment reviews. At times, bureaus may use the services of recovery auditors to help them identify payment anomalies and target areas for improvement. However, the Department has extensive contract payment controls that are applied at the time each payment is processed, making recovery activity minimal. The low level of improper payments in 2007 did not require any Treasury bureau to develop a management improvement program under Recovery Act guidance.

Agency	Amount Subject to Review for CY Reporting	Actual Amount Reviewed and Reported CY	Amounts Identified for Recovery CY	Amounts Recovered CY	Amounts Identified for Recovery PYs	Amounts Recovered PY	Cumulative Amts. Identified for Recovery (CY+PYs)	Cumulative Amts. Recovered (CY+PYs)
Treasury	$5,165,142,777	$4,446,856,805	$843,230	$821,667	$2,305,424	$1,442,708	$3,148,654	$2,264,375

For FY 2007, the total number of contracts subject to review was 41,593; the total number reviewed was 28,756, for a total program cost of approximately $2.9 million dollars.

VI. Management Accountability

The Secretary of the Treasury has delegated responsibility for improper payments to the Assistant Secretary for Management/Chief Financial Officer (ASM/CFO). Improper payments falls under the Department's management control program. A component of the management control program is risk assessments, which are an extension of each bureau's annual improper payment review process. Through Treasury Directive 40-04, executives and other managers are required to have management control responsibilities as part of their annual performance plans. With oversight mechanisms such as the Treasury CFO Council and IRS's Financial and Management Control, Executive Steering Committee, managerial responsibility and accountability in all management control areas are visible and well documented.

Improper payments are a separate initiative under the President's Management Agenda and have been monitored for improvement as a material weakness under the Federal Managers' Financial Integrity Act. Managers who are responsible and accountable for reducing the level of EITC overclaims have been identified, while other senior and mid-level officials have responsibility for monitoring progress in this area as bureau and program internal control officers.

VII. Resources Requested in the FY 2008 Budget Submission to Congress

Several new initiatives were requested in the IRS fiscal year 2008 President's Budget submission which relate to the enforcement of tax laws. However, the only initiative approved in the President's Budget, *Increase Individual Taxpayer Compliance*, addressed reducing the tax gap and non-EITC audit coverage.

VIII. Limiting Statutory and Regulatory Barriers

A number of factors serve as barriers to reducing overclaims in the EITC program. These include:

- The complexity of the tax law
- The structure of the Earned Income Tax Credit
- Confusion among eligible claimants
- High program turnover
- Unscrupulous return preparers
- Fraud

No one of these factors can be considered the primary driver of program error. Furthermore, the interaction among the factors makes addressing the credit's erroneous claims rate, while balancing the need to ensure the credit makes its way to taxpayers who are eligible, extremely difficult.

IX. Other Factors

Since June 2003, the IRS has focused on reducing erroneous EITC overclaims by implementing a five-point initiative that serves to:

- Reduce the backlog of pending EITC examinations to ensure that eligible taxpayers whose returns are being examined receive their refunds quickly.
- Minimize the burden and enhance the quality of communications with taxpayers by improving the existing audit process.
- Encourage eligible taxpayers to claim the EITC by increasing outreach efforts and making the requirements for claiming the credit easier to understand.
- Ensure fairness by refocusing compliance efforts on taxpayers who claimed the credit but were ineligible because their income was too high.
- Pilot a certification effort to substantiate qualifying child residency eligibility for claimants whose returns are associated with a high risk for error.

As part of this initiative, in fiscal year 2005, the IRS completed the following tests designed to evaluate new ways of reducing erroneous EITC payments while maintaining participation by eligible taxpayers:

- Filing Status Test: Reviewed filing status claims to ensure they were correct. IRS selected claimants whose filing status had changed to one that increased the value of the credit (generally, from married filing joint to head of household);
- Misreporting Income (Automated Underreporter) Test: Enhanced error detection through the automated underreporter program. This test focused not on the number of cases IRS reviewed, but on improved selection methodologies.

In FY 2006, IRS initiated the final year of the Qualifying Child test, which required EITC claimants to certify that they met the qualifying child residency requirement before paying out the refund. In FY 2007, the test focused on improved selection methodology. Preliminary data from this test indicate both a compliance and deterrence impact.

Careful analysis of the final results of these tests will be imperative to assessing their effectiveness in reducing erroneous EITC overclaims while maintaining high participation rates by eligible taxpayers.

Appendix D:
Management Challenges and Responses

Each year, the Inspectors General issue Semiannual Reports to Congress that include specific management challenges facing the Department. These challenges are sent to the Secretary at the end of each fiscal year and cite the challenges for the upcoming fiscal year.

The letters sent to the Secretary and the Secretary's responses are reflected on the following pages for each respective Inspector General.

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

October 24, 2007

INFORMATION MEMORANDUM FOR SECRETARY PAULSON

FROM: Dennis S. Schindel
Acting Inspector General

SUBJECT: Management and Performance Challenges Facing the Department of the Treasury (OIG-CA-08-005)

The Reports Consolidation Act of 2000 requires that we provide you with our perspective on the most serious management and performance challenges facing the Department of the Treasury, for inclusion in the Department's annual performance and accountability report. We believe it is important to note that management and performance challenges do not necessarily represent a deficiency in management or performance. Instead, most of them represent inherent risks associated with Treasury's mission, organizational structure, or the environment in which it operates. As a result, the Department can take steps to mitigate these challenges but not entirely eliminate them; as such, they require constant management attention.

This year, we continue to report the same five challenges we reported last year: (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. In addition to these five management and performance challenges, we want to bring to your attention two additional areas that are of increasing concern to our office. These areas are: the potential impact of worsening real estate and credit markets on Treasury's regulators, and the effect of stagnant or reduced budgets on the Department's control environment. While we have not specifically declared these areas as management and performance challenges, we continue to monitor their impact on the Department's programs and operations.

Challenge 1 – Corporate Management

Starting in 2004, we identified corporate management as an overarching management challenge. In short, Treasury needs to provide effective corporate leadership in order to improve performance as a whole. Inherent in this is the need for clear lines of accountability between corporate, bureau, and program office management; enterprise solutions for core business activities; consistent application of accounting principles; and effective oversight of capital investments and information security. With nine bureaus and a number of program offices, Treasury is a highly decentralized organization. We believe the Department has made progress in building up a sustainable corporate control structure. The challenge now is to maintain emphasis on corporate governance and institutionalize these efforts to ensure that capital investments are properly managed, information about government operations and citizens is adequately secured, and financial resources used by Treasury can be linked to operational results. These matters are discussed in more detail in the following challenges.

Challenge 2 – Management of Capital Investments

Managing large capital investments, particularly information technology (IT) investments, is a difficult challenge facing any organization whether in the public or private sector. In prior years we have reported on a number of capital investment projects that either failed or had serious problems. In light of this, with hundreds of millions of procurement dollars at risk, Treasury needs to be vigilant in this area as it proceeds with its telecommunications transition to TNet, implementation of Homeland Security Presidential Directive – 12, *Policy for a Common Identification Standard for Federal Employees and Contractor*, the anticipated renovation of the Treasury Annex, and other large capital investments.

During the last year, the Secretary and Deputy Secretary continued to emphasize that effective management of major IT investments is the responsibility of all Treasury executives. Additionally, the Department significantly increased the number of IT investments that are monitored through the Office of Management and Budget (OMB) quarterly high-risk reporting process. The Department also plans to reinstitute a governance board consisting of senior management officials to provide executive decision-making on, and oversight of, IT investment planning and management and to ensure compliance with the related statutory and regulatory requirements.

Challenge 3 – Information Security

Despite notable accomplishments, the Department needs to improve its information security program and practices to achieve compliance with the Federal Information Security Management Act of 2002 (FISMA) and OMB requirements. Our 2007 FISMA evaluation found that the Department made progress in addressing previously reported deficiencies in the areas of certification and accreditation, information security training, plans of actions and milestones, system inventory, and incident response. However, our evaluation disclosed a significant deficiency in configuration management. Specifically, we noted that Treasury did not have adequate configuration management to provide the security necessary to protect against common and dangerous threats.

During 2006, OMB issued Memorandum 06-16, *Protection of Sensitive Agency Information* (M 06-16), requiring agencies to perform specific actions to protect certain personally identifiable information. Last year, we reported that our evaluation of Treasury's compliance with M 06 16 disclosed that Treasury still faced significant challenges to meet these requirements. We will be performing follow-up work to determine if Treasury has progressed in resolving these issues. However, as a significant action, the Department recently established the Personally Identifiable Information Risk Management Group (PIIRMG) consisting of senior management officials. The purpose of this group is to help manage and contain breaches of personally identifiable information. Our office, along with the Treasury Inspector General for Tax Administration, participates in the PIIRMG in an advisory role.

Challenge 4 – Linking Resources to Results

Because the Department has not fully developed and incorporated managerial cost accounting (MCA) into its business activities, the Department cannot adequately link financial resources to operating results. This inhibits comprehensive program performance reporting and meaningful cost benefit analyses of the Department's programs and operations.

We have noted progress in this area, but more needs to be accomplished to implement an effective MCA program Treasury-wide. In 2006, we reported that the Department developed a high-level MCA implementation plan, but specific action items were not completed and certain target dates were missed. This year, Treasury established a Chief Financial Officer (CFO) Council workgroup to address MCA requirements. This workgroup is comprised of representatives from all of the Treasury offices and bureaus and is led by the Deputy CFO. We are also participating with the workgroup in an advisory capacity. The workgroup (1) developed a charter that was approved by the Treasury CFO Council, (2) surveyed current bureau MCA practices, (3) summarized bureau cost allocation methodologies for major expenses, and (4) defined organizational MCA needs. The Department expects to have a viable MCA program in place in Fiscal Year 2008. At that time, we plan to assess Treasury's progress in relation to this challenge.

Challenge 5 – Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement

Treasury faces unique challenges in carrying out its responsibilities under the Bank Secrecy Act (BSA) and USA Patriot Act to prevent and detect money laundering and terrorist financing. While the Financial Crimes Enforcement Network (FinCEN) is the Treasury bureau responsible for administering BSA, a large number of federal and State entities participate in efforts to ensure compliance with BSA. These entities include the five federal banking regulators, the Internal Revenue Service (IRS), the Securities and Exchange Commission, the Department of Justice, and state regulators. Many of these entities also participate in efforts to ensure compliance with U.S. foreign sanction programs administered by Treasury's Office of Foreign Assets Control (OFAC).

The dynamics and challenges for Treasury of coordinating the efforts of multiple entities, many external to Treasury, are difficult. In this regard, FinCEN and OFAC have entered into memoranda of understanding (MOU) with many federal and State regulators in an attempt to build a consistent and effective process. Long-term data, however, is not yet available to make an overall determination of the effectiveness of the MOUs.

Recently, federal regulators and the Department of Justice have participated with FinCEN in assessing fines, often in the tens of millions of dollars, against financial institutions which have not been maintaining effective BSA compliance programs. While this is a sign that regulators are more willing to aggressively enforce BSA requirements, it is also a sign that not all financial institutions, despite years of warnings, have implemented effective or adequate programs. At the same time, the financial services industry has often complained about regulatory burden. To this end, Treasury has taken steps to clarify program and reporting requirements, and must continually monitor and balance the needs of law enforcement with these concerns.

In Fiscal Year 2006, the number of BSA reports filed increased to 17.6 million, from 15.6 million in Fiscal Year 2005. Although these reports are critical to law enforcement, past audits have shown that many contain incomplete or erroneous data. Also, the Patriot Act increased the types of financial institutions required to file these reports. The regulation of certain industries, such as casinos, insurance companies, jewelers, and money service businesses, is the responsibility of IRS as a default regulator. IRS has often struggled to conduct examinations of many of these entities and recently postponed examinations of jewelers, which were supposed to start in January 2006, until at least Fiscal Year 2008.

Given the criticality of this management challenge to the Department's mission, we will continue to devote a significant portion of our audit resources to this challenge. Last year we reported that we planned to review the effectiveness of (1) FinCEN's Office of Compliance, and (2) the MOUs that have been established. Due to resource constraints and other required work, we have yet to initiate these reviews but hope to do so during Fiscal Year 2008.

In addition to these five management challenges, we want to bring to your attention two areas that are of increasing concern. As mentioned at the beginning of this memorandum, while we have not declared these areas as management challenges, we continue to monitor their impact on the Department's programs and operations.

- Recently, conditions in the real estate market have worsened. At the same time, credit markets are being impacted by problems associated with subprime loans. Together, these events are putting pressure on financial institutions, including those supervised by the Office of the Comptroller of the Currency and the Office of Thrift Supervision (OTS). For example, in September the OTS-supervised NetBank failed, representing the largest financial institution failure since 2001. Accordingly, Treasury needs to ensure it has the capability to monitor and take prompt action to address potential problems at other institutions should economic conditions worsen.

- Many Federal agencies, including Treasury, are facing an increasingly difficult budget environment. In these situations agencies tend to rely on attrition and hiring freezes to address budget shortfalls. While in the short term this strategy may work, longer term it often leads to a less than optimal mix of positions and skills, ultimately impacting an agency's ability to meet its mission for many years. Additionally, agencies tend to cut certain operations that are viewed as non-mission related, particularly those involved in review and monitoring functions, including contractor oversight – fundamental elements of a strong control environment. Over time, such actions could lead to the deterioration of the control environment and compromise both the effectiveness and integrity of programs and operations.

We would be pleased to discuss our views on these management and performance challenges in more detail.

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

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

November 13, 2007

MEMORANDUM FOR DENNIS SCHINDEL
ACTING INSPECTOR GENERAL

FROM: Henry M. Paulson, Jr.

SUBJECT: Response to Management and Performance Challenges Facing the Department of the Treasury

I am responding to your October 24, 2007 memorandum describing the Office of Inspector General's (OIG) perspective on the most serious management and performance challenges facing the Department of the Treasury. We appreciate your independent assessment of our progress in addressing these challenges.

As described in detail below, the Department has taken, and will continue to take, many actions to address its performance and management challenges. However, as noted in your memorandum, most of these challenges represent inherent risks associated with the Department's mission and the external environment in which the Department operates, rather than deficiencies that can be eliminated. As such, the Department's goal is to ensure that we are taking the right actions to mitigate these challenges to the extent practicable, recognizing that our actions need to evolve to meet changing future circumstances. While recognizing that we must be ever vigilant, and that we can improve our activities to address our challenges, we believe that we have made substantial progress thus far.

Information on actions taken and planned by the Department is provided below.

Challenge 1 - Corporate Management

The Treasury Department is dedicated to strengthening corporate management through sound oversight of bureaus and policy offices by taking actions to encourage Department-wide collaboration and unity. In Fiscal Year (FY) 2007, corporate leadership was maintained and strengthened through daily meetings with senior management, and monthly Treasury-wide council meetings led by senior officials. In addition, to provide a forum for policy discussions and guidance at the Department level, the Treasury Department maintained its monthly bureau heads meeting. The Department also implemented corporate strategies to review major information technology investments on a quarterly basis, which will ensure that each investment is managed effectively, is cost efficient, and supports the mission and strategic goals of the Department. The Treasury Department leveraged its buying power in FY 2007 by promoting and expanding corporate strategic sourcing. The Department will continue to support this initiative due to its positive results and recognition as a government-wide best-practice.

In FY 2007, the Department released its Strategic Plan for FYs 2007-2012. This plan provides a framework to assess corporate performance through its goals, objectives, and outcomes.

Outcomes cross organizational boundaries and focus on the common goals and objectives that are related to the Department's core mission areas of collecting revenue, disbursing funds, borrowing, strengthening U.S. and world economies, regulating financial institutions, securing the nation's financial system, and manufacturing coins and currency. Although the Treasury Department is diverse and highly decentralized, these outcomes help us look beyond the constraints of our organizational structure and unify our actions to accomplish effective corporate management.

In FY 2008, we will continue to strengthen and encourage corporate teamwork through councils and meetings, and begin to implement a scorecard that establishes a consistent and recurring performance review process at the corporate level. The scorecard will contain key budget, cost, performance, and other important information for each outcome. The performance review process will help provide an understanding of how key bureau and office activities contribute to the applicable outcomes, and provide the information necessary to improve overall agency performance.

Challenge 2 - Management of Capital Investments

The management of capital investments, particularly information technology (IT) investments, proves to be a continuing challenge for the Department. In July 2007, the Government Accountability Office (GAO) issued a report with recommendations for the Treasury Department to improve the management and oversight of IT investments. The Department fully supports the recommendations outlined in the report and has committed to working with GAO on the implementation of its recommendations. The cornerstone of the Department's plan to improve the management of IT investments is the reestablishment of an Executive Investment Review Board to ensure executive visibility of the Department's IT portfolio. Other key components of the plan include developing a sound methodology for addressing cost and schedule baseline change requests, implementing a more robust process for assessing the actual results and objectives achieved for each IT investment, and ensuring that the Department's capital planning and investment control processes are applied to all IT investments, irrespective of dollar amount or scope.

Although we are still developing some of the specific process improvements needed to enhance Treasury IT investment management, improvements achieved during FY 2007 include introducing new processes for managing non-major investments, requiring project managers and Bureau CIOs to certify the accuracy of information reported on their IT investments, and strengthening reporting requirements for the Treasury Department internal watch list, which requires investments failing to meet defined performance and compliance criteria to be subject to greater oversight. Additionally, in FY 2007, the Department developed a core curriculum and competency model for IT project managers that serves as a framework for training designed to improve the management of IT investments. In FY 2008, Treasury is implementing the new Federal Acquisition Council Program and Project Managers (FAC-P/PM) requirements to ensure that Treasury project managers are well trained and certified.

Challenge 3 - Information Security

As noted in your memorandum, the OIG's FY 2007 evaluation of Treasury's Federal Information Security Management Act (FISMA) implementation found that the Department has made progress in reporting previously reported deficiencies. However, despite this notable progress, the OIG determined that Treasury has a significant FISMA deficiency in configuration management. Accordingly, the Department remains in noncompliance with FISMA.

To elaborate, the Treasury Department made substantial improvements in its Information Security Program with the outcome of "significant progress in compliance" with FISMA, for both Treasury unclassified and National Intelligence systems. In the FY 2007 FISMA Report submitted to OMB, the Office of the Chief Information Officer (OCIO) reported 93-94% compliance for certification and accreditation, testing of security controls, and contingency plans testing for the Department's IT systems. For information security awareness and specialty training, the OCIO achieved 97% and 98% compliance rates, respectively. The OCIO undertook efforts to improve Configuration Management (CM) in 2007, issuing detailed updates to existing CM policy and new policy in response to OMB guidance. In FY 2008, the OCIO will build on this progress in CM, working to: address the OIG's FISMA findings; concentrate on meeting OMB's February deadline to standardize the configuration of Windows operating systems; and extend the rigor to all operating systems and databases.

Treasury's activities in protecting Sensitive Agency Information are equally robust. Through the implementation of OMB's M-06-16 recommendations, Treasury is reporting a laptop encryption rate of greater than 99% for its 61,000 laptops world wide, implementation of 2-factor authentication for all Departmental remote access systems despite the increase in the number of off-site employees, and a "time-out/lockout" function installed on over 99% of Personal Digital Assistants (PDA). In 2008, the OCIO will evaluate current technologies to automate reducing retention times for Sensitive Agency Information, implementing the recommendations in the Department's 2007 proof-of-concept study.

The OCIO recognizes the need for continued leadership attention on FISMA in 2008 and will continue to focus and improve the IT Security program to better address ever increasing cyber security threats.

Challenge 4 – Linking Resources to Results

We appreciate your acknowledgement of the progress the Department made during 2007 toward the development of managerial cost accounting at the Department wide level. This progress was accomplished largely through the efforts of our Chief Financial Officers Council work group, whose membership spans the Department's bureaus and offices.

Treasury recognizes that, lacking relevant and reliable cost accounting information, federal managers may not understand and control the full cost of programs. And, without a link between performance and cost, agencies are not in a position to establish cost reduction goals and maintain or improve performance results because they do not know how much it costs to deliver outcomes.

The key to having a strong linkage between financial resources and operating results is a clear description of a strategic framework, and how financial resources support the framework. As previously noted, the new Strategic Plan for FYs 2007 – 2012 provided the necessary framework to link operating budgets and Departmental performance metrics. The Department has defined how costs are reported in a manner that is aligned with the Strategic Plan and defined the reporting needs from the bureaus to the Department.

In FY 2008, the Chief Financial Officers Council work group will continue to refine the Departmental managerial cost accounting model, establish key cost accounting goals for all of the Department's components, and develop a plan for future Departmental oversight of cost accounting implementation and use as a management tool. These tasks are to be completed by August 2008.

Challenge 5 – Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement

We agree that the Treasury Department faces unique challenges in carrying out its responsibilities, under the Bank Secrecy Act (BSA) and USA PATRIOT Act (USPA), to prevent and detect money laundering and terrorist financing. Our responsibilities in this area are addressed mainly through the efforts of the Financial Crimes Enforcement Network (FinCEN), the Office of Thrift Supervision (OTS), and the Office of the Comptroller of the Currency (OCC). The Department also works closely with other federal banking agencies to enforce BSA and USPA requirements.

The Department has several ongoing efforts to address this management challenge.

In July 2007, the federal banking agencies jointly issued the *Interagency Statement on Enforcement of Bank Secrecy Act/Anti-Money Laundering (AML) Requirements*. The statement provides for greater consistency among the agencies in enforcement decisions in BSA matters and offers insight into the considerations that form the basis of those decisions.

In August 2007, the federal banking agencies released a revised Federal Financial Institution Examination Council *BSA/AML Examination Manual*. The manual has been updated annually. Both the BSA/AML Examination Manual and enforcement guidance were designed to foster interagency consistency and transparency regarding the BSA examination process.

The federal banking agencies developed an Advanced BSA/AML Specialists Conference for the most seasoned BSA examination experts to address emerging money laundering and terrorist financing risks. A pilot conference was held in August 2007.

OTS, along with the other federal banking agencies, continues to work in partnership with the National Credit Union Administration, Conference of State Bank Supervisors, FinCEN, and the Department's Office of Foreign Assets Control (OFAC) to abate money laundering and terrorist financing. The approach the regulatory agencies have taken to achieve these goals is to ensure examination consistency and provide guidance to financial institutions for developing policies and programs to comply with anti-money laundering requirements

In FY 2007, to enhance regulated industries' understanding of and compliance with BSA programmatic, recordkeeping, and reporting requirements, FinCEN published guidance on a range of issues including suspicious activity reporting and Customer Identification Program requirements, and participated in over 90 outreach events to financial industry representatives and regulators. FinCEN also focused greater emphasis on outreach to money services businesses about BSA anti-money laundering program and registration requirements. Additionally, FinCEN continued to develop analytic products for regulatory partners and the financial industry and to process and communicate enforcement actions in accordance with Departmental timelines.

OTS continues to examine thrifts for BSA, USPA, and other AML compliance. OTS has increased resources to further build expertise devoted to BSA supervision, has provided training for examiners and the industry, and has communicated clear expectations to the industry through guidance. The OCC continues to examine for BSA/AML compliance in national banks and take enforcement actions as appropriate. The OCC also continues to work with FinCEN and other federal banking agencies under the Memorandum of Understanding to enhance BSA/AML guidance.

In FY 2008, among other activities, FinCEN will continue to: develop a coordinated strategy with the IRS to ensure BSA compliance by non-bank financial institutions; review and enhance understanding of BSA regulatory requirements, including working to further clarify requirements through reorganizing BSA regulations in a new chapter of the Code of Federal Regulations, and publishing additional guidance to provide further information; work with regulatory partners toward the goal of matching risk-based examination for BSA compliance with risk-based obligations, so that financial institutions may avoid compliance expenditures that are not commensurate with actual risks; as necessary, take enforcement actions against financial institutions for willful violations of BSA requirements; and solicit feedback from regulatory partners to assess satisfaction with existing memoranda of understanding.

The Department is committed to continuing efforts to improve its enforcement of BSA and USPA requirements. Previous Office of Inspector General audit work has assisted the Department in fulfilling its responsibilities, and we appreciate your planned audit efforts in this critical area.

Additional Areas of Concern

Your memorandum describes two areas of increasing concern: the worsening real estate market and the effects of a tight budget situation on the control environment. While you have not formally declared these to be management challenges, the Department recognizes their importance and is working to address them.

During FY 2007, the Departments of the Treasury and Housing and Urban Development (HUD), and others in the Administration, carefully focused on evaluating the challenges faced by individuals in the subprime market. The Department and HUD took several actions to provide assistance to homeowners, including the pursuit of legislation modernizing the Federal Housing Administration and legislation to provide tax relief for homeowners facing foreclosure or debt forgiveness in connection with a mortgage restructuring. In addition, the Department will continue reaching out to a wide variety of entities, such as NeighborWorks America, mortgage originators and servicers, and government-sponsored entities, like Fannie Mae and Freddie Mac, to identify struggling homeowners and expand their mortgage financing options.

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

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

The Department recognizes the ongoing challenge of allocating limited resources effectively to ensure that we execute our mission while not compromising the effectiveness and integrity of programs and operations. This often becomes more difficult when faced with the growing uncertainty of the appropriations process. To meet this challenge the Department continues to focus on linking resources to results, as described earlier in this memo, and executing effective human capital strategies.

Through an annual Human Capital Operating Plan, the Department focuses on enterprise-wide goals and initiatives to enhance our ability to attract and retain the talent we need to meet the Department's mission, including ensuring adequate attention to mission support occupations in the areas of financial management, procurement, and information technology. While budget constraints have limited our ability to maintain optimal bench strength in these areas, a focus on succession planning will help ensure that we will have the right human capital resources dedicated to these critical functions.

We look forward to continue working with you to address these challenges.

cc: The Deputy Secretary
Assistant Secretary for Management and Chief Financial Officer

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

October 29, 2007

MEMORANDUM FOR SECRETARY PAULSON

FROM: J. Russell George
Inspector General

SUBJECT: Management and Performance Challenges Facing the Internal Revenue Service for Fiscal Year 2008

The Reports Consolidation Act of 2000[1] requires that the Treasury Inspector General for Tax Administration (TIGTA) summarize, for inclusion in the *Department of the Treasury Accountability Report for Fiscal Year 2007*, its perspective of the most serious management and performance challenges confronting the Internal Revenue Service (IRS or Service). The top 10 challenges in order of priority are:

1. Modernization;
2. Tax Compliance Initiatives;
3. Security;
4. Providing Quality Taxpayer Service Operations;
5. Complexity of the Tax Law;
6. Human Capital;
7. Erroneous and Improper Payments;
8. Taxpayer Protection and Rights;
9. Processing Returns and Implementing Tax Law Changes During the Tax Filing Season; and
10. Using Performance and Financial Information for Program and Budget Decisions.

TIGTA's assessment of the major IRS management challenge areas for Fiscal Year 2008 has not changed substantially from the prior year. While the IRS has continued to address each challenge area, TIGTA was unable to remove any challenge areas at this time. However, TIGTA did make one important change to the priority of the challenges. Human Capital moved from last place to sixth in terms of importance in our view and Using Performance and Financial Information for Program and Budget Decisions moved from sixth place to tenth.

One reason for this change is last year, the Office of Personnel Management reported that approximately 60 percent of the Federal Government's 1.6 million white-collar employees and 90 percent of about 6,000 Federal executives will be eligible for retirement over the next 10 years. Along with a retiring workforce, the IRS faces gaps in talent because of changes in the knowledge, skills, and competencies in occupations needed to meet its mission. The IRS needs to strengthen its efforts and use of available flexibilities to acquire,

1 31 U.S.C. § 3516(d) (2000).

develop, motivate, and retain talent. Strategic human capital management must be the centerpiece of the IRS's change management strategy.

The following is a discussion of each of the challenges:

Modernization of the Internal Revenue Service

The Business Systems Modernization (Modernization) program is a complex effort to modernize IRS technology and related business processes. It involves integrating thousands of hardware and software components while replacing outdated technology and maintaining the current tax system.

The Modernization program is in its ninth year and has received approximately $2.3 billion for contractor services. Additionally, the IRS had spent $220 million through Fiscal Year 2006 and planned to spend an additional $45 million in Fiscal Year 2007 to manage the Modernization program. According to the IRS's original plan, the Modernization program should be near the halfway point in Calendar Year 2007. However, due to receiving less funding than initially anticipated and having difficulties in managing contractor work, the IRS has not completed as many Modernization projects as planned. For example, the Customer Account Data Engine is the foundation of the Modernization program. The IRS originally planned to complete replacement of its Individual Master File with the Customer Account Data Engine in 2005.[2] The current estimated completion date for this replacement is 2012.

Although the IRS has made advances in its Modernization effort, it has not maintained anticipated progress. TIGTA has previously reported that inconsistent compliance with project development controls has contributed to delays in project deliveries, increased development costs, and reduced capabilities.[3] Since Fiscal Year 2002, TIGTA's Modernization program annual assessments have cited the following four specific challenges the IRS needs to overcome to deliver a successful modernization effort:

1. Implement planned improvements in key management processes and commit necessary resources to enable success;
2. Manage the increasing complexity and risks of the Modernization program;
3. Maintain the continuity and strategic direction with experienced leadership; and
4. Ensure that contractor performance and accountability are effectively managed.

These challenges continue to exist.

Accordingly, since solutions to the IRS's serious and intractable financial management problems largely depend upon the success of the IRS's Modernization efforts, in January 2005 the financial management risk was combined with the Modernization risk into the Business Systems Modernization high-risk area.[4] Modernization remains a high risk for the IRS.

2 The Individual Master File is the IRS database that stores individual taxpayer account information.

3 Treasury Inspector General for Tax Administration, Ref. No. 2007-20-121, *Annual Assessment of the Business Systems Modernization Program* (2007).

4 In January 2005, the Government Accountability Office (GAO) combined its two previous high-risk areas, IRS Business Systems Modernization and IRS Financial Management, into one Business Systems Modernization high-risk area. See U.S. Gov't Accountability Office, GAO-05-207, *High Risk Series: An Update* (2005).

Tax Compliance Initiatives

A similarly compelling challenge confronting the IRS is tax compliance. Tax compliance initiatives include the administration of tax regulations, collection of the correct amount of tax for businesses and individuals, and oversight of tax-exempt and government entities. Late in Fiscal Year 2007, the Department of the Treasury (Department) issued a report on improving voluntary compliance.[5] The report outlines steps that the IRS plans to take to increase voluntary compliance and reduce the tax gap.

Business and Individual

The IRS defines the gross tax gap as the difference between the estimated amount taxpayers owe and the amount they voluntarily and timely pay for a tax year. The IRS estimated that the gross tax gap for Tax Year 2001 was $345 billion. TIGTA evaluated the reliability of the IRS-developed tax gap figures and concluded that the IRS still does not have sufficient information to completely and accurately assess the overall tax gap and voluntary compliance rate.[6] The IRS has significant challenges in both obtaining complete and timely data, and developing the methods for interpreting the data. Although better data will help the IRS further identify noncompliant segments of the population, broader strategies and better research are also needed to determine what actions are most effective in addressing noncompliance.

The IRS must continue to seek accurate measures of the various components of the tax gap and the effectiveness of actions taken to reduce it. This information is critical to the IRS for strategic direction, budgeting, and staff allocation. Additionally, the IRS Oversight Board has adopted an 86 percent voluntary compliance goal by 2009, and Senate Finance Committee Chairman Max Baucus has asked for a 90 percent voluntary compliance goal by 2017.

As the IRS takes steps to improve compliance, TIGTA's reviews will help gauge the IRS's progress in achieving the specific long-term compliance objectives. The Department also needs these measures for tax policy purposes, and Congress needs this information to help develop legislation that improves the effectiveness of the tax system. For example, the IRS may never significantly reduce the number of miscellaneous income and wage statements with mismatched names and identification numbers without legislative changes. TIGTA reports and those of the Government Accountability Office (GAO) have long called for legislative changes to address fundamental and systemic problems associated with inaccurate identification numbers on miscellaneous income and wage statements. In a recent review, TIGTA was successful in manually matching 50 percent of the sampled information documents containing incorrect names and identification numbers to taxpayer accounts.[7] Based on that sample, TIGTA projected that approximately 6,000 individuals had not filed tax returns, although the statements reported they had earned, on average, about $104,000.

Tax-Exempt Entities

The IRS continues to face challenges in administering programs focused on tax-exempt organizations to ensure that they comply with applicable laws and regulations to qualify for tax-exempt status. The

5 Internal Revenue Service, U.S. Dep't of the Treasury, *Reducing the Federal Tax Gap: A Report on Improving Voluntary Compliance* (2007).

6 Treasury Inspector General for Tax Administration, Ref. No. 2006-50-077, *Some Concerns Remain About the Overall Confidence That Can Be Placed in Internal Revenue Service Tax Gap Projections* (2006).

7 Treasury Inspector General for Tax Administration, Ref. No. 2007-30-159, *Mismatched Names and Identification Numbers on Information Documents Could Undermine Strategies for Reducing the Tax Gap* (2007).

IRS has noted that the nonprofit community has not been immune from the recent trends toward bad corporate practices that have been highlighted in the for-profit area.[8] Recent concerns involve a highly noncompliant credit counseling industry, differentiating tax-exempt hospitals from for-profit hospitals, and seemingly excessive compensation and loans to executives of charitable organizations.

TIGTA has made recommendations that would improve the IRS's oversight of filing compliance by political entities and State and local governments, enhance its ability to identify and address abusive tax-avoidance transactions within the tax-exempt sector, and identify potential terrorist activities related to tax-exempt organizations. Furthermore, TIGTA recommended additional improvements to assure that timely, accurate, and complete information returns are received for employee benefit plans and that referrals of noncompliance are examined timely. We also noted that the IRS must develop better research tools, improve training to trace funds through complex transactions, and develop the ability to analyze data to determine high-risk noncompliant areas. The IRS agreed with TIGTA's recommendations and initiated corrective actions to address these concerns.

Security of the Internal Revenue Service

Millions of taxpayers entrust the IRS with sensitive financial, personal and other data that are processed by and stored on IRS computer systems. Reports of identity thefts from both the private and public sectors have heightened awareness of the need to protect this data. The risk that sensitive data or computer systems could be compromised and computer operations disrupted continues to increase. These vulnerabilities are due to internal factors, such as the increased connectivity of computer systems and increased use of portable laptop computers; and external factors, such as the volatile threat environment resulting from increased terrorist and hacker activity. The IRS has designated computer security as a material weakness under the Federal Managers' Financial Integrity Act of 1982.[9]

Section 301 of the Federal Information Security Management Act (FISMA)[10] requires each Federal agency to report annually to the Office of Management and Budget and Congress on the effectiveness of its security programs and to perform an annual independent evaluation of its information security program and practices. During 2007, the IRS Modernization and Information Technology Services organization and representatives from each IRS operating unit have partnered to improve the IRS's compliance with FISMA. Efforts continued this year to develop an enterprise-wide approach to help employees understand their responsibilities for securing IRS systems and data.

The IRS has made steady progress in complying with FISMA requirements since the law's enactment in 2002 and states it continues to place a high priority on efforts to improve its security program. However, the Service still needs to do more to adequately secure its systems and data. The most significant areas of concern are annual testing of security controls and contingency plans, implementation of configuration manage-

8 Written Statement of Mark W. Everson, Commissioner of Internal Revenue, Before the Committee on Finance, United States Senate Hearing on Exempt Organizations: Enforcement Problems, Accomplishments, and Future Direction, April 5, 2005.

9 31 U.S.C. §§ 1105, 1106, 1108, 1113, 3512 (2000). The Federal Managers' Financial Integrity Act (FMFIA) requires that agency management establish and maintain effective internal controls to achieve the objectives of: 1) effective and efficient operations; 2) reliable financial reporting; and 3) compliance with applicable laws and regulations. The FMFIA also requires the head of each Executive agency to report annually to the President and the Congress on the effectiveness of the internal controls and any identified material weaknesses in those controls. Reporting material weaknesses under FMFIA is not limited to weaknesses over financial reporting.

10 Pub. L. No. 107-347, tit. III, 116 Stat. 2899, 2946 (2002) (codified as amended at 44 U.S.C. §§ 3541-49).

ment standards,[11] and privacy requirements for protecting personally identifiable information. Additionally, phishing schemes are a growing security concern.[12] In Fiscal Year 2006, TIGTA worked closely with the IRS to create a joint IRS-TIGTA reporting site. By September 30, 2007, approximately 18,700 complaints had been received and 435 different phishing schemes had been identified. TIGTA's FISMA evaluations and other audits led to the conclusion that sufficient attention is not yet being given by the IRS to the security of sensitive systems.

Providing Quality Taxpayer Service Operations

Since the late 1990s, the IRS has increased its delivery of quality customer service to taxpayers. The first goal in the IRS's current strategic plan is to improve taxpayer service. However, since the late 1990s, the IRS has allocated over time more resources to its collection, examination, and criminal investigation functions and fewer resources to taxpayer service functions. As a result of this resource shift and other factors, in July 2005, Congress requested that the IRS develop a five-year plan, including an outline of which services the IRS should provide and how it will improve services for taxpayers. The IRS developed the plan, the Taxpayer Assistance Blueprint, in two phases.

The focus of the Blueprint is on services that support the needs of individual filers who file or should file the Form 1040 series tax returns.[13] The plan states that the initiative will address the challenges of effectively and efficiently aligning service content, delivery, and resources with taxpayer and partner expectations.[14] The Phase I report identified strategic improvement themes by researching IRS services relative to taxpayers' needs and preferences. The Phase II report was designed to validate those themes through further research of taxpayers' service preferences and to create the strategic plan for service delivery.

The IRS is already facing challenges with its Blueprint. For the Phase I report, the conclusions and strategic improvement themes were valid; however, not all information was accurate or consistent. Given the importance of this plan as the IRS moves forward, inaccuracies and inconsistencies will put the plan at risk of improperly aligning service content, delivery, and resources with taxpayer and partner expectations.

Complexity of the Tax Law

Simplicity, transparency, and ease of administration are interrelated and desirable features of a tax system. Over the years, the Federal tax system, especially the Federal income tax, has become more complex, less transparent, and subject to frequent revision. Tax complexity and frequent revisions to the Internal Revenue Code make it more difficult and costly for taxpayers who want to comply with the system's requirements and for the IRS to explain and enforce the tax laws. Tax law complexity results in higher costs for both tax

11 Configuration management is a collection of processes and tools that promote network consistency, track network change, and provide up-to-date network documentation and visibility. By building and maintaining configuration management standards, several benefits may be achieved, such as increased security, improved network availability and lower costs.

12 Phishing is the act of sending an email to a user falsely claiming to be an established legitimate enterprise in an attempt to scam the user into surrendering private information that could be used for identity theft.

13 The Form 1040 series tax returns include any IRS tax forms that begin with "1040" such as the U.S. Individual Income Tax Return (Form 1040), U.S. Individual Income Tax Return (Form 1040-A), and Income Tax Return for Single and Joint Filers With No Dependents (Form 1040EZ).

14 Partners encompass all service providers including community-based stakeholders, practitioners, commercial preparers, and software vendors.

administration and tax compliance. Simplification and reform have the potential of reducing the tax gap by billions of dollars.

Tax law complexity continues to challenge the IRS and taxpayers. For example, TIGTA recently determined that the IRS regulations for like-kind exchanges are complex and may be unclear to taxpayers.[15] Little published information exists regarding the IRS's position on like-kind exchanges involving second and vacation homes. This absence of clarification leaves unrebutted the sales pitch of like-kind exchange promoters who may encourage taxpayers to improperly claim deferral of capital gains through "tax-free" exchanges.[16] These complexities hamper IRS efforts to provide assistance to taxpayers. Without meaningful simplification, the complexities of the current tax code will likely continue to contribute to the tax gap.

Human Capital

The Government Performance and Results Act of 1993[17] was enacted to bring more accountability to Federal agencies for how they spent their budget and how well they fulfilled their public service roles. In 2001, the President's Management Agenda designated Strategic Management of Human Capital as the first of its five governmentwide initiatives. Despite significant focus and progress over the past few years, the GAO has designated human capital as a "high risk" governmentwide concern and recently reported that ample opportunities exist for agencies to improve. The GAO also reported that a governmentwide framework to advance human capital reform is needed.[18]

The Federal workforce is aging, and agencies are dealing not only with retirements and staff turnover, but also with the unique challenges of the 21st Century. The IRS recognizes that it must be prepared to respond to an increasing and more demanding population, a more global and multi-lingual environment, and an increasing number of taxpayers who have complex financial holdings and the means and motive to resist paying their taxes.[19] In addition, the IRS, along with other Federal agencies, is slowly moving toward changing pay, classification, and performance management systems to transition to a more market-based and performance-oriented culture. While the IRS has made some progress in these areas, the strategic management of human capital remains one of the IRS's major management challenges.

TIGTA has conducted audits in areas such as recruiting, workforce planning, training delivery, and employee turnover. As a result of these audits, we have made a significant number of recommendations for improvement. The IRS has agreed with these recommendations and stated it plans to take corrective actions. In 2008, TIGTA will begin executing a broad strategy for assessing human capital initiatives at an IRS agency-wide level and will focus on key portions of the IRS's Human Capital strategy.

15 A like-kind exchange is also known as a "1031 exchange," referring to Section 1031 of the Internal Revenue Code. In essence, a like-kind exchange is a way of deferring capital gains taxes by reinvesting proceeds from a sale into a similar asset.

16 As reported in Treasury Inspector General for Tax Administration, Ref. No. 2007-30-172, *Like-Kind Exchanges Require Oversight to Ensure Taxpayer Compliance* (2007), many promoters of like-kind exchanges refer to them as "tax-free" exchanges, not "tax-deferred" exchanges.

17 Pub. L. No. 103-62, 107 Stat. 285 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 39 U.S.C.).

18 U.S. Gov't Accountability Office, GAO-07-310, *High Risk Series: An Update* (2007).

19 Internal Revenue Service, Publ'n No, 3744, *IRS Strategic Plan: 2005–2009* (revised 6-2004).

Erroneous and Improper Payments

As defined by the Improper Payments Information Act of 2002,[20] an improper payment is any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible service, any duplicate payment, payments for services not received, and any payment that does not account for credit for applicable discounts. For the IRS, improper and erroneous payments generally involve improperly paid refunds, tax return filing fraud, or overpayments to vendors or contractors. Some tax credits, such as the Earned Income Tax Credit and the Education Credit, provide opportunities for abuse in income tax claims. The IRS estimated that between 27 percent and 32 percent of the $31 billion in Earned Income Tax Credits claimed on TY 1999 returns should not have been paid.[21] The IRS's Criminal Investigation function is responsible for detecting and combating tax refund fraud through its Questionable Refund Program, which was established to address the serious problem of refund fraud, now estimated to exceed $1 billion annually. On September 29, 2006, the Criminal Investigation function reported that during Processing Year 2006, it had identified more than 44,700 fraudulent refund returns claiming approximately $232.3 million in refunds during Processing Year 2006. In contrast, through September 13, 2007, the Criminal Investigation function identified approximately 200,900 fraudulent returns claiming about $1.3 billion in refunds during Processing Year 2007.

Although the IRS has taken actions to improve the Questionable Refund Program, TIGTA continues to have concerns with many of the procedures that have been implemented. For example, in January 2006 the National Taxpayer Advocate reported that automatically preventing a future year's tax return refund was a significant problem with the Questionable Refund Program.[22] According to the National Taxpayer Advocate, future refunds were being frozen until taxpayers filed a certain number of legitimate returns even though there was little evidence to suggest that taxpayers were likely to repeat refund fraud after the initial attempts. As a result, the IRS Office of Refund Crimes discontinued placing a freeze on future years' refund returns and instead identified certain high-risk categories as exceptions to this process. This revised procedure concerns us because we believe the future year freeze is an effective means for protecting revenue, when considered along with the procedural changes to notify taxpayers of refund freezes.

Taxpayer Protection and Rights

The IRS continues to dedicate significant resources and attention toward implementing the taxpayer rights provisions of the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98).[23] Annual audit reports are mandated for the following taxpayer-rights provisions:

- *Notice of Levy*
- *Restrictions on the Use of Enforcement Statistics to Evaluate Employees*
- *Fair Debt Collection Practices Act Violations*
- *Notice of Lien*

20 Pub. L. No. 107-300, 116 Stat. 2350 (2002).

21 Treasury Inspector General for Tax Administration, Ref. No. 2005-40-093, T*he Earned Income Tax Credit Income Verification Test Was Properly Conducted* (2005).

22 1 National Taxpayer Advocate, *2006 Annual Report to Congress* (2006).

23 Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. App., 16 U.S.C., 19 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

- *Seizures*
- *Illegal Protestor Designations*
- *Assessment Statute of Limitations*
- *Restrictions on Directly Contacting Taxpayers Instead of Authorized Representatives*
- *Separated or Divorced Joint Filer Requests*

In general, the IRS has improved its compliance with these statutory taxpayer rights provisions. For example, TIGTA believes the IRS's efforts to ensure that managers are not using enforcement statistics, production goals or quotas to evaluate employees are generally effective and are helping protect the rights of taxpayers. Nonetheless, there is still room for improvement with respect to certain provisions. TIGTA continues to identify instances in which there is no documentation that taxpayers were advised of their rights when agreeing to extend the period of time the IRS has to assess taxes. TIGTA also continues to identify instances in which IRS employees refer to taxpayers as Illegal Tax Protesters or similar designations.

Some IRS management information systems do not track cases that require mandatory annual audit coverage.[24] Thus, neither TIGTA nor the IRS could evaluate the Service's compliance with certain RRA 98 provisions.

Processing Returns and Implementing Tax Law Changes During the Tax Filing Season

Each filing season tests the IRS's ability to implement tax law changes made by Congress. It is during the filing season that most individuals file their income tax returns and call the IRS with questions about specific tax laws or filing procedures. Correctly implementing tax law changes is a continuing challenge because the IRS must identify the tax law changes; revise the various tax forms, instructions, and publications; and reprogram the computer systems used for processing returns. Changes to the tax laws have a major effect on how the IRS conducts its activities, what resources are required, and how much progress can be made on strategic goals. Congress frequently changes the tax laws; thus, some level of change is a normal part of the IRS environment. However, certain types of changes can significantly impact the IRS in terms of its quality and effectiveness of service and in how taxpayers perceive the Service. For example, the 2007 Filing Season was successful but demanding for the IRS. Before the filing season began, the IRS Commissioner told Congress that the IRS was at high risk due to high-profile administrative changes such as the Telephone Excise Tax Refund and the Split Refund option. Late enactment of the Tax Relief and Health Care Act of 2006[25] added additional risk to the 2007 Filing Season.

Potential changes to the Alternative Minimum Tax (AMT) may pose a significant challenge for the IRS for the 2008 Filing Season. The AMT originally was created as a parallel tax system in 1969 to prevent 155 wealthy people from avoiding taxes through excessive exemptions, credits and other deductions. Because it was not indexed for inflation, the AMT increasingly affects people with more modest incomes by denying deductions such as personal exemptions, property taxes and medical expenses.

24 Treasury Inspector General for Tax Administration, Ref. No. 2007-40-119, *Fiscal Year 2007 Statutory Review of Disclosure of Collection Activity With Respect to Joint Returns* (2007); Treasury Inspector General for Tax Administration, Ref. No. 2007-40-118, *Fiscal Year 2007 Statutory Review of Restrictions on Directly Contacting Taxpayers* (2007).

25 Pub. L. No. 109-432, 120 Stat. 2922.

Unless Congress acts, the AMT will gradually impose $1.35 trillion in additional taxes on U.S. households over the next decade, including as many as 23 million families for Tax Year 2007. A series of temporary measures that index the AMT for inflation have limited the tax's reach to about 4 million households annually. Lawmakers have not yet renewed the temporary fix for Tax Year 2007. A delay in legislation renewing the temporary fix could significantly disrupt the tax filing season because the IRS would need time to print new tax forms and reprogram computers.

Using Performance and Financial Information for Program and Budget Decisions

While the IRS has made some progress in using performance and financial information for program and budget decisions, this area is still a major challenge. The IRS lacks a comprehensive, integrated system that provides accurate, relevant, and timely financial and operating data that describes performance measures, productivity, and associated costs of IRS programs. In addition, the IRS cannot produce timely, accurate, and useful information needed for day-to-day decisions, which inhibits its ability to address financial management and operational issues in order to fulfill its responsibilities. TIGTA has continued to report that various IRS management information systems are insufficient to enable IRS management to measure costs, determine if performance goals have been achieved, or monitor progress in achieving program goals. For example, TIGTA reported that progress is being made in addressing the reliability of Trust Fund Recovery Penalty (TFRP) transaction information recorded in taxpayer accounts (a long-term material weakness); however significant work remains. Specifically, as of May 2007, there were nearly 50,000 TFRP-related errors in taxpayers' accounts that the IRS needs to correct before implementing the systemic posting of payments on TFRP assessments beginning in March 2008.[26]

Conclusion

These are the 10 major IRS management challenges issues for the IRS in Fiscal Year 2008. TIGTA's **FY 2008 Annual Audit Plan** contains our planned audits, inspections, and evaluations and is organized by these challenges. If you have questions or wish to discuss TIGTA's views on these management and performance challenges in greater detail, please contact me at (202) 622-6500.

cc: The Deputy Secretary
Assistant Secretary for Management and Chief Financial Officer
Acting Commissioner of Internal Revenue

26 Treasury Inspector General for Tax Administration, Ref. No. 2007-10-183, Progress Has Been Made in Improving the Accuracy of Trust Fund Recovery Penalty Transactions; However, Significant Work Remains (2007).

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

November 13, 2007

MEMORANDUM FOR J. RUSSELL GEORGE
TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

FROM: Henry M. Paulson, Jr.

SUBJECT: Response to Management and Performance Challenges Facing the Internal Revenue Service for Fiscal Year 2008

I am responding to your October 29, 2007 memorandum describing the Internal Revenue Service's (IRS) most serious management and performance challenges. We appreciate your independent assessment of the IRS's challenges, and the progress made towards addressing these challenges.

As described in detail below, the IRS has taken, and will continue to take, many actions to address its performance and management challenges. However, it should be noted that many of these challenges represent inherent risks associated with the IRS's mission and the environment in which the IRS operates, rather than deficiencies that can be eliminated. As such, the IRS's goal is to ensure that it is taking the right actions to mitigate these challenges to the extent practicable, recognizing that its actions need to evolve to meet changing future circumstances and taxpayer needs. While recognizing that the IRS must be ever vigilant, and that it can improve its activities to address these challenges, we believe that the IRS has made substantial progress thus far.

Specific information on the actions that the IRS completed in Fiscal Year (FY) 2007 and the actions that are planned for FY 2008 to address these ten challenges is provided below.

Challenge 1 – Modernization of the Internal Revenue Service

The IRS provided leadership and oversight essential to success in managing complex and complicated system development efforts. As a result, the IRS made substantial progress in meeting targets for the Business Systems Modernization (BSM) project deliveries with 92 percent of system releases delivered within +/- 10% of estimated cost and 77 percent delivered within +/- 10 percent of estimated schedule.

The annual update of the IRS Information Technology (IT) Modernization Vision & Strategy (MV&S) was released in November 2007. The update demonstrates the actions taken to incorporate an investment decision support process into IRS operations and outlines the planning steps necessary for the consolidation, retirement, and potential reuse of the approximately 400 legacy systems. MV&S includes an Enterprise Transition Strategy that addresses priorities for modernizing front-line tax administration functions and guides IT investment decision-making. Important aspects include establishing partnerships among IT and business leadership; leveraging existing systems; emphasizing the delivery of smaller, incremental releases; and unifying the portfolio-level view of investments. More specifically, the Enterprise Transition Strategy describes how existing and proposed investments align to the overall vision and strategy by providing decision makers with the visibility to use the IRS enterprise architecture (EA) for organization-wide planning.

In FY 2007, the IRS also implemented a new governance structure to oversee all IT investment projects. The new structure standardizes existing procedures to ensure investment projects are delivering required results before proceeding to the next phase of development and facilitates the ability to identify and address project-related issues and risks. Project-level accountability and decision-making is promoted for projects that do not have problems or issues, while the new governance model specifies appropriate thresholds for elevating (to the appropriate governance entity) project-related issues that may arise.

The IRS has also taken steps to ensure better management of its contractors including development of performance-based work statement templates to encourage the use of performance standards for all systems development contracts and updated guidance and training to emphasize the use of performance-based acquisitions.

In FY 2008, the IRS will continue its focus on modernization of the tax administration systems to provide additional benefits to taxpayers and maintain continuity of the program while mitigating risk through improved governance. Expansion of modernized electronic filing systems will provide electronic filing capabilities to US income tax returns for foreign corporations to accommodate the 2008 electronic filing requirement for exempt organizations with less than $25,000 in gross receipts. The IRS will also continue deployment of improved management through its High Priority Initiative Process and include a performance-based contracting seminar with a focus on contractor monitoring in its 2008 Advance Acquisition Planning conference.

Challenge 2 – Tax Compliance Initiatives

In FY 2007, the IRS continued compliance efforts that promote taxpayer confidence and support Treasury's goal to reduce the tax gap. The IRS also improved its ability to pinpoint areas where taxpayers are not in compliance with federal tax laws. A reporting compliance study for Subchapter S Corporations was initiated and the examination phase was completed. A Tax Year (TY) 2006 individual income reporting compliance study began in October 2007. The IRS also updated its workload selection models for TY 2006 using data from prior reporting compliance studies to better leverage limited enforcement resources and reduce the burden on compliant taxpayers.

Individuals and Businesses

In FY 2007, the IRS released the report "Reducing the Federal Tax Gap: A Report on Improving Voluntary Compliance." The report identifies current tax gap activities and presents the steps being taken to reduce opportunities for tax evasion, leverage technology, and support legislative proposals to improve compliance. The report outlines the seven components that must be addressed in order to reduce the tax gap and builds upon the research and program improvements already initiated. The components address reducing opportunities for evasion; improvements to information technology; simplification of the tax laws; improving compliance activities; enhancing taxpayer service; coordinating with partners and stakeholders; and making a long-term commitment to further research to better understand the elements of non-compliance.

In FY 2007, over $59 billion in enforcement revenue was collected, a 75 percent increase from FY 2001, resulting from concerted efforts by the IRS to detect and deter non-compliance. The IRS continued to reengineer its examination and collection procedures and invest in technology, resulting in efficiency gains and better targeted examination efforts translating into expanded coverage, higher audit yields, and reduced burden on compliant taxpayers. As a result, the number of examinations, particularly in individual and high-income examinations, and collection case closures continued to increase.

Enhanced enforcement of abusive tax schemes continued to be a high priority for the IRS. In FY 2007, the IRS targeted preparers whose tax work indicates questionable return preparation practices, the dissemination of questionable advice, or promotion of questionable tax avoidance strategies. Over $69 million in penalties were assessed and promoters' admissions of these behaviors received significant publicity.

Further, to economically and efficiently detect and pursue noncompliant taxpayers, the IRS and the Social Security Administration established rigorous systemic procedures to perfect and validate Social Security Numbers shown on information documents used in compliance matching programs. While additional tax law changes may improve the accuracy of identification numbers, changes to disclosure laws must be approached with caution to ensure continued voluntary compliance with tax laws.

The IRS FY 2008 budget request includes funding for three significant research initiatives: increasing compliance studies for additional taxpayer segments, updating the data from the 2001 National Research Program (NRP) study, and researching the effects of service on taxpayer compliance. The IRS also plans to examine the relationship between complexity and taxpayer burden as well as implement provisions contained in the report on the federal tax gap.

Tax Exempt Organizations

Maintaining a strong enforcement presence in the tax-exempt sector is particularly important because of the possibility these entities could be misused by third parties to facilitate abusive transactions. The IRS enhanced its enforcement presence to mitigate these risks, conducting reviews in areas of concern within the charitable sector such as charitable contribution overvaluation, charities established to benefit the donor, credit counseling organizations, down payment assistance organizations, executive compensation practices, and the regulation and reporting of political activities. The IRS also began a review of the community benefit standard applied by non-profit hospitals, and the differences between non-profit and for profit hospitals. In FY 2007, compliance contacts for all tax-exempt categories (exempt organizations, employee plan, federal, state and local governments) increased 12 percent. New outreach tools were developed including the deployment of www.stayexempt.org, a popular tax compliance website for exempt entities; web-based tools to help tax exempt entities understand their federal tax requirements; and workshops to assist remote tribal villages with federal and state employment tax and other reporting requirements.

In FY 2008, the IRS will continue to focus its efforts on tax shelter schemes and abusive transactions, increasing the efficiency of the determination letter process. The IRS also will increase its presence in enforcement, for example, by initiating additional compliance checks at tribal casinos for adherence to Bank Secrecy Act (BSA) regulations. Additional actions include enhancing transparency by redesigning certain forms for the first time since 1979 and mandating electronic filing for large tax exempt organizations.

Challenge 3 - Security of the Internal Revenue Service

The IRS established two new offices to consolidate efforts related to privacy, identity theft, incident management, information protection training, and communication. The Office of Privacy, Information Protection, and Data Security ensures IRS programs and projects gather only the taxpayer and employee data necessary to accomplish objectives and the new Associate Chief Information Officer manages the IRS Information Technology Security Program.

To enhance security, the IRS developed an integrated Information Technology (IT) Security Schedule and Plan and a comprehensive IRS security strategy, which defined areas for improvement in the security posture of the IRS. In FY 2007, the IRS encrypted all laptop data and tapes used in electronic data exchange and updated its mandatory employee training to reflect recent policy guidance and reinforced employee responsibilities related to the protection of sensitive information and the use of encryption tools.

The IRS also completed all activities required to support the annual Federal Information Security Act (FISMA) reporting cycle. One hundred percent of all 260 applications/systems on the FISMA master inventory completed IT contingency plan testing. The IRS also completed an enhanced mainframe testing effort that included live disaster recovery testing for 24 major applications.

Planned actions for FY 2008 include completing an enterprise business impact assessment analysis, in support of IT systems disaster recovery. Computing center restoration priorities will be validated and there will be continued enhancements of disaster recovery and contingency plan testing programs, emphasizing more live and functional testing. A new policy manual will also be issued, addressing IT system disaster recovery. In addition, the IRS will complete the upgraded certification and accreditation packages for all IRS applications, deploy an automated means of identifying and accounting for IT assets connected to the network, and upgrade its core security infrastructure components. The IRS will also continue to research, identify, and assess new on-line computer fraud schemes.

Challenge 4 – Providing Quality Taxpayer Service Operations

The IRS continues to emphasize taxpayer service as an important component of addressing the tax gap and made improvements in key areas involving services for taxpayers in FY 2007. The IRS provided assistance to millions of taxpayers through its toll-free call centers, IRS.gov website, over 400 Taxpayer Assistance Centers, and approximately 12,000 Volunteer Income

Response to Management and Performance Challenges Facing the Internal Revenue Service

Tax Assistance and Tax Counseling for the Elderly sites. The IRS also held the first ever National Earned Income Tax Credit (EITC) Day, a single day nationwide media campaign created to increase awareness of the program.

Additionally, in FY 2007, the IRS completed the Taxpayer Assistance Blueprint (TAB), its most extensive research effort on the needs, preferences, and behaviors of taxpayers and partners who assist them in complying with the tax laws. The IRS also responded to previous TIGTA findings on the data presented in the Phase 1 Report by developing and implementing a thorough quality review process for TAB Phase 2. The quality review process is still in place and continues to be refined. Consequently, all subsequent research conducted to produce the data that will guide service delivery decisions and other Blueprint initiatives will undergo a thorough quality review process. The quality review process serves as an effective tool to assure the accuracy and consistency of data, ensuring decisions made properly align service content, delivery, and resources with taxpayer and partner expectations.

The IRS planned actions for FY 2008 include: implementation of TAB service improvement initiatives; expansion of interactive applications to the Spanish speaking sector such as "Where's My Refund" and hyperlinked tax information; and continued efforts utilizing IRS partners to disseminate information and simplify forms and tax filing processes.

Challenge 5 - Complexity of the Tax Law

In FY 2007, the IRS took a number of steps to reduce taxpayer burden including the review of existing tax products with the goal to simplify. The IRS also incorporated taxpayer feedback, research, and focus group results to obtain taxpayer information relative to product changes. For example, the IRS redesigned Form 8857, Request for Innocent Spouse Relief which is expected to eliminate 30,000 follow-up letters annually, resulting in reduced burden and quicker response to taxpayers. The new form was downloaded more than 12,000 times in the month it debuted. The IRS continued its Nationwide Tax Forums, which provided an opportunity for taxpayer feedback regarding tax forms and publications. In FY 2008, the IRS will update instructions and information for certain tax forms and publications such as Form 8824 (Like-kind Exchanges) and Publication 17 (Your Federal Income Tax).

Also in FY 2008, the IRS will complete the study of universal use of the Advanced Payment of Earned Income Credit (AEITC) mandated by Congress. The study will assess AEITC's benefits, costs, risks, and barriers to workers and businesses (with a special emphasis on small businesses). The study will also develop a simplified employee plan application process for small employers and guidance in response to The Pension Protection Act of 2006. Another FY 2008 study will address reporting and compliance issues associated with the growing number of taxpayers claiming deferred gains or losses under the provisions of "like-kind exchanges".

Challenge 6 - Human Capital

Actions were undertaken in FY 2007 to address the response trends from the Office of Personnel Management's Human Capital Survey. The IRS undertook initiatives in Learning and Knowledge Management, as well as Leadership categories, which are directly related to efforts to identify competency gaps and to expand availability of training programs for employees. The IRS took actions to improve its Performance Culture category results by assessing and initiating redesign of the appraisal system to a uniform, results-based process and developing web-based performance management training and guidance for managers to improve program administration. To enhance the results for the category Satisfaction with Benefits the IRS began the implementation of recommendations from its Pay for Performance program study.

The IRS continued to hire and train qualified candidates to fill its key enforcement occupations: Revenue Agent, Revenue Officer, Special Agent, and Tax Compliance Officer, successfully achieving 99.1 percent of filing season hiring commitments, and over 100 percent at 6 of 10 campus locations in FY 2007. The IRS attributes the steady and consistent increases in enforcement revenue collected since FY 2001 to its more effective use of enforcement resources along with timely and effective recruiting, hiring, and development of new talent to meet changing demands. The IRS also redesigned its tuition assistance program to expand it to a significantly larger employee base.

Like all of the federal government, the IRS faces a shortage of leaders over the next decade from the expected retirement wave and increased competition for senior leadership talent from both the private and public sectors. To address the need to identify and train its future leaders, the IRS established and implemented a Succession Management Program (SMP) for the identification and recruitment of talented leaders. Underpinning the SMP is the Leadership Succession Review (LSR) process, which gives a direct "line of sight" into the available bench strength for critical management positions. The LSR is designed to focus on competency gaps and provides information necessary to target training and development to areas of greatest impact. The SMP program and, more importantly, use of the LSR tool, will eventually lead to full bench strength across the management spectrum for the IRS.

The IRS also continued to work on development of a human capital strategy in FY 2007. The strategy includes bringing critical personnel on board and includes objectives for employee training, leadership development, determination of skills and competencies through a Center of Excellence Office and workforce retention.

Plans for FY 2008 include analysis of turnover rates, implementation of a cost index model to determine the cost and drivers of turnover, and increasing the hiring base for mission critical positions through automation, simplification of the application process and the use of hiring incentives. The IRS will also continue its efforts to quickly replace key leaders lost to retirement by expanding the SMP and expanding use of the LSR tool to levels below the senior executive.

Challenge 7 - Erroneous and Improper Payments

In FY 2007, the IRS protected about $2.6 billion in revenue through EITC enforcement efforts which included the examination of over 500,000 returns claiming EITC, 390,000 document matching reviews, and almost 500,000 math error process corrections. In addition, the IRS met all the Improper Payment Improvement Act (IPIA) requirements for the EITC, providing a current estimate of erroneous payment amounts, an explanation of the methodology to calculate the amount and an action plan to reduce the number and amount of those payments.

As part of detecting and combating refund fraud through the Questionable Refund Program (QRP), the QRP Executive Steering Committee evaluated the results of the FY 2007 program and determined the procedures put in place to freeze subsequent year's returns of accounts identified in the current year as fraudulent were not necessary based on analysis showing a majority of the returns would be identified through standard QRP techniques.

The IRS will also identify opportunities to reduce the number of erroneous and improper payments by analyzing the results from the first year of the multi-year National Research Program (NRP) study. The study is designed to provide an annual update of the EITC error rate and will enable the IRS to more quickly explore research-based, cost-effective approaches to improve EITC participation and minimize errors. Testing of new preparer focused treatments to reduce EITC errors on returns from paid preparers will also take place.

Challenge 8 - Taxpayer Protection and Rights

Taxpayer protection remains a high priority for the IRS. In FY 2007, through quarterly managerial and annual independent reviews, the IRS continued to monitor compliance with the taxpayer rights provisions of Section 1204 of the Internal Revenue Restructuring and Reform Act of 1998 which prohibits the use of Records of Tax Enforcement Results to evaluate, impose or suggest production goals and quotas with respect to such employees. The IRS also implemented systemic controls in the collection functions to ensure levies are not generated before the allotted waiting period and continued to monitor the action plan developed to ensure timely release of Federal Tax Liens.

In FY 2008, the IRS will continue efforts to protect taxpayer rights through established reviews and safeguards and remind employees of their responsibilities concerning protection of taxpayer rights through issuance of targeted memoranda. In addition, the IRS will complete the Federal Levy Payment Program (FPLP) research project and use results to determine the best approach to ensure that levies processed on Social Security and Railroad Retirement Board benefits do not result in hardship for low-income taxpayers who depend solely on these payments.

Challenge 9 - Processing Returns and Implementing Tax Law Changes during the Tax Filing Season

Filing season 2007 was another success for the IRS with more than 139.7 million individual returns filed, and more than 105.5 million refunds issued totaling $261 billion. Electronic filing increased to 57.1 percent for individuals, and 19.1 percent for business returns, increases of 5 percent and 15 percent respectively over FY 2006. More taxpayers filed using a home computer than ever before and 10 percent more tax professionals filed returns electronically over the number in 2006.

The successful implementation of new tax law changes concerning split refunds and delivery of an integrated approach to the Telephone Excise Tax Refund (TETR) enabled the filing of over 94 million 2006 federal income tax returns, which claimed more than $4.81 billion in credits or refunds. The implementation of TETR and split refunds resulted in significant changes to all of the 1040 series of returns, requiring the addition of line items to claim the credit, the development of new forms taxpayers without filing requirements could use, creation of new publications and re-programming of the 38 major filing systems. All of the changes including making the necessary changes to the many forms and systems to accommodate late passage of provisions of the Tax Relief and Health Care Act of 2006 were made in time to begin the filing season.

The IRS will continue to plan and prepare for the 2008 filing season, however, from a tax administration perspective, the uncertainty around enactment of an Alternative Minimum Tax (AMT) "patch" that affects 50 million taxpayers will create significant challenges and poses high risk to the 2008 filing season. Late enactment (mid-November or later) will create compliance challenges for affected taxpayers, preparers, and software developers. Updated printed forms would not be available until after the filing season has started and return processing systems may not be ready to process tax returns with the AMT until March. More importantly, the backlog in processing returns would mean refunds could be delayed and have an impact on timely issuance of refunds and ultimately may mean the Government would be required to pay interest if delays exceed the time required under law for issuing refunds. The downstream effects would be felt throughout the organization with substantial increases in telephone calls for assistance, increases in written correspondence, increases in issuance of error notices for taxpayers who file incorrect returns due to confusion in the rules, as well as an increase in the number of amended returns for taxpayers who filed prior to the forms and system changes.

Challenge 10 - Using Performance and Financial Information for Program and Budget Decisions (GAO)

In FY 2007, the IRS made significant progress in improving its tax administration financial systems by expanding the capabilities of the Custodial Detail Database (CDDB), providing the means to trace payments and refunds at the point of receipt providing the data necessary to quickly trace missing payments and missing refund information. A second release for CDDB provided weekly updates for unpaid trust fund assessments, allowing for the tracing of multiple and sometimes duplicate transactions.

The IRS continued to work on the cleanup of the Trust Fund Recovery Penalty (TFRP) Database that began in September 2006, using weekly error reports extracted from the Custodial Detailed Data Base (CDDB). Between September 2006 and September 2007, the IRS saw a 21 percent improved accuracy rate on TFRP accounts, exceeding the 10 percent goal set.

Progress was made on reporting the full cost of major programs and an IRS Cost Accounting Policy document was issued in FY 2007 to provide guidance organization-wide on how costs should be allocated and reported. Additionally, the IRS improved the accuracy and reliability of its property and equipment (P&E) accounting records leading the GAO to conclude in its report on the IRS FY 2006 and 2005 financial statements that P&E no longer constitutes a reportable condition.

In FY 2008, the IRS will complete the TFRP clean up and evaluate the feasibility of conducting another review of all the TFRP accounts prior to conversion to a systemic payment posting process by February 2008. The IRS also plans to complete the development and implementation of additional CDDB releases that add other revenue receipt transactions and create a refund transactions subsidiary ledger. The IRS will develop the functional requirements for the Interim Revenue Account Control System (IRACS) Redesign effort to move the existing system into general ledger compliance. Costing efforts will continue including developing a methodology for systemically producing cost data for key products and services.

We look forward to continue working with you to address these challenges.

cc: The Deputy Secretary
Assistant Secretary for Management and Chief Financial Officer
Commissioner of Internal Revenue

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Appendix E:
Material Weaknesses, Audit Follow-up, and Financial Systems

This section consists of detailed descriptions of the Department's material weakness inventory, including a summary of actions taken and planned to resolve the weaknesses; tracking and follow-up activities related to the Department's audit inventory; an analysis of potential monetary benefits arising from audits performed by the Department's Inspectors General; and an update on the Department's financial systems framework.

Treasury's Material Weaknesses

Management may declare audit findings or internal situations as a material weakness whenever a condition exists that may jeopardize the Treasury mission or continued operations. Material weaknesses are required in these instances by the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and the Federal Financial Management Improvement Act of 1996 (FFMIA).

Federal Managers' Financial Integrity Act of 1982 (FMFIA)

The FMFIA requires agencies to establish and maintain internal control. The Secretary must annually evaluate and report on the controls (Section 2) and financial systems (Section 4) that protect the integrity of federal programs. The requirements of FMFIA serve as an umbrella under which other reviews, evaluations, and audits should be coordinated and considered to support management's assertion about the effectiveness of internal control over operations, financial reporting, and compliance with laws and regulations. Treasury has six material weaknesses under Section 2 of the FMFIA, summarized as follows:

Summary of FMFIA and FFMIA Material Weaknesses	Section 2	Section 4	Total
Balance at the Beginning of FY 2007	5	1	6
Closures/Downgrades during FY 2007	0	0	0
Reassessed during FY 2007	1	(1)	0
New MW declared during FY 2007	0	0	0
Balance at the End of FY 2007	6	0	6

Below are detailed descriptions of Treasury's six material weaknesses:

Material Weakness Description	
Internal Revenue Service - Improve Modernization Management Controls and Processes.	
The IRS needs to improve its Business Systems Modernization program. Key elements: • Assess the recommendations from the Special Studies and Reviews of the Business Systems Modernization program and projects • Implement and institutionalize procedures for validating contractor-developed costs and schedules • Establish effective contract management practices • Complete a human capital strategy • Improve configuration management practices	
Actions Completed	**What Remains to be Done**
✓ Study and review recommendations assessed and implemented where warranted ✓ Formal process for contractor-developed cost and schedule evaluation implemented ✓ Contract management policy and procedures developed and implemented ✓ Human Capital Plan completed ✓ Configuration management policies and practices improved and implemented	❑ Allow assessment time to observe long-term effect of actions completed ❑ Targeted Downgrade/Closure: FY 2008

Material Weakness Description	
Internal Revenue Service – Reduce Earned Income Tax Credit (EITC) Overclaims.	
The IRS has high erroneous payment error rates within the EITC program. Key elements: • Review and implement the EITC Task Force Recommendations to reduce overclaims • Develop enhanced initiatives to reduce overclaims in existing EITC programs • Develop focused initiatives to educate the EITC population • Identify new ways to administer the EITC by partnering with state, federal, and private organizations and through the productive use of proactive research initiatives	
Actions Completed	**What Remains to be Done**
✓ Assessed and implemented Task Force recommendations where warranted ✓ Conducted special studies to identify solutions for 3 key overclaim areas ✓ Met all of the Improper Payment Information Act of 2002 (IPIA) requirements for the EITC by providing a current estimate of error, an explanation of the methodology, and an action plan to reduce error ✓ Completed second phase of the return preparers' compliance study and, through due diligence visits, reduced erroneous refunds by assessing 8,554 due diligence penalties against 219 of the preparers visited ✓ Developed and implemented a robust enterprise research strategy in partnership with internal and external organizations to support the IRS goals of reducing erroneous claims and increasing participation of EITC-eligible taxpayers ✓ Conducted the first, nationwide EITC Awareness Day for EITC-eligible taxpayers	❑ Partner with OMB to develop more accurate error rate estimates ❑ Monitor plan for improper payment reduction ❑ Identify opportunities to reduce the number of erroneous and improper payments by analyzing the results from the first year of the multi-year National Research Program study, which is designed to provide an annual update of the EITC error rate and will enable IRS to more quickly explore research-based, cost-effective approaches to improve EITC participation and minimize errors ❑ Continue to identify and investigate high-impact fraud and tax scheme promoters ❑ Complete development of a new Concept of Operations, a multi-year vision that will drive development of expanded and new EITC Program strategic initiatives, including a paid preparer strategy ❑ Targeted Downgrade/Closure: FY 2008

Material Weakness Description

Internal Revenue Service – Computer Security.

The IRS has various computer security controls that need improvement. Key elements:

- Adequately restrict electronic access to and within computer network operational components
- Adequately ensure that access to key computer applications and systems is limited to authorized persons for authorized purposes
- Adequately configure system software to ensure the security and integrity of system programs, files, and data
- Appropriately delineate security roles and responsibilities within functional business, operating, and program units, as required by the Federal Information Security Management Act (FISMA)
- Appropriately segregate system administration and security administration responsibilities
- Sufficiently plan or test the activities require to restore certain critical business systems when unexpected events occur
- Effectively monitor key networks and systems to identify unauthorized activities and inappropriate system configurations
- Provide sufficient technical security-related training to key personnel
- Certify and accredit 90% of all systems

Actions Completed	What Remains to be Done
✓ Delineated responsibilities for carrying out security management activities within organizational units across IRS as well as the expectation of performance of security-related tasks associated with individual roles ✓ Ensured that one individual cannot independently control all key aspects of a process or computer-related operation for systems administration ✓ Encrypted all laptop data and tapes used in electronic data exchange ✓ Updated IRS mandatory employee training to reflect recent policy guidance and reinforced employee responsibilities related to the protection of sensitive information and the use of encryption tools ✓ Completed all required FISMA activities related to contingency plan testing on all of the 260 application/systems in the master inventory and live disaster recovery tests for all major applications	❑ Restrict electronic access to and at the operating system level of network operational components ❑ Control access to systems software and applications ❑ Implement configuration management and change control to safeguard the security and integrity of system programs, files, and data ❑ Monitor user activity on network operating devices, operating systems, and applications ❑ Provide training development, delivery, and evaluation for security responsibilities to key personnel ❑ Certify 90% of total systems ❑ Targeted Downgrade: FY 2009

Material Weakness Description	
Financial Management Service – Consolidated Government-wide Financial Statements.	
The government does not have adequate systems, controls, and procedures to properly prepare the Consolidated Government-wide Financial Statements. Key elements: • The government lacks a process to obtain information to effectively reconcile the reported excess of revenue over net costs with the budget surplus • Weaknesses in financial reporting procedures in internal control over the process for preparing the Consolidated Financial Statements	
Actions Completed	**What Remains to be Done**
✓ Developed a model to provide analysis of unreconciled transactions that affect the change in net position ✓ Accounted for intra-governmental differences through formal consolidating and elimination accounting entries using all reciprocal fund categories including the General Fund ✓ Established a process to ensure that Federal agencies submit complete closing packages to GAO	❑ Create the reciprocal category for the Treasury General Fund ❑ Implement changes identified by the Fiscal Assistant Secretary as a result of their review of the Reporting Entity definitions per the Financial Accounting Standards Advisory Board (FASAB) criteria ❑ Establish traceability from agency footnotes to the Consolidated Financial Statements (CFS) for completeness ❑ Include all disclosures as appropriate ❑ Include all loss contingencies as appropriate ❑ Targeted Downgrade/Closure: FY 2011

Material Weakness Description	
Treasury Departmental Offices – Lack of Substantial Compliance with the Federal Information Security Management Act (FISMA).	
Key elements: • Need to establish a Departmental Offices Headquarters Information Technology Security Program • The Treasury Chief information Officer needs to implement the Treasury Communications System disaster recovery plan and ensure bureau connectivity to the backup facility is established for uninterrupted services • Provide effective oversight to ensure Treasury's compliance with the FISMA and track bureaus inventories and Plans of Actions and Milestones to ensure all systems are certified and accredited.	
Actions Completed	**What Remains to be Done**
✓ Departmental Offices Headquarters Information Technology Security Program developed and implemented ✓ The Treasury Communications System Disaster Recovery Plan (including connectivity and backup capability) developed, tested, and implemented ✓ Policy and procedures issued and infrastructure in place to allow for tracking of systems and plans of action	❑ Implement a configuration management baseline that is compliant with OMB requirements. ❑ Targeted Downgrade/Closure: FY 2008* *subject to change pending further review

Material Weakness Description	
Internal Revenue Service – Accounting for Revenue.	
The IRS needs to have detail data to support custodial financial reporting for revenue. Key elements: • Inability to provide detailed support for large types of revenue for employment and excise taxes • Lack of effective custodial supporting systems/subsidiary detail • Subsidiary ledger does not track and report one Trust Fund Recovery Penalty (TFRP) balance • Untimely posting of TFRP assessments and untimely review of TFRP accounts • Lack of a single, integrated general ledger to account for tax collection activities and the costs of conducting those activities • Inability to generate and report reliable cost-based performance data for collection activities to make informed resource allocation decisions • IRS's general ledger for its custodial activities does not use the standard federal accounting classification structure	
Actions Completed	**What Remains to be Done**
✓ Custodial Detail Database (CDDB) enhanced to analyze and classify larger percentage of unpaid payroll tax accounts ✓ Enhanced CDDB to begin journalizing tax debt information weekly to IRS's general ledger ✓ Expanded CDDB capabilities to provide means to trace payments and refunds at point of receipt ✓ Timing of certification of excise tax receipts accelerated	❑ Completion of CDDB Releases to provide a single, integrated subsidiary ledger using standard federal accounting classification structure. ❑ Targeted Downgrade/Closure: FY 2010

Federal Financial Management Improvement Act of 1996 (FFMIA)

The FFMIA requires agencies to have financial management systems that substantially comply with the Federal financial management systems requirements, standards promulgated by the Federal Accounting Standards Advisory Board (FASAB), and the U.S. Standard General Ledger (USSGL) at the transaction level. Financial management systems shall have general and application controls in place in order to support management decisions by providing timely and reliable data. The Secretary shall make a determination annually about whether the agency's financial management systems substantially comply with the FFMIA. If the systems are found not to be compliant, management shall develop a remediation plan to bring those systems into substantial compliance. Management shall determine whether non-compliances with FFMIA should also be reported as non-conformances with Section 4 of FMFIA.

The IRS Accounting for Revenue material weakness is reported as a non-compliance material weakness under FFMIA. This material weakness is not reported as a non-conformance material weakness under Section 4 of FMFIA.

Audit Follow-Up Activities

During FY 2007, Treasury made steady progress in both the general administration of management control issues throughout the Department and the timeliness of the resolution of all findings and recommendations identified by the Office of the Inspector General (OIG), the Treasury Inspector General for Tax Administration (TIGTA), the Government Accountability Office (GAO), and external auditors. During the year, Treasury continued to provide enhancements to the tracking system called the "Joint Audit Management Enterprise System" (JAMES). JAMES is a Department-wide, interactive, Web-based system accessible to the OIG, TIGTA, Bureau management, Departmental management, and others. The system contains tracking information on audit reports from issuance through completion of all corrective actions required to address findings and recommendations contained in an audit report.

Potential Monetary Benefits

The Inspector General Act Amendments of 1988, Public Law 101-504, require that the Inspectors General and the Secretaries of Executive Agencies and Departments submit semiannual reports to the Congress on actions taken on audit reports issued that identify potential monetary benefits. The Department consolidates and analyzes all relevant information for inclusion in this report. The information contained in this section represents a consolidation of information provided separately by the Office of the Inspector General (OIG), the Treasury Inspector General for Tax Administration (TIGTA), and Department management.

In the course of their audits, the Inspectors General periodically identify questioned costs, make recommendations that funds be put to better use, and identify measures that demonstrate the value of audit recommendations to tax administration and business operations. "Questioned costs" include:

- a cost that is questioned because of an alleged violation of a provision of a law, regulation, contract, or other requirement governing the expenditure of funds;
- a finding, at the time of the audit, that such costs are not supported by adequate documentation (i.e., an unsupported cost); or
- a finding that expenditure of funds for the intended purpose is unnecessary or unreasonable.

The Department regularly reviews progress made by the bureaus in realizing potential monetary benefits identified in audit reports, and coordinates with the auditors as necessary to ensure the consistency and integrity of information on monetary benefit recommendations being tracked.

The statistical data in the following summary table and charts represent audit report activity for the period from October 1, 2006, through September 30, 2007. The data reflect information on reports that identified potential monetary benefits issued by the OIG and TIGTA.

Audit Report Activity With Potential Monetary Benefits For Which Management Has Identified Corrective Actions (OIG and TIGTA) October 1, 2006 through September 30, 2007 (Dollars in Millions)								
	Questioned Costs		Better Used Funds		Revenue Enhancements		Totals	
	Reports	Dollars	Reports	Dollars	Reports	Dollars	Report Total*	Total Dollars
Beginning Balance	8	$39.2	5	$115.3	16	$14,197.2	**28**	**$14,351.7**
New Reports	11	13.1	6	15.8	8	1,808.8	**24**	**1,837.7**
Total	19	52.3	11	131.1	24	16,006.0	**52**	**16,189.4**
Reports Closed	7	16.4	4	121.4	12	15,307.7	**23**	**15,445.4**
a. Realized or Actual	6	42.7	2	111.1	3	90.2	**11**	**244.0**
b. Unrealized - Written off	3	1.1	2	10.3[1]	12	15,217.5[2]	**17**	**15,228.9**
Ending Balance	**12**	**$36.0**	**7**	**$9.7**	**12**	**$698.3**	**29**	**$744.0**

* Report total column may not add across due to inclusion of reports in multiple categories.

1 This category includes one report, with $9.86 million written off, for which IRS management did not concur with TIGTA's projected benefits.

2 This category includes two reports, with $85.2 million written off, for which TIGTA does not agree with the IRS that the benefits have not been realized; one report, with $6 billion written off, for which legislation is needed to realize the benefit; one report, with $1.17 billion written off, for which IRS management did not agree with TIGTA's recommended corrective action; and four reports, with $829.4 million written off, for which IRS management did not concur with TIGTA's projected benefits.

The following table provides a snapshot of OIG and TIGTA audit reports with significant recommendations reported in previous semiannual reports for which corrective actions had not been completed as of September 30, 2006 and September 30, 2007, respectively. There were no "Undecided Audit Recommendations" during the same periods.

Significant Unimplemented Recommendations				
	September 30, 2006		September 30, 2007	
	OIG	TIGTA	OIG	TIGTA
	No. of Reports	No. of Reports	No. of Reports	No. of Reports
Unimplemented	9	37	14	39

The following table presents a summary of TIGTA and OIG audit reports that were open for more than a year with potential monetary benefits at the end of the PAR Report Year.

Number of Reports Open for More than One Year (Dollars in Millions)				
	PAR Report Year	FY 2005	FY 2006	FY 2007
TIGTA	No. of Reports	17	15	10
	Projected Benefits	$7,581.8	$ 13,097.6	$66.5
OIG	No. of Reports	0	0	1
	Projected Benefits	$0	$0	$29.4

The following table presents a summary of TIGTA and OIG audit reports on which management decisions were made on or before September 30, 2006, but the final actions have not been taken as of September 30, 2007.

Details of the Audit Reports on Which Management Decisions Were Made On or Before September 30, 2006, But Final Actions Have Not Been Taken as of September 30, 2007 (Dollars In Thousands)

Bureau	Report Number	Report Issue Date	Brief Description	Questioned Costs	Funds Put to Better Use	Revenue Enhance-ment	Total	Due Date/Reason for Delay
IRS	2003-30-071	3/14/2003	Improvements could be made to the Schedule K-1 matching program by increasing the use of electronic or scannable data		3,000.0		3,000.0	Delayed to 1/15/08. IRS has decided to consider mandating e-filing at the time each form is to be converted in the Modernized e-file environment.
FY 2003	**1**				**3,000.0**		**3,000.0**	
IRS	2004-10-128	7/28/2004	LOU: Contractor's documentation was not adequate to support the tax forum income and expenses	684.0			684.0	Delayed to 10/15/08. The action pursuant to this recommendation and recovery of management fees paid by the contractor are contingent on the U.S. Attorney's Office timeline.
IRS	2004-20-014	11/19/2003	The IRS should use the planned Travel and Reimbursement Accounting System long-term travel authorization processing enhancements to assure that IRS periodically reassesses employee travel plans	25.0		180.5	205.5	Due 10/31/2007
IRS	2004-20-142	8/26/2004	The IRS should ensure the Storage Strategy Study addresses the data storage capacity deficiency and recommends a cost-effective Virtual tape system solution to reduce maintenance and tape shipping costs		200.0		200.0	Due 12/31/2010

Table continued on next page ➤

Details of the Audit Reports on Which Management Decisions Were Made On or Before September 30, 2006, But Final Actions Have Not Been Taken as of September 30, 2007 (Dollars In Thousands)

Bureau	Report Number	Report Issue Date	Brief Description	Questioned Costs	Funds Put to Better Use	Revenue Enhancement	Total	Due Date/Reason for Delay
IRS	2004-30-170	9/21/2004	Improvements are needed for processing income tax returns of controlled corporate groups			29,670.0	29,670.0	Due 12/15/2007
FY 2004	**4**			**709.0**	**200.0**	**29,850.5**	**30,759.5**	
IRS	2005-30-013	12/2/2005	Contractor provides more training to its personnel emphasizing unreasonable costs per the FAR and applicable supplements			135.0	135.0	Delayed to 12/15/2008. Additional time is needed to complete the pilot and evaluate the results.
IRS	2005-1c-175	9/29/2005	Contractor provides more training to its personnel emphasizing unreasonable costs per the FAR and applicable supplements	81.8			81.8	Due 9/15/2008
FY 2005	**2**			**81.8**		**135.0**	**216.8**	
BEP	OIG-06-010	12/2/2005	Full cost of BEP's Currency Operations is not reflected in its billing rates.			29,400.0	29,400.0	Due 3/1/2008
IRS	2006-10-126	8/25/2006	Develop methods for ensuring more timely deposits of Tax Exempt/Government Entities Division customer payments of $50,000 or more.			112.1	112.1	Due 1/15/2008

Table continued on next page ➤

Details of the Audit Reports on Which Management Decisions Were Made On or Before September 30, 2006, But Final Actions Have Not Been Taken as of September 30, 2007 (Dollars In Thousands)

Bureau	Report Number	Report Issue Date	Brief Description	Questioned Costs	Funds Put to Better Use	Revenue Enhance-ment	Total	Due Date/Reason for Delay
IRS	2006-1c-142	9/25/2006	The IRS Contracting Officer should use the results of the Defense Contract Auditing Agency (DCAA) report to fulfill his/her duties in awarding and administering contracts.	32,373.7			32,373.7	Due 8/15/2009
IRS	2006-1c-147	9/28/2006	The IRS Contracting Officer should use the results of the DCAA report to fulfill his/her duties in awarding and administering contracts	22.1			22.1	Due 9/15/2009
FY 2006	**4**			**32,395.8**		**29,512.1**	**61,907.9**	
TOTAL	**11**			**33,186.6**	**3,200.0**	**59,497.6**	**95,884.2**	

PLAN FOR FINANCIAL MANAGEMENT SYSTEMS FRAMEWORK

Overview

The Department of the Treasury's financial management systems structure consists of financial and mixed systems maintained by the Treasury bureaus and the Department-wide Financial Analysis and Reporting System (FARS). The bureau systems process and record the detailed financial transactions and submit summary-level information to FARS on a scheduled basis. FARS maintains the key financial data necessary for consolidated financial reporting. In addition, the FARS modules also maintain data on performance management and the status of audit-based corrective actions. Under this systems structure, the bureaus are able to maintain financial management systems that meet their specific business requirements. On a scheduled basis, the required financial and performance data is submitted to FARS to meet Departmental analysis and reporting requirements. The Department uses FARS to produce its periodic financial and performance reports as well as the annual Performance and Accountability Report. This structured financial systems environment enables Treasury to receive an unqualified audit opinion and supports its required financial management reporting and analysis requirements.

The FARS structure consists of the following components: bureau core and financial management systems that process and record detailed financial transactions; the Treasury Information Executive Repository (TIER) data warehouse; CFO Vision to produce monthly financial statements and analyze financial results; the Joint Audit Management Enterprise System (JAMES) to capture information on audit findings, recommendations and planned corrective actions; and the Performance Reporting System (PRS) to track the status of key performance measures. Bureaus submit summary-level financial data to TIER on a monthly basis, within three business days of the month-end. This data is then used by CFO Vision to generate financial statements and reports on both a Department-wide and bureau-level basis. This structure enables the Department to produce its monthly and audited annual financial statements. During fiscal year 2007, Treasury continued to upgrade its FARS applications to take advantage of improvements in system technology. This included a pilot roll-out of CFO Vision to several Treasury bureaus, which will provide them with direct system access for enhanced reporting capabilities.

Treasury continues with its plans to enhance the financial management systems structure. As of September 2007, the Department's inventory of financial management systems lists 64 financial and mixed systems compared to 69 in September 2006. As part of the Department's enhancement effort, twelve Treasury bureaus and reporting entities are cross-serviced for core financial systems by the Bureau of Public Debt's Administrative Resource Center (ARC). Cross-servicing enables these bureaus to have access to core financial systems without having to maintain the necessary technical and systems architectures. In addition, as part of the Department's implementation of the e-Travel initiative, bureaus have eliminated their legacy travel systems.

Continued Improvement

Treasury's target financial management systems structure will build upon the current FARS foundation. As processing and reporting requirements change and FARS is expanded to collect additional financial data, it may be necessary to implement additional applications to support these new requirements. FARS will provide management with the appropriate tools needed to analyze Department and bureau performance.

In fiscal year 2005, the IRS implemented the Integrated Financial System (IFS) as its new core financial system. IFS provides core financial accounting, budget management, cost management, labor projections, plan development, and reporting capabilities. The IRS received an unqualified audit opinion in the first year of IFS operation and continues to receive clean audit opinions. The Government Accountability Office (GAO) did not identify any significant deficiencies or material weaknesses related to the IFS system during its audit of the IRS's financial statements. In fiscal year 2008, the IRS will continue to focus on the operation and the maintenance of the IFS system.

The Custodial Detail Data Base (CDDB), implemented by the IRS in fiscal year 2006, serves as the subsidiary ledger for unpaid assessments and contains detailed transaction level data. CDDB supported the IRS's fiscal year 2006 financial audit by providing the ability to correctly classify portions of the duplication related to unpaid payroll taxes.

During fiscal year 2007, the IRS successfully completed a second phase of the CDDB project, implementing an interface between CDDB and the Interim Revenue Accounting and Control System (IRACS) data base for the posting of unpaid assessments. Once IRACS is redesigned and the data are posted to the new IRACS general ledger accounts, the IRS financial systems will be in substantial compliance with the Federal Financial Management Improvement Act (FFMIA).

The interface between CDDB and IRACS allowed the IRS to (a) post unpaid assessment data from CDDB using the same financial classifications that are used for the financial statements, (b) post duplicate and non-duplicate transactions related to unpaid payroll taxes, and (c) post related accrued penalty and interest figures for the first time. The IRS also completed the programming for CDDB Release 2B in June 2007. In November 2007, the IRS will begin posting revenue transactions to CDDB, which will serve as the revenue sub-ledger and maintain transaction level details. In fiscal year 2009, IRACS will be redesigned to serve as the financial system for custodial reporting to conform to the U.S. Government Standard General Ledger (USSGL) structure. The redesign will allow posting of amounts from CDDB as the sub-ledger to the proper general ledger accounts.

In fiscal year 2007, the IRS also delivered new filing capabilities for the Customer Account Data Engine (CADE), the replacement for the decades-old Master File legacy system. CADE posted over 11.2 million returns and issued 10.9 million refunds which totaled in excess of $11.6 billion. CADE will continue to increase the number of returns posted and refunds issued, while maintaining additional accounts in the CADE database.

As previously indicated, the Bureau of Public Debt's Administrative Resource Center cross-services twelve Treasury bureaus and reporting entities for core financial systems. In addition to the cross-servicing for core financial systems, Treasury bureaus are also being cross-serviced for other financial management services, such as electronic travel and human resource processing. This cross-servicing has resulted in a reduction in the number of financial management systems maintained by the Department.

Federal Financial Management Improvement Act (FFMIA) Compliance

As of September 30, 2007, the Treasury Department's financial management systems were not in substantial compliance with FFMIA due to deficiencies with the IRS's financial management systems. The IRS has a remediation plan in place to correct the deficiencies. For each FFMIA recommendation, the remediation plan identifies specific remedies, target dates, responsible officials, and resource estimates required for completion. This plan is reviewed and updated on a quarterly basis.

The Custodial Detail Data Base (CDDB) is a financial data warehouse that leverages existing legacy assets to address the critical financial material weaknesses reported by the Government Accountability Office (GAO). Release 1 of CDDB uses the files from the subsidiary ledger of unpaid assessments to support the annual financial statement audit.

In fiscal year 2007, the IRS implemented the interface to post unpaid assessments from the CDDB to the Interim Revenue Accounting and Control System (IRACS) database. The IRS also completed the programming to input revenue transactions to the CDDB warehouse to serve as the sub-ledger for revenue and providing transaction level details. CDDB incrementally builds to FFMIA compliance, and each CDDB future release addresses one or more of the material weaknesses in financial reporting. The IRS incorporated additional milestones for developing Releases 2 and 3 into its material weakness and FFMIA remediation action plans, and will continue to report on remediation activities related to future releases of CDDB. In fiscal year 2009, the IRACS will be redesigned to serve as the financial system for custodial reporting to conform to the U.S. Government Standard General Ledger (USSGL) structure. The redesign will allow posting of amounts from CDDB as the sub-ledger to the proper general ledger accounts. With full implementation of all CDDB releases and this redesign of IRACS, the IRS expects to be in substantial compliance with FFMIA.

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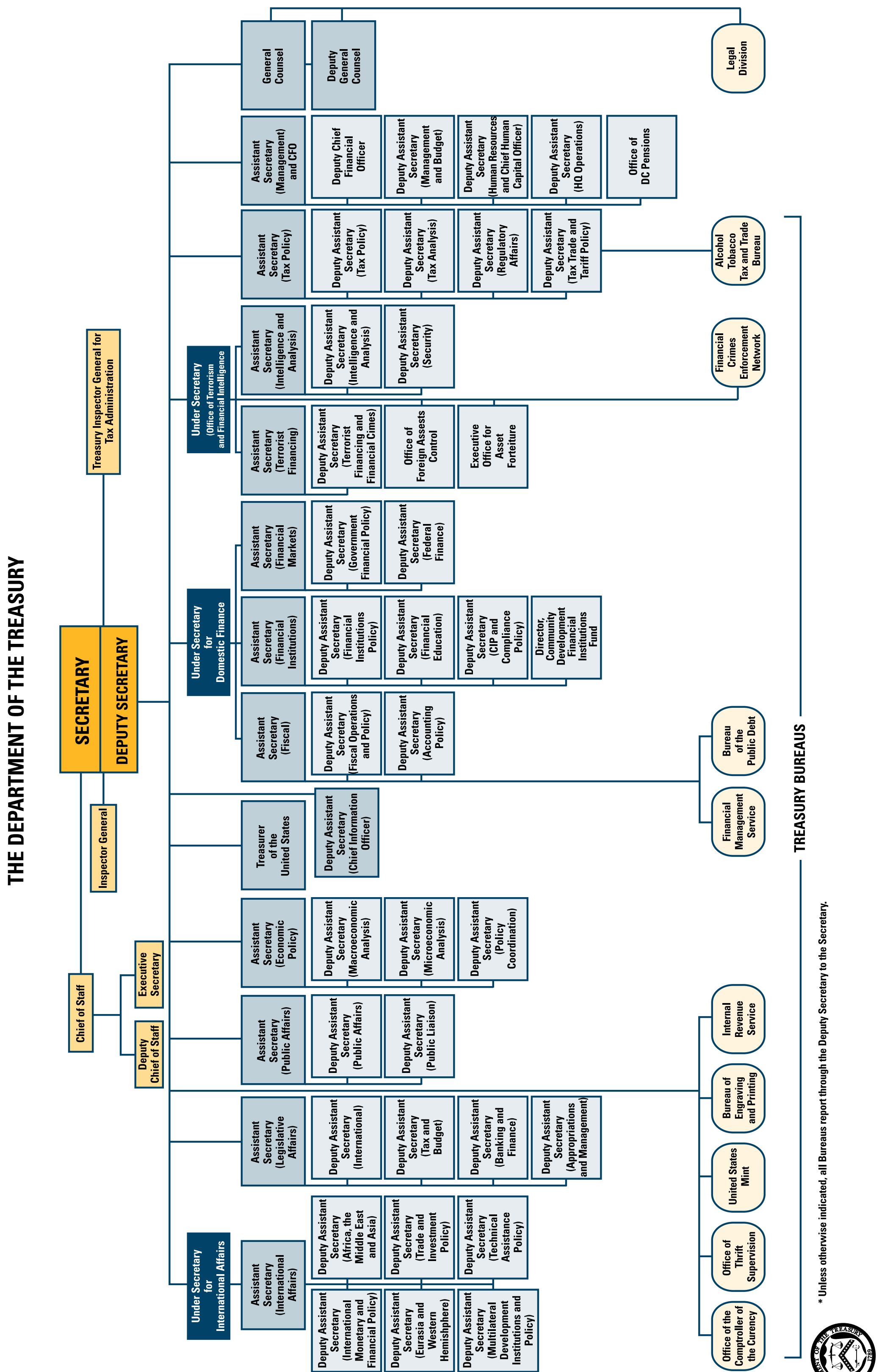
APPENDIX F:
ORGANIZATIONAL STRUCTURE



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Appendix G:
Program Assessment Rating Tool (PART) Evaluations

Departmental Office	FY PARTed: FY 2002
Program: Economic and Trade Sanctions - Office of Foreign Asset Control	
Rating: **Results Not Demonstrated**	

OMB Found:

- The program lacks long-term performance goals with specific targets.
- The program has not yet instituted annual performance goals to determine the effectiveness of its sanctions.
- The program is lacking unit cost measures.

In Response, DO:

- Developed a qualitative assessment on the impact of OFAC's sanctions programs. OFAC has conducted one qualitative assessment on the impact of economic sanctions against Colombian drug cartels, published in March 2007. This is a demonstrative, narrative report that identifies the policy purpose of sanctions against Colombian narcotics traffickers, how OFAC developed a program to address this policy, and it provides specific examples that are both indicative of how OFAC actions meet the purposes of the sanctions and their overall impact. OFAC intends to issue additional qualitative reports in this vein on other sanctions programs, including the possibility of issuing shorter reports that highlight accomplishments. OFAC has numerous sanctions programs, such as its Foreign Narcotics Kingpin program and WMD programs, which could be the subject of upcoming reports.

Internal Revenue Service	FY PARTed: FY 2002
Program: Earned Income Tax Credit	
Rating: **Ineffective**	

OMB Found:

- The program has failed to reduce EITC erroneous payments to acceptable levels. While IRS prevents roughly $1 billion in erroneous EITC payments per year, 27 to 32 percent of all EITC payments were still made in error for 1999. The magnitude of this error rate is the reason for the rating of "ineffective."
- IRS has a strong planning process closely linked to its budget process, but it has not yet used outcome information for this program to set performance targets that allow it to demonstrate results.
- IRS has made numerous management improvements in recent years. However, its financial management systems do not provide the information needed to make effective day to day management decisions.

In Response, IRS:

- Completed development of a new Concept of Operations, a multi-year vision that will drive development of expanded and new EITC Program strategic initiatives. Include a Paid Preparer strategy with goals of establishing indicators to define levels of preparer non-compliance and developing treatment alternatives that align treatment intensity with level of paid-preparers' behavior; and goal of establishing an outreach and education component which will leverage various partners. Measures will be developed once the specific solutions in our Concept of Operations are established. Since paid preparers prepare 70 percent of EITC returns, the Service plans to include compliance and outreach focus on them to influence EITC error.

Community Development Financial Institution	FY PARTed: FY 2002
Program: Bank Enterprise Award	
Rating: **Results Not Demonstrated**	

OMB Found:

- This program is unable to measure results because it can not determine how awardees would behave in the absence of the program.

In Response, CDFI is:

- Working with Congress to consolidate this program into a more efficient and effective federal program within the Department of Commerce and the Department of Housing and Urban Development.

Departmental Office	FY PARTed: FY 2002
Program: International Development Association	
Rating: **Adequate**	

OMB Found:

- The International Development Association is in the process of improving its performance measurement and performance-based budget allocations. In the latest donor negotiation, the World Bank and its donors agreed to significantly expand and improve the result measurement framework to increase the Association's effectiveness in achieving key development results in areas such as education.
- The latest donor negotiation agreed to implement reforms to significantly improve the ability of the poorest countries to handle their debts. In particular, the International Development Association will increase the share of funding for grants for the most debt-vulnerable countries to roughly 30 percent, making progress towards the President's goal of 50 percent.
- The International Development Association is improving transparency and access to its information. The United States helped secure significant improvements by insisting on a review of the World Bank's internal financial controls and the disclosure of individual country's performance scores under the International Development Association's new performance measurement system.

In Response, DO is:

- In fiscal year2006, Congress authorized U.S. contributions of $950.0 million per year from 2006 to 2008 to institute reforms agreed to for the fourteenth replenishment to the International Development Association (IDA). For fiscal year2006 and fiscal year2007 Congress did not fully fund the President's request, appropriating $940.5 million and $909.150 million respectively. Presently, U.S. arrears to IDA as of end-fiscal year2007 total $377.9 million. For fiscal year2008, the President's budget request included $950.0 million for the U.S. annual commitment and $110 million to pay a part of U.S. arrears to IDA.
- Due to U.S. efforts, the development of the IDA14 Results Measurement System (RMS) was a major development in the broader effort to improve IDA's effectiveness and track the impact of its resources. By most institutional measures, the quality of IDA's programs and achieved development impact, has improved over the past several years, while the U.S. continues to push for further progress. The IDA14 RMS data is updated by replenishment, a three-year cycle, and the next update will be in November, 2007.
- The World Bank, working in collaboration with the IMF, recently developed a robust framework for annual monitoring of debt levels and debt sustainability for grant as well as debt relief recipients. This debt sustainability framework is being used to determine the grant level of IDA individual country allocations with 100 percent grant financing for the poorest and most debt distressed countries. IDA is also working to increase the technical assistance it provides for debt capacity management.

Office of Thrift Supervision | **FY PARTed: FY 2002**

Program: Thrift Supervision

Rating: **Effective**

OMB Found:

- The program contributes to the safety and soundness of the banking industry.
- The program recently developed new goals that are outcome-oriented and program measurements which are clear and the program is efficiently and effectively managed.
- The program is not unique because other Federal agencies perform similar types of regulatory functions in the banking industry.

In Response, OTS is:

- Working with Federal banking regulatory agencies to align outcome goals and related measures to allow for greater comparison of program performance in the industry.
- Conducting comprehensive examination for both Safety and Soundness and Compliance instead of two separate examinations and providing one consolidated report of examination to institutions.
- Examining long-term systemic risks in the industry.

Internal Revenue Service | **FY PARTed: FY 2002**

Program: Tax Collection

Rating: **Results Not Demonstrated**

OMB Found:

- IRS collection of unpaid taxes yields substantial revenue ($18 billion in 2001). However, IRS does not work enough collection cases with its current resources, work processes and technology to ensure fair tax enforcement. Each year billions of dollars of unpaid taxes goes uncollected.
- IRS has been working to make management improvements in the last several years, including implementing good output measures. However, its financial management systems do not provide the information needed to make effective day to day management decisions.
- IRS has a strong planning process closely linked to its budget process. IRS is currently developing improved collection outcome measures and goals.

In Response, IRS is:

- Implementing new tools in 2007 to segment collection workload according to risk to ensure IRS takes the right action to secure delinquent taxes.
- Implementing legislation - including strong taxpayer rights protections - allowing IRS to hire private collection agents to help secure delinquent tax debt (full implementation by January 2008).
- Reviewing the effectiveness of the revised collection performance measures of workload coverage and efficiency. Information from these measures will be used in the development of the 2008 budget.

U.S. Mint **FY PARTed: FY 2002**

Program: Coin Production

Rating: **Effective**

OMB Found:

- The Mint has established performance measures focused on customer satisfaction and improving cost efficiencies. For instance, the Mint reports the results of a Federal Reserve Board Customer Satisfaction survey.
- The Mint needs to improve customer satisfaction survey scores.
- The Mint has shown some efficiency improvements in achieving reduced manufacturing costs. The Mint has achieved a 19 percent reduction in manufacturing costs since 1997.

In Response, Mint is:

- Reducing the maintenance down time of coin manufacturing machinery.
- Competing customer service and order mailing staff to determine if contractors could handle these functions more efficiently.
- Establishing a performance target to reduce the time required to process raw materials into produce coins.

Alcohol & Tobacco Tax and Trade Bureau **FY PARTed: FY 2002**

Program: Consumer Product Safety Commission

Rating: **Adequate**

OMB Found:

- The program has a clear and unique Federal role as the only Federal agency with the authority to identify and address risks posed by over 15,000 types of consumer products.
- Long-term goals and annual performance measures are concrete, measurable, and directly support the agency's mission. CPSC is on track to achieve its long-term performance goal of a 20 percent reduction in the death rate from fires involving consumer products by 2013. Annual performance measures were revised to better indicate performance.
- CPSC recently improved its management practices by developing a better way to systematically review its current regulations.

In Response, TTB is:

- Establishing broader, more comprehensive long-term goals consistent with CPSC's overall mission.
- Ensuring budget requests are explicitly tied to the accomplishment of annual and long-term performance goals, and that resource needs are presented clearly in the budget.

Office of the Comptroller of the Currency **FY PARTed: FY 2002**

Program: Bank Supervision

Rating: **Effective**

OMB Found:

- The program contributes to the safety and soundness of the banking industry.
- The program goals are outcome-oriented, program measurements are clear, and the program is efficiently and effectively managed.
- The program is not unique in that other Federal agencies perform similar types of regulatory functions in the banking industry.

In Response, OCC is:

- Developing common measures of performance for the Federal banking regulatory agencies so each program's performance can be compared and best practices can be shared.

Departmental Office — **FY PARTed: FY 2003**

Program: Office of Technical Assistance

Rating: **Adequate**

OMB Found:

- Independent evaluations have not assessed the program's effectiveness. State and Treasury Inspectors General and the Government Accountability Office have reviewed aspects of the program, but none has evaluated effectiveness in advising foreign governments.
- Budget requests are not explicitly tied to accomplishment of goals such as increases in annual per capita income, and resource needs are not presented in a complete and transparent manner in the program's budget.
- The program does not routinely measure and achieve efficiencies in program execution. The program lacks efficiency measures to compare relative costs.

In Response, DO is:

- Implementing the Project Management Tracking System.
- Developing long-term and annual measures and targets.

Departmental Office — **FY PARTed: FY 2003**

Program: African Development Fund

Rating: **Results Not Demonstrated**

OMB Found:

- The African Development Fund is starting to improve its performance measurement and use of performance-based funding allocations. In the latest donor negotiation, the Fund and donors agreed to implement better results measurement for key development goals, such as education, and reconfirmed the allocation of funding towards better-performing countries, but more remains to be done.
- In the negotiations, the Fund and donors agreed to reforms to improve the ability of the poorest countries to handle their debts. In particular, they agreed that grants to assist the poorest countries will be expanded based on countries' debt vulnerability. Grants are expected to rise to more than one-third of the Fund's assistance.
- Accountability and transparency require additional improvements. The Bank Group has established a new anti-corruption and fraud unit and improved internal financial controls. The Bank Group is also expanding public access to its documents but more remains to be done.

In Response, DO is:

- Working with Congress to secure $136 million annually for the period 2006 to 2008 to fund the U.S. commitment to the latest African Development Fund replenishment.
- Monitoring the Fund's effectiveness in achieving its development objectives, including its progress in measuring and meeting development objectives across-the-board.
- Working with Fund and other donors to improve the ability of developing countries to handle their debt, including providing grants to the most debt-vulnerable countries using the Fund.

Bureau of Engraving and Printing **FY PARTed: FY 2003**

Program: New Currency Manufacturing

Rating: **Effective**

OMB Found:

- The program's New Currency program has a clear purpose, is well planned, and is managed effectively.
- The program met the initial production and timeline goals of its New Currency program with the rollout of the new twenty dollar bill in 2003.
- The program has adequate long-term targets and timeframes, including planned rollouts of counterfeit deterrent features for use in future generation notes through the next 7 to 10 years.

In Response, BEP is:

- Working closely with the Advanced Counterfeit Deterrent Steering Committee to identify and evaluate future counterfeit deterrent designs.
- Continuing to work with the Advanced Counterfeit Deterrent Steering Committee to assess the impact of New Currency on counterfeiting performance measures across government.
- Monitoring its design and overhead costs related to the manufacture of New Currency to ensure the most efficient production and distribution of future denominations.

Financial Management Services **FY PARTed: FY 2003**

Program: Debt Collection

Rating: **Effective**

OMB Found:

- The program has a clear purpose, is well designed, well managed, and generally meets or exceeds its annual performance targets. In 2005, the program collected $3.25 billion in delinquent debts owed to Federal agencies and States, up from $2.84 billion in 2002.
- The program has the potential to collect additional delinquent debt. Its effective performance indicates that it is capable of taking on additional debt collection activities. Legislation to increase and enhance debt collection opportunities should be sought.

In Response, FMS is:

- Establishing annual performance measures for collections and referrals of debt by agencies. Listed are examples of collection tools and initiatives used by FMS to achieve long-term measures: 1) Administrative Wage Garnishment (AWG), 2) DebtCheck, 3) Continuous Agency Outreach 4) President's Management Agenda (PMA), 5) Receivables Reporting
- Examining, through the Federal Contractor Tax Compliance Task Force consisting of FMS, IRS, and the Center for Medicare and Medicaid Services, the issue of how best to incorporate CMS payments to Medicare providers into the Federal Payment Levy Program.
- Fully funding FMS' Debt Collection Budget Activity by fee revenues in fiscal year 2008, as a result of increased debt revenues.
- Supporting numerous legislative proposals enabling them to significantly enhance their debt collection opportunities. Listed are some of the debt collection enhancement proposals for 2007-08: 1) (26 U.S.C. 6402) Offsets of past-due, legally enforceable state unemployment compensation debts against overpayment; this proposal will allow FMS to offset federal tax refunds to collect past-due state unemployment compensation debts. This proposal is contained in President's fiscal year 2008 Budget and Briefed Senate finance 4/13/07. 2) (21 U.S.C. 3716) Eliminate the Ten-year period of Offset. This proposal will eliminate the ten-year limitation on the collection of delinquent non-tax deferral debts by administrative offset. This proposal is contained in President's fiscal year 2008 Budget and Briefed Senate Finance 4/13/07. 3) Allow the IRS to issue its due process notice for levy after the levy has been served. Contained in President's fiscal year 2008 Budget. Briefed Senate Finance 4/13/07.Under consideration for inclusion in Senate Finance Committee "Good Government" bill. 4) Allow the offset of federal tax refunds for delinquent state tax for out-of-state residents. This will allow FMS to offset federal income tax refunds for delinquent state tax debt of residents who currently reside in a different state. Under consideration for inclusion in Senate Finance "Good Government" bill.
- Evaluating and updating the debt long-term measure as part of FMS' Strategic Plan update. For 2007, FMS has a target of $3.2 billion in collections.

Bureau of Public Debt	FY PARTed: FY 2003

Program: Administering the Public Debt

Rating: **Effective**

OMB Found:

- The Bureau of the Public Debt has a clear purpose and is well designed and managed.
- The program meets it annual performance goals and continues to improve targets for subsequent fiscal years.
- The program lacks long-term performance measures and targets.

In Response, BPD:

- Created goals for the following programs: Wholesale Securities Services, Government Agency Investment Services, and Summary Debt Accounting programs.
- Plans to develop a new long-term PART goal for its Retail Securities program by the end of fiscal year 2010.

Financial Management Services	FY PARTed: FY 2004

Program: Collections

Rating: **Effective**

OMB Found:

- The program has a clear purpose, is well designed, well managed, and generally meets or exceeds its annual performance targets. In 2005, the program collected $3.25 billion in delinquent debts owed to Federal agencies and States, up from $2.84 billion in 2002.
- The program has the potential to collect additional delinquent debt. Its effective performance indicates that it is capable of taking on additional debt collection activities. Legislation to increase and enhance debt collection opportunities should be sought.

In Response, FMS is:

- Has initiated a comprehensive effort to streamline, modernize and improve the processes and systems supporting Treasury's collections and cash management program. This effort will improve financial performance by enabling FMS and government agencies to more effectively manage financial transaction information and improve the efficiency of the collections information reporting processes.
- Partnered with the State of Illinois to pilot joint Federal and state tax payments through the Electronic Federal Tax Payment System (EFTPS). An evaluation is underway to determine whether this pilot can be expanded cost-effectively to additional states. For Fiscal Year 2007, EFTPS processed more than 90 million payments, an increase of 8 percent, over fiscal year 2006; and collected more than $2.09 trillion, representing an increase in receipts of over 8 percent from last year.
- Will continue to promote its other electronic collection mechanisms such as: 1) Electronic Check Processing (ECP) System which converts paper checks received at a lockbox to electronic debits or truncates the checks and processes the images via Check 21. All non-tax lockbox collections will be collected through ECP by the end of 2007 and we expect to convert tax lockbox collections by the end of 2009; 2) Pay.gov collects money for 99 Federal agencies. FMS will be working with a number of Federal agencies, including the Departments of Housing and Urban Development and Education to move their large cash flows to Pay.gov; 3) The Paper Check Conversion Over the Counter (PCC OTC) System converts paper checks to electronic debits or truncates the checks and processes the images via Check 21. PCC OTC supports 32 Federal agencies in the U.S. and overseas; 4) TGAnet, a web-based deposit reporting system for over-the-counter collections, is now capable of supporting activity for both domestic and international deposits. FMS will continue to convert more agencies and banks to TGAnet over the next few years.
- Will operate within budgetary resources.

U.S. Mint **FY PARTed: FY 2004**

Program: Numismatic

Rating**: Effective**

OMB Found:

- The program has made enormous strides over the past several years to streamline the production of numismatic products. Between 1999 and 2003, the Mint reduced costs by 38 percent and reduced workforce by 50 percent. During that same time period, production levels increased by 46 percent.
- The Mint has an excellent internal management structure that is able to receive and analyze real-time financial, production, and other operating data on a daily basis. This enables the Mint to respond quickly to changing production and customer
- The Mint is making significant progress toward meeting its inventory turnover target of 4.2 in 2005, which reflects the number of times per year the Mint works through its inventory. This measure improved 27 percent from 1.96 in 2003 to 2.48 in 2004. By improving performance, the Mint reduces costs associated with inventory and the production planning process runs more efficiently.

In Response, Mint is:

- Continuing substantial progress toward reaching the Mint's target goal for inventory turnover.
- Continuing to streamline the production of numismatic products in order to reduce costs to improve efficiency.

Internal Revenue Service **FY PARTed: FY 2004**

Program: Taxpayer Advocate Service

Rating**: Moderately Effective**

OMB Found:

- The quality of the Advocate's case work on behalf of taxpayers has improved from 71 percent with quality standards in 2001 to 90.5 percent in 2004.
- Taxpayer hardship cases caused by flaws in IRS' business processes have declined from 217,081 in 2001 to 129,382 in 2004 as the Advocate has worked with IRS program managers to improve processes.
- During the assessment, the program set goals and developed an efficiency measure. These include achieving a 100 percent closure-to-receipts ratio through 2010, 95 percent case quality score by 2009, and 4.53 (out of 5) customer satisfaction score by 2009. Efficiency is measured by counting the reduction in the quantity of taxpayer problems resulting from flaws in IRS' business processes.

In Response, IRS is:

- Developing a unit cost measure for its casework by 2006 (delayed to 2008).
- Exploring other means to measure its effectiveness in solving systemic problems leading to taxpayer hardship. IRS will report its findings in 2006 for possible inclusion in its fiscal year 2008 Budget.
- Improving case quality to 91.5 percent by 2006, 93 percent by 2009, and 95 percent by 2014.

Departmental Office	FY PARTed: FY 2004

Program: Global Environment Facility

Rating: Results Not Demonstrated

OMB Found:

- The Global Environment Facility has been very slow to implement the reforms agreed to in 2002 as part of the last donor negotiation, the GEF-3 replenishment. Several of those reforms are incomplete, such as some performance related reforms. Several of these issues remain part of the current negotiations begun in 2005 to replenish the Facility's funding.
- The Facility has not yet fully instituted key performance improvements. For example, the Facility has not fully instituted improvements in the measurement of environmental results and implementation of a system to prioritize the allocation of its funding based on country performance and environmental benefit.
- The Facility lacks strong anti-corruption mechanisms. These include, for example, setting high standards, independent audit functions, financial disclosure and codes of ethics, obtaining clean annual external financial audits, and implementing procurement based on best practices.

In Response, DO is:

- Working with the Facility donors to fully implement a performance-based funding allocation system based on relative country performance and environmental benefit. (In 2005, the GEF agreed to a performance-based allocation framework. It is now operational for two-thirds of GEF resources).
- Working with the Facility and donors to establish ambitious long-term performance goals and measures and undertaking more rigorous evaluations of project performance. (The GEF-4 Replenishment agreement includes ambitious performance goals and measures, and in 2007, the GEF instituted a performance measurement framework. The GEF Evaluation Office has enhanced the quality of project evaluation. The GEF Evaluation Office has enhanced the quality of project evaluation).
- Working with the Facility and donors to strengthen anti-corruption mechanism, including establishing high fiduciary standards and achieving clean annual audits from independent external auditors. (In June 2007, the GEF established minimum fiduciary standards, consistent with best international practice, for all agencies that receive GEF funding).

Internal Revenue Service	FY PARTed: FY 2004

Program: Taxpayer Service

Rating: Adequate

OMB Found:

- IRS has significantly improved taxpayer service and maintained high levels of customer satisfaction in recent years. In 2001, the IRS was able to answer only 62 percent of taxpayer calls. In 2005, IRS had improved this to 83 percent with a 94 percent customer satisfaction rate.
- IRS continues to have trouble with the accuracy of answers. In 2004, IRS estimates only 80 percent of tax law calls were answered accurately (improved to 89 percent in 2005). Accuracy is a significant challenge given the complexity of the tax code.
- IRS has developed a strong set of balanced measures (quality, customer satisfaction and results) to understand its taxpayer service performance. During the assessment, the IRS added an efficiency measure (customer contacts per staff year) for this program.

In Response, IRS is:

- Converting to cost based efficiency measures for the 2007 budget (e.g., cost per call answered) and adding efficiency measures for service processes for management. (Delayed until 2008)
- Improving the accuracy of tax law telephone information provided to taxpayers to 90 percent accuracy by 2010.
- Improving program performance by researching the impact of taxpayer service programs on voluntary compliance and reporting findings by 2007. (Delayed until 2008)

Community Development Financial Institution — **FY PARTed: FY 2004**

Program: Financial and Technical Assistance

Rating**: Adequate**

OMB Found:

- This program duplicates several Federal, state and private community and economic efforts.
- The program has long-term and annual performance measures but has not the opportunity to demonstrate success in accomplishing its long-term goals.

In Response, CDFI is:

- Not taking any action because fewer than ten states administer CDFI programs and none of these state programs fully meet the capital needs of the CDFIs in its state. Furthermore, there are too few private sector equity investments available to meet CDFIs needs for capital.

Community Development Financial Institution — **FY PARTed: FY 2004**

Program: New Markets Tax Credit

Rating**: Adequate**

OMB Found:

- The program has established meaningful long-term and annual performance measures.
- The program needs to measure progress towards achievement of its goals.

In Response, CDFI is:

- Establishing and refining baselines and targets for its long-term and annual measures.
- Conducting an independent evaluation of the program in 2006.

Departmental Office — **FY PARTed: FY 2005**

Program: Asian Development Fund

Rating**: Results Not Demonstrated**

OMB Found:

- The Fund recently agreed to improve its performance measurement and performance-based allocations. In the latest donor negotiations, the AsDF-9 replenishment, the Fund and donors adopted several important reforms to improve performance and to implement results measurement, including launching the Managing for Results action plan. These reforms remain to be implemented and expanded in the future.
- AsDF-9 agreed to reforms to improve the ability of the poorest countries to handle their debts. In particular, it established a new program to give 30 percent of funding in the form of grants to these countries. These reforms remain to be implemented.
- Transparency and accountability in the Bank Group are improving. AsDF-9 requires more transparency through improved information disclosure and communication policies. The Bank Group's anti-corruption and auditing procedures require improvements.

In Response, DO is:

- Working with Congress to secure $115 million annually for the period 2006 to 2009 to fund the U.S. commitment to the latest Asian Development Fund replenishment (AsDF-9).
- Monitoring the Fund's improvements and implementation of measures to show its effectiveness in achieving development goals, including its progress in meeting development objectives across-the board.
- Working with Fund and other donors to improve the ability of developing countries to handle their debt, including increasing the amount of grants for the most debt-vulnerable Asian countries.

Financial Crimes Enforcement Network (FinCEN)	FY PARTed: FY 2005
Program: Bank Secrecy Act (BSA) Data, Collection, Retrieval and Sharing	
Rating: **Moderately Effective**	

OMB Found:

- The program has long-term performance measures that focus on the program's purpose and strategic goals, but more work is needed to measure the quality of data collected. The program is looking at how to measure data quality.
- Federal managers are held accountable for cost, schedule and performance results. However, some activities are managed by another entity and are outside the scope of the performance measures.
- The program can show improved efficiencies and cost effectiveness for collecting and sharing data. The program has been able to show substantial increases in the number of users directly accessing data, the share of filings submitted electronically, and improved cost effectiveness for costs per form e-Filed.

In Response, FinCEN is:

- Reducing filing burden on the financial community, including streamlining reporting obligations and increasing feedback and notices to filers.
- Working with stakeholders to identify additional steps on how to increase efficiency in completing and filing required reports.
- Implementing the BSA Data Management framework to increase the quality of BSA data and review progress of this implementation to identify ways to simplify or improve the process.
- Implementing a minimum of two releases of system changes to address between 20-25 percent of prioritized issues.

Internal Revenue Service	FY PARTed: FY 2005
Program: Criminal Investigations	
Rating: **Moderately Effective**	

OMB Found:

- The tax gap, the difference for a given year between taxes legally owed and taxes actually paid, for 2001 (latest available figure) is estimated to be between $312 and $353 billion. Criminal Investigation is one of the major IRS programs intended to minimize this revenue loss.
- Research suggests that higher levels of criminal sentences lead to higher tax compliance. IRS has succeeded in raising convictions in recent years. They rose from 1,926 in 2002 to 2,215 in 2005. However, they remain low by historical standards (in 1996 convictions totaled 2,915).
- IRS has set long term goals and efficiency measures. However, it has difficulty measuring compliance in a timely manner due to the complexity and expense involved and in holding employees accountable for performance due to legal restrictions.

In Response, IRS is:

- Exploring methods for measuring the impact of criminal investigations on tax compliance. IRS will report on its progress by the end of 2006.
- Implementing a new information management system in 2006 to enhance investigative case tracking and improve efficiency.
- Developing methods to improve case prioritization in 2006 to ensure that cases yield the greatest impact on compliance.

Internal Revenue Service — **FY PARTed: FY 2005**

Program: Examinations

Rating: **Moderately Effective**

OMB Found:

- The tax gap, the difference for a given year between taxes legally owed and taxes actually paid, for 2001 (latest available figure) is estimated to be between $312 and $353 billion. Examination is one of the major IRS programs intended to minimize this revenue loss.
- After dropping substantially in the late 1990s, IRS' audit rates have begun to rise and will continue to increase, largely through productivity growth. IRS' audit rate has grown from a low of 1.49 percent (i.e., less than two returns in one hundred audited) in 2001 to 3.09 percent in 2005.
- IRS has set long term goals and efficiency measures. However, it has difficulty measuring compliance in a timely manner due to the complexity and expense involved and in holding employees accountable for performance due to legal restrictions. It also needs cost based efficiency measures.

In Response, IRS is:

- Researching tax compliance of S-corporations (a popular business form where profits are taxed only once passed through to the owners) based on a statistically valid sample of the filing population.
- Improving tools for selecting the most productive audit cases by 2007 using the detailed compliance information gathered in the recent individual tax gap study.
- Introducing cost based efficiency measures by 2008 (e.g., enforcement revenue/program budget).

Internal Revenue Service — **FY PARTed: FY 2005**

Program: Submission Processing

Rating: **Moderately Effective**

OMB Found:

- More Americans are electronically filing their taxes. Electronic filing is growing more than 10 percent per year. However, this growth is not sufficient for IRS to meet the legislative goal of 80 percent electronic filing by 2007. Congress has not yet acted on the Administration's proposals to accelerate the increase in electronic filing.
- Every return converted from paper to electronic filing saves the IRS $2.15 in processing costs. More importantly, electronically filed returns have a less than one percent error rate compared to five percent for paper filed returns, saving taxpayers time and money. Finally, according to the annual American Customer Satisfaction Results report electronic filers have high satisfaction rates.
- Based on IRS' recently completed tax gap study, approximately 13 percent of refund dollars (excluding earned income tax credit refunds) are paid in error. With current third party reporting and technology, IRS is unable to identify and prevent these errors during processing.

In Response, IRS is:

- Seeking legislative changes to promote electronic filing, including greater authority to require electronically-filed returns.
- Setting goals by 2007 for reduced taxpayer filing burden resulting from the time and expense of preparing and filing their returns.
- Using a single cost based efficiency measure by 2008 (cost per return processed).

U.S. Mint — **FY PARTed: FY 2005**

Program: Protection Program

Rating: **Effective**

OMB Found:

- The Mint has developed adequate long-term performance measures with ambitious targets and timeframes. The Mint's target for total losses is $250,000 in 2005 and $0 in 2010.
- Mint's Protection program has a clear purpose, is well planned, and managed effectively. However, it is somewhat duplicative of other Federal efforts aimed at protecting money, such as the Bureau of Engraving and Printing, and the Federal Reserve Police forces.
- The Mint regularly achieves its annual performance goals and works with other law enforcement partners to assess threat levels and assist in achieving future goals. The Mint is a participant in the multi-agency Counter-Terrorism Program.

In Response, Mint is:

- Continuing to assess and implement ways in which the cost of protection per square foot can be minimized.
- Continuing to improve employee confidence in the United States Mint protection program.

Alcohol & Tobacco Tax and Trade Bureau — **FY PARTed: FY 2005**

Program: Collect the Revenue

Rating: **Effective**

OMB Found:

- The "Collect the Revenue" program has a clear purpose and is well designed to achieve its goals. TTB administers and ensures compliance with portions of the Internal Revenue Code dealing with collection of excise taxes on alcohol, tobacco, firearms and ammunitions and regulation of those manufacturers.
- The program has developed adequate long-term performance measures with ambitious targets and timeframes. TTB measures the percent of voluntary compliance in filing tax payments and will increase this target from 82 percent in 2004 to 92 percent in 2010.
- The program has not developed adequate baselines for its annual performance measures. Three out of the four annual measures do not have baselines.

In Response, TTB is:

- Collaborating with other state and federal agencies to increase education outreach to regulated taxpayers, to increase voluntary compliance in filing tax payments.
- Simplifying tax forms in order to reduce taxpayer burden.

Financial Management Services **FY PARTed: FY 2005**

Program: FMS Payments

Rating**: Effective**

OMB Found:

- The assessment found that the program has a clear purpose, is well managed, and generally meets its annual performance targets. In 2005, the Program issued 100 percent of payments accurately and on time, and 76 percent of these payments were made electronically (approximately 725 million of the 952 million total payments).
- The program must continue its effort towards an all-electronic Treasury. Each payment transaction that occurs electronically saves the taxpayer about 75 cents and is more secure for the recipient.

In Response, FMS is:

- Working with federal agencies to reduce the number of paper check payments and increasing the number of more efficient and secure electronic payments. This reflects FMS' efforts to work toward its 2010 goal of 90 percent of all payments made electronically.
- Continuing to promote its electronic payment mechanisms such as Stored Value Card (SVC), a smartcard, similar to a credit/debit card, using an encrypted computer chip to process "electronic money" stored on the card and the Internet Payment Platform (IPP) which provides a centralized electronic invoicing and payment information portal accessible to all participants in federal payment transactions: agencies, payment recipients, and FMS.
- Implementing Go Direct, a nationwide campaign to encourage current Federal check recipients to switch to direct deposit. Go Direct has converted one million check recipients to direct deposit since its inception.
- Implementing a pilot program, Direct Express, this is targeted at the un-banked, to disburse benefit payments through debit cards.
- Developing plans entitled Universal Direct Deposit which will require at some future date, which all newly enrolled beneficiaries receive payments electronically unless they do not have a bank account.

Bureau of Engraving and Printing **FY PARTed: FY 2006**

Program: Protection and Accountability

Rating**: Effective**

OMB Found:

- This program is on track to reduce security costs by 43 percent from 2006 to 2012. To do so, this program contracts with the private sector, provides an incentive program to employees exceeding aggressive performance standards, and has implemented a suggestion program that awards employees with a share of cost savings. From 2004 to 2006, BEP has saved over $1.3 million implementing employee suggestions.
- This program maintains high consistency and reliability standards, demonstrated by its ISO 9001 certification. ISO is an internationally recognized quality assurance program.
- Guarding against theft is a priority of this program. However, since 2003 the Bureau reported two incidents of theft. After each incident the program requested independent security professionals to conduct threat assessments of facilities and processes. The program has been highly responsive to deficiencies found during these evaluations and has worked to implement all recommendations.

In Response, BEP is:

- Performing in-depth, annual assessments of the program's security and accountability by an internal group not associated with the program. In addition, performing in-depth assessments of the program's security and accountability by contracting with an outside group on a 2- to 3-year cycle. BEP continues to ensure the accountability of product and the safeguarding of innovative counterfeit-deterrent technologies through stringent testing oversight, physical inventories; unannounced compliance reviews, and independent audits of the quality management system which directly impacts security and accountability monitoring.
- Ensuring that proper accountability and security features are identified and addressed during each stage of acquisition and instillation of new equipment. The BEP's Internal Control Policy Committee have developed policies to ensure that from concept, through solicitation to factory inspection and Bureau acceptance of new production equipment, accountability and security personnel are directly involved to ensure that proper accountability and security features are identified and addressed during each stage of acquisition and installation. In addition, if space is being reconfigured for production processes, the Office of Security provides clearance to ensure proper camera coverage and two-person compliance.
- Updating and revising its strategic plan, focusing on enhancing the Protection and Accountability program.

Financial Crimes Enforcement Network	FY PARTed: FY 2006
Program: Bank Secrecy Act Administration	
Rating: **Results Not Demonstrated**	

OMB Found:

- The program has no long-term performance measures or targets to indicate accomplishment of its mission, but it has annual performance goals. The annual performance goals focus on BSA implementation.
- Questions have been raised concerning compliance and burden issues relating to the regulations that the Financial Crimes Enforcement Network (FinCEN) issues. FinCEN is currently performing a cost-benefit analysis, including a review of the regulatory burden, of a contemplated cross-border wire transfer reporting system.
- Although FinCEN has made progress in executing memoranda of understanding governing the exchange of information with federal and state regulatory agencies, additional time is needed to ensure BSA compliance in more vulnerable industries, particularly money services businesses. The indicators developed will be long-term, outcome measures for the program.

In Response, FinCEN is:

- Expanding outreach efforts to certain targeted industries to augment their understanding of the value of BSA data. The FinCEN has developed a BSA value presentation for standard outreach presentations and training sessions targeted toward depository institutions presented by the FinCEN. In fiscal year 2008, the FinCEN will continue including the BSA value presentation in standard outreach presentations, with a focus on expanding use of presentations to involve other covered industries
- Developing a long-range plan to expand compliance oversight and reporting by state regulators for newly covered industries. FinCEN is currently in discussions with the IRS, the federal banking agencies, and state regulatory agencies and their associations to develop a long-range plan for compliance oversight over the money services business industry
- Developing measures to assess the impact of program activities on preventing the misuse of the financial system by those engaged in illicit activities. By the end of fiscal year 2007, the FinCEN will review options with management for possible measures
- Meeting with staff from the Office of Information and Regulatory Policy and OMB to discuss the tools and methods they employ when making cost/benefit decisions related to regulations.

Financial Management Services	FY PARTed: FY 2006
Program: Government-wide Accounting and Reporting	
Rating**: Moderately Effective**	

OMB Found:

- The program has a clear purpose, is well managed, and meets or exceeds its current performance targets. In 2006, 100 percent of Government-wide accounting reports were issued accurately and on time.
- The program must develop a baseline for its efficiency performance measure. While FMS has unit cost, timeliness, and accuracy measures in its internal and external performance reporting that are used to manage for improved efficiency, at the time of this PART evaluation, a baseline for the new unit cost measure had yet not been established.
- More work needs to be done in order to achieve a clean opinion on the Financial Report of the U.S. Government. Improvement is needed on material weaknesses in the areas of accounting data compilation/consolidation and reconciliation of intra-governmental reporting differences.

In Response, FMS is:

- Developing a baseline for the efficiency performance measure that measures the unit cost to manage one million dollars of cash flow.
- Modernizing long standing federal accounting processes, through two major initiatives, and providing agencies with methodologies and tools to improve the accuracy and consistency of their financial data: 1) The Government-wide Accounting (GWA) Modernization project which will replace existing government-wide accounting functions and processes. This project will improve the reliability, usefulness, and timeliness of the government's financial information, provide agencies and other users with better access to that information, and will eliminate duplicate reporting and reconciliation burdens by agencies, resulting in significant government-wide savings. It will also improve the budgetary information being collected from the agencies at the transaction level. 2) The Financial Information and Reporting Standardization (FIRST) initiative integrates budget and financial reports from Federal Program Agencies. FIRST will improve the consistency of the budgetary and proprietary accounting data recorded in agency financial statements and reported to FMS through its trial balance.
- Taking the following actions to address un-reconciled intergovernmental transactions: 1) Requiring comprehensive intergovernmental accounting data from agencies on a quarterly basis that will allow FMS to provide data to all federal agencies for them to better analyze and reconcile intergovernmental differences. 2) Working with the CFO Council and OMB to enforce the business rules for intra-governmental transactions and to organize the Dispute Resolution Committee. 3) Encouraging greater auditor participation by requiring agency auditors to more closely scrutinize intergovernmental out-of-balance conditions with other agencies. 4) Moving forward on the FIRST initiative which is being designed to provide authoritative information contained in Treasury's central accounting system to the agencies to facilitate the reconciliation process for specific intra-governmental transactions.

Financial Crimes Enforcement Network **FY PARTed: FY 2006**

Program: Bank Secrecy Act Analysis

Rating**: Adequate**

OMB Found:

- While the program has long-term performance measures in place, more time is needed to gauge the usefulness and impact of the program's analysis activities.
- FinCEN currently administers a survey to its customers to evaluate the impact and usefulness of its analytic reports, but more work is needed to develop a method for better assessing the law enforcement impact of FinCEN's analytic products.
- Although the Treasury Office of Inspector General has recently conducted an evaluation of the program's internal processes in conducting analysis of BSA data, no evaluations to date have been conducted on the effectiveness of FinCEN's analysis of BSA data in combating terrorism, money laundering and financial crime.

In Response, FinCEN is:

- Developing a plan to improve the survey response rate from domestic law enforcement. FinCEN has devised a plan to improve its survey response rate.
- Evaluating the feasibility of better assessing law enforcement impact of FinCEN's products. During fiscal year 2007, FinCEN is taking steps, including meeting with stakeholders, to evaluate the options for better assessing the law enforcement impact related to the utility of BSA data. In fiscal year 2008, based on the information collected, FinCEN will draft a recommendation on the next steps to implement a process to collect information that would quantify the impact of utilization of BSA data to law enforcement
- Developing measures to assess the impact of FinCEN's efforts to strengthen anit-terrorist financing and anti-money laundering programs worldwide; in fiscal year 2007, FinCEN determined that an annual customer survey would be the most appropriate mechanism. The FinCEN is identifying international liaison activities that could be utilized to measure impact, drafting a survey to solicit customer input, and creating a database to capture requisite contact information for potential respondents. The FinCEN plans to administer the survey and review and analyze the response rate in fiscal year 2008.

Internal Revenue Service **FY PARTed: FY 2006**

Program: Health Care Tax Credit

Rating**: Results Not Demonstrated**

OMB Found:

- This tax credit has low participation. This can be attributed to the time it takes for other agencies to identify potentially eligible workers and for the Internal Revenue Service (IRS) to enroll them. Another likely cause is the affordability of coverage to potential recipients. It is also possible that many of those identified as potentially eligible may ultimately not to qualify.
- This program's performance measures do not adequately capture the program's success in providing access to the credit to potential beneficiaries. These measures cost per taxpayer served and customer satisfaction, do provide useful management information. The program also has not coordinated performance goals with the other agencies involved in implementing this program.
- The IRS successfully implemented this unique tax credit in 2003. This required the creation of a new process outside of the normal tax filing system in a short timeframe. Since that time, in response to the low take up, the IRS has successfully reduced the cost of administering the credit by 50 percent.

In Response, IRS is:

- Working with other participating federal agencies to developing long term goals by 2011 that capture the program's success in providing access to the tax credit to potential beneficiaries.
- Working with partner federal agencies to find ways to improve access to the tax credit for eligible workers.
- Continuing to focus on administrative changes to lower program cost and improve taxpayer service.

Internal Revenue Service **FY PARTed: FY 2006**

Program: Retirement Savings Regulatory Program

Rating**: Adequate**

OMB Found:

- The Internal Revenue Service (IRS) cooperates with the Department of Labor and the Pension Benefit Guarantee Corporation to protect retirement investors and to ensure that retirement related tax breaks are used for the intended purposes. Tax breaks to retirement plans encourage savings total more than $100 billion per year.
- Preliminary data from the program's compliance study show that retirement plans are in compliance with legal standards 80 percent of the time. The IRS is working to improve this level by increasing enforcement efforts and improving targeting. This compliance study is a critical element in this effort because it gives the IRS better information on the sources of non-compliance.
- IRS has had trouble processing requests for regulatory approval from retirement plans in a timely manner (less than 120 days). It is working to improve its performance in this area by implementing a new staggered schedule for retirement plan renewal requests and improving productivity.

In Response, IRS is:

- Working to nearly double enforcement efforts by 2011 in order to improve retirement plan compliance to 80 percent.
- Improving efficiency, processing timeliness and case targeting through a new information management system and other inventory selection tools implemented in 2007.
- Introducing cost based efficiency measures by 2008.

Departmental Offices **FY PARTed: FY 2007**

Program: Debt Restructuring for Highly Indebted Poor Countries

Rating**: Moderately Effective**

OMB Found:

- The Enhanced Heavily Indebted Poorest Country Initiative has made significant changes to provide deeper debt reduction for more countries, to allow for faster debt relief depending on country performance, and to encourage increased expenditures related to poverty reduction.
- Since this initiative was launched, there has been substantial progress in the number of countries that have qualified for debt relief, the reduction of debt burdens, and increases in poverty-reducing expenditures.
- However, improvements are needed to assure that disbursements between Treasury and creditor agency accounts are timely.

In Response, DO is:

- Devising a program efficiency measure to improve record keeping of debt obligations and outlays between Treasury and creditor agencies.
- Developing proposals for increasing the number of creditors that make use of World Bank/IMF Debt Sustainability Framework in their decisions about lending to low-income countries.
- Developing an improved system of subsidy outlay from the debt reduction program account to the debt reduction financing accounts.

Departmental Office	FY PARTed: FY 2007
Program: Tropical Forest Conservation Act	
Rating: Moderately Effective	

OMB Found:

- The Administration has developed a tool to help manage and measure the success of existing and pending agreements. This evaluation sheet measures the success of country boards and oversight committees in developing a strategic plan that specifies key objectives, conservation and funding priorities, target dates in meeting those objectives, and key efficiency measures.
- While the program measures the loss of forest cover in TFCA program countries, the program has been unable to measure its impact on increasing tropical forest conservation.

In Response, DO is:

- Using information presented in evaluation sheets for existing programs to develop recommendations for improved program management, and to justify future funding requests.
- Tracking findings and implement recommendation of independent evaluations of existing programs with additional emphasis on effects of the programs on the beneficiary country's forests.
- Refining the timing of fund obligation and outlays for the cost of debt reduction.

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Appendix H:
Cost by Outcome Determination

The cost for an outcome was determined using the following method:

Process

Performance cost is determined for each bureau. These costs represent Treasury responsibility segments that directly or indirectly contribute to the production of outputs through costing methodologies or cost finding techniques that are most appropriate to the segment's operating environment. The costs are accumulated, by segment, in Treasury's Department-wide data warehouse from balances recorded by the segments using the United States Standard General Ledger (USSGL). Performance cost includes imputed costs, depreciation, losses, and other expenses not requiring budgetary resources. These costs exclude any Department accounts that do not contribute to the cost of the agency, such as the Exchange Stabilization Fund and the Federal Financing Bank. Performance cost will be less than the total gross cost reported on the Statement of Net Cost in this report.

The Working Capital Fund (WCF), a resource that is funded through bureau contributions for corporate use, is removed from the Departmental Office's performance cost because it is already accounted for in each bureau's performance cost.

The percent of a bureau's budget by each budget activity is calculated.

The bureau's performance cost is allocated to a budget activity based on the percentage of that activity in the total bureau budget.

The performance cost of each budget activity is then allocated across strategic plan outcomes. The allocation is based on the percentage of the budget activity (primarily labor) that is attributed to a particular outcome.

Information is maintained in a flat file in Excel and pivot tables are used to calculate costs by area, outcome and budget activity.

Accuracy of the Data

The performance cost information is considered reasonably accurate.

The allocation percentages for budget activities are considered accurate; these are direct calculations from enacted budget numbers, and include both direct and reimbursable dollars.

The allocation percentages for budget activities to outcomes are reasonably accurate. These are estimates based on examination of work in each of the budget activities by the office manager or budget examiner.

Example Calculation 1 – Cost is allocated to only one outcome

Bureau: IRS

Total Bureau Fiscal year 2007 budget (direct and reimbursable): $10,964,788,000.
Budget activity: Filing and Account Services
Budget activity portion of the total bureau budget: $1,679,805,522
Percentage of the bureau budget for this budget activity: 15.32%
Total performance cost of the IRS for fiscal year 2007: $12,015,098,523.
Performance cost of Filing and Account Services budget activity: 15.32% x $12,015,098,523 = $1,840,713,094.

The Filing and Account Services budget activity is 100% allocated to the outcome of "Revenue collected when due through a fair and uniform application of the law". Therefore, the entire amount of the performance cost for this budget activity, or $1,840,713,094, is allocated to this outcome.

Example Calculation 2 – Cost is allocated to multiple outcomes

Bureau: Departmental Offices

Total Bureau Fiscal year 2007 budget (direct and reimbursable): $288,966,000
Budget activity: Economic Policies and Programs
Budget activity portion of the total bureau budget: $39,993,000
Percentage of the bureau budget for this budget activity: 13.84%
Total performance cost of Departmental Offices (less working capital fund) for fiscal year 2007: $346,959,000
Performance cost of Economic Policies and Programs budget activity: 13.84% x $346,959,000 = $48,019,478.

The Economic Policies and Programs budget activity gross cost of $48,019,478 is allocated to outcomes based on the following table:

Budget Activity	Percent	Gross Cost Allocation
Effective cash management	10%	$ 4,801,947.80
Strong U.S. economic competitiveness	30%	$ 14,405,843.41
Competitive capital markets	10%	$ 4,801,947.80
Free trade and investment	10%	$ 4,801,947.80
Prevented or mitigated financial and economic crises	35%	$ 16,806,817.31
Decreased gap in global standard of living	5%	$ 2,400,973.90

Appendix I:
Glossary of Acronyms

AML	Anti-money Laundering
ASAP	Automated Standard Application for Payments
BEP	Bureau of Engraving and Printing
BIT	Bilateral Investment Treaties
BPD	Bureau of the Public Debt
BSA	Bank Secrecy Act
CAFTA - DR	Central American Free Trade Agreement–Dominican Republic
CAMELS	Capital adequacy, Asset quality, Management Earnings, Liquidity, and Sensitivity
CDE	Community Development Entities
CDFI	Community Development Financial Institutions
COLA	Certificates of Label Approval
CTF	Counter-Terrorism Financing
CIP	Customer Identification Program
EA	Enterprise Architecture
e-File	Electronic Filing
EFT	Electronic Funds Transfer
EFTPS	Electronic Federal Tax Payment System
EGRPRA	Economic Growth and Regulatory Paperwork Reduction Act
EITC	Earned Income Tax Credit
EVM	Earned Value Management
FATF	Financial Action Task Force
FDIC	Federal Deposit Insurance Corporation
FFMIA	Federal Financial Management Improvement Act
FHCS	Federal Human Capital Survey
FinCEN	Financial Crimes Enforcement Network
FISMA	Federal Information Security Management Act
FIU	Financial Intelligence Unit
FMFIA	Federal Managers' Financial Integrity Act
FMS	Financial Management Service
FPA	Federal Program Agencies
FRB	Board of Governors of the Federal Reserve System
FTA	Free Trade Agreement
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Countries
HUD	Department of Housing and Urban Development
IC	Intelligence Community
IDB	Inter-American Development Bank

IDD	Office of International Debt Policy
IFC	International Financial Corporation
IG	Inspector General
IMF	International Monetary Fund
IRS	Internal Revenue Service
IRS-CI	Internal Revenue Service Criminal Investigation
IT	Information Technology
ITFC	Iraq Threat Financial Cell
MDB	Multilateral Development Banks
MDRI	Multilateral Debt Relief Initiative
MOU	Memoranda of Understanding
NMTC	New Market Tax Credit
OA	Office of Audit
OCC	Office of the Comptroller of the Currency
OCIO	Office of the Chief Information Officer
OECD	Organization for Economic Cooperation and Development
OFAC	Office of Foreign Asset Control
OFP	Office of Fiscal Projections
OI	Office of Investigations
OIA	Office of Intelligence Analysis and Security Programs
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OTS	Office of Thrift Supervision
PAI	Public Affairs International Inc.
PAR	Performance and Accountability Report
PART	Program Assessment Rating Tool
PMA	President's Management Agenda
SES	Senior Executive Service
SVC	Stored Value Card
TAB	Taxpayer Assistance Blueprint
TEOAF	Treasury Executive Office for Asset Forfeiture
TETR	Taxpayer Excise Tax Refund
TFFC	Terrorist Financing and Financial Crimes
TFI	Terrorism and Financial Intelligence
TIGTA	Treasury Inspector General for Tax Administration
TTB	Alcohol & Tobacco Tax and Trade Bureau
WMD	Weapons of Mass Destruction
WTO	World Trade Organization

Treasury On-line	**www.treas.gov**
Alcohol and Tobacco Tax And Trade Bureau	**www.ttb.gov**
Community Development Financial Institutions Fund	**www.treas.gov/cdfi**
Comptroller of the Currency	**www.occ.treas.gov**
Bureau of Engraving & Printing	**www.bep.treas.gov**
Financial Crimes Enforcement Network	**www.treas.gov/fincen**
Financial Management Service	**www.fms.treas.gov**
Internal Revenue Service	**www.irs.gov**
U.S. Mint	**www.usmint.gov**
Bureau of the Public Debt	**www.publicdebt.treas.gov**
Office of Thrift Supervision	**www.ots.treas.gov**

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